

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 17 and 18 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 32 of the annual report.

A special interim dividend was declared on 4 April 2001 and was satisfied by way of transfer of 15,200,000 shares of Panva Gas in the proportion of approximately 20 shares of Panva Gas for every 2,000 shares of the Company held. An interim dividend of HK\$0.03 per share amounting to HK\$45,600,000 was paid to the shareholders during the year. On 26 October 2001, the Company issued 152,000,000 shares of HK\$0.10 each in the Company as bonus issue of shares on the basis of one new share of HK\$0.10 each for every ten existing shares of HK\$0.10 each held by the shareholders of the Company.

Pursuant to a resolution passed at a meeting of board of directors held on 22 April 2002, warrants will be issued to shareholders of the Company by way of bonus issue on the basis of one warrant for every ten existing shares of HK\$0.10 each in the capital of the Company. The bonus issue of warrants is subject to shareholders approval at the forthcoming special general meeting of the Company to be held on 24 May 2002.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 29 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31 December 2001 and of the assets and liabilities of the Group as at 31 December 1997, 1998, 1999, 2000 and 2001 is set out on page 81 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

The Company's leasehold land and buildings were revalued at 31 January 2001 and 31 December 2001. The revaluations resulted in a deficit and a surplus over book values amounting to HK\$1,851,000 and HK\$24,068,000 respectively, which has been debited directly to the consolidated income statement and credited directly to the properties revaluation reserve.

Details of these and other movements during the year in the property, plant and equipment of the Group and of the Company are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

Pursuant to the prospectus issued by the Company dated 26 May 1998 (the "Prospectus"), the Company made an initial public offering through placing and new issue of 380,000,000 shares in June 1998 and the net proceeds were approximately HK\$412 million.

As disclosed in the 1998, 1999 and 2000 annual reports, approximately HK\$312 million has been applied in line with the proposed application as set out in the Prospectus. Details of the application of the remaining amount are set out below:

	<i>HK\$'000</i>
Remaining balance	<u>100,000</u>

These funds are retained for the transformation of outdoor power transformer stations and overhead transmission cables into indoor power transformer stations and underground transmission cables at Yinhu.

The funds retained were placed on short term deposits with commercial banks in Hong Kong. The application of proceeds from the initial public offer was in line with the proposed application as set out in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Ou Yaping (Chairman and Managing Director)

Mr. Law Sze Lai

Mr. Chen Wei

Mr. Tang Yui Man, Francis (appointed on 18 September 2001)

Independent non-executive directors:

Mr. Cheung Wing Yui

Mr. Tsang Yu Chor, Patrick

Mr. Liang Xiaoting

In accordance with the Company's Bye-Laws, Messrs. Law Sze Lai, Tang Yui Man, Francis and Liang Xiaoting retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election except for Mr. Liang Xiaoting, who does not offer himself for re-election.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SHARES

(i) Shares

At 31 December 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Number of ordinary shares held				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Ou Yaping	2,640,000	2,756,600	1,110,593,000 (Note)	—	1,115,989,600
Tang Yui Man, Francis	770,000	—	—	—	770,000

Note: These shares are held by Asia Pacific Promotion Limited, a company incorporated in the British Virgin Islands ("BVI"), which is legally and beneficially owned by Mr. Ou Yaping, Chairman and Managing Director of the Company.

(ii) Shares in a subsidiary

Name of director	Name of subsidiary	Number of non-voting deferred shares held
Mr. Ou Yaping	Sinolink Electric Power Company Limited	90,000

(iii) Interest in an associated corporation (within the meaning of the SDI Ordinance) of the Company

Name of interested party	Name of associated corporation	Nature of interest	Percentage of equity interest in associated corporation
Mr. Ou Yaping and his associates	Shenzhen Xiangdu F.& E. Co., Ltd.	Corporate (Note)	55%

Note: These interests are held by Superline Limited, a company incorporated in Hong Kong which is legally and beneficially owned by Mr. Ou Yaping, Chairman and Managing Director of the Company.

Save as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTERESTS IN CONVERTIBLE NOTES

As at 31 December 2001, Mr. Ou Yaping held convertible notes amounting to HK\$55,183,411. These convertible notes were converted into 134,592,000 shares of the Company on 8 February 2002 at an adjusted conversion price of HK\$0.41 per share. The remaining balance was repaid in cash.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The directors had personal interests in share options to subscribe for shares of the Company and a subsidiary of the Company as follows:

Name of Directors	Exercise period	Date of share options granted	Exercise price HK\$	Number of share options held and outstanding at 31 December 2001
Mr. Law Sze Lai	6.1.1999 to 5.1.2002	29 June 1998	0.55	11,000,000
	6.7.1999 to 5.1.2002	29 June 1998	0.64	11,000,000
	3.9.1999 to 3.9.2002	1 March 1999	0.41	3,300,000
	3.3.2000 to 3.9.2002	1 March 1999	0.41	3,300,000
	3.9.2001 to 3.9.2002	1 March 1999	0.41	2,200,000
	3.4.2002 to 3.4.2005	21 September 2001	0.33	5,500,000
Mr. Chen Wei	6.1.1999 to 5.1.2002	29 June 1998	0.55	11,000,000
	6.7.1999 to 5.1.2002	29 June 1998	0.64	11,000,000
	3.9.1999 to 3.9.2002	1 March 1999	0.41	3,300,000
	3.3.2000 to 3.9.2002	1 March 1999	0.41	3,300,000
	3.9.2000 to 3.9.2002	1 March 1999	0.41	2,200,000
	3.4.2002 to 3.4.2005	21 September 2001	0.33	5,500,000
Mr. Tang Yui Man, Francis	1.1.2002 to 1.1.2005	15 June 2001	0.41	2,750,000
	1.3.2002 to 1.3.2005	15 June 2001	0.41	2,750,000
	1.6.2002 to 1.6.2005	15 June 2001	0.41	1,650,000
	1.6.2003 to 1.6.2006	15 June 2001	0.41	1,650,000
	3.4.2002 to 3.4.2005	21 September 2001	0.33	2,750,000
	3.10.2002 to 3.10.2005	21 September 2001	0.33	2,750,000

None of the directors exercised any share option to subscribe for shares of the Company during the year ended 31 December 2001.

Save as disclosed above, as at 31 December 2001, none of the directors and chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year and at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Pursuant to the share option scheme approved by resolutions of the shareholders of the Company dated 11 May 1998 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the option the closing price of the shares on the Hong Kong Stock Exchange on the date of grant and the nominal value of the shares. The option granted must be taken up within 28 days of the date of granted.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

At 31 December 2001, the outstanding number of shares in respect of which options had been granted under the Scheme was 103,796,000, representing 6.21% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Consideration of HK\$1 is payable on the grant of an option.

The directors believe that any statement regarding the value of options granted during the year will not be meaningful to shareholders, taking into account the unique business nature of the Group and its potential for future expansion and that comparable data required for calculation of the value of the options will not be representative of the Group.

No charge is recognised in the income statement in respect of the value of share options granted during the year.

A summary of the movements during the year in the ordinary share options granted are as follows:

	Number of share options				
	Outstanding at 1.1.2001 Number of Shares	Granted during the year Number of Shares	Bonus issue during the year Number of Shares	Lapsed during the year Number of Shares	Outstanding at 31.12.2001 Number of Shares
(a) 1998					
Directors	40,000,000	—	4,000,000	—	44,000,000
Employees	—	—	—	—	—
	<u>40,000,000</u>	<u>—</u>	<u>4,000,000</u>	<u>—</u>	<u>44,000,000</u>
(b) 1999					
Directors	16,000,000	—	1,600,000	—	17,600,000
Employees	2,450,000	—	155,000	(900,000)	1,705,000
	<u>18,450,000</u>	<u>—</u>	<u>1,755,000</u>	<u>(900,000)</u>	<u>19,305,000</u>
(c) 2000					
Directors	—	—	—	—	—
Employees	1,300,000	—	80,000	(500,000)	880,000
	<u>1,300,000</u>	<u>—</u>	<u>80,000</u>	<u>(500,000)</u>	<u>880,000</u>
(d) 2001A					
Directors	—	8,000,000	800,000	—	8,800,000
Employees	—	5,200,000	520,000	—	5,720,000
	<u>—</u>	<u>13,200,000</u>	<u>1,320,000</u>	<u>—</u>	<u>14,520,000</u>
(e) 2001B					
Directors	—	15,000,000	1,500,000	—	16,500,000
Employees	—	7,810,000	781,000	—	8,591,000
	<u>—</u>	<u>22,810,000</u>	<u>2,281,000</u>	<u>—</u>	<u>25,091,000</u>

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
1998	29.6.1998	6 months	6.1.1999 - 5.1.2002	HK\$0.55
	29.6.1998	12 months	6.7.1999 - 5.1.2002	HK\$0.64
1999	1.3.1999	6 months	3.9.1999 - 3.9.2002	HK\$0.41
	1.3.1999	12 months	3.3.2000 - 3.9.2002	HK\$0.41
	1.3.1999	18 months	3.9.2001 - 3.9.2002	HK\$0.41
2000	20.1.2000	12 months	1.1.2001 - 1.1.2004	HK\$0.50
2001A	15.6.2001	6 months	1.1.2002 - 1.1.2005	HK\$0.41
	15.6.2001	9 months	1.3.2002 - 1.3.2005	HK\$0.41
	15.6.2001	12 months	1.6.2002 - 1.6.2005	HK\$0.41
	15.6.2001	24 months	1.6.2003 - 1.6.2006	HK\$0.41
2001B	21.09.2001	6 months	3.4.2002 - 3.4.2005	HK\$0.33
	21.09.2001	12 months	3.10.2002 - 3.10.2005	HK\$0.33
	21.09.2001	14 months	30.12.2002 - 30.12.2005	HK\$0.33

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTIONS", no contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

With the exception of Messrs. Chen Wei and Tang Yui Man, Francis, each of the executive directors has entered into a renewed service contract with the Company for an initial period of two years commencing on 1 April 2001, which shall continue thereafter until terminated by either party giving not less than six month's prior written notice.

Mr. Chen Wei has entered into a renewed service contract with Panva Gas for an initial period of three years commencing on 1 April 2001, which shall continue thereafter until terminated by either party giving not less than three month's prior written notice.

Save as disclosed above, none of the directors or service companies under their respective control has entered into or has proposed to enter into any service or management contract with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company:

- (i) Pursuant to the tenancy agreement dated 1 June 1999 entered into between Shenzhen Sinolink Enterprises Co., Ltd. ("Shenzhen Sinolink") (which is owned as to 80% by the Group and 20% by Shenzhen Power Supply Services Corporation ("Shenzhen Power Supply") a connected person of the Company), as the landlord and Shenzhen Xiangdu F. & E. Co., Ltd. ("Shenzhen Xiangdu") (a sino-foreign equity joint venture in which Shenzhen Sinolink and Superline Limited (a company in which each of Mr. Ou Yaping and his spouse has an attributable interest of 93.5% and 6.5% respectively) are interested in 45 per cent. and 55 per cent. respectively of its registered capital as the tenant), Shenzhen Sinolink allows Shenzhen Xiangdu to use the property situated at No. 2, Taining Road, Luohu District, Shenzhen as a restaurant from 1 June 1999 to 31 December 2001 at a rental of RMB60,000 per month. The operation of the restaurant was ceased at the end of July 2001. Total rental income of RMB420,000 (equivalent to HK\$392,891) was received or receivable from Shenzhen Xiangdu for the year ended 31 December 2001.
- (ii) As disclosed in the Company's circular dated 25 January 1999, the Group acquired from Mr. Ou Yaping, the controlling shareholder of the Company, the entire issued share capital of China Pan River Group Limited ("CPR Group") (the "Acquisition") on 12 February 1999. CPR Group is an investment holding company, the major assets of which are its indirect majority equity interests in the joint venture companies established in the PRC, that are principally engaged in the production, transportation, storage, sale and distribution of LP Gas. The Acquisition was approved by the shareholders at the special general meeting of the Company on 10 February 1999. Total consideration for the Acquisition was HK\$55,183,000 which was paid by way of an issue of a convertible note in favour of Mr. Ou Yaping. Total interest expenses of HK\$2,759,000 were paid or payable for the year ended 31 December 2001.
- (iii) As disclosed in the Company's circular dated 21 January 2002, pursuant to the RMB550,000,000 and RMB80,000,000 loan agreements ("Loans") dated 10 December 2001 between Shenzhen Sinolink and Bank of China, Shenzhen Branch in which the company has provided guarantee on the loans respectively. Shenzhen Sinolink is an indirect non-wholly owned subsidiary of the Company in which the Company has 80% indirect interest, and the remaining 20% interest is held by Shenzhen Power Supply Services Corporation. Shenzhen Power Supply Services Corporation is a connected person by virtue of being a substantial shareholder of Shenzhen Sinolink and a shareholders of a subsidiary of Shenzhen Sinolink, however, it will not provide any guarantee in respect of the Loans. In view of the fact that Shenzhen Power Supply Services Corporation is a connected person by virtue of being a substantial shareholder in Shenzhen Sinolink

Property Management Co., Ltd. a subsidiary of the Company in which Shenzhen Sinolink has 50% equity interest and Shenzhen Power Supply Services Corporation has a 25% attributable equity interest, provision of the Loans by the Company, Sinolink LPG Development Limited and Sinolink LPG Investment Limited constitute connected transactions for the Company under Rule 14.26(6)(a) of the Listing Rules which approved by the shareholders of the Company.

- (iv) As disclosed in the Company's announcement dated 10 December 2001, Shenzhen Sinolink Enterprises Co., Ltd., a 80% subsidiary of the Company entered into an acquisition agreement dated 7 December 2001 between Shenzhen Xiehe Power Company Limited ("Xiehe") in respect of the acquisition of 30% of the equity interest in Shenzhen Fuhuade Electricity Co., Ltd. ("Fuhuade") from Xiehe for a cash consideration of RMB20,000,000 (equivalent to approximately HK\$18,709,074). In view of the fact that Xiehe is a substantial shareholder of Fuhuade, a subsidiary of the Company, Xiehe is a connected person under the Listing Rules. The acquisition constitutes a connected transaction for the Company pursuant to the Listing Rules. (Announcement dated 10 December 2001).

Connected transactions with Waivers granted by the Hong Kong Stock Exchange

- (a) The following connected transactions have been entered into by the Company and its subsidiaries to which the Hong Kong Stock Exchange has, subject to certain conditions, granted waivers to the Company on 20 May 1998 from compliance with the requirements stipulated in Chapter 14 of the listing Rules.
- (i) Pursuant to the tenancy agreements dated 1 April 2000 which expired on 31 March 2002 between Sinolink Worldwide (HK) as tenant and Skillful Assets Limited ("Skillful") (a company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director), as landlord, Skillful agreed to let to Sinolink Worldwide (HK) the property known as House 3, Kellett View Town Houses, Nos. 65-69 Mount Kellett Road, Hong Kong for a term of two years commencing on 1 April 2000 at a rent of HK\$100,000 per month exclusive of rates and management fees. Total rental expenses of HK\$1,200,000 were paid or payable to Skillful for the year ended 31 December 2001.
- (ii) Pursuant to an agreement for the provision of services dated 8 January 2001 between Ocean Diamond Limited and Shenzhen Sinolink, Ocean Diamond Limited agreed to provide to Shenzhen Sinolink (i) management staffing services by supplying and sending staff to Shenzhen and (ii) services relating to the design and planning for real estate development, cable engineering consultancy and the import and sourcing of materials. Shenzhen Sinolink has to pay a monthly service fee of RMB150,000

(equivalent to HK\$140,318) to Ocean Diamond Limited. It is intended that a service agreement with the same terms (subject to adjustment for the service fee) will be entered into between Ocean Diamond Limited and Shenzhen Sinolink on a yearly basis. A total service fee of RMB1,800,000 (equivalent to HK\$1,683,817) was paid or payable to Ocean Diamond Limited for the year ended 31 December 2001.

(iii) Pursuant to an agreement for the provision of agency services dated 8 January 2000 between Sinolink Worldwide (HK) and Shenzhen Sinolink, Sinolink Worldwide (HK) shall provide agency services regarding matters including, amongst others, advertising and promotion for overseas sales of property units developed by the Group in the PRC and customer liaison on behalf of Shenzhen Sinolink in return for a monthly service fee of approximately RMB700,000 (equivalent to HK\$654,818). It is intended that an agency services agreement with the same terms (subject to adjustment for the service fee) will be entered into annually between Sinolink Worldwide (HK) and Shenzhen Sinolink. A total service fee of approximately RMB8,400,000 (equivalent to HK\$7,857,811) was paid or payable by Shenzhen Sinolink to Sinolink Worldwide (HK) for the year ended 31 December 2001.

(iv) Pursuant to the Power Purchase Contract entered into between Fuhuade and Shenzhen Power Supply Bureau, the regulatory body of Shenzhen Power Supply (the substantial shareholder of Shenzhen Sinolink), which came into effect on 15 March 1996, Fuhuade agreed to supply to Shenzhen Power Supply Bureau electricity generated at Dapeng Power Plant, which is operated by Fuhuade, for on-grid onward transmission to public end-users. A total amount of approximately RMB166,903,546 (equivalent to HK\$156,155,796) worth of electricity was sold to Shenzhen Power Supply Bureau during the year ended 31 December 2001.

(b) The following connected transactions have been entered into by the Company and its subsidiaries to which the Hong Kong Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with the requirements stipulated in Chapter 14 of the Listing Rules.

(i) As disclosed in the Company's circular dated 15 November 2000, pursuant to a LP Gas supply agreement ("Supply Agreement") dated 19 October 2000 between Pan River Enterprises (Changsha) Company Limited ("Changsha JV") (in which the Company has an attributable interest of 60%) as purchaser and China Petrochemical Company Limited ("CPC") and one other independent third party as suppliers, CPC and the independent third party agreed to supply to Changsha JV high quality LP Gas at a price determinable by a pre-set formula as set out in the Supply Agreement. CPC is an associate (within the meaning of the Listing Rules) of the PRC party which holds the 40% interest in Changsha JV and thus entering into the

Supply Agreement constituted a connected transaction for the Company. Since the commencement of the Supply Agreement, a total of approximately RMB313,495,500 (equivalent to HK\$293,260,523) worth of LP Gas was sold by CPC to Changsha JV for the year ended 31 December 2001.

The independent non-executive directors of the Company have reviewed the transactions and confirmed that:

- (a) the transactions have been entered into in the ordinary and usual course of business of the Group;
- (b) the transactions have been entered into on normal commercial terms, and on arm's length basis and, where applicable, in accordance with the terms of the agreements governing these transactions or, where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties;
- (c) the transactions have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (d) the aggregate value of the respective transactions do not exceed the respective maximum amounts as specified in the waiver granted by the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 December 2001.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest supplier accounted for approximately 40% of the Group's total purchases and the Group's largest five suppliers accounted for approximately 93% of the Group's total purchases.

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

None of the directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Hong Kong Stock Exchange.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ou Yaping
CHAIRMAN

Hong Kong, 22 April 2002