

CHAIRMAN'S STATEMENT



THE YEAR'S RESULTS

The Group recorded a year of satisfactory growth in 2000. Profit attributable to shareholders for the year was HK\$3,131 million. Earnings per share increased from HK 55.9 cents to HK 60.7 cents, representing an 8.6 per cent growth over 1999.

During the year under review, the Group further invested HK\$671 million in pipelines and facilities. At the end of 2000, the number of customers reached 1,329,161 — an increase of 63,807 over 1999. Total gas sales rose by 5.5 per cent over the previous year, and sales in appliances and equipment also registered encouraging growth as compared with last year.

BUSINESS DEVELOPMENT IN CHINA

The Group sees significant potential for the development of gas business in the mainland in view of the rapid development of natural gas and the favourable conditions brought about by China's forthcoming entry into the World Trade Organization. As China shows growing concern for environmental protection, the use of natural gas to reduce air pollution is gaining widespread attention. This trend is set to bring about rapid changes to the presently coal-based primary energy structure. The West-to-East gas transmission pipeline project will have a positive effect on the development of the city piped gas market in the eastern part of China. As the Group is actively exploring natural gas related projects, a wholly-owned subsidiary, Towngas International Company Limited, was established last year to spearhead such initiatives in the mainland.

During the year, the Group was awarded a 3 per cent interest in the Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline Project. This will pave the way for developing

the natural gas market in Hong Kong and the southern region of Guangdong. With a total investment of HK\$4.8 billion, it will be a pilot project for the importation of liquefied natural gas into the mainland. A massive utilisation of natural gas as fuel will reduce air pollution in the Pearl River Delta, and will significantly contribute to environmental protection in the region. The Group will conduct a study on the economic and technical feasibility of bringing natural gas into Hong Kong.

The Group's joint ventures in Guangdong began to yield profit two years ago. Gas sales in Panyu, Zhongshan and Guangzhou Dongyong joint ventures increased substantially last year. As the Pearl River Delta will be supplied with natural gas in the next few years, the Group will continue to develop the gas business in the region.

ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESS

The Group is actively engaged in developing the environmentally-friendly energy business. In early 2000, ECO Energy Company Limited, a wholly-owned subsidiary of the Group, was awarded a 21-year government contract to design, build and operate two of the five dedicated liquefied petroleum gas (LPG) filling stations. The two stations, located in West Kowloon and Chai Wan, were commissioned in the fourth quarter of the year. Business is growing fast as the 18,000 taxis in Hong Kong are gradually switching from diesel to LPG as fuel. The two stations together are now servicing more than 3,000 taxi visits a day on average. The Government is also conducting an LPG public light bus trial scheme, and the two ECO Stations are expected to extend their services to these vehicles too. The Group sees bright prospects for the business as more LPG vehicles take to the roads, and has embarked on plans to increase the number of LPG filling stations.

THE CO-BRANDED CREDIT CARD

The Towngas Card, the first co-branded credit card issued by an energy utility company in Hong Kong, was launched in early December 1999 in cooperation with The Bank of East Asia. In addition to standard card functions, it provides customers with greater convenience in paying their gas bills, purchasing household protection packages and doing online shopping. Customer response has been highly encouraging. Since its launch, more than 84,000 Towngas Cards have been issued, making it one of the most popular credit cards in Hong Kong.

ELECTRONIC COMMERCE AND HIGH TECHNOLOGY BUSINESSES

During the year under review, the Group injected its interest in iCare.com Limited (iCare) into Henderson Cyber Limited (Henderson Cyber) in exchange for 18.05 per cent interest in Henderson Cyber. Henderson Cyber was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in July 2000. Prior to the listing, Henderson Land Group's information technology investment businesses which included data centres, local wireless fixed telecommunications network services, intelligent buildings and IT investments, were grouped under Henderson Cyber.

Since mid-2000, iCare has been providing a comprehensive range of integrated Internet services, including those of an Internet Content Provider and Internet Service Provider, as well as online shopping services. In August of last year, iCare launched Hong Kong's first Internet service on TV, using set-top box technology. The number of iCare subscribers has been growing steadily and the portal has become one of the most frequently visited web sites in Hong Kong.

PIPELAYING PROJECTS

In tandem with urban developments in Hong Kong, construction work on a 3,500 kPa 750mm-diameter transmission pipeline in the eastern New Territories is continuing in phases. Moreover, planning and design work, are underway for a 700 kPa 600mm-diameter submarine pipeline stretching from the West Kowloon Reclamation Area to Sai Ying Pun on Hong Kong Island. Upon completion, these two projects will augment gas storage and distribution as well as reliability of gas supply to Hong Kong. Planning and design work are also in progress for the extension of gas supply to new development areas such as the Hong Kong International Theme Park at Penny's Bay on Lantau Island, Science Park at Pak Shek Kok and Cyberport at Telegraph Bay.

INTERNATIONAL RECOGNITION

Our track record of excellence in corporate management and customer service has consistently brought public recognition, both locally and abroad. In 1999, we received the UK-based Institution of Gas Engineers' Company of the Year Award and the Hong Kong Management Association's Quality Award. Last year, we were rated by HSBC Securities (Asia) Limited as one of Asia's top 100 companies (excluding Japan), in recognition of the Group's performance in increasing shareholder value. In December, we were rated by the renowned Asian financial magazine, Asiamoney, as one of the top ten Overall Best Managed Companies in Hong Kong, ahead of other Hong Kong public utilities. We were also presented with the UK-based 2000 Management Today/ Unisys Service Excellence Award (Overseas Category) in recognition of our excellence in customer service.

SOUTH EAST KOWLOON DEVELOPMENT PLAN

To be in tandem with the Government's new development plan in the area, the Group is seeking approval from the Town Planning Board for the rezoning of the 130,000 square-foot Ma Tau Kok South Plant site from commercial to residential use. In mid-2000 the Government announced a revised scheme for the South East Kowloon Development Plan that specified residential use for the site. As the Group's rezoning proposal is in line with the new Plan, approval is expected to be granted within 2001.

KING'S PARK HILL JOINT VENTURE DEVELOPMENT

This development, in which the Group has a 45 per cent interest, has been completed and sales are now progressing well. The project 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 and 140 car park spaces.

AIRPORT RAILWAY HONG KONG STATION PROJECT

The Group has a 15 per cent interest in this project which is located above the Airport Railway Hong Kong Station and is being developed in phases between 1997 and 2005. 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. It comprises an 88-storey office tower, two hotel towers and a large shopping arcade, covering a total floor area of over 3.5 million square feet. The Government agreed that the land premium for Phase Two was HK\$5.5 billion.

SAI WAN HO CONCOURSE JOINT VENTURE PROJECT

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

site for HK\$2.43 billion last December. The 130,000 square-foot area will be developed into five 50-storey luxury residential apartment buildings, providing 1.3 million square feet of residential floor area. Upon completion at the end of 2003, the project is expected to yield substantial returns.

EMPLOYEES AND PRODUCTIVITY

The Group's Continuing Transformation Programme, launched in 1996, has continued to improve business processes and efficiency. Through value creation and natural attrition, the number of employees for the town gas business was further reduced by 2.7 per cent, to 1,998 in 2000, while at the same time the number of customers grew by 5 per cent and overall productivity rose by 8 per cent.

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 2000, the Group had net cash of about HK\$4.8 billion 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 20th April 2001. The necessary Resolution will be proposed at the forthcoming Annual General Meeting on 3rd May 2001, and if passed, share certificates will be posted on 4th May 2001.

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 20th April 2001. Including the interim dividend of HK12 cents per share paid on 23rd October 2000, the total dividend payout for the year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividend per share for 2001 after bonus issue shall not be less than that for 2000.

FUTURE OUTLOOK

To ease the financial burden of Hong Kong people and our commercial and industrial 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 to alleviate the impact of the price freeze on business results. The Group will capitalise on its strengths to expand and diversify into new markets.

In view of the gradual recovery of Hong Kong's economy, the Company expects a 5 per cent increase in gas sales volume and the addition of about 68,000 new customers in the coming year. The Board of Directors looks forward to yet another year of satisfactory growth in 2001.

LEE SHAU KEE

Chairman

Hong Kong, 16th March 2001