

Chief Executive Officer's Report



Mr. Tang Yui Man Francis
Chief Executive Officer

BUSINESS REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of HK\$2,406.4 million representing an increase of 32.6% as compared to last year. Gross profit increased to HK\$650.6 million for the year ended 31 December 2004, an increase of 35.9% as compared to last year. The increase in gross profit was mainly attributable to the significant progress of the Group's gas fuel business, improved in the property development business and consolidation of the electricity business since December 2004. Net profit amounted to HK\$314.5 million, a reduction of 50.1% due to the lack of non-operational gain in 2004 as compared to 2003.

Property Development

For the year ended 31 December 2004, the Group recorded a turnover of HK\$478.3 million for the property development business, representing an increase of 44.5% as compared to last year. The Group sold a total floor area of 67,272 square metres during the year as compared to 50,034 square metres for last year. The increase in turnover was mainly attributable to the launch of *The Oasis* in July 2004. The turnover was mainly derived from the sales of *The Oasis*, which accounted for 69.5% of the total property sales for the year, representing 463 units (46,742 square metres) at an average selling price of RMB8,035. The remaining sales were derived from *The Mandarin House* and *the Sinolink No.8*, which accounted for 13.7% and 16.8% of property sales for the year, representing 108 units (9,187 square metres) and 89 units (11,343 square metres) at an average selling price of RMB6,901 and RMB8,839 respectively.

As at 31 December 2004, the Group has the following properties under development:

- (i) Sinolink Garden Phase Four, *The Oasis* is a 1,322 units development covering a total gross floor area of 140,868 square metres and a 20,619 square metres commercial development. The occupancy permit is expected to be granted by September 2005 and presale has started since July 2004.
- (ii) Sinolink Garden Phase Five is a development project with a total site area of 40,786 square metres and total gross floor area of 228,574 square metres. It is scheduled to complete its design and will commence construction in the second half of 2005.
- (iii) *The Mangrove West Coast* is a development project with a total site area of 75,101.8 square metres and total gross floor area of 249,300 square metres. This residential development project has completed the structural work as at 31 December 2004 and presale is expected to start in second quarter of 2005.

During the year under review, the Group sold its 82% equity interest held in a development project in Dameisha, Shenzhen to independent third parties for a consideration of HK\$66.2 million, resulting in a gain on disposal of HK\$3.9 million.

Gas Fuel Business

For the year ended 31 December 2004, the Group's gas fuel business, operated by Panva Gas Holdings Limited ("Panva Gas"), recorded turnover of HK\$1,800.3 million, representing an increase of 23.5% compared with last year. Gross profit increased by 16.3% to HK\$446.9 million. The continual improvement in the gross profit margin was due to the solid growths of its businesses as well as major breakthroughs in new project developments. While actively expanding new markets, Panva Gas also made further efforts to enhance the management of its subsidiary companies. Such efforts included the establishment of special task forces led by professionals to

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standardise the companies' management practices, to regenerate their operations and corporate culture, and to develop a business model for the optimum integration of its resources and activities.



The gas fuel business can be further divided into the wholesale and retail of LP Gas, the sale of piped gas and the gas pipeline development businesses. The turnover contribution from each of these activities amounted to HK\$858.6 million, HK\$412.5 million, HK\$66.5 million and HK\$431.6 million respectively and accounted for 47.7%, 22.9%, 3.7% and 24.0% respectively to the Panva Gas's total turnover.

Gas pipeline development continues to be an essential part of Panva Gas' business, which not only brings revenue at a higher gross profit margin but also facilitates the expansion of piped gas distribution. While making solid efforts to increase its penetration in the existing piped gas market, Panva Gas is also striving to obtain more piped gas projects by leveraging on the gas pipeline development business.

With diligent and coordinated efforts, Panva Gas has successfully implemented its project development plan laid down in early 2004. Eight new piped gas projects were secured during the year. Among them, three projects were located in the Changchun city of Jilin province, the Anshan city of Liaoning province, and the Qiqihar city of Heilongjiang province, which represented the major breakthroughs in the northeastern region in China following

its years of preparation works. With the successful acquisition of these large and good quality projects, Panva Gas has gained major footholds for its strategic development in the northeastern region. The Changchun project is particularly significant, which provides Panva Gas further leverage in the PRC's gas fuel sector as well as an additional venue to tap the capital market.

Apart from these three projects, Panva Gas continued to make progress in the Sichuan province with five new projects acquired in the cities of Yuechi, Cangxi, Zhongjiang, Pengshan and Chengdu. Among them, the successful acquisition of a 13% interest in City of Chengdu Gas Company Limited represented a significant move of the Group for its strategic development in the Sichuan province. The acquisition of these five high quality projects during the year gives further evidence that Panva Gas has embarked on a solid track of rapid growth through mergers and acquisitions.

Electricity Generation

The electricity generation business of the Company is used to be conducted through one of its associate, Enerchina Holdings Limited ("Enerchina"), which had become the Company's subsidiary since 3 December 2004. During the year ended 31 December 2004,



Enerchina sold 1,473.0 million kWh of electricity, representing an increase of 54.7% as compared to 952.1 million kWh over last year and recorded turnover of HK\$856.4 million, an increase of 53.0% over last year. This increase mainly contributed by the increased demand for electricity in the PRC and the newly completed third combined cycle generating unit which commenced

commercial production in September 2004. As the Group increased its stake in Enerchina on 3 December 2004, whereby electricity generation become one of our principal activities of the Group, this activity contributed turnover and operating profit of HK\$99.9 million and HK\$15.4 million respectively to the Group for the year.

Enerchina's direct operating expenses increased slightly to HK\$665.1 million due to soaring fuel cost, which was our primary direct operating expense. The higher fuel cost was primarily due to the staggering high world oil price especially in the second half of 2004 in response to the various uncertainties encountered in the oil producing regions. In order to cope with this difficult situation, the management had carried out various remedial measures, including strengthening of fuel procurement and inventory control, so as to minimize the impact to the Group as a whole. The management considered the remedial measures effective and the result satisfactory.

Enerchina recorded a net profit of HK\$80.2 million. This remarkable performance was the results of the increase in power generation due to increased capacity, the strong demand for electricity in the PRC and the management's effective cost control measures especially on the fuel supply.

CAPITAL MARKET TRANSACTIONS

On 8 January 2004, the Group completed the top-up placing arrangement which commenced in December 2003 by subscribing 155,200,000 new shares of Panva Gas bringing its interests in Panva Gas to 63.59% and raised HK\$600 million from this exercise for Panva Gas for the expansion of the gas fuel business.

On 19 April 2004, Enerchina completed an open offer of shares on the basis two offer shares for every existing share held. The Company through its wholly owned subsidiary, acted as the underwriter of the open issue and Enerchina raised HK\$600.5 million from this open offer for the purchasing of additional power generation units to increase its power generation capacity.

On 16 September 2004, the Company's subsidiary, Panva Gas successfully issued guaranteed senior notes in an aggregate principal amount of US\$200 million due 2011 jointly arranged by Morgan Stanley & Co. International Limited and Merrill Lynch Far East Limited. The proceeds will be used to fund Panva Gas's expansion in the piped gas business and the LP Gas business and as working capital.



On 16 November 2004, the Company placed 48,000,000 shares in Panva Gas to an independent third party and raised HK\$156 million from this placing for the working capital of the Group.

On 3 December 2004, the group increased its stake in Enerchina from 37.1% to 50.1% by purchasing another 13% from independent third parties. At the same time, an unconditional general offer was made and closed on 18 January 2005 with the Group's holding further increased to 63.38%.

FINANCIAL POSITION

The Group's total borrowings increased from HK\$1,234.7 million as at 31 December 2003 to HK\$4,381.7 million as at 31 December 2004. The increase is mainly due to the increase in bank and other loans and senior notes of US\$200 million raised by Panva Gas for the expansion of piped gas business. In addition, the total borrowings also increased due to the consolidation of the loans of Enerchina, which became a subsidiary of the Sinolink Group since December 2004.

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The proportion of borrowings due within one year to total borrowings decreased from 54.2% to 18.5% and a long term borrowings to equity ratio of 146.9%. Bank borrowings are mainly used to finance the property development projects of the Group and the construction of the power plants and the convertible note, bonds and the senior notes due 2011 are used for the expansion of Gas Fuel business. The borrowings are mainly at floating interest rates.

Total assets pledged in securing these loans have a net book value of HK\$498.4 million as at 31 December 2004. The Group's borrowings are denominated in RMB, Hong Kong dollars and United State dollars. As the entire operation of the Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in RMB. No financial instruments were used for hedging purpose except for the interest rate swap entered into by Panva Gas to hedge the senior notes; however, the Board is evaluating and closely monitoring the potential impact of RMB appreciation and interest rate movement and the instruments that could minimize such potential impact on the Group.

The Group's cash and cash equivalents amounted to HK\$3,618.7 million as at 31 December 2004 are mostly denominated in RMB, Hong Kong dollars and US dollars.

POST BALANCE SHEET EVENT

The Group entered into an equity transfer agreement with, among others, an independent third party on 16 December 2004 to dispose of its wholly owned subsidiary, New China Control Systems Limited, which in turn holds 41% equity interest in Xin Hua Control Engineering Co., Ltd. for a cash consideration of US\$23.5 million (HK\$182.83 million). Upon closing of the transaction, which is at the date of this report, the Enerchina Group will record a gain on disposal of HK\$95.9 million.



CAPITAL COMMITMENTS

As at 31 December 2004, the Group had capital commitments in respect of the acquisition of properties under development amounted to HK\$667.3 million, in respect of the acquisition of property, plant and equipment amounted to HK\$191.5 million and in respect of unpaid capital contribution of investment projects amounted to HK\$526.0 million.

EMPLOYEES AND 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 individual's performance. Other benefits, such as medical and retirement benefits, are also provided.

As at 31 December 2004, the Group had over 4,120 employees, an increase of 13.5% from last year and 99% of the Group's employees are located in the PRC.

CONTINGENT LIABILITIES

Guarantees given to banks as security for the mortgage loans arranged for the purchases of the Group's properties amounted to HK\$261.5 million.

A supplier filed an arbitration in August 2003 against Fuhuade Power Plant claiming for additional contract price in the amount of HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained. No provision for the amount claimed has been made by the Group as at 31 December 2004. Save as the outstanding arbitration, the Group has no material contingent liabilities as at 31 December 2004.

PROSPECTS

Property Development

With the positive response from the presale of *The Oasis* since July 2004 and the launch of *The Mangrove West Coast* this year, the gross floor area available for sale will increase substantially in 2005 and the Group plans to achieve the sales of all the remaining units of *The Oasis* and not less than 35% of *The Mangrove West Coast*.

On the macro side, the property prices in the PRC continued to rise with property prices in some provinces rises quicker and steeper than others. In view of the strong growth of the economy, the PRC government imposed several control measures to adjust its economy, one of them being raising its mortgage interest rate. The Board believed these macro-austerity measures had no significant negative impact on the current property development business of the Group. In fact, some consolidation of the industry has been seen in different regions in China, this will only make the property market to grow more steady and healthy and we expect this trend will continue in 2005.



Moving ahead, the Group will continue to seek its expansion in the property development business by increasing its land bank and actively exploring other potential projects in Shenzhen with a view to create value to shareholders.

Gas Fuel Business

The PRC economy has entered into a solid stage of rapid growth. With the further opening up of the energy sector, there will be a huge amount of new opportunities for the gas fuel industry. The Group believes that its businesses will continue to expand in 2005 and will derive additional benefits from its strong end-user customer bases in piped gas and LP Gas sales in cylinders.

In 2005, the Group will continue to strengthen its new project developments in Sichuan and the northeastern region in China, where those cities in which the Group has secured projects will be used as footholds to expand into the regions. The Group will also further expand the markets of its existing operations and to seek cooperation and integration opportunities with the enterprises in the gas fuel sector.

The Group will focus on parallel expansion of its piped gas business and the retail business of LP Gas in cylinders with an emphasis on the further development of their end-user customer bases. The Group will strive to exploit new opportunities in the PRC's major cities to further enhance its competitive advantages.

The Group will strive to enhance the management and operations of its member companies by making further efforts to integrate their resources, to better utilise their gas supply and end-user sales networks, and to further improve their safety standards.

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Power generation

On our power generation business, we set our top priority to make sure that our fourth combined cycle generating unit with the installed capacity of 180,000 kilowatts will be completed and commenced commercial operation on or before target completion date of second quarter of 2005. We will be also conducting feasibility studies towards switching to the utilization of natural gas as fuel and to further expand its capacity to 1,500,000 kilowatts in response to the strong demand of electricity in the PRC. On the other hand, we will continue to seek other means of energy production opportunities to diversify our investment by exploring new projects both through Greenfield projects as well as suitable acquisition targets in the regions where strong demand for energy exists.

On the operational side, the soaring oil price continues to pose challenges to the management in the coming year. While the management monitors closely the oil price movement in the world market, other measures like enforcing stringent control over the inventory level and further strengthen the procurement procedures to control over our fuel costs will also be implemented. In addition, regular maintenance and periodical overhauls will also be carried out to achieve a safe and stable supply of electricity.

FINAL DIVIDEND

The Directors have recommended to declare a final dividend of HK\$0.03 (2003: HK\$0.03 and bonus shares of 2 for 10 shares held) per share in respect of the year ended 31 December 2004. Upon approval by the shareholders of the

Company on the forthcoming annual general meeting, the final dividend will be paid on or before 25 May 2005 to shareholders whose names appear on the register of members of the Company on 18 May 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 12 May 2005 to Wednesday, 18 May 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms with share certificates must be lodged with the Company's Hong Kong Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 11 May 2005.

APPRECIATION

I would like to thank members of 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 their devoted efforts and hard work during the past year.

By Order of the Board
Tang Yui Man Francis
Chief Executive Officer
Hong Kong, 31 March 2005

