

Chief Executive Officer's Report

BUSINESS REVIEW AND PROSPECTS

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$1,525,406,000, representing a slight decrease of approximately 0.1% when compared to last year. Gross profit increased to approximately HK\$368,503,000 for the year ended 31 December 2002, a substantial increase of approximately 37.10% when compared to last year. The increase in gross profit was mainly attributable to the significant progress of the Group's gas fuel business, in particular the Group's city piped gas business, and the significant increase of the Group's market share in the retail sector. Net Profit increased significantly to HK\$294,429,000 representing an increase of approximately 1.52 times from last year.

Property Development

The Group recorded a turnover of approximately HK\$311,997,000 for the property development business during the year ended 31 December 2002, which is approximately the same as last year. The Group sold a total floor area of approximately 40,000 square metres during the year.

The turnover was mainly derived from the sale of Sinolink Garden Phase Three, The Mandarin House, which accounted for approximately 77.3% of total property sales for the year. The Mandarin House obtained occupancy permit in November 2002.



During the year, the Group has commenced the construction of Sinolink No.8 (百仕達8號), a property development situated within the grounds of the Sinolink Garden. Sinolink No. 8 is a 230 units development covering a total gross floor area ("GFA") of 33,000 square metres and a 2,500 square metres commercial development. Pre-sales commenced on 18 October 2002 and the property is expected to be completed in December 2003.

Mangrove West Coast completed its initial design phase and commenced construction in December 2002. Mangrove West Coast is a over 1,300 units project covering a GFA of approximately 255,300 square metres, a club house (GFA of approximately 3,000 square metres), and a kindergarten (GFA of approximately 3,000 square metres). It is expected that the foundation works and the construction of the underground chambers will be completed in 2003.

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Sinolink Garden Phase Four, The Oasis, commenced construction at the end of 2002. The foundation works and the underground chambers are currently under construction. The Oasis has a total site area of 94,176 square metres and a GFA of approximately 387,800 square metres. It is estimated that the total percentage of completion will reach approximately 45% by the end of 2003.

During the year, the Group was awarded a tender for a piece of land in one of China's up and coming resort area, Dameisha (大梅沙) in Shenzhen. The cost of the land was approximately RMB50,168,000 for a total site area of approximately 18,600 square metres with a GFA of approximately 22,000 square metres. The project is expected to house a 130 rooms five star resort hotel and a 7,000 square metres shopping complex and is expected to commence construction in 2003.

The Shenzhen economy maintained a healthy growth in 2002, with gross domestic product grew by 15% to RMB223.9 billion. Its real estate sector continued to record a faster growth whilst the residential market achieved solid and sustained development. Sales and purchase was particularly strong in the second and third tier residential segments, where prices saw steady rise albeit the growth was 0.6 percentage points less than last year. Significant decrease was seen in the floor area of new works, which indicated that there will be a stabling supply of commodity units in the coming future.

Corollary with the warning issued by the State Development Planning Commission, the regulatory works of the Ministry of Construction, and the credit control imposed by the People's Bank of China, the Shenzhen municipal government also tightened its control and regulation of the real estate market. This was reflected by the more stringent control on land sales since the second half of 2002.

With 24-hour border crossing at Huanggang took effect on 27 January 2003, the relationship between Shenzhen and Hong Kong became closer. The arrangement will enhance the traffics flow between the two, facilitate their economic growths, and stimulate cross-border consumptions, which to a certain extent will benefit the development of the Shenzhen real estate market.



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In 2003, the Group has a number of projects on hand and is planning to increase its land bank by between 300,000 to 400,000 square metres in 2003.

Gas Fuel Business

For the year ended 31 December 2002, the Group's Gas Fuel business, operated by Panva Gas, recorded a turnover of approximately HK\$1,150,322,000 representing an increase of approximately 14% compared to last year. The gross profit margin increased substantially from 12.7% for the year ended 31 December 2001 to 22.8% for the year ended 31 December 2002. The increase in gross profit margin is a direct reflection of the Group's dedication in expanding the higher return retail business and the significant progress of the Group's city piped gas business.



Through dedication and hard work from the management team of Panva Gas the end-user household customers of Panva Gas are now over 1,500,000 households, an increase of approximately 30.4% when compared to last year. The continual growth in end-user household customers facilitated Panva Gas's strategic move to increase profitability and reflected the value growth of the Panva Gas's brand name. It laid a solid foundation for Panva Gas to further increase its market share and profitability as well as its influence and leverage in the marketplace.

During the year, Hutchison through a wholly-owned subsidiary Hutchison International Limited, acquired 6.4% interest in Panva Gas and subscribed for an exchangeable note for a total consideration of HK\$250 million. Through the transaction, Hutchison is now the second largest shareholder of Panva Gas. The investment reflects Hutchison's confidence in the management team and its strategy towards the gas fuel market in the PRC.

In developing the piped gas provision business, Panva Gas has spent much of its efforts on the construction of piped gas stations, main pipelines, and branch gas pipeline networks, establishing a network to supply liquefied petroleum gas ("LP Gas" or "LPG") and natural gas directly to the homes of the end-user customers. Panva Gas has achieved major breakthroughs, with three natural gas subsidiaries and one LP Gas pipeline enterprise already in operation. It is currently in discussion with more than 25 city gas pipeline network development projects in the PRC and has signed letters of intent with 13 cities.

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Panva Gas has entered into an arrangement with the Bank of China, Shenzhen Branch ("Shenzhen BOC") under which Shenzhen BOC agreed to provide a banking facility to Panva Gas up to RMB6 billion to finance its investments in city pipe gas projects in the PRC. The banking facility reflects the business and financial strength of the Group along with the huge market potential of the gas industry.

Electricity Generation

The disposal of the Group's electricity business was completed in May 2002 and prior to the disposal the electricity business recorded a turnover of approximately HK\$40,474,000, which is in line with that of last year. However, for the year ended 31 December 2002, the electricity business recorded an operating profit of approximately HK\$14,301,000, representing a slight increase from last year.



The electricity generation business is now carried out by the Group's associated company, Enerchina. The Group now has a clearly defined structure with the Company focusing on property development and investment holding, Panva Gas focusing on the gas fuel business, and Enerchina focusing on the electricity generation business.

Due to certain reorganizations conducted by Enerchina to rationalize its group structure, a loss (after netting off the profit generated from the electricity generation business) of approximately HK\$22,749,000 was shared by the Group for the year ended 31 December 2002.

With the new generator unit expected to commence operation in the second quarter of 2003, the installed capacity of the power plant of Enerchina will increase to 285 megawatts. This will lay a solid foundation for Enerchina to target for higher profit and to sustain solid growth. Furthermore, the state-approved liquefied natural gas terminal and distribution facility will be situated at some 10 kilometres from the power plant, which will greatly facilitate the power plant in switching to natural gas fuel. The continue growth in the PRC's electricity demand also provides a favourable background for Enerchina to further expand its electricity output capacity to a level of 1,000 megawatts, and the company is now conducting feasibility studies towards this target. The structural reform in the PRC's power sector and the setting up of a new regulatory framework in 2003 provide a solid operating environment for the development of power business. Given the numerous opportunities in the PRC's power sector, Enerchina will be able to capitalise on its strengths to grasp the opportunities and to meet the challenges ahead.

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FINANCIAL POSITION

The Group's total borrowings decreased slightly from approximately HK\$920,960,000 as at 31 December 2001 to approximately HK\$919,079,000 as at 31 December 2002. The proportion of borrowings due within one year to total borrowings decreased from approximately 44.52% to approximately 1.6% and a long term liabilities to equity ratio of 57.3%. Borrowings are mainly used to finance the property development projects of the Group and are all borrowed at fixed interest rates.

Total assets pledged in securing these loans have a net book value of approximately HK\$8,135,000 as at 31 December 2002. Bank borrowings of the Group are denominated in RMB and as the entire operation of the Group is carried out in the PRC, all receipts and payments in relation to operation are denominated in RMB. In this respect the Group is not exposed to any foreign exchange exposure risk. No financial instruments were used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK\$470,641,000 as at 31 December 2002 are mostly denominated in RMB, Hong Kong dollars and US dollars.



Contingent Liabilities

On 17 May 1996, a legal claim in the amount of approximately HK\$13,585,000 was brought against Sinolink Worldwide (HK) Company Limited ("Sinolink Worldwide (HK)") by a third party for charter hire charges overdue. After consultation with the legal adviser in relation to this litigation, the claim would not have any material adverse effect on the financial position of the Group. In addition, an indemnity has been given by the controlling shareholder of the Company to the Group in respect of the claim. No provision for loss has therefore been made by the Group in respect of the outstanding claim.

Guarantees given to banks as security for the mortgage loans arranged for the purchases of the Group's properties amounted to approximately HK\$254,546,000 as at 31 December 2002 (2001: HK\$122,026,000).

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Employees and Remuneration Policies

As at 31 December 2002, the Group had 2,688 full time employees, of which approximately 99% are located in the PRC.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individuals' performance. Other benefits, such as medical and retirement benefits, are also provided.

Post Balance Sheet Date Events

On 6 March 2003, Enerchina completed a rights issue exercise of three right shares for every two existing shares held. Smart Orient Investments Limited, a wholly owned subsidiary of the Company, acted as the underwriter of the rights issue. A total of 5,525,888,349 shares were issued as a result raising approximately HK\$106,000,000. Upon completion of the rights issue, the Group increased its interests in Enerchina from 29.99% to 40.44%.

On 23 April 2003, Panva Gas issued Convertible Bonds due 2008 in the aggregate amount of US\$50 million (the "CB"). The conversion price of the CB was fixed at HK\$3.9169 per share representing a conversion premium of approximately 20% to the volume weighted average price of HK\$3.2641 per share for 11 April 2003, the date on which the conversion price was fixed. The CB will bear interests of 2% per annum payable semi-annually in arrears each year. The CB is listed on the Luxembourg Stock Exchange.



APPRECIATION

On behalf of the Board, I would like to express our gratitude to all our staff for their devoted efforts and hard work during the year.

By Order of the Board
Tang Yui Man, Francis
Chief Executive Officer

Hong Kong, 23 April 2003