

Chief Executive Officer's Report

BUSINESS REVIEW AND PROSPECTS

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$1,815,356,000, representing an increase of approximately 19% when compared to the previous year. Gross profit increased to approximately HK\$478,726,000 for the year ended 31 December 2003, a substantial increase of approximately 30% 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\$778,050,000 representing an increase of approximately 1.6 times from last year. The 2003 results demonstrated the Group's success in achieving satisfactory returns for its businesses by adopting active financial management, investment and operating strategies.



Property Development

The Group recorded a turnover of approximately HK\$330,979,000 for the property development business during the year ended 31 December 2003, which is approximately the same as last year. The Group sold a total floor area of approximately 50,034 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 79.7% of total property sales for the year representing 520 units (39,862 square metres) at an average price of RMB6,874 per square metre, with only 125 units left to be sold in 2004. The remaining turnover came from the sale of Sinolink No.8, representing 40 units (10,172 square metres) at an average price of RMB8,892 per square metre.

In the property development sector, the Company made encouraging progress in all projects. As of 31 December 2003, approximately 25.86% of the construction works of *Mangrove West Coast* has been completed and presale is expected to start in August 2004; more than 50% of the construction works of Sinolink Garden Phase Four western district, *The Oasis* has been completed and presale is expected to start in June 2004.



In 2004, the Company plans to achieve 15% of total sales of the *Mangrove West Coast* and 31% of total sales of the Sinolink Garden Phase Four western district, *The Oasis*. The design of Sinolink Garden Phase Four eastern district, a development with a total site area of 40,786 square metres and total gross floor area of 228,574 square metres, is scheduled to be completed by

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October 2004 and construction is expected to commence in December 2004. In addition, the Company is also actively exploring other high growth opportunities that could leverage its operation know-how and property management expertise to further create shareholder value.

Gas Fuel Business

For the year ended 31 December 2003, the Group's gas fuel business, operated by Panva Gas, recorded a turnover of approximately HK\$1,457,632,000 representing an increase of approximately 27% compared to last year. The gross profit margin increased substantially from 23% for the year ended 31 December 2002 to 26% for the year ended 31 December 2003. The increase in net profit margin was mainly attributable to the continued strengthening in management and operation, the further unleashing of internal potentiality, and the active market development strategies. By enhancing services and management, Panva Gas was able to gain a solid increase in market share, which contributed favourably to the Group's profit growth.



During the year under review, Panva Gas completed its project development plans laid down in 2002. In the first half of 2003, Panva Gas acquired majority interests in two gas companies located in Chizhou of the Anhui Province and Lezhi of the Sichuan Province. In the second half, Panva Gas completed five more acquisitions in Pingchang and Dayi of the Sichuan Province, Jinan of the Shandong Province (two acquisitions), and Foshan of the Guangdong Province, providing valuable additions to Panva Gas project portfolio. Development in the piped gas market has been Panva Gas strategic focus since 2001. As a result, six of the seven 2003 acquisitions are in the piped gas segment.

Being a major LP Gas distributor in the PRC, Panva Gas has been capitalising on its quality services, strong logistics and professional management to quickly expand in the LP Gas market. Such efforts yielded encouraging results in 2003, as reflected by Panva Gas further forays into the retail and wholesale sectors increasing domestic, industrial and commercial LP Gas consumption, and the success in securing a reliable supply for cylinder and piped gas. As a result, Panva Gas was able to reduce operating costs thus improving operation margin for its LP Gas business.

Electricity Generation

The electricity generation business of the Company is currently conducted through an associated company, Enerchina. Enerchina has a 70% equity interest in Fuhuade Power Plant located in Dapeng town, Shenzhen. The operating results of Fuhuade Power Plant were noteworthy in 2003. With the commencement of commercial operation of the second combined cycle generation unit in May 2003, the installed capacity of

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Fuhuade Power Plant increased from 70,800 kilowatt to 305,000 kilowatt. During 2003, Fuhuade Power Plant achieved a total power output of 994.4 million kWh, of which 952.1 million kWh were sold to the Guangdong power grid, representing an increase of approximately 2.7 times compared to the previous year. Enerchina recorded a net profit of approximately HK\$57.5 million during 2003.



During the year, the Group disposed its 30% equity interests in Fuhuade Power Plant held by an indirect subsidiary of the Company, Shenzhen Sinolink Enterprises Company Limited ("Shenzhen Sinolink") for a total consideration of approximately HK\$159,027,128 to an independent third party. The disposal enables the Group to strategically bring in an investor that has the expertise in running large scale power plants, helping the Group to continue to expand the power plant as well as providing advice on the day to day management, increasing efficiency therefore profitability.

Capital Market Transactions



In 2003, the Group successfully completed several fund raising exercises on the capital market to finance its fast growing businesses. In April 2003, Panva Gas issued convertible bonds (the "CB") with total principal amount of US\$50 million, and Panva Gas was assigned a "BB+" foreign currency corporate credit rating and a stable outlook by international credit agency *Standard & Poor's*. In December 2003, the Company and Panva Gas commenced a top-up placing which was completed in January 2004 raising approximately HK\$620 million. During 2003, Enerchina completed two rights issues and a share placing exercise raising an aggregate amount of approximately HK\$322.4 million. Enerchina has also finalised an open offer in April 2004 whereby approximately HK\$600 million was raised for the purchasing of additional power generation units to increase its power generation capacity to 665,000 kilowatt. These financing activities effectively strengthened the Company's capital structure, enlarged the shareholder base, and increased public float and liquidity.

FINANCIAL POSITION

The Group's total borrowings increased from approximately HK\$919,079,000 as at 31 December 2002 to approximately HK\$1,234,711,000 as at 31 December 2003. The increase is mainly due to the issue of the CB by Panva Gas. The proportion of borrowings due within one year to total borrowings also increased from approximately 2% to approximately 54% and a long term bank borrowings to equity ratio of 8%. Bank borrowings are mainly used to finance the property development projects of the Group and with the

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exception of a Hong Kong Dollar denominated bank loan which is tied to Hong Kong Interbank Offered Rate, all other borrowings are at fixed interest rates. The CB is used by Panva Gas for the expansion of the piped gas business, the LP Gas business and as working capital.

Total assets pledged in securing these loans have a net book value of approximately HK\$43,963,000 as at 31 December 2003. With the exception of the CB which is denominated in United States Dollars and a Hong Kong Dollar denominated bank loan mentioned above, all other bank borrowings of the Group are denominated in Renminbi ("RMB"). 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. No financial instruments were used for hedging purpose; however, the Board is evaluating and closely monitoring the potential impact of RMB appreciation and interest rate movement. The Board is also reviewing instruments that could minimise such potential impact on the Group.

The Group's cash and cash equivalents amounted to approximately HK\$1,309,473,000 as at 31 December 2003 are mostly denominated in RMB, Hong Kong dollars and US dollars.

CONTINGENT LIABILITIES

Guarantees given to banks as security for the mortgage loans arranged for the purchases of the Group's properties amounted to approximately HK\$17,256,000.

EMPLOYEES REMUNERATION POLICIES

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.

As at 31 December 2003, the Group had 3,631 full time employees, of which approximately 99% are located in the PRC.



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APPRECIATION

I would like to take this opportunity to thank members of the Board for their trust and support and continuous efforts of our business associates for seamless cooperation. Furthermore, I would like to extend my gratitude to our diligent staff for your contributions during the past year.

By Order of the Board

Tang Yui Man, Francis

Chief Executive Officer

Hong Kong, 21 April 2004