

# Report of the Directors

The directors submit herewith their annual report together with the audited accounts for the year ended 31 December 2003.

## 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").

## MAJOR CUSTOMERS AND MAJOR SUPPLIERS

All of the Group's electricity was sold to one single customer, 廣東省廣電集團有限公司佛山供電分公司 (Guangdong Guang-Dian Electric Power Group Co. Ltd., Foshan Branch), for onward supply to the ultimate end users in Foshan City. The Group's largest supplier contributed to 96.4% of its total purchases and the Group's five largest suppliers contributed to 99.2% of its total purchases during the year. At no time during the year have the directors, their associates or any shareholders of the Company (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 customer.

## ACCOUNTS

The Group's loss for the year ended 31 December 2003 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 38 to 67.

The Directors have resolved to recommend the payment of a final dividend of 1.5 Hong Kong cents (2002: 1.8 Hong Kong cents) per share in respect of the year ended 31 December 2003 payable, on or about 11 June 2004 to those shareholders whose names appear on the register of members on 21 May 2004.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2003 are set out in note 15 on the accounts.

## FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 13 on the accounts.

## **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2003 are set out in notes 22 to 23 on the accounts.

## **SHARE CAPITAL AND RESERVES**

Details of the movements in share capital and reserves of the Company during the year are set out in notes 24 and 25 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 financial years is set out on page 68 of the annual report.

## **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.

## **COMPLIANCE WITH THE 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 in Appendix 14 to the Listing Rules.

## **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive directors and reports to the board of directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

## **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.

# Report of the Directors

## FUEL SUPPLY TRANSACTIONS

Pursuant to a fuel supply agreement dated 30 November 2002 entered into between Shakou JV and the 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) (the "Fuel Company") (the "Fuel Supply Agreement"), Shakou JV purchased fuel of an aggregate amount of approximately HK\$507.8 million during the year (2002: HK\$421.6 million) from the Fuel Company (the "Fuel Supply Transactions"). These transactions are detailed below:

	FY 2003		
	Heavy Oil	Diesel Oil	Total
Quantity (tonnes):	299,693	1,276	N.A.
Value (HK\$'000):	504,337	3,493	507,830
Weighted average price (HK\$/tonne):	1,683	2,738	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 such that the price payable by Shakou JV for the fuel delivered will be determined by Shakou JV and the Fuel Company from time to time, but in any event will not be higher than: i) the then prevailing market prices 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 is the lower.

### 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 hence a connected party of the Company and the Fuel Supply Transactions were connected transactions as defined under the Listing Rules. The Stock Exchange of Hong Kong Limited (The "Stock Exchange") has issued a letter dated 24 December 2002 to grant a waiver to the Company so that it can be exempted from the relevant requirements as stipulated under Chapter 14 of the Listing Rules on certain conditions.

### Opinion of the Independent Non-executive Directors

The Company's independent non-executive directors have reviewed the Fuel Supply Transactions and confirmed in a letter dated 31 March 2004 that: (a) the Fuel Supply Transactions have been entered into by the Company in the ordinary and usual course of its business; (b) the Fuel Supply Transactions have been entered into on terms no less favorable than terms available from independent third parties; (c) the Fuel Supply Transactions have been entered into in accordance with the terms and conditions of the Fuel Supply Agreement dated 30 November 2002 governing such Fuel Supply Transactions; and (d) the aggregate amount the Fuel Supply Transactions has not exceeded the cap amount of 80% of the cost of sales of the Group for the year ended 31 December 2003.

## FUEL SUPPLY TRANSACTIONS (Continued)

### Confirmation from the Auditors

The Company's auditors have reviewed the Fuel Supply Transactions and confirmed to the Directors in writing stating that: (a) the Fuel Supply Transactions have received the approval of the Directors; (b) the Fuel Supply Transactions were in accordance with the pricing policy as stated in the Company's annual report; (c) the Fuel Supply Transactions have been entered into in accordance with the terms of the Fuel Supply Agreement dated 30 November 2002; and (d) the aggregate amount of the Fuel Supply Transactions has not exceeded the cap amount of 80% of the cost of sales of the Group for the year ended 31 December 2003.

## CONNECTED TRANSACTIONS

### Outstanding Long-term Loans

Shakou JV had outstanding unsecured Renminbi long-term loans due to Power Construction Corporation and its associate of an aggregate amount of HK\$376.8 million as at balance sheet date. Power Construction Corporation is a 20% shareholder of Shakou JV and hence a connected person of the Company as defined under the Listing Rules. Shakou JV made repayments of an aggregate amount of HK\$71.4 million and interest payments of HK\$15.6 million to lenders in accordance with the terms and conditions of the respective loan agreements, details of which have been disclosed in the Company's circular to shareholders dated 23 March 1998. During the year, Shakou JV has obtained consents from the lenders to extend the expiry for an aggregate amount of HK\$17.2 million and HK\$48.7 million loan repayments due in 2003 and 2004 respectively, of which the lenders agreed to waive all overdue interest or penalty charges.

### Office Lease

Lipromate Limited ("Lipromate"), a subsidiary of the Company, paid rentals of an aggregate amount of approximately HK\$287,500 to Maxfortune Development Limited ("Maxfortune"), a subsidiary of Foshan Development Company Limited, for leasing certain office premise at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong as the Company's headquarter. Foshan Development Company Limited is a beneficial controlling shareholder of the Company and hence a connected person of the Company as defined under the Listing Rules. The rentals were made in accordance with the relevant terms and conditions of the tenancy agreement entered into between Lipromate and Maxfortune on 1 November 2002 for a period of two years commencing on 1 December 2002 at an aggregate annual consideration of approximately HK\$300,000. Details of the tenancy agreement have been disclosed in the Company's 2002 annual report. The transaction was exempted from disclosure and approval by the Company's shareholders under 14.24(5) of the Listing Rules.

### Fuel Purchases

Shakou JV made fuel purchases from the Fuel Company of an aggregate amount of approximately HK\$507.8 million, details of which are listed in the section headed Fuel Supply Transaction of this report. These transactions were made in accordance with a Fuel Supply Agreement entered into between Shakou JV and the Fuel Company on 30 November 2002, details of which have been disclosed in the Company's circular dated 14 December 2002 and approved by the Company's shareholders on 31 December 2002.

# Report of the Directors

## DIRECTORS

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

### Executive Directors

HE Haochang (*Chairman & Managing Director*)

CHAN Che Kan, Edward (*Deputy Managing Director*)

SITU Min (*Chief Financial Officer*)

LI Feng (*Appointed on 26 February 2003*)

TANG Jian (*Resigned on 26 February 2003*)

### Non-executive Director

LAM Siu Hung (*Resigned on 26 February 2003 and re-appointed on 20 January 2004*)

### Independent Non-executive Directors

CHAN Ting Chuen, David

NG Pui Cheung, Joseph

CHEUNG Kin Piu, Valiant (*Appointed on 15 March 2004*)

In accordance with articles 92 and 101 of the Company's articles of association, Mr. CHAN Che Kan, Edward, CHAN Ting Chuen, David, Mr. CHEUNG Kin Piu, Valiant and Mr. LAM Siu Hung will retire from the board at the forthcoming Annual General Meeting and except Mr. LAM Siu Hung, all other retiring directors being eligible, offer themselves for re-election.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or 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 at the salary remuneration of HK\$780,000 per annum which is subject to approval by the Board and will continue thereafter until terminated by either party to the contracts at six months' notice. Mr. HE Haochang also has a service contract 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. On 1 March 2003, Mr. SITU Min entered into a service contract with the Company for a term of two years commencing on 1 March 2003 and will continue thereafter until terminated by either party to the agreement at six months' notice.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## TERMS OF NON-EXECUTIVE DIRECTORS

Mr. CHAN Ting Chuen, David, Mr. NG Pui Cheung, Joseph and Mr. CHEUNG Kin Piu, Valiant, all of them being independent non-executive directors of the Company, are appointed for a period of two years up to 30 November 2005, 17 June 2004 and 14 March 2006 respectively or such later date(s) as agreed by the respective independent non-executive directors and the Company. On 31 November 2003, Mr. CHAN Ting Chuen, David renewed his term of appointment with the Company for a period of two years up to 30 November 2005. Mr. LAM Siu Hung, non-executive director of the Company, is also appointed for a period of two years up to 19 January 2006. The fee for each of the directors was fixed at HK\$100,000 per annum by the shareholders at the Annual General Meeting of the Company held in 2002 and continues to be paid at such rate until otherwise determined by the shareholders in general meeting.

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executives' Interests

As at 31 December, 2003, the interests or short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:—

Long Positions in shares and underlying shares of the Company:

Name of Directors	Number of Ordinary Shares			Underlying shares pursuant to share options (Note 2)	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)				
HE Haochang	—	6,117,079 (Note 1)		4,200,000	10,317,079	1.24
CHAN Che Kan, Edward	205,034	—		3,900,000	4,105,034	0.50
SITU Min	—	—		3,800,000	3,800,000	0.46
LI Feng	—	—		1,500,000	1,500,000	0.18
CHAN Ting Chuen, David	—	—		828,000	828,000	0.10
NG Pui Cheung, Joseph	—	—		828,000	828,000	0.10

Notes:—

1. These shares were held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.
2. These represents interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company, further details of which are set out hereinafter.

# Report of the Directors

## DISCLOSURE OF INTERESTS (Continued)

### Directors' and Chief Executives' Interests (Continued)

Other than as disclosed above, none of the directors and chief executive of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Company. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the year.

### Substantial Shareholders' Interests

At 31 December, 2003, the interests and short positions of the shareholders, other than a director or chief executive of Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under Section 336 of SFO were as follows:

Long Positions in shares of the Company:

Name	Number of Ordinary Shares				Percentage of Issued Capital (%)
	Personal Interest	Corporate Interest	Family Interest	Other Interest	
Hensil Investments Group Limited	–	315,000,000 <i>(Note 1)</i>	–	–	38.00
Foshan Development Company Limited	–	315,000,000 <i>(Note 1)</i>	–	–	38.00
YIP Siu Chun	290,196,037 <i>(Note 2)</i>	–	–	–	35.00
Oakwood Enterprise Limited	–	–	–	290,196,037 <i>(Note 2)</i>	35.00
KWAN Tik Hoi	–	–	290,196,037 <i>(Note 2)</i>	–	35.00

Notes:

- The 315,000,000 shares are held by Hensil Investments Group Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in the 315,000,000 shares held by Hensil Investments Group Limited.
- The 290,196,037 shares are held by Madam YIP Siu Chun as beneficial owner. Oakwood Enterprises Limited has given notification in respect of its interest in 290,196,037 shares held by Madam YIP Siu Chun. By virtue of his relationship as the spouse of Madam YIP Siu Chun, Mr. KWAN Tik Hoi is deemed to be interested in the 290,196,037 shares held by Madam YIP Siu Chun.

## DISCLOSURE OF INTERESTS (Continued)

### Substantial Shareholders' Interests (Continued)

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December, 2003.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at an extraordinary general meeting of the Company held on 22 May 2002, details of which have been disclosed in the Company's circular to shareholders dated 29 April 2002 and the most recent interim and annual reports. Disclosures in respect of the share options granted, exercised, lapsed and cancelled during the year are listed under the section headed OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME in this report.

## 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.

### (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.



# Report of the Directors

## DETAILS OF THE SCHEME (Continued)

### (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 HK\$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 31 December 2003 was 82,901,824 shares (including options for 15,356,000 shares that have been granted but not yet lapsed or exercised) which represented 10% of the issued share capital of the Company at 31 December 2003.

### (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, lapsed and outstanding options) in any 12-month period shall not exceed 1 per cent. of the Company's 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.

# Report of the Directors

## OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME

As at 31 December 2003, the following directors, chief executives and an employee working under continuous contract had personal interests in the share options to subscribe for the shares of the Company:

Name of Directors/ chief executive	No. of options outstanding as at 1 January 2003	No. of options granted during the year	Date granted (DD/MM/YY)	Period during which options exercisable (DD/MM/YY-DD/MM/YY)	Options exercised during the year	Options lapsed/ cancelled during the year	Exercise price per share (HK\$)	Market value per share at date of grant of options (HK\$)	No. of options outstanding as at 31 December 2003
HE Haochang	4,200,000	-	30/07/02	30/01/03-29/01/08	-	-	0.35	0.33	4,200,000
CHAN Che Kan, Edward	3,900,000	-	30/07/02	30/01/03-29/01/08	-	-	0.35	0.33	3,900,000
SITU Min	3,800,000	-	30/07/02	30/01/03-29/01/08	-	-	0.35	0.33	3,800,000
^TANG Jian	3,800,000	-	30/07/02	30/01/03-29/01/08	-	3,800,000	0.35	0.33	-
#LAM Siu Hung*	828,000	-	19/08/02	19/02/03-18/02/08	-	828,000	0.35	0.305	-
LI Feng	-	1,500,000	22/05/03	22/11/03-21/11/08	-	-	0.415	0.395	1,500,000
CHAN Ting Chuen, David**	828,000	-	29/07/02	29/01/03-28/01/08	-	-	0.35	0.34	828,000
NG Pui Cheung, Joseph**	828,000	-	25/07/02	25/01/03-24/01/08	-	-	0.35	0.345	828,000
Employee working under continuous contract	300,000	-	29/07/02	29/01/03-28/01/08	-	-	0.35	0.34	300,000
<b>Total</b>	<b>18,484,000</b>	<b>1,500,000</b>			<b>-</b>	<b>4,628,000</b>			<b>15,356,000</b>

^ Resigned on 26 February 2003

# Resigned on 26 February 2003 and re-appointed on 20 January 2004

\* Non-executive director

\*\* Independent non-executive director

# Report of the Directors

## OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME (Continued)

Notes:

1. None of the share options was exercised during the year.
2. The 3,800,000 and 828,000 share options granted to Mr. TANG Jian and Mr. LAM Siu Hung respectively were lapsed and cancelled on 26 May 2003 as a result of their resignations as directors which have taken effect on 26 February 2003.
3. A total of 1,500,000 share options were granted to Mr. LI Feng on 22 May 2003 at subscription price of HK\$0.415 per share. The closing price per share at the date preceding the date of options granted to Mr. LI Feng during the year (i.e. the date the offer of the grant of options were accepted) on 21 May 2003 was HK\$0.395.
4. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.
5. The above options granted are not recognized in the accounts until they are exercised. The directors consider it is 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.
6. After the balance sheet date, a total of 300,000 share options were exercised at an exercise price of HK\$0.35 per share by a former employee working under continuous contract in accordance with the Scheme and the relevant offer letter of the Company.
7. Market value is the closing price at date preceding the date of options granted.

Apart from the foregoing, at no time during the year was the Company or subsidiaries a party to any arrangement 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.

## RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Particulars of the MPF scheme are set out in note 26 on the accounts.

By Order of the Board

**HE Haochang**  
*Chairman*

Hong Kong, 15 April 2004