

Report of the Directors

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are the generation and sale of electricity in Foshan City, Guangdong Province, the People's Republic of China (the "PRC").

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of 1.8 Hong Kong cents (2001: 1.5 Hong Kong cents) per share in respect of the year ended 31 December 2002, payable on or about 27 June 2003 to those shareholders whose names appear on the register of members on 26 May 2003.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

All of the Group's electricity was sold to one single customer, (佛山電力總公司 (Foshan City Electric Power Industry Corporation) up to April 2003 and 廣東省廣電集團有限公司佛山供電分公司 (Guangdong Guan-Dian Electric Power Group Corporation, Foshan Branch) since May 2003), for onward supply to the ultimate end users in Foshan City. The Group's largest supplier contributed to 71% of its total purchases and the Group's five largest suppliers contributed to 99% of its total purchases during the year. As at 31 December 2002, none of the directors, their associates, or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and its customer.

ACCOUNTS

The Group's profit for the year ended 31 December 2002 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 22 to 43.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2002 are set out in note 15 on the accounts.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 13 on the accounts.

BORROWINGS

Details of borrowings of the Company and the Group as at 31 December 2002 are set out in notes 22 to 24 on the accounts.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves during the year are set out in notes 25 and 26 on the accounts respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 44.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Appendix 14 to the Listing Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

FUEL SUPPLY TRANSACTIONS

Pursuant to the Fuel Supply Agreement dated 29 December 1997 entered into between Shakou JV and the Fuel Company, Shakou JV purchased fuel of an aggregate amount of approximately HK\$421.6 million during the year (2001: HK\$459.0 million) from the Fuel Company (the "Fuel Supply Transactions"). These transactions are detailed below:

	Heavy Oil	FY 2002 Diesel Oil	Total
Quantity (tonnes):	287,988	535	N.A.
Value (HK\$'000):	420,437	1,203	421,640
Weighted average price (HK\$/tonne):	1,460	2,250	N.A.

Note: All prices and values are exclusive of value added tax.

Pricing Policy

During the year, Shakou JV purchased most of its fuel from the Fuel Company. Shakou JV has established a pricing policy to purchase from the Fuel Company at prices which are based on the Fuel Company's weighted average purchase costs of fuel (before operating expenses and depreciation) plus reasonable mark-up margins for the Fuel Supply Transactions during the year.

The Stock Exchange Waiver

As the Fuel Company is an associate of 佛山市區電力建設總公司 (Foshan City District Electric Power Construction Corporation) ("Power Construction Corporation"), which in turn is a substantial shareholder of Shakou JV, the Fuel Company is a connected party of the Company as defined under the Listing Rules. The Fuel Supply Transactions constituted connected transactions under the Listing Rules and would have normally required full disclosure and prior independent shareholders' approval on each occasion as they arose. In response to the Company's application, the Stock Exchange granted a conditional waiver to the Company on 17 April 1998 so that it was exempted from the relevant requirements as stipulated under Chapter 14 of the Listing Rules.

Opinion of the Independent Non-executive Directors

The Company's independent non-executive directors have reviewed the Fuel Supply Transactions and confirmed that: (a) the transactions had been entered into by the Company in the ordinary and usual course of its business; (b) the transactions had been entered into on terms that were fair and reasonable so far as the shareholders of the Company were concerned; (c) the transactions had been entered into in accordance with the terms of the Fuel Supply Agreement dated 29 December 1997; and (d) the aggregate amount of the transactions had not exceeded the cap amount of 80% of the cost of sales of the Group for the year ended 31 December 2002.

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Confirmation from the Auditors

The Company's auditors have also reviewed the Fuel Supply Transactions and confirmed to the Directors in writing stating that: (a) the transactions had received the approval of the Directors; (b) the transactions were in accordance with the pricing policy as stated in the Company's annual report; (c) the transactions had been entered into in accordance with the terms of the Fuel Supply Agreement dated 29 December 1997; and (d) the aggregate amount of the transactions had not exceeded the cap amount of 80% of the cost of sales of the Group for the financial year.

CONNECTED TRANSACTIONS

Repayment of Loans

Shakou JV made principal repayments and interest payments to Power Construction Corporation and its associate. These transactions were made in accordance with the terms and conditions of the loan agreements entered into between Shakou JV and Power Construction Corporation and its associate, details of which have been disclosed in the Company's circular dated 23 March 1998.

Repayment of Promissory Note

The Company made principal repayments of an aggregate amount of approximately HK\$6.7 million and interest payments of an aggregate amount of approximately HK\$0.2 million to Hensil Investments Group Limited ("Hensil Investments"), a controlling shareholder of the Company. These transactions were made in accordance with the terms and conditions of a promissory note issued by the Company on 14 April 1998, details of which have been disclosed in the Company's circular dated 23 March 1998 and approved by the Company's shareholders on 8 April 1998.

Office Lease with Gloryson

The Company paid rentals for the four months ended 30 April 2002 of an aggregate amount of approximately HK\$215,000 to Gloryson Limited ("Gloryson") for leasing certain office premises at Room 2105-8, Wing Shan Tower, 173 Des Voeux Road Central, Hong Kong as its head office. Gloryson had been beneficially wholly owned by Madam YIP Siu Chun who is a controlling shareholder of the Company. These transactions were in accordance with the terms and conditions of a tenancy agreement entered into between the Company and Gloryson on 1 November 2001 for a period of two years, commencing on 20 November 2001 at an aggregate annual rental consideration of approximately HK\$645,000. Details of the tenancy agreement have been disclosed in the Company's previous annual report. The transaction was exempted from disclosure and approval by the Company's shareholders under 14.24(5) of the Listing Rules.

Office Lease with Maxfortune

On 1 November 2002, Lipromate Limited, a subsidiary of the Company, entered into a tenancy agreement with Maxfortune Development Limited ("Maxfortune") for leasing certain office premises at Rooms 2801-5, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong as its head office for a period of two years commencing on 1 December 2002 at an aggregate annual rental consideration of approximately HK\$300,000. Maxfortune is a subsidiary of Foshan Development Company Limited which is a beneficial controlling shareholder of the Company. The transaction was exempted from disclosure and approval by the Company's shareholders under 14.24(5) of the Listing Rules.

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Fuel Purchases

Shakou JV made fuel purchases from the Fuel Company of an aggregate amount of approximately Rmb450.6 million (equivalent to approximately HK\$421.6 million). These transactions were made in accordance with a Fuel Supply Agreement entered into between Shakou JV and the Fuel Company on 29 December 1997, details of which have been disclosed in the Company's circular dated 23 March 1998 and approved by the Company's shareholders on 8 April 1998.

New Fuel Purchase Agreement

On 30 November 2002, Shakou JV entered into a new fuel supply agreement with the Fuel Company (the "New Fuel Supply Agreement") whereby the Fuel Company agreed to sell and deliver to Shakou JV the quantity of fuel requested by Shakou JV according to an annual schedule agreed between the parties for a term of three years commencing from 1 January 2003. The price of the fuel is to be agreed between the Fuel Company and Shakou JV, but in any event will not exceed: (i) the then prevailing market price for sales of fuel by the Fuel Company to independent third parties; or (ii) the then quotation of price of the fuel that Shakou JV could obtain from other independent supplier(s), whichever the lower. Details of the New Fuel Supply Agreement have been disclosed in the Company's circular dated 14 December 2002 and approved by the Company's shareholders on 31 December 2002.

DIRECTORS

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

Executive Directors

HE Haochang (*Chairman*)
CHAN Che Kan, Edward
SITU Min
HUANG Yongzhong (*Appointed on 8 January 2002 & resigned on 27 September 2002*)
LI Feng (*Appointed on 26 February 2003*)
TANG Jian (*Resigned on 26 February 2003*)
MOK Kit Fong (*Resigned on 1 January 2002*)
LIANG Weidong (*Resigned on 8 January 2002*)

Non-executive Director

LAM Siu Hung (*Resigned on 26 February 2003*)

Independent Non-executive Directors

CHAN Ting Chuen, David
WEI Zhong Ping (*Resigned on 18 June 2002*)
NG Pui Cheung, Joseph (*Appointed on 18 June 2002*)

In accordance with articles 92 and 101 of the Company's articles of association. Mr. LI Feng, Mr. NG Pui Cheung, Joseph and Mr. HE Haochang will retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Mr. CHAN Che Kan, Edward has service contract with the Company for a period of 3 years commencing on 1 January 1993 and will continue thereafter until terminated by either party to the contracts at six months' notice. Mr. HE Haochang also has a service agreement with the Company for a term of two years commencing on 19 July 2001 and will continue thereafter until terminated by either party to the agreement at six months' notice.

Mr. CHAN Ting Chuen, David and NG Pui Cheung, Joseph, both are independent non-executive directors of the Company, are appointed for a period of two years up to 30 November 2003 and 17 June 2004 respectively or such later date(s) as agreed by the respective independent non-executive directors and the Company.

DIRECTORS' INTERESTS

As at 31 December 2002, the interests of each director and chief executive of the Company in the issued share capital of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Interests in the Company's Ordinary Shares

Name of Directors	Number of Ordinary Shares Held	
	Personal Interests	Corporate Interests
HE Haochang (<i>Note</i>)	6,117,079	6,117,079
CHAN Che Kan, Edward	205,034	—

Note: Held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.

Interests in the Company's Share Options

As at 31 December 2002, the interests of each director and chief executive of the Company in the options to subscribe for shares in the Company were disclosed under the section headed "Share Option Scheme" below.

Save as disclosed herein, none of the directors and chief executive had any other beneficial interests in the share capital of the Company. Furthermore, neither any of them nor their spouses or children under the age of 18 years were granted any rights or options to subscribe for shares in the Company.

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Substantial Interests in the Share Capital of the Company

As at 31 December 2002, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, the Company had been notified of the following persons (other than a director or chief executive of the Company) with interests representing 10% or more of the issued share capital of the Company:

Name	Number of Shares Held	Percentage
Hensil Investments Group Limited (Note 1)	315,000,000	38%
Foshan Development Company Limited (Note 1)	315,000,000	38%
YIP Siu Chun (Note 2)	290,196,037	35%
Oakwood Enterprise Limited (Note 2)	290,196,037	35%

Notes:

1. By virtue of its interests in Hensil Investments, Foshan Development is deemed to be interested in the 315,000,000 shares held by Hensil Investments.
2. Oakwood Enterprise Limited has given notification in respect of its interest in 290,196,037 shares held by Madam YIP Siu Chun.

Save as disclosed herein, there was no other person who was directly or indirectly interested in 10% or more of the issued share capital of the Company.

SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 22 May 2002, the resolutions relating to the termination of the share option scheme adopted on 16 March 1993 (the "Existing Scheme") and the adoption of a new share option scheme (the "Scheme") were duly passed by the shareholders of the Company. The Scheme replaced the Existing Scheme and the Scheme complies with Chapter 17 of the Listing Rules, details of which have been disclosed in the Company's circular to shareholders dated 29 April 2002. After the adoption of the Scheme, no further options can be granted under the Existing Scheme.

DETAILS OF THE SCHEME

Details of the Scheme have already been disclosed in the Company's circular to shareholders dated 29 April 2002 and approved by the Company's shareholders on 22 May 2002. The followings are a summary of the Scheme:

(i) Who May Participate

Any employee or director of any member of the Group (the "Participant(s)") as invited by the Board at the Board's absolute discretion may participate. In determining the basis of eligibility of each Participant, the Board will mainly take into account of the experience of the Participant on the Group's business, the length of service of the Participant with the Group, the efforts and contributions the Participant has made or is likely to be able to give or make towards the success of the Group in the future.

(ii) Purpose

The purpose of the Scheme is for the Company to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group, to encourage the Participants to perform their best in achieving the goals of the Group and to allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

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(iii) Duration and Administration

Subject to that the Scheme is terminated by the Company, the Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect and options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue.

(iv) Grant of Option

The Board shall be entitled at any time within 10 years after the date of adoption to make an offer to any Participant. An option shall be deemed to have been granted and accepted and to have taken effect when a signed copy of an offer letter made by the Company to a Participant together with a remittance in favour of the Company of \$1.00 by way of consideration for the granting of the same is received by the Company. Subject to the provisions of the Scheme and the Listing Rules, the Board may at its discretion, when making the offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit.

(v) Subscription Price

The subscription price shall be a price determined by the Board and notified to a Participant and shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the grant of an option (the "Grant Date"); (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Grant Date; and (c) the nominal value of a share.

(vi) Maximum Number of Shares Available for Subscription

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares in issue as at the date of approval of the Scheme, unless the Company obtains an approval from its shareholders to refresh the 10 per cent. limit. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the shares in issue from time to time. The total number of shares available for issue under the Scheme as at the date of the annual report is 64,417,824, representing approximately 7.77% of the issued share capital of the Company as of that date.

(vii) Maximum Entitlement of Shares of Each Participant

The total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue. Should any further grant of options in excess of the 1 per cent. limit of the shares is in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

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DIRECTORS' INTERESTS IN SHARE OPTIONS

As at 31 December 2002, the following directors had personal interests in the share options to subscribe for the shares of the Company:

Name of Directors	Holding At 01/01/2002	Options granted during the year	Date Granted (DD/MM/YY)	Exercisable Period (DD/MM/YY-DD/MM/YY)	Exercise Price HK\$	Options exercised during the year	Options lapsed/ forfeited during the year	Value realized	Holding at 31/12/2002
HE Haochang	—	4,200,000	30/07/02	30/01/03-29/01/08	0.35	—	—	—	4,200,000
Chan Che Kan, Edward	—	3,900,000	30/07/02	30/01/03-29/01/08	0.35	—	—	—	3,900,000
SITU Min	—	3,800,000	30/07/02	30/01/03-29/01/08	0.35	—	—	—	3,800,000
^ TANG Jian	—	3,800,000	30/07/02	30/01/03-29/01/08	0.35	—	—	—	3,800,000
^ LAM Siu Hung *	—	828,000	19/08/02	19/02/03-18/02/08	0.35	—	—	—	828,000
CHAN Ting Chun, David **	—	828,000	29/07/02	29/01/03-28/01/08	0.35	—	—	—	828,000
NG Pui Cheung, Joseph **	—	828,000	25/07/02	25/01/03-24/01/08	0.35	—	—	—	828,000
Total for Directors	—	18,184,000				—	—	—	18,184,000

* Non-executive

** Independent non-executive

^ Resigned on 26 February 2003

EMPLOYEE'S INTERESTS IN SHARE OPTIONS

As at 31 December 2002, an employee under continuous contract had the following personal interests in the share options to subscribe for shares of the Company:

Employee	Holding At 01/01/2002	Options granted during the year	Date Granted (DD/MM/YY)	Exercisable Period (DD/MM/YY-DD/MM/YY)	Exercise Price HK\$	Options exercised during the year	Options lapsed/ forfeited during the year	Value realized	Holding at 31/12/2002
Continuous contract employee	—	300,000	29/7/02	29/01/03-28/01/08	0.35	—	—	—	300,000

Notes:

- The closing market prices per share at the dates preceding the dates of the options granted to the above participants (i.e. the dates the offers of the grant of options were accepted) on 24 July 2002, 26 July 2002, 29 July 2002 and 16 August 2002 were HK\$0.345, HK\$0.34, HK\$0.33 and HK\$0.305 respectively.
- The vesting period of the options is from the date of the options granted until the commencement of the exercise period.
- The above options granted are not recognized in the accounts until they are exercised. The Directors consider it inappropriate to value the options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

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RETIREMENT SCHEME

The Company provided retirement benefits to all the employees in Hong Kong by joining a mandatory provident fund ("MPF") scheme sponsored and administered by an authorized MPF provider in compliance with the MPF Schemes Ordinance and its related guidelines. The MPF scheme is of a defined contribution type whereby both the employer and the employees make mandatory contributions to the scheme at 5% of the employees' relevant income. The contributions from employees and employer are subject to a cap of monthly relevant income of HK\$20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5%, or 10% for employees working over ten years, of the basic salary over the mandatory contribution. During the year, the Company's contributions amounted to HK\$106,000 (2001: HK\$116,000). According to the terms of the scheme, forfeited contributions of the scheme may be used to offset the employer's future contributions to the scheme. None (2001: Nil) was used to offset the employer's contributions in the course of the year.

The Company's PRC subsidiary is required to make monthly contributions to a retirement plan operated by the Foshan Municipal People's Government at a rate of approximately 9% of staff salaries. Member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. The subsidiary has no obligation to make payments in respect of pension benefits associated with this plan other than the contributions described above.

EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Fee	773	441
Basic salaries, allowances and benefits in kind	1,507	2,019
Retirement scheme contributions	72	82
	2,352	2,542

The number of directors whose remuneration fell within the following bands:

	Number of directors	
	2002	2001
Nil-HK\$1,000,000	9	10
HK\$1,000,001-HK\$1,500,000	1	1

Included in the directors' fees, an amount of HK\$200,000 (2001: HK\$100,000) was paid to independent non-executive directors. There was no arrangement under which a director had waived or agreed to waive any remuneration. Of the five highest paid individuals, three (2001: four) were directors whose emoluments are disclosed above. The aggregate of the emoluments of the other two (2001: one) individuals amounted to HK\$665,000 (2001: HK\$478,000), of which retirement scheme contributions amounted to HK\$30,000 (2001: HK\$21,000).

By Order of the Board
HE Haochang
Chairman

Hong Kong, 15 April 2003