

CHAIRMAN'S STATEMENT



■ *The Year's Results*

The Group recorded a year of steady growth in 2001. Profit attributable to shareholders for the year was HK\$3,183 million. Earnings per share increased from HK 55.2 cents to HK 58.0 cents, representing 5.1 per cent growth over 2000.

During the year under review, the Group further invested HK\$606 million in pipelines and facilities. At the end of 2001, the number of customers reached 1,407,408 – an increase of 78,247 over 2000. Total gas sales volume rose by 2.0 per cent over the previous year, and sales revenue of appliances and equipment also registered encouraging growth as compared with 2000.

■ *Business Development in China*

Investment in mainland gas projects is the Group's long term strategy for its core business development. China's entry into the World Trade Organisation will help maintain a continued economic boom and the growth in demand for clean fuel. It is the national policy of the mainland to improve air quality in cities by using natural gas. In line with the environmental policy of the mainland, the Group strives to participate in some of the major environmentally-friendly energy projects at a national level. Through Towngas International Company Limited, a wholly-owned subsidiary of the Group, we are also negotiating with major cities in Guangdong, East and Central China on a number of gas projects, and have made good progress. To strengthen the development of these investments, the Group has applied for setting up an investment holding company for energy projects in the mainland. Our application was approved by the State Ministry of Foreign Trade and Economic Cooperation in late February 2002. The Group is now proceeding with the registration of the holding company, which will be named Hong Kong & China Gas Investment Limited.

Along with the award of a 3 per cent interest in the Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline Project in 2000, the Group is participating in another major national project in the mainland – the West-to-East gas pipeline project. This is the midstream project for the construction of a 4,200 km pipeline, transmitting natural gas from the Tarim Basin, Xinjiang Province to the East China market. The total investment in the project is approximately RMB 46 billion, of which 45 per cent

will be owned by foreign investors. Full construction of the project will commence in the first half of this year. It is expected to begin transmitting gas from Shaanxi Province to East China in 2004. The whole pipeline is scheduled to be in full operation in 2005. The Group's investments in these two major national energy projects marked its success in developing mainland gas markets. These investments also helped the Group lay the foundation for developing downstream business in the region.

Last year, after acquiring an equity stake in the piped gas joint venture project in Suzhou Industrial Park, Jiangsu Province, the Group formed another joint venture in Yixing, taking an 80 per cent interest. Yixing, renowned worldwide for its pottery industry, is a large market for consumption of gas. The city will receive natural gas directly from the West-to-East gas pipeline. It is expected that natural gas will reach Suzhou and Yixing in three years' time, further promoting the gas business in these two cities at that time.

In addition, the Group is developing its piped gas business in Qingdao, Shandong Province, and formed a joint venture in Qingdao-Jimo city last September. It is expected that the gas business will thrive when natural gas reaches Qingdao and adjacent cities in 2005. Since Qingdao has been selected to host the sailing races of the 2008 Olympic Games, the mainland Government will strive to improve the environment and the tourism facilities of the city. This will stimulate the economy, consumption and the development of gas business in Qingdao.

■ *Environmentally-Friendly Energy Businesses*

The Group is fully committed to environmental protection and providing Hong Kong with clean fuel. ECO Energy Company Limited (ECO), a wholly-owned subsidiary of the Group, is actively taking part in the business of liquefied petroleum gas (LPG) filling stations. Since early 2000, ECO has been awarded 21-year government contracts to design, build and operate five dedicated LPG filling stations located in West Kowloon, Chai Wan, Mei Foo, Tuen Mun and Wan Chai. The stations located in West Kowloon and Chai Wan were commissioned in the fourth quarter of 2000, whereas those in Mei Foo and Tuen Mun commenced operation in the fourth quarter of 2001. Business is growing steadily as over 14,000 out of a total of 18,000 taxis have already switched from using diesel to LPG as fuel. The four ECO Stations together are now servicing over 8,000 taxi visits a day on average. The station located in Wan Chai is expected to be commissioned in August 2002.

The Government is actively encouraging the switch from diesel to LPG as fuel for public light buses. All ECO Stations are ready to extend their services to these vehicles. The Group is determined to continue to build on its current success and commit itself as a clean energy provider in support of the Government's environmental protection policy.

■ *Pipelaying Projects*

In tandem with urban developments in Hong Kong, several substantial pipelaying projects are being planned or are currently underway. Planning, design and environmental impact assessment are in progress for a 700 kPa 600 mm-diameter submarine pipeline stretching from the West Kowloon Reclamation Area to Sai Ying Pun on Hong Kong Island. Construction of a 3,500 kPa 750 mm-diameter transmission pipeline in the eastern New Territories is underway. Upon final completion of these two projects in 2005 and 2006 respectively, the capability and reliability of gas supply in Hong Kong will be further enhanced. Pipelaying for the Cyberport at Telegraph Bay and the Science Park at Pak Shek Kok continues as scheduled. Planning and design work is in progress for the extension of gas supply to the Hong Kong International Theme Park at Penny's Bay on Lantau Island. Pipelaying is tentatively scheduled for completion in 2004. Gas sales in Hong Kong are expected to increase upon the opening of the theme park.

■ *International Recognition*

Last year, the Group was rated as one of the top ten leading companies in Hong Kong in the Far Eastern Economic Review's ninth annual survey of Asia's Leading Companies. In the survey, each company was ranked according to overall leadership and long term vision of its management, quality of products and services, innovative response to customers' needs, financial soundness, and its status as a company that others try to emulate.

The Group was also ranked one of the top twenty among Asian listed companies in the "CFO Asia Performance 100" Award by the renowned financial magazine CFO Asia last year in recognition of our wealth creation for shareholders and the ability to enhance shareholders' value.

■ *Property Developments*

On 7th December 2001, the Town Planning Board approved of the Group's plan to develop the Ma Tau Kok South Plant site, provided that the mitigation conditions are fulfilled. This 130,000 square-foot site is subject to a plot ratio of 8.5, of which the domestic plot ratio is 7.5 and the non-domestic plot ratio is 1. It can be developed into five residential apartment buildings, providing approximately 2,000 units. The residential floor area will be approximately 975,000 square feet and the total floor area will exceed 1.1 million square feet. The Group is now studying the feasibility of various development plans so that development of the site can commence within this year and is expected to be completed in 2005.

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station Project. The project is being developed in phases between 1997 and 2004. Phase One, comprising 780,000 square feet of One International Finance Centre office tower and 130,000 square feet of shopping space, has been mostly leased. Construction of Phase Two started in early 2000. In 2000, the

Government agreed that the land premium for Phase Two was HK\$5.5 billion. Phase Two will comprise the 88-storey Two International Finance Centre office tower with a gross floor area of approximately 2 million square feet. The upper 14 floors have been sold to the Hong Kong Monetary Authority for self-use at HK\$3,699 million. Two hotel blocks with approximately 1.1 million square feet of gross floor area will be built, making it the largest six-star hotel facility in Hong Kong. The hotels will be managed by Four Seasons Hotels and Resorts. Also, there will be a 510,000 square-foot Phase Two shopping mall, which is anticipated to become the largest entertainment hub in Central, Hong Kong.

The King's Park Hill joint venture development project, in which the Group has a 45 per cent interest, comprises 42 detached and semi-detached residential houses and seven blocks of 86 luxury flats, with a total floor area of approximately 241,000 square feet. This residential development, having individual deluxe houses and low-rise apartments developed in a spacious layout, is rarely found in Kowloon. Sales and leasing of this project are progressing well with over 50 per cent of the apartments sold.

The Group has a 50 per cent interest in the Sai Wan Ho concourse joint venture development project. The joint venture that the Group formed with Henderson Land Development Company Limited successfully bid for the Sai Wan Ho

concourse site for HK\$2.43 billion in December 2000. The 130,000 square-foot area will be developed into five 50-storey luxury residential apartment buildings. The total gross floor area will be approximately 1.4 million square feet. The project is expected to be completed in 2005. Since the current interest rates remain low, and it is a waterfront site in the urban area and will provide residential units with scenic seaview, it is therefore expected a promising demand for this development.

■ *Employees and Productivity*

The number of employees for the town gas business was 1,956 as at the end of 2001, a reduction of 2.1 per cent as compared with the same period for 2000; at the same time the number of customers grew by 5.9 per cent and overall productivity rose by 8.3 per cent. The Group provides our employees with rewarding careers with compensation based on their capabilities and performance. The Group also provides various types of training to employees in the areas of technical know-how and management skills. The Group will continue to enhance productivity while providing our customers with quality services.

On behalf of the Board of Directors, I would like to thank all of our employees for their dedication and hard work in creating value for shareholders and customers.

■ *Finance*

The Group's financial position remains strong. At the end of 2001, the Group had net cash of about HK\$500 million and bonds and notes of about HK\$1.6 billion, ready to meet future expansion needs.

■ *Bonus Issue of Shares*

The Directors propose to make a bonus issue of one new share of HK\$0.25 credited as fully paid for every 10 shares held on the Register of Members on 26th April 2002. The necessary Resolution will be proposed at the forthcoming Annual General Meeting on 9th May 2002, and if passed, share certificates will be posted on 10th May 2002.

■ *Dividend*

The Directors are pleased to recommend a final dividend of HK 23 cents per share payable to shareholders whose names are on the Register of Members as of 26th April 2002. Including the interim dividend of HK 12 cents per share paid on 22nd October 2001, the total dividend payout for the year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividend per share for 2002 after bonus issue shall not be less than that for 2001.

■ *Future Outlook*

Hong Kong's economy remained sluggish during the year. To ease the financial burden on our customers, the gas tariff and monthly maintenance charge were maintained at the 1998 level. The Group's success in cost control and productivity enhancement has helped alleviate the impact of the price freeze on business results. The Group will continue to expand and diversify into new markets to enhance business growth.

The Company expects a 3 per cent increase in gas sales volume and the addition of about 70,000 new customers in the coming year. The Board of Directors looks forward to yet another year of steady growth in 2002.

Lee Shau Kee
Chairman

Hong Kong, 14th March 2002