

# Report of the Directors

The directors submit herewith their annual report together with the audited accounts for the year ended 31 December 2004.

## 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").

## ACCOUNTS

The Group's loss for the year ended 31 December 2004 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 27 to 57.

The Directors have resolved not to recommend the payment of a final dividend (2003: 1.5 Hong Kong cents per share) in respect of the year ended 31 December 2004.

## MAJOR CUSTOMER AND 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 Power Grid Group Co. Ltd., Foshan Branch) ("Guangdong Guang-Dian"), for onward supply to the ultimate end users in Foshan City. The Group's largest supplier contributed to 86.6% of its total purchases and the Group's five largest suppliers contributed to 99.0% 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.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 14 on the accounts.

## FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 12 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 2004 are set out in notes 21 to 22 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 23 and 24 on the accounts respectively.

# Report of the Directors

## 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 58 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.

## CORPORATE GOVERNANCE

During the year ended 31 December, 2004, the Company has complied with the then applicable Code of Best Practice as was then set out in Appendix 14 of the pre-existing Listing Rules. 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.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

## 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.

## FUEL SUPPLY TRANSACTIONS

Pursuant to a fuel supply agreement dated 30 November 2002 entered into between Shakou JV and 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\$542.8 million during the year (2003: HK\$507.8 million) from the Fuel Company (the "Fuel Supply Transactions"). These transactions are detailed below:

<b>FY 2004</b>	<b>Heavy Oil</b>	<b>Diesel Oil</b>	<b>Total</b>
Quantity (tonnes):	297,397	662	N.A.
Value (HK\$'000):	540,813	2,009	542,822
Weighted average price (HK\$/tonne):	1,818	3,035	N.A.

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

# Report of the Directors

## FUEL SUPPLY TRANSACTIONS (Continued)

### 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 14A 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 12 April 2005 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 2004.

### 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 2004.

# Report of the Directors

## DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULE 13.20 OF THE LISTING RULES

The market capitalization of the Company as at 31 December 2004 amounting to approximately HK\$320,436,450 based on the total number of 830,146,244 shares in issue on 31 December 2004 and the average closing price of HK\$0.386 per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding 31 December 2004. As at 31 December 2004, the trade receivables owed to the Group by Guangdong Guan-Dian, in aggregate amounted to RMB184,231,331 (equivalent to approximately HK\$172,404,390), represented approximately 53.80% of the Company's market capitalization on 31 December 2004. Due to persistent strong demand of electricity in Foshan City, the relevant trade receivables had increased in line with the increase in sales of electricity to Guangdong Guan-Dian last year. The relevant trade receivables comprised account receivables arose solely from the sales of electricity to Guangdong Guan-Dian by the Group in its ordinary course of business. The relevant trade receivables are interest-free, unsecured and with credit terms of 30 days and with average settlement period of approximately 45 days. Guangdong Guan-Dian, a state-owned enterprise incorporated in the PRC, is an independent third party and not a connected person of the Company (as defined in the Listing Rules) whose principal business is the commercial operation of electric power distribution and supply in Foshan Municipality of Guangdong Province, the PRC. The Group has well-established business relationship with Guangdong Guan-Dian which is the Group's sole customer. Pursuant to the requirements under Rules 13.13, 13.14 and 13.15 of the Listing Rules, details of such trade receivables were disclosed in the Company's announcement dated 8 February 2005. Pursuant to Rule 13.20 of the Listing Rules, the Company was required to include in this report the information specified under Rule 13.15 of the Listing Rules.

## CONNECTED TRANSACTIONS

### Renminbi 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\$289.0 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\$87.8 million and interest payments of HK\$16.2 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, Power Construction Corporation has agreed to waive Shakou JV's previous years' overdue interest in the amount of HK\$9.0 million without consideration. Subsequent to 31 December 2004, Shakou JV has obtained consents from the lenders to extend the expiry for an aggregate amount of HK\$93.7 million loan repayments due in 2005 for about 18 months and the lenders also agreed to waive the interest penalties on all interest payable due in 2004.

### Fuel Purchases

Shakou JV made fuel purchases from the Fuel Company of an aggregate amount of approximately HK\$542.8 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

## CONNECTED TRANSACTIONS (Continued)

### Facility Lease Agreement

On 30 July 2004, Shakou JV and Funeng Power Supply Co. Ltd. (“Funeng JV”), a Sino-foreign equity joint-venture established in the PRC and a subsidiary of Foshan Electric Power Construction Group Corporation (“Power Group Corporation”), entered into the Facilities Lease Agreement, pursuant to which Funeng JV agreed to lease from Shakou JV certain assets (including office premises, factory premises, land-use rights and auxiliary power generation facilities) for two years commencing from 30 July 2004, the date of the Facilities Lease Agreement. The consideration is to be satisfied in cash by two annual payments of RMB4.8 million (equivalent to approximately HK\$4.5 million) each. As Power Construction Corporation, a wholly-owned subsidiary of Power Group Corporation, is a substantial shareholder (as defined in the Listing Rules) of Shakou JV, it is a connected person of the Company within the meaning of the Listing Rules. Funeng JV, being a subsidiary of Power Group Corporation, is an associate (as defined in the Listing Rules) of Power Construction Corporation by virtue of its being a fellow subsidiary of Power Construction Corporation and thus the entering into of the Facilities Lease Agreement between Shakou JV and Funeng JV constitutes a connected transaction of the Company and the transactions arising therefrom constitute continuing connected transactions under Chapter 14A of the Listing Rules. Since, in respect of the aggregate consideration on an annual basis under the Facilities Lease Agreement payable by Funeng JV to Shakou JV, each of the applicable percentage ratios for connected transaction purpose is less than 2.5%, the entering into of the Facilities Lease Agreement is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and no shareholders’ approval is required. Detailed of the transaction had been disclosed in the Company’s announcement dated 2 August 2004.

## 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 & Qualified Accountant*)

LI Feng

### Non-executive Director

LAM Siu Hung (*Appointed on 20 January 2004 and retired on 21 May 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. HE Haochang, Mr. SITU Min and Mr. LI Feng 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 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 at the salary remuneration of HK\$256,960 per annum which is subject to approval by the Board 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 at the salary remuneration of HK\$295,000 per annum which is subject to approval by the Board 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.

## NON-EXECUTIVE DIRECTORS

### Terms of non-executive directors

Currently, all non-executive directors are independent and are appointed for a specific term, subject to re-election. 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 2006 and 14 March 2006 respectively or such later date(s) as agreed by the respective independent non-executive directors and the Company. On 17 June 2004, Mr. NG Pui Cheung, Joseph renewed his term of appointment with the Company for a period of two years up to 17 June 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 May 2002 and continues to be paid at such rate until otherwise determined by the shareholders in general meeting.

### Confirmation of independence

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

# Report of the Directors

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executives' Interests

As at 31 December, 2004, 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 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			Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)	Underlying Shares Pursuant to Share Options (Note 2)		
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	0.49
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.

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.

# Report of the Directors

## DISCLOSURE OF INTERESTS (Continued)

### Substantial Shareholders' Interests

At 31 December, 2004, 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>	–	–	37.95%
Foshan Development Company Limited	–	315,000,000 <i>(Note 1)</i>	–	–	37.95%
YIP Siu Chun	290,196,037 <i>(Note 2)</i>	–	–	–	34.96%
Oakwood Enterprise Limited	–	–	–	290,196,037 <i>(Note 2)</i>	34.96%
KWAN Tik Hoi	–	–	290,196,037 <i>(Note 2)</i>	–	34.96%

Notes:

1. 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.
2. 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.

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 2004.

# Report of the Directors

## 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 following 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

## SHARE OPTION 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 favor 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 2004 was 83,014,624 shares (including options for 14,228,000 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 2004.

### (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 2004, the following directors and chief executives 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 2004	Date Granted (DD/MM/YY)	Period during which options exercisable (DD/MM/YY-DD/MM/YY)	Market value per share at date of exercise of options (HK\$)	Exercise price per share (HK\$)	Options exercised during the year	Market value per share at date of grant of options (HK\$)	No. of options outstanding as at 31 December 2004
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
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	0.435	0.35	828,000	0.34	–
NG Pui Cheung, Joseph*	828,000	25/07/02	25/01/03-24/01/08	–	0.35	–	0.345	828,000
Former employee working under continuous contract	300,000	29/07/02	29/01/03-28/01/08	0.519	0.35	300,000	0.34	–
<b>Total</b>	<b>15,356,000</b>					<b>1,128,000</b>		<b>14,228,000</b>

\* 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. During the year, a total of 1,128,000 share options were exercised. Out of which, 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 and a total of 828,000 share options were exercised at an exercise price of HK\$0.35 per share by Mr. CHAN Ting Chuen, David, an independent non-executive director of the Company, in accordance with the Scheme and the relevant offer letters of the Company.
2. The prices of the Company's shares disclosed as at the date of the exercise of the share options were the weighted average of the Stock Exchange closing prices of the Company's shares immediately before the dates on which the share options were exercised.
3. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.
4. 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.
5. Market value is the closing price at date preceding the date of options granted.
6. No share option has been granted, cancelled or lapsed during the year.

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.

By Order of the Board

**HE Haochang**

*Chairman*

Hong Kong, 14 April 2005