

The directors present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 42 and 19 respectively to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 35 of the annual report.

An interim dividend of HK\$0.015 per share amounting to HK\$34,781,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.03 per share amounting to HK\$70,353,000 to the shareholders whose names appear on the register of shareholders on 18 May 2005.

### PROPERTY, PLANT AND EQUIPMENT

Details of 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.

No professional valuation of the leasehold land and buildings was carried out at 31 December 2004 as, in the opinion of directors, the carrying value of the leasehold land and building was not materially different from the open market value at 31 January 2001.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

### PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

There was no purchased, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year.

## Directors' Report

### DIRECTORS

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

Executive directors:

Mr. Ou Yaping (*Chairman*)

Mr. Tang Yui Man Francis (*Chief Executive Officer*)

Mr. Law Sze Lai

Mr. Chen Wei

Independent non-executive directors:

Mr. Xin Luo Lin

Mr. Li Zhi Xiang

Mr. Davin Alexander Mackenzie (appointed on 18 August 2004)

Mr. Cheung Wing Yui (retired on 25 May 2004)

Mr. Tsang Yu Chor Patrick (retired on 25 May 2004)

In accordance with clause 86(2) of the Company's bye-laws, Mr. Davin Alexander Mackenzie shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Subject to the special resolution in the notice of annual general meeting dated 18 April 2005 being passed by the shareholders of the Company, in accordance with clause 87 of the Company's bye-laws, Messrs. Ou Yaping, Tang Yui Man Francis and Li Zhi Xiang retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, except for Mr. Li Zhi Xiang, who do not offer himself for re-election.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

### DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

At 31 December 2004, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (a) divisions 7, 8, and 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares and underlying Shares

Name of directors	Capacity	Interest in Shares		Total interest in shares	Interest in underlying Shares pursuant to share options	Interest in underlying Shares pursuant to derivative	Aggregate interest	Approximate percentage of the Company's issued share capital
		Family interest	Corporate interest					
Chen Wei	Beneficial owner	-	-	-	6,400,000	-	6,400,000	0.27%
Ou Yaping	Beneficial owner, other and interest of controlled corporation	6,475,920	1,374,222,000 (Note)	1,380,697,920	-	14,000,000 (Note)	1,394,697,920	59.77%

*Note:* Interest in 1,374,222,000 Shares and 14,000,000 underlying Shares are held by Asia Pacific Promotion Limited ("Asia Pacific"), a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping, chairman of the Company.

## Directors' Report

### (b) Directors' interests or short positions in shares in associated corporations

Name of directors	Name of associated corporation	Interest in shares Long position/(short position)			Total interest in Shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporations
		Beneficial owner	Interest of controlled corporations	Others				
Chen Wei	Panva Gas	4,160,000	-	-	4,160,000	8,040,000	12,200,000	1.29%
Davin A. Mackenzie	Enerchina	-	-	-	-	2,288,000	2,288,000	0.10%
Ou Yaping	Enerchina	-	40,515,000	1,147,680,775	1,188,195,775	2,288,000	1,190,483,775	51.96%
					(Note 1)			
	Panva Gas	-	6,081,600	550,789,987	556,871,587	3,600,000	560,471,587	59.48%
		-	(19,230,769)	-	(19,230,769)	-	(19,230,769)	(2.04%)
					(Note 2)			
Tang Yui Man Francis	Enerchina	-	-	-	-	22,880,000	22,880,000	1.00%
	Panva Gas	5,440,000	-	-	5,440,000	3,960,000	9,400,000	1.00%
Xin Luo Lin	Enerchina	-	-	-	-	2,288,000	2,288,000	0.10%

#### Notes:

- The 1,188,195,775 shares in Enerchina represent the aggregate of: (i) the 612,402,966 shares held by the Company (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 59.49% of the existing issued share capital of the Company and is therefore deemed to be interested in all the shares in which the Company is interested); and (ii) the 575,792,809 shares held by Smart Orient Investments Limited ("Smart Orient"). 100% interests of Smart Orient are held by the Company. Mr. Ou Yaping is deemed under the SFO to be interested in these shares. Out of these 1,188,195,775 shares, 1,147,680,775 shares had been pledged with Morgan Stanley by the Company.

2. The 556,871,587 shares in Panva Gas represent the aggregate of: (i) 381,298,462 shares held by Kenson Investment Limited ("Kenson"), a wholly-owned subsidiary of the Company. 59.49% interests of the Company are held by Asia Pacific. Mr. Ou Yaping is the sole beneficial owner of Asia Pacific. Mr. Ou Yaping is deemed under the SFO to be interested in these shares; (ii) 6,081,600 shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou Yaping; and (iii) 169,491,525 shares held by Supreme All Investments Limited ("Supreme All"). 100% interests of Supreme All are held by the Company, Mr. Ou Yaping is deemed under the SFO to be interested in these shares. Out of these 556,871,587 shares, 550,789,987 shares had been pledged with Morgan Stanley by the Company.

Kenson is under an obligation to transfer 19,230,769 shares to Hutchison International Limited ("Hutchison International") upon full exchange of HK\$62,500,000 redeemable note (the "Note") held by Hutchison International in accordance with the terms and conditions of the Note.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

### (a) Interest in options to subscribe for Shares

Pursuant to the Company's share option scheme, the Company has granted options to subscribe for the Shares in favour of certain Directors, the details of which are as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding		Exercised during the year	Number of Shares subject to outstanding options at 31.12.2004	Approximate percentage of the Company's issued share capital
				at 01.01.2004	Adjustment as a result of bonus issue of Shares			
Chen Wei	14.03.2002	01.09.2002 – 01.09.2004	0.56	6,000,000	1,200,000	7,200,000	–	–
	14.03.2002	01.12.2002 – 01.12.2005	0.56	6,000,000	1,200,000	800,000	6,400,000	0.27%
Law Sze Lai	14.03.2002	01.09.2002 – 01.09.2004	0.56	6,000,000	1,200,000	7,200,000	–	–
	14.03.2002	01.12.2002 – 01.12.2005	0.56	6,000,000	1,200,000	7,200,000	–	–
Tang Yui Man Francis	14.03.2002	01.09.2002 – 01.09.2004	0.56	1,900,000	380,000	2,280,000	–	–
	14.03.2002	01.12.2002 – 01.12.2005	0.56	1,900,000	380,000	2,280,000	–	–

## Directors' Report

*Notes:*

1. The vesting period of the share options in from the date of grant until the commencement of the exercise period.
2. These options represent personal interests held by the Directors as beneficial owners.
3. The number of share options outstanding at beginning of year and the exercise prices have been adjusted to reflect the effect of bonus issue of shares during the year. Exercise price before adjustment is HK\$0.67 and exercise price after adjustment is HK\$0.56.

(b) Interest in options to subscribe for shares of associated corporations

Name of Directors	Name of associated corporation	Date of grant	Exercise period	Exercise price HK\$	Number of shares options held	Approximate percentage of the issued share capital of the associated corporation	
Chen Wei	Panva Gas	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%	
		04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%	
		13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000	0.15%	
		19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%	
		19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%	
		19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%	
Davin A. Mackenzie	Enerchina	20.10.2004	20.10.2005 – 19.10.2015	0.500	2,288,000	0.10%	
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	0.10%	
		Panva Gas	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%
			04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%
Tang Yui Man Francis	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	1.00%	
		Panva Gas	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	0.10%
			19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%
			19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%
			19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%
Xin Luo Lin	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	0.10%	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. These options represent personal interests held by the Directors as beneficial owners.

Save as disclosed above, at no time during the year, the Directors, chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (warrants or debentures of the Company, if applicable) or any of its associated corporations required to be disclosed pursuant to the SFO.

## SHARE OPTION SCHEMES OF THE GROUP

### (A) The Company's Share Option Schemes

#### (a) 1998 Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the shareholders of the Company dated 11 May 1998 (the "Old Scheme"); share options were granted to directors and employees of the Company or its subsidiaries for recognition of their contributions to the Group. The exercise price of the share options will be determined at the higher of 80% of the average closing prices of the Company's Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the share options and the nominal value of the shares. The share options granted must be taken up within 28 days of the date of grant with a nominal consideration of HK\$1 payable on the date of grant. The New Scheme (as defined below) has replaced the Old Scheme and there will be no new share options granted under the Old Scheme in the future but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the Old Scheme shall remain in full force and effect.

Under the Old Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the Old Scheme.

At 31 December 2004, a total of 6,400,000 options (representing approximately 0.27% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the Old Scheme.

#### (b) 2002 Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the shareholders of the Company dated 24 May 2002 (the "New Scheme"); share options were granted to directors and employees of the Company or its subsidiaries for recognition of their contributions to the Group. The exercise price of the share options will be determined at the higher of the average of closing prices on the Stock Exchange on the five trading days immediately preceding on the date of grant, the closing price of the Shares on the Stock Exchange on the date of grant and the nominal value of the Shares. The share options granted must be taken up within 28 days of the date of grant.

At 31 December 2004, a total of 24,850,000 options (representing approximately 1.06% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the New Scheme.

## Directors' Report

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.

The total number of shares in respect of which options may be granted under the New Scheme are 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 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.

Additional information in relation to the Company's share option schemes are set out in note 35 to the financial statements.

The following table discloses movements in the Company's share options during the year:

### Category 1: Directors

				Adjustment as a			
	Option types	Outstanding at 1.1.2004	Granted during the year	result of bonus issue of Shares	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
Chen Wei	2002A	12,000,000	–	2,400,000	(8,000,000)	–	6,400,000
Law Sze Lai	2002A	12,000,000	–	2,400,000	(14,400,000)	–	–
Tang Yui Man Francis	2002A	3,800,000	–	760,000	(4,560,000)	–	–
Total for directors		<u>27,800,000</u>	<u>–</u>	<u>5,560,000</u>	<u>(26,960,000)</u>	<u>–</u>	<u>6,400,000</u>

### Category 2: Employees

				Adjustment as a			
	Option types	Outstanding at 1.1.2004	Granted during the year	result of bonus issue of Shares	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
	2001B	550,000	–	110,000	(660,000)	–	–
	2002A	6,800,000	–	500,000	(7,300,000)	–	–
	2004	–	25,400,000	5,080,000	(4,430,000)	(1,200,000)	24,850,000
Total for employees		<u>7,350,000</u>	<u>25,400,000</u>	<u>5,690,000</u>	<u>(12,390,000)</u>	<u>(1,200,000)</u>	<u>24,850,000</u>
All categories		<u>35,150,000</u>	<u>25,400,000</u>	<u>11,250,000</u>	<u>(39,350,000)</u>	<u>(1,200,000)</u>	<u>31,250,000</u>



Details of specific categories of options are as follows:

<b>Option types</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price before adjustment HK\$</b>	<b>Exercise price after adjustment HK\$</b>
Old Scheme:				
2001B	09.10.2001	03.04.2002 – 03.04.2005	0.33	0.28
	09.10.2001	03.10.2002 – 03.10.2005	0.33	0.28
	09.10.2001	30.12.2002 – 30.12.2005	0.33	0.28
2002A	14.03.2002	01.09.2002 – 01.09.2004	0.67	0.56
	14.03.2002	01.12.2002 – 01.12.2005	0.67	0.56
	14.03.2002	01.01.2003 – 01.01.2005	0.67	0.56
New Scheme:				
2004	01.01.2004	01.06.2004 – 31.05.2008	0.91	0.76
	01.01.2004	01.01.2005 – 31.05.2008	0.91	0.76
	01.01.2004	01.06.2005 – 31.05.2008	0.91	0.76

*Notes:*

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the Shares immediately before 1 January 2004 the date of grant of the 2004 options was HK\$0.758 (before bonus issue of share adjustment was HK\$0.91).
3. The weighted average closing price of the Shares immediately before the dates on which the options were exercised on 26 February 2004, 4 June 2004, 14 June 2004, 19 August 2004, 8 November 2004, 25 November 2004 and 14 December 2004 were HK\$0.94, HK\$0.89, HK\$0.89, HK\$0.89, HK\$0.89, HK\$0.9 and HK\$0.91 respectively.
4. During the year, 25,400,000 Shares granted under the New Scheme were adjusted to 30,480,000 Shares to reflect the effect of bonus issue of Shares.
5. During the year, 1,200,000 options were lapsed under the share option schemes.
6. 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.

## Directors' Report

### (B) Share Options of Panva Gas

Movements of the share options of Panva Gas, a subsidiary of the Company, which have been granted under the Panva Gas Pre-Listing share options scheme (the "Panva Pre-Listing Options") and Panva Gas share options scheme (the "Panva Scheme") both approved by sole shareholder on 4 April 2001, during the year are set out below:-

Option types	Outstanding at 1.1.2004	Appointed as director during the year	Retired as director during the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
Category 1: Directors							
Chen Wei							
Panva Pre-Listing Options	3,600,000	-	-	-	-	-	3,600,000
2001 Options under Panva Scheme	1,440,000	-	-	-	-	-	1,440,000
2004 Options under Panva Scheme	-	-	-	3,000,000	-	-	3,000,000
Ou Yaping							
Panva Pre-Listing Options	3,600,000	-	-	-	-	-	3,600,000
Tang Yui Man Francis							
2001 Options under Panva Scheme	960,000	-	-	-	-	-	960,000
2004 Options under Panva Scheme	-	-	-	3,000,000	-	-	3,000,000
Other directors of Panva Gas							
Panva Pre-Listing Options	6,000,000	600,000	(2,200,000)	-	(1,980,000)	-	2,420,000
2001 Options under Panva Scheme	1,440,000	-	(960,000)	-	-	-	480,000
2004 Options under Panva Scheme	-	-	-	6,400,000	-	-	6,400,000
<b>Total directors</b>	<b>17,040,000</b>	<b>600,000</b>	<b>(3,160,000)</b>	<b>12,400,000</b>	<b>(1,980,000)</b>	<b>-</b>	<b>24,900,000</b>
Category 2: Employees							
Pre-Listing Options	7,440,000	(600,000)	2,200,000	-	(3,790,000)	-	5,250,000
2001 Options under Panva Scheme	6,984,000	-	960,000	-	(2,183,000)	(1,072,000)	4,689,000
2004 Options under Panva Scheme	-	-	-	8,800,000	-	-	8,800,000
<b>Total employees</b>	<b>14,424,000</b>	<b>(600,000)</b>	<b>3,160,000</b>	<b>8,800,000</b>	<b>(5,973,000)</b>	<b>(1,072,000)</b>	<b>18,739,000</b>
<b>All categories</b>	<b>31,464,000</b>	<b>-</b>	<b>-</b>	<b>21,200,000</b>	<b>(7,953,000)</b>	<b>(1,072,000)</b>	<b>43,639,000</b>

Details of specific categories of options granted by Panva Gas are as follows:

<b>Option types</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>
Pre-Listing Options	04.04.2001	01.01.2003 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
2001 Options under Panva Scheme	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 Options under Panva Scheme	19.11.2004	31.12.2005 – 30.03.2011	3.500
	19.11.2004	31.12.2006 – 30.03.2011	3.500
	19.11.2004	31.12.2007 – 30.03.2011	3.500

*Notes:*

1. The vesting period of the above share options is from the date of grant until the commencement of the exercise period.
2. The closing price of the Panva Gas shares immediately before 19 November 2004 (the date of grant of 2004 Options under Panva Scheme) was HK\$3.50.
3. The weighted average closing price of the Panva Gas shares immediately before the date on which the options of Panva Gas were exercised on 6 January 2004 and 25 May 2004 were HK\$4.01 and HK\$3.82 respectively.
4. During the year, 21,200,000 options of Panva Gas were granted and 1,072,000 option of Panva Gas were lapsed under the share option schemes of Panva Gas.
5. During the year, no options of Panva Gas were cancelled under the share option schemes of Panva Gas.
6. The price of the Panva Gas' shares disclosed for options of Panva Gas granted is the closing price quoted on the Stock Exchange on the trading day immediately before the date of the grant of the respective options. The price of the Panva Gas shares disclosed for the options of Panva Gas exercised during the year is the weighted average of the closing prices quoted on the Stock Exchange immediately before the date of exercise of options of Panva Gas.

## Directors' Report

### (C) Share Options of Enerchina

Movements of the share options of Enerchina, a subsidiary of the Company, which have been granted under the Enerchina's share option scheme adopted in 1993 (the "1993 Enerchina Scheme") and Enerchina share option scheme adopted in 2002 (the "2002 Enerchina Scheme"), during the year are set out below:-

Directors	Share option scheme	Outstanding at 1.1.2004	Granted during the year	Retired as	Exercised during the year	Lapsed during the year	Adjusted	Outstanding at 31.12.2004
				director during the year			offer during the year	
Category 1: Directors								
Davin A. Mackenzie	2002 Enerchina Scheme	-	2,288,000	-	-	-	-	2,288,000
Ou Yaping	2002 Enerchina Scheme	-	2,288,000	-	-	-	-	2,288,000
Tang Yui Man Francis	2002 Enerchina Scheme	-	22,880,000	-	-	-	-	22,880,000
Xin Luo Lin	2002 Enerchina Scheme	-	2,288,000	-	-	-	-	2,288,000
Other directors of Enerchina	1993 Enerchina Scheme	8,750,000	-	-	-	-	17,500,000	26,250,000
	2002 Enerchina Scheme	-	34,456,000	(2,288,000)	-	-	-	32,168,000
Total Directors		8,750,000	64,200,000	(2,288,000)	-	-	17,500,000	88,162,000
Category 2: Employees								
	1993 Enerchina Scheme	294,000	-	-	(357,000)	(525,000)	588,000	-
	2002 Enerchina Scheme	-	30,150,000	2,288,000	(2,288,000)	(3,250,000)	-	26,900,000
Total employees		294,000	30,150,000	2,288,000	(2,645,000)	(3,775,000)	588,000	26,900,000
All categories		9,044,000	94,350,000	-	(2,645,000)	(3,775,000)	18,088,000	115,062,000

Details of options granted by Enerchina are as follows:

<b>Option types</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price before adjustment</b>	<b>Exercise price after adjustment</b>
1993 Enerchina Scheme	24.05.2000	24.05.2000 – 23.05.2010	1.66	0.55
	26.06.2000	26.06.2000 – 25.06.2010	2.23	0.74
	26.03.2001	26.03.2001 – 25.03.2011	1.20	0.40
2002 Enerchina Scheme	09.06.2004	09.06.2004 – 08.06.2014	N/A	0.44
	09.06.2004	09.06.2005 – 08.06.2014	N/A	0.44
	09.06.2004	09.06.2006 – 08.06.2014	N/A	0.44
	09.06.2004	09.12.2006 – 08.06.2014	N/A	0.44
	20.10.2004	20.10.2005 – 19.10.2015	N/A	0.50

*Notes:*

1. The exercise price for the share options of Enerchina has been adjusted for the open offer during the year.
2. The vesting period of the share options of Enerchina is from the date of the grant until the commencement of exercise period.
3. The closing price of the Enerchina's shares immediately before 9 June 2004 and 20 October 2004, the date of grant of the options under 2002 Enerchina Scheme, were HK\$0.445 and HK\$0.50 respectively.
4. The weighted average closing price of the Enerchina's shares immediately before the dates on which the options were exercised on 12 August 2004, 5 November 2004 and 24 November 2004 were HK\$0.48, HK\$0.50 and HK\$0.58 respectively.
5. During the year, 94,350,000 options of Enerchina were granted and 3,775,000 were lapsed under the share option schemes of Enerchina. No options were cancelled under the share option scheme of Enerchina.
6. The price of the Enerchina's shares disclosed for options granted is the closing price quoted on the Stock Exchange on the trading day immediately before the date of the grant of the respective options. The price of the Enerchina's shares disclosed for the options exercised during the year is the weighted average of the closing prices quoted on the Stock Exchange immediately before the date of exercise of options of Enerchina.

## Directors' Report

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow 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, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Save as disclosed above, none of the directors, chief executives nor their respective associates (as defined in the Listing Rules) had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations.

### DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year of any director proposed for re-election at the forthcoming annual general meeting.

### 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.

### CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), the following connected transactions of the Company require disclosure in the annual report of the Company:

Pursuant to the tenancy agreements dated 1 April 2002 which expired on 31 March 2004 between Sinolink Worldwide (HK) Company Limited ("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 2002 at a rent of HK\$83,000 per month respectively exclusive of rates and management fees. Total rental expenses of HK\$996,000 were paid or payable to Skillful for the year ended 31 December 2004.

The independent non-executive directors confirm that the transaction has been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:-

Long positions and short positions in Shares and underlying Shares

Name of Shareholders	Capacity	Interests in shares	Interest in underlying shares pursuant to derivative	Total interest in shares	Approximate percentage of the Company's issued share capital
Asia Pacific	Beneficial owner	1,374,222,000 <i>(Note 1)</i>	14,000,000 <i>(Note 1)</i>	1,388,222,000	59.49%
Value Partners Limited	Investment manager	120,000,000 <i>(Note 2)</i>	–	120,000,000	5.14%
Cheah Cheng Hye	Interest of controlled corporation	120,000,000 <i>(Note 2)</i>	–	120,000,000	5.14%
Pope Asset Management, LLC	Investment manager	116,958,800	–	116,958,800	5.01%

Notes:

1. These shares and underlying shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.
2. These 120,000,000 shares are held by Value Partners Limited, a company which is held by 31.82% by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these shares.

## Directors' Report

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at the Latest Practicable Date, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest supplier accounted for approximately 44.7% of the Group's total purchases and the Group's largest five suppliers accounted for approximately 65.0% 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.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2004 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 Rule Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which was in force prior to 1 January 2005.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

### AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors, Messrs. Xin Luo Lin, Davin A. Mackenzie and Li Zhi Xiang. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Director's as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share as required under the Listing Rules.



### 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, 31 March 2005