



DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 35 to the financial statements.

RESULTS

The results of the Group are set out in the consolidated income statement on page 25.

The Board has recommended a distribution out of the contributed surplus account on the basis of HK0.035 (2003: nil) per share subject to the share premium reduction, totalling not less than approximately HK\$80.2 million (2003: nil) which is subject to approval by shareholders at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2004 is set out on page 58.

FIXED ASSETS

During the year, the Group acquired construction in progress amounting to HK\$644,525,000.

Details of the above and other movements in the fixed assets of the Group during the year are set out in note 14 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 24 to the financial statements.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity and in note 26 to the financial statements.

DIRECTORS' REPORT

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

Independent non-executive directors:

Xin Luo Lin

Lu Yungang (appointed on 28 May 2004)

Davin A. MacKenzie (appointed on 18 August 2004)

Lu Zhi Fang (resigned on 22 September 2004)

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

In accordance with clause 87(2) of the Company's bye-laws, Messrs. Xiang Ya Bo and Xin Luo Lin shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves 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.

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



DIRECTORS' REPORT

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

At 31 December 2004, 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) Long Positions in Shares of the Company

Name of director	Capacity	Interest in shares		Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the Company
		Corporate interest	Other				
Leng Xuesong	Beneficial owner	—	—	—	5,000,000	5,000,000	0.22%
Lu Yungang	Beneficial owner	—	—	—	2,288,000	2,288,000	0.10%
Davin A. Mackenzie	Beneficial owner	—	—	—	2,288,000	2,288,000	0.10%
Ou Yaping	Beneficial owner, other and interest of controlled corporation	40,515,000	1,147,680,775	1,188,195,775	2,288,000	1,190,483,775	51.96%
				(Note)			
Sun Qiang Chang	Beneficial owner	—	—	—	26,250,000	26,250,000	1.15%
Tang Yui Man Francis	Beneficial owner	—	—	—	22,880,000	22,880,000	1.00%
Xiang Ya Bo	Beneficial owner	—	—	—	22,880,000	22,880,000	1.00%
Xin Luo Lin	Beneficial owner	—	—	—	2,288,000	2,288,000	0.10%
Xu Xinghai	Beneficial owner	—	—	—	2,000,000	2,000,000	0.09%

Note:

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

DIRECTORS' REPORT

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

(b) Directors' Interests or Short Positions in Shares of Associated Corporations

Name of directors	Name of associated corporation	Interest in shares/(short positions)				Total interest in shares/(short positions)	Interest in underlying share pursuant to share options	Interest in underlying shares pursuant to derivate	Aggregate interest/(short positions)	Approximate percentage of the issued share capital of the associated corporations
		Beneficial owner	Family interest	Interest of controlled corporations	Other					
Ou Yaping	Sinolink	—	6,475,920	1,374,222,000	—	1,380,697,920	—	14,000,000	1,394,697,920	59.77%
				(Note 1)				(Note 1)		
	Panva Gas Holdings Limited	—	—	6,081,600	550,789,987	556,871,587	3,600,000	—	560,471,587	59.48%
	("Panva Gas")	—	—	(19,230,769)	—	(19,230,769)	—	—	(19,230,769)	(2.04%)
						(Note 2)				
						(Note 3)				
Tang Yui Man Francis	Panva Gas	5,440,000	—	—	—	5,440,000	3,960,000	—	9,400,000	1.00%

Notes:

- Interest in 1,374,222,000 shares and 14,000,000 underlying shares in Sinolink are held by Asia Pacific, a company incorporated in British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.
- 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 Sinolink. 59.49% interests of Sinolink 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 the 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 Sinolink, Mr. Ou Yaping is deemed to the interested in these shares under the SFO. Out of these 556,871,587 shares, 550,789,987 shares have been pledged with Morgan Stanley by Sinolink.
- 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' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

(a) Interest in underlying shares of the Company

Pursuant to the Company's share option scheme, the Company has granted options to subscribe for Company's 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 share options Outstanding at 1.1.2004	Number of share options Outstanding at 31.12.2004	Percentage of the share issued capital of the Company
Leng Xuesong	09.06.2004	09.06.2004 - 08.06.2014	0.44	—	5,000,000	0.22%
Lu Yungang	09.06.2004	09.06.2005 - 08.06.2014	0.44	—	2,288,000	0.10%
Davin A. Mackenzie	20.10.2004	20.10.2005 - 19.10.2015	0.50	—	2,288,000	0.10%
Ou Yaping	09.06.2004	09.06.2004 - 08.06.2014	0.44	—	2,288,000	0.10%
Sun Qiang Chang	24.05.2000	24.05.2000 - 23.05.2010	0.55	8,750,000 (Note 3)	26,250,000	1.15%
Tang Yui Man Francis	09.06.2004	09.06.2004 - 08.06.2014	0.44	—	22,880,000	1.00%
Xiang Ya Bo	09.06.2004	09.06.2004 - 08.06.2014	0.44	—	22,880,000	1.00%
Xin Luo Lin	09.06.2004	09.06.2004 - 08.06.2014	0.44	—	2,288,000	0.10%
Xu Xinghai	09.06.2004	09.06.2005 - 08.06.2014	0.44	—	666,666	0.03%
	09.06.2004	09.06.2006 - 08.06.2014	0.44	—	666,666	0.03%
	09.06.2004	09.12.2006 - 08.06.2014	0.44	—	666,668	0.03%

Notes:

1. No share option was exercised by the above Directors to subscribe for shares in the Company during the year ended 31 December 2004.
2. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
3. 8,750,000 share options at the exercise price of HK\$1.66 at beginning of the year have been adjusted to 26,250,000 share options at the exercise price of HK\$0.55 to reflect the effect of the open offer during the year.
4. These options represent personal interest held by the Directors as beneficial owners.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY - continued

(b) Interest in underlying shares of Associated Corporation

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
Ou Yaping	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	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%

Notes:

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

Save as disclosed above, at no time during the year, the directors and 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 (or warrants or debentures, if applicable) of the Company or any of its associated corporations required to be disclosed pursuant to the SFO.



DIRECTORS' REPORT

SHARE OPTIONS SCHEMES

(a) 1993 Share Option Scheme

The Company has a share option scheme (the "1993 Scheme") under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries for the recognition of their contributions to the Group, to subscribe for shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme is the higher of the nominal value of the shares and 80 per cent of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the grant.

Under the 1993 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 1993 Scheme.

The consideration on acceptance of an offer of the grant of an option is HK\$1.00 payable within 28 days from the offer date.

The 1993 Scheme was terminated on 24 May 2002. No further options shall therefore be offered under 1993 Scheme 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 1993 Scheme shall remain in full force and effect.

At 31 December 2004, a total of 26,250,000 options (representing approximately 1.15% 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 1993 Scheme.

DIRECTORS' REPORT

SHARE OPTIONS SCHEMES - continued

(b) 2002 Share Option Scheme

Pursuant to an ordinary resolution passed at the special general meeting held on 24 May 2002 ("Date of Adoption"), the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years from the Date of Adoption. The board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for the recognition of their contributions to the Group.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the Date of Adoption, 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 of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. Option granted must be taken within 28 days of the date of grant. The exercise price is the highest of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the share of the Company.

At 31 December 2004, a total of 88,812,000 options (representing approximately 3.88% 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 2002 Scheme.



DIRECTORS' REPORT

SHARE OPTIONS SCHEMES - continued

The following table discloses details of options outstanding under the Company's share option schemes and movements during the year ended 31 December 2004:

Directors	Share option scheme	Outstanding at 1.1.2004	Granted during the period	Retired as director during the year	Exercised during the year	Lapsed during the year	Adjusted after open offer during the year	Outstanding at 31.12.2004
Category 1:								
Leng Xuesong	2002 Scheme	—	5,000,000	—	—	—	—	5,000,000
Lu Yungang	2002 Scheme	—	2,288,000	—	—	—	—	2,288,000
Lu Zhi Fang	2002 Scheme	—	2,288,000	2,288,000	—	—	—	—
Davin A. Mackenzie	2002 Scheme	—	2,288,000	—	—	—	—	2,288,000
Ou Yaping	2002 Scheme	—	2,288,000	—	—	—	—	2,288,000
Sun Qiang Chang	1993 Scheme	8,750,000	—	—	—	—	17,500,000	26,250,000
Tang Yui Man Francis	2002 Scheme	—	22,880,000	—	—	—	—	22,880,000
Xiang Ya Bo	2002 Scheme	—	22,880,000	—	—	—	—	22,880,000
Xin Luo Lin	2002 Scheme	—	2,288,000	—	—	—	—	2,288,000
Xu Xinghai	2002 Scheme	—	2,000,000	—	—	—	—	2,000,000
Total Directors		<u>8,750,000</u>	<u>64,200,000</u>	<u>2,288,000</u>	<u>—</u>	<u>—</u>	<u>17,500,000</u>	<u>88,162,000</u>
Category 2:								
Total employees	1993 Scheme	294,000	—	—	357,000	525,000	588,000	—
	2002 Scheme	<u>—</u>	<u>30,150,000</u>	<u>2,288,000</u>	<u>2,288,000</u>	<u>3,250,000</u>	<u>—</u>	<u>26,900,000</u>
All categories		<u>9,044,000</u>	<u>94,350,000</u>	<u>—</u>	<u>2,645,000</u>	<u>3,775,000</u>	<u>18,088,000</u>	<u>115,062,000</u>

DIRECTORS' REPORT

SHARE OPTIONS SCHEME - continued

Details of options granted are as follows:

Option type	Date of grant	Exercise period	Exercise price before adjustment	Exercise price after adjustment
1993 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 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 has been adjusted for the open offer during the year.
2. The vesting period of the share options is from the date of the grant until the commencement of exercise period.
3. The closing price of the Company's shares immediately before 9 June 2004 and 20 October 2004, the date of grant of the options under 2002 Scheme, were HK\$0.445 and HK\$0.50 respectively.
4. The weighted average closing price of the Company'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 were granted and 3,775,000 were lapsed under the share option schemes. No options were cancelled under the share option scheme.
6. The price of the Company'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 Company'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.
7. The Directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2004, since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based on speculative assumptions would not be meaningful and would be misleading to shareholders.



DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or holding companies 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, its subsidiaries or holding companies 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

During the year, the Group paid interest expenses of approximately HK\$152,000 (2003: HK\$4,456,000) to Sinolink in respect of a shareholder loan. The loan was fully repaid during the year.

During the year ended 31 December 2004, the Group paid office expenses of HK\$855,000 (2003: HK\$788,000) to Sinolink. The office expense is determined with reference to actual costs incurred.

DIRECTORS' REPORT

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 in the issued capital of the Company:

Name of shareholders	Capacity	Interest in shares			Total interest in shares	Approximate percentage of the issued share capital of the Company
		Personal interest	Corporate interest	Other		
Asia Pacific	Interest of controlled corporations and other	—	40,515,000	1,147,680,775	1,188,195,775 (Note 1)	51.87%
Sinolink	Beneficial owner, other and interest of controlled corporation	—	40,515,000	1,147,680,775	1,188,195,775 (Note 2)	51.87%
Smart Orient	Other	—	—	575,792,809	575,792,809	25.13%
Morgan Stanley	Interest of controlled corporations	—	1,147,680,775	—	1,147,680,775 (Note 3)	50.10%
Warburg Pincus & Co.	Interest of controlled corporations	—	515,524,377	—	515,524,377 (Note 4)	22.50%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporations	—	404,548,779	—	404,548,779 (Note 5)	17.66%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporations	—	404,548,779	—	404,548,779 (Note 6)	17.66%
Atlantic Cay International Limited	Beneficial owners	404,548,779	—	—	404,548,779	17.66%



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS - continued

Notes:

1. Asia Pacific is interested in approximately 59.49% in Sinolink and it is deemed to be interested in all the shares held by Sinolink.
2. This number of shares represents the aggregate of: (i) 612,402,966 shares held directly by Sinolink; and (ii) the number of shares in which Smart Orient is interested as disclosed above. Out of these 1,188,195,775 shares, 1,147,680,775 shares have been pledged with Morgan Stanley by Sinolink.
3. The interests of Morgan Stanley was attributable on account through a number of its wholly owned subsidiaries and non-wholly owned subsidiaries, including, Morgan Stanley International Incorporated (90% control) and Morgan Stanley Group (Europe) (98.3% control). These 1,147,680,775 shares have been pledged by Sinolink.
4. Warburg Pincus & Co. ("WP") is the general partner of the limited partnerships Warburg Pincus Equity Partners, L.P. ("WPE") and Warburg Pincus Ventures International, L.P. ("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 International Limited ("Atlantic Cay").
5. 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.
6. 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.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the largest customer accounted for 100% of the Group's 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 2004.

DIRECTORS' REPORT

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 34 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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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, 17 March 2005