

Report of the Directors

The Directors have pleasure in submitting to Shareholders their Report and the Audited Accounts for the year ended 31st December 2002 which are to be presented at the Annual General Meeting to be held in the Pheasant Room, Mandarin Oriental Hotel, Hong Kong on Tuesday, 29th April 2003.

Principal Activities

The principal activities of the Company continue to be the production, distribution and marketing of gas and related activities. The particulars of the principal subsidiaries are shown on pages 83 and 84 of this Annual Report. Turnover and contribution to operating profit are mainly derived from activities carried out in Hong Kong.

Results and Appropriations

The results of the Group for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 54 of this Annual Report.

An interim dividend of HK 12 cents per share was paid to shareholders on 21st October 2002 and the Directors recommend a final dividend of HK 23 cents per share payable on 30th April 2003 to shareholders whose names are on the register of members on 17th April 2003.

Financial Summary

A summary of the results of the Group for the past nine financial years is set out on pages 46 and 47 of this Annual Report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 29 to the Accounts.

Fixed Assets

Movements in fixed assets of the Group and the Company including the details of properties under development are shown in Note 12 to the Accounts.

Share Capital

Movements in share capital of the Company are shown in Note 27 to the Accounts.

Bank Loans and Overdrafts

Particulars of the bank loans and overdrafts of the Group are provided in Note 24 to the Accounts.

Charitable Donations

Charitable donations made by the Group in 2002 amounted to HK\$1,080,000 (2001: HK\$1,099,292).

Directors

At the Annual General Meeting held on 9th May 2002, Dr. Lee Shau Kee and Mr. Liu Lit Man were re-elected as Directors of the Company. Mr. Leung Hay Man, Dr. Lee Hon Chiu, Mr. Colin Lam Ko Yin, Dr. The Hon. David Li Kwok Po, Mr. Ronald Chan Tat Hung, Mr. Lee Ka Kit, Mr. Chan Wing Kin, Mr. Kwan Yuk Choi and Mr. Lee Ka Shing held office throughout the year.

According to the Company's Articles of Association, one-third of the non-executive directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97, Dr. Lee Hon Chiu and Dr. The Hon. David Li Kwok Po are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 13 and 14 of this Annual Report.

Disclosure of Interests

As at 31st December 2002, the interests of each Director of the Company in the equity securities of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") 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:

Shares

Director	Personal	Family	Corporate	Other
Dr. Lee Shau Kee	3,226,174	–	–	2,157,017,776 (Note 4)
Mr. Liu Lit Man	1,539,795	–	–	–
Mr. Leung Hay Man	–	–	–	–
Dr. Lee Hon Chiu	–	–	–	–
Mr. Colin Lam Ko Yin	–	–	–	–
Dr. The Hon. David Li Kwok Po	10,964,082	–	–	–
Mr. Ronald Chan Tat Hung	1,940	–	–	–
Mr. Lee Ka Kit	–	–	–	–
Mr. Chan Wing Kin	102,825 (Note 5)	–	–	–
Mr. Kwan Yuk Choi	36,300	41,129	–	–
Mr. Lee Ka Shing	–	–	–	–

Save as mentioned above, as at 31st December 2002, the register maintained by the Company pursuant to Section 29 of the SDI Ordinance 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 recorded no other interests of the directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) nor any rights to subscribe for equity or debt securities of the Company granted to any directors or their respective spouse or children under 18 years of age nor the exercise of any such rights.

Substantial Shareholders' Interests

As at 31st December 2002, the following interests in the shares of the Company were recorded in the register required to be kept under section 16(1) of the SDI Ordinance:

Name of Company	No. of shares in which interested
Disralei Investment Limited (Note 1)	1,159,024,597
Timpani Investments Limited (Note 1)	1,643,249,599
Henderson Investment Limited (Note 1)	2,072,571,545
Kingslee S.A. (Note 1)	2,072,571,545
Henderson Land Development Company Limited (Note 1)	2,072,571,545
Henderson Development Limited (Note 2)	2,076,538,017
Hopkins (Cayman) Limited (Note 3)	2,157,017,776
Rimmer (Cayman) Limited (Note 3)	2,157,017,776

Notes:

1. Kingslee S.A., a subsidiary of Henderson Land Development Company Limited has a controlling interest in Henderson Investment Limited. The 2,072,571,545 shares were beneficially owned by some of the subsidiaries of Henderson Investment Limited. Timpani Investments Limited is a subsidiary of Henderson Investment Limited and, together with its subsidiary Disralei Investment Limited, beneficially owned 1,643,249,599 shares out of 2,072,571,545 shares.
2. Henderson Development Limited beneficially owned more than one third of the share capital in Henderson Land Development Company Limited. Of the 2,076,538,017 shares, 2,072,571,545 shares represented the shares described in Note 1 and the other shares were beneficially owned by a subsidiary of Henderson Development Limited.
3. Of these 2,157,017,776 shares, 2,076,538,017 shares represented the shares described in Notes 1 and 2. Rimmer (Cayman) Limited as trustee of a discretionary trust held a majority of units in a unit trust ("Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust beneficially owned all the issued shares which carry the voting rights in the share capitals of Henderson Development Limited and Fu Sang Company Limited.
4. Dr. Lee Shau Kee beneficially owned all the issued shares in Rimmer (Cayman) Limited and Hopkins (Cayman) Limited. These 2,157,017,776 shares included the shares described in Notes 1, 2 and 3.
5. These shares were jointly held by Mr. Chan Wing Kin and his spouse.

Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Interests in Contracts and Connected Transactions

During the year, the Group has entered into the following transactions and arrangements as described below with persons who are "connected" for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

The Company, Starmax Assets Limited, a wholly-owned subsidiary of the Company ("Starmax"), Henderson Land Development Company Limited ("Henderson Land") and Daren International Limited, a wholly-owned subsidiary of Henderson Land ("Daren International") entered into a development agreement ("Development Agreement") on 2nd August 2002.

Pursuant to the Development Agreement, (1) Starmax shall receive a sum of HK\$380,529,324; (2) Daren International shall be entitled to 27 per cent of the net sales proceeds of the residential portion of the development of The Remaining Portion of Kowloon Marine Lot No.102; and (3) subsidiaries of Henderson Land shall be appointed as the project and sales manager, the construction manager and main contractor, the suppliers of certain materials, the leasing agent and the estate manager of the Development. The amount payable in relation to all the above appointments will not exceed a maximum amount of HK\$97 million.

Save as the above, no Director has, or at any time during the year had, an interest, in anyway, directly or indirectly, in any contract with the Company or its subsidiaries which was significant in relation to the business of the Company.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Purchase, Sale or Redemption of Own Shares

During the year, the Company repurchased 30,219,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$290,570,360 before expenses. The repurchased shares were subsequently cancelled. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the aggregate consideration was charged to unappropriated profits. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share Highest HK\$	Price per Share Lowest HK\$	Aggregate Consideration Paid HK\$
January 2002	28,768,000	9.70	9.50	276,495,660
February 2002	1,451,000	9.70	9.70	14,074,700
Total	30,219,000			290,570,360

Save as mentioned above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its own shares during the year.

Major Customers and Suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 28.5 per cent and 57.6 per cent respectively during the year. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30 per cent during the year.

Corporate Governance

The Group understands that its business legitimacy – with shareholders, with investors, with customers, with suppliers, with employees, with the community – relies on all stakeholders having trust and faith in the Group to take care of their needs and fulfil its responsibility to the society in which it operates. The Group's value system defines its approach to corporate governance. The Group is dedicated to disclosing accurate accounting and financial information, in abiding by sound business and ethical principles, following Hong Kong laws, listing rules and regulations, benchmarking itself against applicable codes and standards, and setting realistic objectives to ensure healthy investment returns and a realistically robust share price. As such, the Company had fully complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board has three Executive Directors and eight Non-executive Directors. Three of the eight Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests. Directors' fees are recommended by the Board and then submitted to shareholders for approval. The Company does not operate any share option scheme. Board Committees monitor effective compliance. The Audit Committee reviews the Company's current financial standing, considers the nature and scope of audit reports, and ensures internal control systems operate in accordance with applicable standards and conventions. The Investment Committee of the Retirement Schemes manages these schemes and advises the trustees on investment policy. The Treasury Committee reviews, advises and formulates strategies related to investment activities.

Audit Committee

The Audit Committee was formed in May 1996. Members of the Audit Committee are Dr. The Hon. David Li Kwok Po, Mr. Liu Lit Man, Dr. Lee Hon Chiu, (all of the above are Independent Non-executive Directors) and Mr. Leung Hay Man (a Non-executive Director). The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2002. Audit Committee meetings were held twice during the financial year.

Auditors

The Accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment at a fee to be agreed by the Board.

Lee Shau Kee

Chairman

Hong Kong, 5th March 2003