



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the financial statements.

During the year, the Group ceased the business of property leasing upon the disposal of all its investment properties in April 2003.

RESULTS

The results of the Group are set out in the consolidated income statement on page 18.

FIXED ASSETS

During the year, the Group acquired construction in progress amounting to HK\$104,200,000.

Details of the above and other movements in the fixed assets of the Group and the Company during the year are set out in notes 17 and 18 to the financial statements.

SHARE CAPITAL

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

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 30 to the financial statements.

DIRECTORS

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

Executive directors:

Sun Qiang Chang, *Chairman*

Ou Yaping, *Vice Chairman*

Xiang Ya Bo

Tang Yui Man, Francis

Leng Xuesong

Xu Xinghai (appointed on 30 December 2003)

Gu Junyuan (resigned on 10 December 2003)

Independent non-executive directors:

Xin Luo Lin

Lu Zhi Fang

In accordance with clause 86(2) and 87(2) of the Company's bye-laws, Messrs Xu Xinghai, Tang Yui Man, Francis and Leng Xuesong shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

At 31 December 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares and debentures of the Company or the shares and debentures of any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Shares of HK\$0.01 each of the Company

Name of Director	Capacity	Number of shares	Percentage of the issued share capital of the Company
Ou Yaping	Held by controlled corporation	<u>257,039,515</u> (Note)	<u>33.70%</u>

Note: This number of shares represents the shares in the existing share capital of the Company in which Sinolink Worldwide Holdings Limited ("Sinolink") is interested (Mr Ou Yaping, through his wholly-owned company, Asia Pacific Promotion Limited ("Asia Pacific"), holds approximately 65.44% of the issued share capital of Sinolink and is therefore deemed to be interested in all the shares in which Sinolink is interested).

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Sun Qiang Chang	Beneficial owner	8,750,000 <i>(Note)</i>	8,750,000

Note: The number of shares represents the shares in which Mr Sun Qiang Chang is deemed to be interested as a result of holding shares options.

(c) Interests and short positions in shares of associated corporations

Name of director	Associated corporation	Capacity	Number of shares long position/(short position)	Approximate percentage of the issued share capital of the associated corporation
Ou Yaping	Sinolink	Beneficial owner and interest of controlled corporation	1,250,581,600 <i>(Note 1)</i>	65.44%
	Panva Gas Holdings Limited	Beneficial owner and interest of controlled corporation	608,471,587 <i>(Note 2)</i> (38,461,538)	78.10% (4.94%)
Tang Yui Man, Francis	Sinolink	Beneficial owner	3,800,000 <i>(Note 3)</i>	0.20%
	Panva Gas Holdings Limited	Beneficial owner	6,400,000 <i>(Note 4)</i>	0.82%

Notes:

- This number of shares represents: (i) Mr Ou Yaping and his family's interests of 5,396,600 shares; and (ii) corporate interest of 1,245,185,000 shares held by Asia Pacific.
- This number of shares represents: (i) 3,600,000 share options held by Mr Ou Yaping; and (ii) 604,871,587 shares beneficially owned by Asia Pacific.
- This number of shares represents the shares in which Mr Tang Yui Man, Francis is deemed to be interested as a result of holding share options.
- This number of shares represents: (i) 960,000 shares options held by Mr Tang Yui Man, Francis; and (ii) 5,440,000 shares beneficially owned by Mr Tang Yui Man, Francis.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.

The following table discloses details of options outstanding under the Company's share option scheme and movements during the year ended 31 December 2003:

		Outstanding at 1.1.2003	Granted during the period	Exercised during the period	Lapsed during the period	Adjustment (note)	Outstanding at 31.12.2003
Director							
Sun Qiang Chang	1993 Scheme	50,000,000	–	–	–	(41,250,000)	8,750,000
Employees							
Total employees	1993 Scheme	1,680,000	–	–	–	(1,386,000)	294,000

Details of specific category of options granted are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$ (Note)
1993 Scheme	24.5.2000	24.5.2000 – 23.5.2010	1.66
	26.6.2000	26.6.2000 – 25.6.2010	2.23
	26.3.2001	26.3.2001 – 25.3.2011	1.20

Note: As adjusted for the rights issue and share consolidation during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed above, 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 acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section below headed "Connected Transactions", no contracts of significance to which the Company or its 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.

CONNECTED TRANSACTIONS

In relation to the acquisition of the entire issued share capital of Sinolink Industrial Limited from Sinolink on 8 March 2002, a profit guarantee is provided by Sinolink that if the profits after taxation of Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade") arising from its ordinary activities and excluding any extraordinary item (i) for the two financial years ended 31 December 2003 in aggregate is less than RMB135,000,000; or (ii) for the year ended 31 December 2003 is less than RMB110,000,000 ("Relevant Guaranteed Profit"), Sinolink shall pay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profit and the corresponding profit. Details of the Relevant Guaranteed Profit are set out in note 39(a) to the financial statements.

On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount of US\$25,000,000. The loan is repayable over a term of three years. Fuhuade is a subsidiary of the Company in which the Company holds 70% of its equity. The remaining 30% is held by Shenzhen Sinolink Enterprises Limited ("Shenzhen Sinolink"), a subsidiary of Sinolink, a substantial shareholder of the Company.

The Company provided a guarantee of 70% of the loan, being US\$17,500,000. The remaining balance is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the term plus two years thereafter.

On 29 July 2003, Fuhuade entered into a loan agreement with a bank for an amount of RMB100,000,000. The loan is repayable over a term of three years.

The Company provided a guarantee of 70% of the loan, being RMB70,000,000. The remaining balance is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the term plus two years thereafter.

The loan facilities were replaced by new loan facilities which were secured by the property, plant and equipment of Fuhuade. The abovementioned corporate guarantees were cancelled accordingly.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued capital of the Company.

Shareholder	Capacity	Aggregate interest	Approximate percentage of the issued share capital
Smart Orient	Beneficial owner	66,410,193	8.71%
Sinolink	Beneficial owner and interest of controlled corporation	257,039,515 (Note 1)	33.70%
Asia Pacific	Interest of controlled corporation	257,039,515 (Note 2)	33.70%
Atlantic Cay	Beneficial owner	134,849,593	17.68%
Warburg Pincus Ventures International, L.P. ("WPV")	Interest of controlled corporation	134,849,593 (Note 3)	17.68%
Warburg Pincus Equity Partners, L.P. ("WPE")	Interest of controlled corporation	134,849,593 (Note 4)	17.68%
Warburg Pincus & Co. ("WP")	Interest of controlled corporation	171,841,459 (Note 5)	22.53%

Notes:

1. This number of shares represents the aggregate of: (a) 190,629,322 shares held directly by Sinolink; and (b) the number of shares in which Smart Orient is interested as disclosed above.
2. Asia Pacific is interested in approximately 65.44% in Sinolink and it is deemed to be interested in all the shares held by Sinolink.
3. WPV is interested in 50% of issued share capital of Atlantic Cay and it is deemed to be interested in all the shares held by Atlantic Cay.
4. WPE is interested in 50% of the issued share capital of Atlantic Cay and is deemed to be interested in all the shares held by Atlantic Cay.
5. WP is the general partner of the limited partnerships WPE and WPV, and is deemed to have an interest in all the shares held by these companies. These shares represent the aggregate of the shares held by the funds managed by WP and all the shares held by Atlantic Cay.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales of the largest customer accounted for 100% of its turnover.

The five largest suppliers of the Group in aggregate accounted for about 90.44% of its purchases for the year. Purchases from the largest supplier accounted for about 30.41% of its total purchases.

At no time during the year, did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the five largest customers and suppliers of the Group for the year ended 31 December 2003.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

Sun Qiang Chang

CHAIRMAN

Hong Kong, 21 April 2004