

CHIEF EXECUTIVE OFFICER'S REPORT



The opening ceremony of the Mangrove West Coast showroom in Central



Mangrove West Coast event - Golf Tournament



Mangrove West Coast event - Musical Performance



*Tang Yui Man Francis
Chief Executive Officer*

BUSINESS REVIEW

In April 2006, the Group reorganised to focus its businesses in property development, investment and property management by declaring a special interim dividend to be satisfied by way of a distribution in specie of Enerchina Shares held by the Company. The distribution in specie was in the proportion of 5 Enerchina shares for every 10 shares held by the shareholders of the Company on 22 March 2006. The relevant resolutions in respect of this special dividend were passed on 10 April 2006, reducing the shareholding of the Group in Enerchina from 74.79% to 45.39%. As such, the results and performance of Enerchina is accounted for in the Group's annual financial statements under the equity accounting method.

For the year ended 31 December 2006, the Group achieved remarkable results with turnover from continuing operations of HK\$2,326.7 million, representing an increase of 102% as compared to the restated turnover of 2005. Gross profit increased to HK\$1,215.2 million for the year ended 31 December 2006, an increase of 160% as compared to the restated gross profit of 2005. Profit for the year attributable to equity holders of the Company increased to HK\$962.4 million, representing an increase of 43% as compared to 2005. Basic earnings per share were HK33.99 cents, representing an increase of 20% as compared to 2005.

The outstanding performance is attributable to the strong contribution from the Group's property sales, namely, the sale of units in *The Mangrove West Coast* in Shenzhen, and the gain on disposal of part of the electricity generation and gas fuel businesses.

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Mr. Francis Tang (centre) and partners at the Mangrove West Coast showroom opening ceremony

Property Sales

For the year ended 31 December 2006, the Group recorded a turnover of HK\$2,239.6 million from property sales, representing an increase of 102% as compared to 2005. The Group sold a total of approximately 97,559 square metres in gross floor area during the year as compared to 139,600 square metres for 2005. Property sales in 2006 were mainly derived from the sale of *The Mangrove West Coast* whilst 2005 property sales were mainly derived from the sale of *The Oasis*. *The Mangrove West Coast* is a development project in Shenzhen with a total gross floor area of approximately 249,591 square metres and 1,302 units which was completed and ready for occupancy in June 2006.

Gross profit increased by 159% to HK\$1,161.7 million in 2006 as compared to HK\$448.4 million in 2005 as a result of the significantly higher contribution margin and average selling price of *The Mangrove West Coast* as compared to that of *The Oasis*. The average selling price for *The Mangrove West Coast* was approximately RMB25,315 per square metre and the average selling price for *The Oasis* was approximately RMB9,206 per square metre. There was a significant increase in the average selling price of *The Mangrove West Coast* from RMB21,875 per square metre in 2005 to RMB28,340 per square metre in 2006, representing an increase of approximately 30% or RMB6,465 per square metre.

Property Rental

For the year ended 31 December 2006, turnover from the Group's rental properties was HK\$15.3 million, representing an increase of 34% as compared to 2005. The investment properties consist of mainly retail space in Sinolink Garden with a total gross floor areas of 23,337 square metres and approximately 3,280 parking spaces.

Properties Under Development

As at 31 December 2006, the Group has the following properties under development:

- (1) Sinolink Garden Phase Five, *The Oasis Plaza*, is a development project with a total site area of 40,786 square metres and a total gross floor area of 226,231 square metres. The Group intends to develop this development project into a residential and commercial complex. We have recently signed on Multiplex Cinema Ltd as our anchor tenant. The construction works have commenced during the year and is expected to be completed by the second half of 2008;

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- (2) Shanghai Bund de Rockefeller Group or *RockBund*, is a joint development project with the Rockefeller Group International Inc.. The project has a total site area of 18,000 square metres and total gross floor area of 94,080 square metres. The Group intends to redevelop this historical site into an upscale mixed-use neighborhood, with residential, commercial, retail, offices and hotel facilities. This development project is currently under planning and design. It is expected to be completed before the 2010 Shanghai World Expo and initial contacts with anchor tenants have already commenced.

Major Associates

Following the distribution in specie in April 2006, Enerchina and Panva Gas have become the major associates of the Group.

For the year ended 31 December 2006, the electricity generation business of Enerchina recorded a turnover of HK\$1,161.3 million, a decrease of 10% and sold 1,946 million kwh of electricity, representing a decrease of 13% as compared to 2005. The decrease was mainly due to the technical malfunction of one of our power generating units, which was shut down for repairs from July through to December 2006. The manufacturer of this generating unit has completed the repairs and all the power generating units are functioning normally in the first quarter of 2007. We have commenced the claims procedures with both our insurance provider and the manufacturer to recover the losses incurred as a result of the breakdown. As the final claims have not been finalised and received yet, we have not included the claims amount for the year ended 31 December 2006.

The year 2006 saw continued challenges for the electricity generation business as its direct operating expenses continued to increase due to the escalating fuel cost, putting Enerchina's power generation business under enormous pressure. Through the efforts of the management in improving productivity and strengthening fuel procurement and inventory control, the gross profit margin of power generation for the year increased slightly by 2.1% as compared to 2005. At present, Enerchina is continuing with conversion works on the existing power plants to add natural gas as an alternative fuel source to heavy oil, in an effort to reduce the cost of generating electricity. The conversion works is expected to be completed in 2007.

For the year ended 31 December 2006, the gas fuel business in Panva Gas recorded a turnover of HK\$2,642.9 million, an increase of 13.7% over 2005. The gas fuel business was further divided into sale of piped gas, gas pipeline construction and the sale of Liquefied Petroleum Gas. Turnover contribution from each of these activities amounted to HK\$374.3 million, HK\$331.2 million, and HK\$1,900.8 million, accounting for 14.2%, 12.5%, and 71.9%, respectively, of Panva Gas's turnover. The rapid growth of the piped gas business underlines Panva Gas's shift towards a utility business model with the sale of piped gas becoming a significant source of income.

Its gross profit decreased by 41.3% to HK\$404.7 million and the loss attributable to shareholders amounted to HK\$256.3 million. The net loss was due to the loss in fair value on the two interest rate swaps of approximately HK\$124.2 million, the increase in interest expenses of approximately HK\$4.4 million, the increase in the distribution and administrative expenses of approximately HK\$172.5 million and a fewer number of new piped gas user connections recorded during the year when compared to 2005.

On 4 December 2006, Panva Gas and HKCG announced that Panva Gas has agreed to acquire the entire issued share capital of each of the eight companies held by HKCG (collectively the "Target Companies"), which hold equity interests in ten PRC companies that are engaged in piped gas fuel businesses. Panva Gas also agreed that it would take assignment of the outstanding loans due from the Target Companies to HKCG or its associates, being approximately HK\$568.1 million, together with all interest accrued thereon, if any. In consideration of the acquisition (which includes taking assignment of the shareholder loans), Panva Gas agreed to issue approximately 773 million new shares to HKCG, which represented 43.97% of the enlarged issued share capital of Panva Gas. The resolutions related to the agreement were approved at the

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extraordinary general meeting of Panva Gas and the special general meeting of Enerchina and the completion of the agreement took place on 1 March 2007, upon which HKCG became the single largest shareholder of Panva Gas and Enerchina's shareholding in Panva Gas was reduced from 57.94% to 32.47%.

In order to maintain the public float of Panva Gas at the minimum level of 25%, on the same date, Enerchina placed down 33,918,400 shares in Panva Gas at the placing price of HK\$3.77, raising approximately HK\$126.1 million. The placement further reduced Enerchina's shareholding in Panva Gas to 30.54%.

PROSPECTS

In 2006, China maintained its rapid pace of economic expansion with GDP growth reaching 10.7%. This strong growth accompanied by moderate inflation is expected to continue in 2007. During the year, the Chinese government introduced and implemented several rounds of new austerity measures on the property market in relation to the supply of land, financing, tax collections and industry regulation, aiming to further curtail the surging property prices, property speculation and investment activities. These measures are expected to be implemented in 2007. The Group believes that these measures will not have an adverse impact on the overall property market in the medium to long term as the market is supported by solid fundamentals and strong underlying demand.

The Group remains committed to its long term development strategy in the first tier cities of the PRC, and will continue to expand its portfolio in line with its strategy. We see the effects of the austerity measures as an opportunity to accelerate our growth by capitalizing on our "Sinolink" brand name and business model. The Group is also planning to increase its investment property portfolio so as to secure a stable income stream and position the Group for capital appreciation in the future.

In 2007, the Group will continue the sale of *The Mangrove West Coast* in Shenzhen. The prospects for this exceptional and distinctive project are positive given the continuing economic growth, rising disposable income and scarce supply of new high quality properties in Shenzhen. We expect demand and average selling prices to continue to rise in 2007.

Our other projects, including our first venture in Shanghai, *RockBund*, and *The Oasis Plaza* in Shenzhen, are progressing well, and we will continue to enhance returns by seeking new investment opportunities in these and other cities.

Overall, the Group remains positive and confident about the property market and its prospects in the PRC. We believe that our established brand name, innovative and quality designs, experienced management and effective project management team will enable us to meet new challenges and seize new opportunities ahead.

We remain positive on the prospects of our strategic investments in Enerchina and Panva Gas, despite a challenging year in 2006. Together with HKCG, Panva Gas will be able to strengthen its market position and become the leading piped gas operator in the PRC. Panva Gas will also benefit from the financial strength, management experience and operational and technical expertise of HKCG and achieve potential operational synergies. We expect Enerchina to benefit in its capacity as shareholder of Panva Gas and ultimately generate substantial contribution to the Group. The Group will seek to capitalize on its valuation and enhance returns to our shareholders.

FINANCIAL REVIEW

The Group's total borrowings decreased from HK\$3,811.8 million as at 31 December 2005 to HK\$492.5 million as at 31 December 2006. The net decrease is mainly due to repayment of bank and other loans of HK\$668.9 million and the de-consolidation of the energy and gas fuel businesses since April 2006. The net cash to equity ratio (i.e total debt less cash and bank deposits over shareholders' equity) was 1%. Bank borrowings are used to finance the property development projects and are mainly at floating interest rates.

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Total assets pledged in securing these loans have a net book value of HK\$624.1 million as at 31 December 2006. The borrowings of the Group are denominated in RMB. 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; however, the Board is evaluating and closely monitoring the potential impact of RMB appreciation and interest rates movement on the Group.

The Group's cash and cash equivalents amounted to HK\$515.9 million (including pledged deposits) as at 31 December 2006 are mostly denominated in RMB, Hong Kong dollars and US dollars.

CAPITAL MARKET EVENT

On 25 January 2006, the Company entered into a Placing and Subscription Agreement under which 189,456,448 shares were placed to various independent places at the Placing Price of HK\$2.34, and raised HK\$425.8 million, net of expenses from this placing to finance the Group's existing property development activities, and for general working capital purposes.

Capital Commitments

As at 31 December 2006, the Group has capital commitments in respect of the acquisition of properties under development amounted to HK\$760.1 million and in respect of unpaid capital contribution of investment projects amounted to HK\$91.9 million.

Contingent Liabilities

Guarantees given to banks as security for the mortgage loans arranged for the purchases of the Group's properties amounted to HK\$165.6 million.

FINAL DIVIDEND AND BONUS ISSUE OF SHARES

The Board has recommended the payment of a final dividend for the year ended 31 December 2006 of HK\$0.035 per Share of HK\$0.10 each in the capital of the Company amounting to HK\$100,579,804.08 to shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2007. Upon approval by the shareholders of the Company at the forthcoming annual general meeting of the Company ("AGM") to be held on Wednesday, 23 May 2007, the final dividend will be paid on or before Thursday, 31 May 2007.

The Board has also recommended a bonus issue of new Shares (the "Bonus Shares") to shareholders of the Company on the basis of one new Share for every eight existing Shares held by the shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2007 (the "Proposed Bonus Issue"). The Bonus Shares will be issued and credited as fully paid and will rank pari passu with the then issued Shares in all respects with effect from the date of issue, except that they are not entitled to the proposed final dividend for the year ended 31 December 2006 as mentioned above.

The Proposed Bonus Issue is conditional upon: (i) the passing of the relevant ordinary resolution to approve the Proposed Bonus Issue at the AGM; and (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting or agreeing to grant the listing of and permission to deal in the Bonus Shares to be issued pursuant to the Proposed Bonus Issue.

Subject to fulfillment of the above conditions, certificates for the Bonus Shares are expected to be despatched to shareholders on or about Thursday, 31 May 2007. A notice of AGM enclosed in a circular of the Company containing, among other things, ordinary resolution to approve the Proposed Bonus Issue will be despatched to shareholders of the Company on or about Monday, 30 April 2007.



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CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 18 May 2007 to Wednesday, 23 May 2007, both days inclusive, during which period no share transfer will be effected. In order to qualify for the final dividend and the Proposed Bonus Issue, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 17 May 2007.

Employees and Remuneration Policies

As at 31 December 2006, the Group employed approximately 791 full time employees for its principal activities. The Group recognizes the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

APPRECIATION

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

By Order of the Board

Tang Yui Man Francis
Chief Executive Officer

Hong Kong, 19 April 2007