

Report of the Directors

The directors submit herewith their annual report together with the audited accounts for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company together with 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 2005 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 34 to 78.

The directors have resolved not to recommend the payment of a final dividend (2004: Nil) in respect of the year ended 31 December 2005.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 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 2005 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 and the Group during the year are set out in note 24 on the accounts.

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 pages 79 to 80.

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MAJOR CUSTOMERS AND SUPPLIERS

All of the Group's electricity was sold to one single customer, 廣東電網公司佛山供電局 (Guangdong Power Grid Company, Foshan Power Supply Bureau) ("Guangdong Power Grid") formerly named 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), for onward supply to the ultimate end users in Foshan City. The Group's largest supplier contributed to 81.87% of its total purchases and the Group's five largest suppliers contributed to 92.82% 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 best knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and its customer.

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.

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.

DIRECTORS

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

Executive Directors

HE Haochang (*Chairman and Managing Director*)

LAM Siu Hung (*Director and Deputy Managing Director appointed on 4 July 2005*)

CHAN Che Kan, Edward (*Director and Deputy Managing Director resigned on 15 September 2005*)

SITU Min (*Chief Financial Officer & Qualified Accountant*)

LI Feng

Independent Non-executive Directors

CHAN Ting Chuen, David

CHEUNG Kin Piu, Valiant

NG Pui Cheung, Joseph

Report of the Directors

DIRECTORS (Continued)

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company considers all the independent non-executive directors to be independent.

In accordance with articles 92 and 101 of the Company’s articles of association, Mr. LAM Siu Hung, Mr. CHAN Ting Chuen, David and Mr. NG Pui Cheung, Joseph will retire from the board 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 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.

Biographical details of the existing directors of the Company, including essentially the particulars required under paragraph 12 of Appendix 16 to the Listing Rules (if and as applicable and appropriate), are set out on pages 10 to 11.

DIRECTORS’ INTERESTS IN CONTRACTS

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

EXECUTIVE DIRECTORS’ SERVICE CONTRACTS

Mr. HE Haochang has a service contract with the Company for a term of two years commencing on 19 July 2001 which will continue thereafter until terminated by either party to the agreement at six months’ notice.

Mr. SITU Min has a service contract with the Company for a term of two years commencing on 1 March 2003 which will continue thereafter until terminated by either party to the agreement at six months’ notice.

Mr. LAM Siu Hung has a service contract with the Company for a term of two years commencing on 4 July 2005 which has been approved by the Board as well as the remuneration committee and shall continue thereafter until terminated by either party to the agreement at six months’ notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS’ SERVICE CONTRACTS

All the independent non-executive directors are appointed for a specific term subject to re-election. Mr. CHAN Ting Chuen, David has a service contract with the Company for a term of one year together with Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph have service contracts for a term of two years of the Company.

Report of the Directors

DIRECTORS' FEES

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.

FUEL SUPPLY TRANSACTIONS

Pursuant to a fuel supply agreement (“Fuel Supply Agreement”) dated 30 November 2002 entered into between Foshan Shakou Power Plant Co., Ltd. (“Shakou JV”) and 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) (“Fuel Company”), Shakou JV purchased fuel of an aggregate amount of approximately HK\$700.53 million during the year (2004: HK\$542.82 million) from the Fuel Company (“Fuel Supply Transactions”). These transactions are detailed below:

	Heavy Oil	Diesel Oil	Total
Quantity (tonnes):	287,821	862	N.A.
Value (HK\$'000):	697,303	3,228	700,531
Weighted average price (HK\$/tonne):	2,423	3,744	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

Since 佛山市區電力建設總公司 (Foshan City District Electric Power Construction Corporation) (“Power Construction Corporation”) holds 20% interests in Shakou JV, it is regarded as a substantial shareholder of Shakou JV under the Listing Rules and is thus a connected person of the Company under the Listing Rules. As the Fuel Company and Power Construction Corporation are both wholly-owned by 佛山電建集團公司 (Foshan Electric Power Construction Group Corporation) (“Power Group Corporation”), the Fuel Company is an associate (within the meaning of the Listing Rules) of Power Construction Corporation by virtue of their being fellow subsidiaries of the same holding company and the Fuel Company is regarded as a connected person of the Company under the Listing Rules. The Fuel Supply Transactions were connected transactions as defined under the Listing Rules. 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 the pre-existing Chapter 14A of the Listing Rules on certain conditions.

Report of the Directors

FUEL SUPPLY TRANSACTIONS (Continued)

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 3 April 2006 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 favourable 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 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 2005.

Confirmation from the Auditors

The Company's auditors have also reviewed the Fuel Supply Transactions and confirmed to the Directors in writing stating that: (a) the 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 2005.

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

The market capitalization of the Company as at 31 December 2005 amounting to approximately HK\$231,610,802 based on the total number of 830,146,244 shares in issue on that date and the average closing price of HK\$0.279 per share as stated in the Stock Exchange's daily quotations sheets for the last five business days up to that date. As at 31 December 2005, the trade receivables owned to the Group by Guangdong Power Grid, in aggregate amounted to approximately HK\$79,106,000, represented approximately 34.15% of the Company's market capitalization on 31 December 2005. The trade receivables are arose from sale of electricity in ordinary and usual course of business and on normal commercial terms and which are interest-free, unsecured and with credit terms of 30 days and with average settlement period of approximately 45 days. The sales are calculated by reference to electricity tariffs approved by the Guangdong Provincial Price Bureau. Guangdong Power Grid, 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.

Pursuant to the amendments under Rule 13.15A made to the Listing Rules which took effect on 1 March 2006, for the purpose of Rules 13.13 and 13.14, where any trade receivable (other than as a result of the provision of financial assistance) arose in the ordinary and usual course of business of the Group and the transactions from which the trade receivables arose was on normal commercial terms, such trade receivables shall not be regarded as a relevant "advance to an entity" by the Group within the ambit of Rule 13.13, and the related provisions of the Listing Rules. Therefore, the trade receivables due to the Group from Guangdong Power Grid as described above have ceased to be discloseable under the relevant provisions of the Listing Rules.

Report of the Directors

MATERIAL 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\$296.98 million as at the balance sheet date. Power Construction Corporation is a 20% shareholder of the Shakou JV and hence a connected person of the Company as defined in the Listing Rules. Shakou JV made interest payment of HK\$12.07 million to the 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\$153.69 million loan repayments due in 2006 for about 24 months. The lenders also agreed to waive the interest and penalties on all extended loans.

Fuel Purchases

Shakou JV made fuel purchases from the Fuel Company of an aggregate amount of approximately HK\$700.53 million, details of which are listed in above section headed "Fuel Supply Transactions" 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 for a term of three years commencing on 1 January 2003, details of which have been disclosed in the Company's circular dated 14 December 2002 and approved by the shareholders on 31 December 2002. Subsequently, a new Fuel Supply Agreement entered into between Shakou JV and the Fuel Company on 9 November 2005 for a term of three years commencing on 1 January 2006, details of which have been disclosed in the Company's circular dated 28 November 2005 and approved by the shareholders on 14 December 2005.

Facility Lease Agreement

On 30 July 2004, Shakou JV and 佛山市福能發電廠有限公司 (Funeng Power Supply Co. Ltd.) ("Funeng JV"), a Sino-foreign equity joint-venture established in the PRC, entered into the Facility 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 approximately HK\$4.61 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.

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MATERIAL CONNECTED TRANSACTIONS (Continued)

Facility Lease Agreement (Continued)

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 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 transactions had been disclosed in the Company's announcement dated 2 August 2004.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2005, the interests or short positions of the directors and chief executives 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 Issuers 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
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

Report of the Directors

DISCLOSURE OF INTERESTS (Continued)

Directors' and Chief Executives' Interests (Continued)

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 executives 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 Issuers. 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 2005, the interests and short positions of the shareholders, other than a director or chief executive of the 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:

	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%

DISCLOSURE OF INTERESTS (Continued)

Substantial Shareholders' Interests (Continued)

Notes:

1. The 315,000,000 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 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 Enterprise 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 2005.

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 below 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 ("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.

Report of the Directors

SHARE OPTION SCHEME (Continued)

Details of the Scheme (Continued)

(iii) *Duration and Administration*

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

(iv) *Grant of Option*

The Board shall be entitled at any time within 10 years after the date of adoption to make an offer to any Participant. An option shall be deemed to have been granted and accepted and to have taken effect when a signed copy of an offer letter made by the Company to a Participant together with a remittance in favour of the Company of 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% 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% 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% of the shares in issue from time to time. The total number of shares available for issue under the Scheme is 83,014,624 shares which represented 10% of the issued share capital of the Company as at 31 December 2005.

Report of the Directors

SHARE OPTION SCHEME (Continued)

Details of the Scheme (Continued)

(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 exercised, cancelled, lapsed and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Should any further grant of options in excess of the 1% limit of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

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

As at 31 December 2005, 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 Executives	No. of Options Outstanding as at 1 January 2005	Date of Grant	Period during which Options Exercisable	Exercise Price per Share (HK\$)	Market Value per Share at Date of Grant (HK\$)	Option Lapsed during the Year	No. of Options Outstanding as at 31 December 2005
HE Haochang	4,200,000	30/7/2002	30/1/2003 – 29/1/2008	0.35	0.33	–	4,200,000
CHAN Che Kan, Edward	3,900,000	30/7/2002	30/1/2003 – 29/1/2008	0.35	0.33	3,900,000	–
SITU Min	3,800,000	30/7/2002	30/1/2003 – 29/1/2008	0.35	0.33	–	3,800,000
LI Feng	1,500,000	22/5/2003	22/11/2003 – 21/11/2008	0.415	0.395	–	1,500,000
NG Pui Cheung, Joseph*	828,000	25/7/2002	25/01/2003 – 24/01/2008	0.35	0.345	–	828,000
Total	14,228,000					3,900,000	10,328,000

* 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. No share option has been granted, exercised or cancelled during the year.
2. 3,900,000 share options were lapsed during the year.
3. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.
4. 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.

DIRECTORS' RIGHT TO ACQUIRE SHARE OR DEBENTURES

Save as disclosed in above section headed "Share Option Scheme" of this report, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 6(b) and 25 on the accounts.

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.

By Order of the Board

HE Haochang
Chairman

Hong Kong, 18 April 2006