



The production of dry ice not only reduces the emission of carbon dioxide at Tai Po Plant, but also generates financial returns for the Company.

ENVIRONMENTAL PROMOTION

In order to encourage and develop a green office culture within the workplace, Towngas has implemented a series of participatory programmes that foster green awareness and support.

The Group's 12 Environmental Protection Sub-committees, for example, established 70 environmental objectives in 2000. More than 95 per cent of those objectives have already been achieved. Our Green Ambassadors share their environmental experiences and enhance their environmental knowledge through regular gatherings and site visits.



The gas-fired desiccant dehumidifier effectively controls relative humidity to create a more comfortable environment, and is widely used in indoor swimming pools.

Towngas has also sponsored various environmental protection programmes organised by the Government and green groups. A three-year “Anti-Pollution Programme”, a joint effort with the Hong Kong Productivity Council, was completed last year. The electrostatic precipitator technology that we sponsored under this programme was well received by the food and catering industry. This technology helps reduce the amount of cooking fumes that are generated by commercial cooking.

We also joined the Environmental Protection Department’s “Wastewi\$e Scheme” in November 2000, in support of the Government’s attempts to reduce the production of solid waste.

In addition to sponsoring and actively participating in new green programmes such as The Community Chest’s “Sponsor a Tree for The Chest and The Community” and “Green Day”, we continued to support the Environmental Campaign Committee’s annual “World Environmental Day” and “Environmental Festival”. Many of our employees took part in “Ride Green Day”, which was organised by the Environmental Protection Department to help reduce air pollution caused by vehicles. Throughout the year, we also staged numerous environmental exhibitions in various public venues to publicise environmental messages.

ENVIRONMENTAL OPERATIONAL INFORMATION

OZONE LAYER PROTECTION

98% of our vehicle air conditioning systems now operate with refrigerant R134A.
55% of BCF fire extinguishers have been replaced by dry powder ones since 1995.

AIR QUALITY

Total NO_x output was 8.75 kg/TJ of town gas
Total SO_x output was 0.13 kg/TJ of town gas
Total CO₂ output was 16.08 metric ton/TJ of town gas

WATER QUALITY

Total waste water output was 11.93 m³/TJ of town gas

NOISE

All installations and operations complied with the statutory requirements. No noise abatement notice has ever been received.

CHEMICAL WASTE

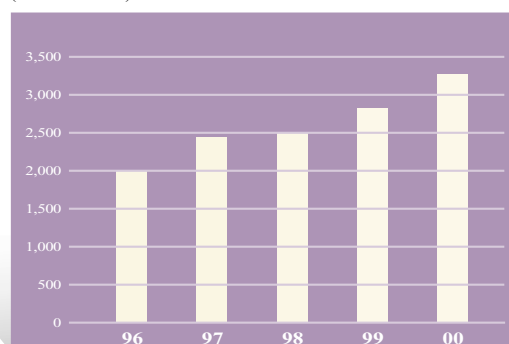
Total chemical waste output was 0.62 kg/TJ of town gas

All legal requirements relating to environmental protection were fully complied with.

HUMAN RESOURCES

Although the Group expanded its services and enjoyed substantial growth in its customer base last year, headcount has been successfully reduced as planned, to 2,000 by the end of the year 2000. In actuality, the headcount for the core business decreased 2.7 per cent over the year, to 1,998 at year end.

Turnover per Employee (Company)
(HK\$ thousand)



We were able to control our headcount by relying largely on natural attrition. The freed-up manpower resulting from our effective productivity programmes was also utilised for new business initiatives. Consequently, we achieved a customer-to-employee ratio of 665:1, which compares favourably with the 616:1 figure for 1999, and results in a productivity growth of 8%.

We provide our employees with a rewarding career with compensation based on their capabilities and performance.

A variety of programmes contributed to tangible improvements in performance and productivity, as well as nurturing creativity, leadership and professionalism among our employees. These include initiatives such as Continuing Transformation (CT), Superior Quality Service (SQS) and our Strategy Ambassador Club. Last year, SQS project teams completed 88 improvement projects and generated in excess of HK\$22 million in savings. A total of 640 members of staff, or 32 per cent of the workforce, were involved. The year's focus was on "Quality Partnership", a theme that found support from our suppliers and external contractors who were also invited to participate in our quality and productivity programmes.

The healthy development of our core business and the success of new ventures hinge on the skills and the service mindset of our entire workforce. Hence, our continual emphasis on training. Last year, a total of 11,316 man days were dedicated to training, which included special emphasis on customer service for front-line employees.

A Corporate Leadership Development Programme was carried out last year for employees at all levels. The programme enables employees to appreciate the qualities and skills that are required in leadership and teamwork facilitation, and promotes the development and implementation of innovative solutions.

MORE OPPORTUNITIES IN CHINA **DEVELOPING NATURAL GAS**

The Group is focused on its next phase of expansion in China, having firmly established a business base over the past five years. With China's imminent entry into the World Trade Organization, the energy demands for the country's development will be enormous and more opportunities will arise. Even more pipelaying projects and city gas distribution networks are likely to be opened up for local and foreign investment. The state policy of transporting "West Gas to East" will also accelerate the development of the natural gas market in eastern China.

Moreover, China is committed to environmental improvement and is seeking to increase the utilisation of natural gas from the present two per cent to 11 per cent by 2020. At present, more domestic gas reserves have been identified and planning is also underway for the importation of liquefied natural gas (LNG).

This is therefore an opportune time for the Group to spearhead additional gas projects in China. With our technical expertise, proven world-class standards, reliability record and strong marketing and customer service experience, we are ready for an expanded role in the mainland.

To start with, the arrival of LNG will bring new life to the piped gas business in southern China. And Towngas is pleased to have been awarded a three per cent equity stake in the Guangdong LNG Receiving Terminal and Trunkline Project. A feasibility study being conducted now is scheduled for completion by mid-2002. The project, when finished, will provide the Group with the opportunity to obtain a secure supply of natural gas — apart from naphtha which is the existing feedstock — for producing town gas.

Towngas has also been exploring potential new joint ventures, with emphasis on regions such as the Pearl River Delta and eastern China. The demand for gas will be substantial in cities with booming economies.

EXISTING JOINT VENTURES

The year 2000 saw the highest-ever growth rates for our joint ventures in southern China. This was partly due to government concern over the environment and the expectation of government action in promoting the use of clean fuels in place of oil, in city restaurants and hotels.

Our gas business for Zhongshan, Panyu and the Guangzhou Economic and Technological Development Zone grew 88 per cent because of a substantial growth in gas consumption — driven largely by recovery in the respective property markets and the resulting investments. The total number of customers now exceeds 25,000 and that figure is still rising. As these cities and industrial zones expand and become sizable economies, our gas joint ventures are also becoming model city gas operations. The Group will benefit from this growth as it continues to develop its gas business in the mainland.



The Guangdong Towngas Technical Training Centre situated in Guangzhou Dongyong provides comprehensive gas training to upgrade the local standards of professionalism.

NEWLY ESTABLISHED GH-FUSION JOINT VENTURE

GH-Fusion Limited, a 50:50 joint venture between Towngas and Fusion Group (Holdings) plc of the UK, was established in July 2000. A joint venture factory is currently being built in Zhongshan, southern China to manufacture high quality polyethylene (PE) connecting systems for gas and water pipe systems for the China market and nearby regions. Production is targeted to begin in late 2001.

In combining Fusion Group's technical know-how and product design expertise with Towngas's strengths and experience in PE pipe system application and marketing, and in partnership with reputable overseas and local companies, the joint venture will be able to provide a full package of products and associated services to its clients.

GH-Fusion will be in a good position to take advantage of the rapidly growing use of natural gas in China and will also help Towngas establish close business relationships with major city gas operators in the mainland.

DEDICATED LPG FILLING STATIONS

LPG is another new business for Towngas and represents a significant move for the Group. The project will bring incremental revenue as well as additional earnings for Towngas, while providing an economic stimulus for the taxi industry. LPG also opens up a new opportunity for our green energy business.

In support of the Government's environmental initiatives, ECO Energy Company Limited, the Group's wholly owned subsidiary, entered into a 21-year contract with the Government in February 2000 for the design, construction and operation of two dedicated LPG filling stations, in West Kowloon and Chai Wan. These stations started operation in October and November 2000 respectively, both ahead of schedule.

The LPG filling station project takes advantage of the Group's experience and expertise in the gas business, and represents another green energy business of the Group. The two stations currently cater for 3,000 taxi-visits per day and the number is expected to increase in 2001. With feasibility tests currently underway for LPG public light buses, LPG as an auto fuel offers further business potential. The Group plans to expand this line of business.

U-TECH

Another Group subsidiary, U-Tech Engineering Company Limited, has been engaged in projects such as the rehabilitation of water pipes, the laying of underground gas piping and plumbing works, and the construction of LPG facilities.

During the period under review, U-Tech obtained ISO 9001 certification, with a strong emphasis on continuous improvement and customer focus. The certified scope includes the design, supply, installation and maintenance of a comprehensive range of electrical and mechanical services. U-Tech is fast becoming a major contractor for construction projects which require high quality and reliable design, as well as a capable construction team.

iCARE

iCare.com Limited was initially set up as a 50:50 joint venture between Towngas and Henderson Investment. The new company introduced Hong Kong's first Internet service via TV, using set-top box technology and targeted at families and housewives. Through effective promotion, the launch of the PC portal in June and the iCare TV version in August generated much public awareness and interest.



iCare enables customers to conveniently access the Internet through the TV set with their families in a leisurely browsing environment.

The number of iCare subscribers — covering subscriptions for set-top boxes and iCare's roles as Internet Service Provider and Internet Content Provider — has been rising steadily since launch, and currently totals about 100,000. The iCare portal has also rapidly become one of the most popular websites in Hong Kong.

Capitalising on Towngas's large customer base, iCare has been able to take advantage of the trend towards Internet usage and e-shopping. The close association with Towngas has also enabled iCare to grow steadily. Indeed, much of iCare's growth can be attributed to support from Towngas with regard to customer service, information technology infrastructure, marketing and publicity, and logistics services.

In July of last year, following the Initial Public Offering (IPO) of Henderson Cyber Limited, iCare became a wholly-owned subsidiary company of Henderson Cyber Limited, together with four other companies: Henderson Data Centre, Eastar, Future Home and IT Investments. The IPO resulted in Towngas holding a reduced equity stake of 18.05 per cent in Henderson Cyber Limited.

FINANCIAL RESOURCES REVIEW

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2000, the Group was in a healthy net cash position of HK\$4,751 million (1999: HK\$3,991 million).

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and bank loans. The Group has adequate sources of fund and unutilised banking facilities for its future capital investments.

BORROWING STRUCTURE

As at 31st December, 2000, the Group's bank borrowings amounted to HK\$1,255 million (1999: HK\$161 million). All the Group's borrowings are unsecured and of floating interest rate with maturity within one year on revolving credit or term loans facility.

The Group's borrowings are primarily denominated in Hong Kong dollar and the Group has no significant exposure to foreign exchange fluctuations.

There is no net gearing for the Group as it was in net cash positions throughout the years 1999 and 2000.

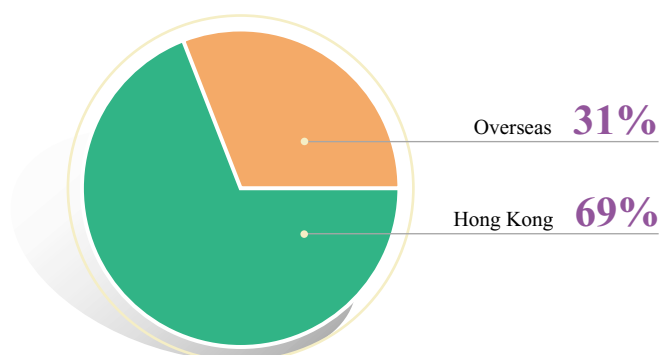
CURRENCY PROFILE

The Group's operations and activities are predominantly based in Hong Kong. As such both its cash and cash equivalent and borrowings are denominated in either Hong Kong dollars or United State dollars. Borrowings for our mainland China subsidiaries and joint ventures are however predominately in the local currency, Renminbi.

GROUP'S STRATEGIC INVESTMENT

Under the Group's Treasury Committee's guidance, a portion of the surplus funds are invested in equity and debt securities. At year-end, the securities investments amounted to HK\$1,281 million (1999: HK\$ 1,062 million). During the year, the performance of these securities investments was satisfactory.

Distribution of Securities Investments in 2000



COMMUNITY INVOLVEMENT

Towngas continued to be deeply supportive of the community during the period under review.

The Company upgraded its Elderly Concession Scheme to offer greater benefits to the elderly in need — including a discount programme on gas consumption as well as free inspection and maintenance of spare parts for those eligible.

Our dedicated team of volunteers was a driving force for the numerous activities that our employees organised for the elderly, as well as for children and students. And our corporate sponsorship programmes reflected our consistent focus on environmental protection, family values, personal development and elderly care.



Managing Director, Alfred W K Chan (middle) is planting a tree with other officiating guests at a Community Chest fund-raising event.



Towngas Voluntary Team delivers long-boiled soup to the elderly living in housing estates.

For the sixth consecutive year, we were presented with the Community Chest President's Award. For nine years, we have secured the Platinum Award and Top Fund-Raiser Award in the Corporate and Employee Contribution Programme, as well as the Highest Donation Award and the Highest Participation Rate Award in the Companies and Organisations Category. The Group also maintained its fine tradition of matching employees' contributions on a dollar-for-dollar basis. Our continued support for the Community Chest has raised the Company's profile in the community.

Other major sponsorship programmes during the year included the Hong Kong Philharmonic Society's "Music and Wellness", the Tung Wah Group of Hospitals' donation campaign, and the establishment of a Demonstration Kitchen for the Vocational Training Council's Chinese Cuisine Training Institute.



Towngas organises the Safety and Environmental Protection Day to arouse the safety and environmental awareness of its employees and their families.

Our Dragon Boat Team proved its mettle by taking several laurels in last year's Dragon Boat Festival races, notably including the Inter-Company Championship of the Hong Kong International Dragon Boat Races 2000.

The Towngas team was the first runner-up in the Tai Po Dragon Boat Races — Industrial Category, and second runner-up in the Chai Wan Fishermen's Recreation Club Trophy Dragon Boat Race for Groups and Organisations at the Millennium Eastern District Dragon Boat Races. Participation in these races helped to foster teamwork within the organisation, while at the same time cultivating a strong spirit of working together to achieve a common goal.



A District Council Focus Team member receives a souvenir for the Company's support at the Hong Kong Island District Councils Day.



Our Dragon Boat Team wins the championship in open competitions.