

## Chairman's Statement



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### The Year's Results

The Group's businesses maintained steady development in 2002. Total gas sales volume in Hong Kong rose by 0.3 per cent over the previous year. Profit attributable to shareholders for the year was HK\$3,087 million, a decrease of HK\$96 million, or 3.0 per cent, as compared with 2001. As there were share repurchases during 2002, earnings per share increased from HK 53.0 cents to HK 54.2 cents, representing 2.3 per cent growth over 2001.

During the year under review, the Group further invested HK\$653 million in pipelines and facilities. As at the end of 2002, the number of customers reached 1,470,738, an increase of 63,330 over 2001.

### Business Development in China

To increase our investment in mainland gas projects is a long-term strategic priority for development of the Group's core business. China's entry into the World Trade Organisation is boosting prosperity of the national economy leading to an increasing need for energy, in particular a surge in the demand for clean fuel. It is the national policy of mainland China to improve the air quality of its cities through improving the energy structure. This can be achieved by promoting the use of natural gas to replace coal and heavy oil. The construction of infrastructure for the supply of natural gas is therefore encouraged. In line with this environmental policy of mainland China, the Group is actively participating in some of the major

national environmentally-friendly energy projects, including the Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline project and the West-to-East gas pipeline project. Investment in these two national energy projects has helped the Group to tap into downstream city gas businesses. We are also making good progress in our negotiations with some economically prosperous cities in South, East and Central China on a number of gas investment projects.

During the year, the Group's business developments focused on Guangdong, Jiangsu, Shandong Provinces, etc. With a vast territory, large population and thriving commercial and industrial activities, these regions are expected to be supplied with natural gas within the next few years. The Group currently has 12 city piped gas joint venture projects in mainland China and has also entered into framework agreements with Nanjing, the capital city of Jiangsu Province, and Wuhan, the capital city of Hubei Province, in 2002. It is expected that sino-foreign equity joint venture contracts will be concluded with these two cities in the second quarter of 2003 and construction of infrastructure for the supply of natural gas will commence thereafter. The Group will continue to negotiate with more mainland cities for prime piped gas joint ventures.

In tandem with the strategy for the development of energy businesses in mainland China, the Group has set up an investment holding company, Hong Kong & China Gas Investment Limited, the incorporation of which was approved by the State Ministry of Foreign Trade and Economic Cooperation in February, 2002.

Incorporated in Shenzhen, Guangdong Province, this holding company is responsible for managing the Group's investments in mainland China.

## Environmentally-friendly Energy Businesses

The business of ECO Stations is run by a wholly-owned subsidiary company of the Group. There are currently 12 dedicated liquefied petroleum gas (LPG) filling stations in Hong Kong, of which five are ECO Stations located at West Kowloon, Chai Wan, Mei Foo, Tuen Mun and Wan Chai. Currently, some 16,800 taxis representing about 90 per cent of taxis in Hong Kong have already switched to use LPG as fuel. ECO Stations' current market share is approximately 33 per cent. The business of ECO Stations generates steady revenue for the Group.

## Pipelaying Projects

In tandem with urban developments in Hong Kong, several substantial pipelaying projects are at the planning stage or are currently underway. Construction of a 3,500 kPa 750 mm-diameter transmission pipeline in the eastern New Territories is progressing smoothly.

Pipelaying work for the extension of gas supply to the Hong Kong International Theme Park at Penny's Bay on Lantau Island commenced in March 2002 and is scheduled for completion in 2004. Gas sales in Hong Kong are expected to increase once the theme park opens in 2005.

Pipelaying for the Cyberport at Telegraph Bay and the Science Park at Pak Shek Kok was completed on schedule.

## International Recognition

The Group gives high priority to quality management, customer services and enhancement of shareholder value and this has consistently won us public recognition, both locally and abroad. Last year, the Group continued to be rated as one of the top ten leading companies in Hong Kong in the Far Eastern Economic Review's survey of Asia's Leading Companies. Also, the Group was presented once again with the "CFO Asia Performance 100" Award by the financial magazine, CFO Asia. The Group was rated as one of the top five among Asian listed companies and was ranked second in Hong Kong, demonstrating a remarkable achievement.

Last year, among the 400 A-List companies selected worldwide by the financial magazine, Forbes, the Group was one of the three Hong Kong companies included in the List. The A-List is a key index of rating companies worldwide in respect of their profitability, creation of shareholder value, etc. Also, the Group continued to be one of the top ten companies in the list of 2002 Chinese Business 500 announced by the Yazhou Zhoukan and was ranked fifth in Hong Kong.

## Property Developments

After conducting a feasibility study of the Ma Tau Kok South Plant site development, the Group and Henderson Land Development Company Limited (Henderson Land) embarked on the development of the residential portion of the project in August 2002.

Henderson Land will be entitled to 27 per cent of the net sales proceeds of the residential portion at a total consideration of HK\$380,529,324. The shopping mall and car park portion will be developed as a long-term investment of the Group. The site will comprise five residential apartment buildings, providing approximately 2,000 units. The residential floor area will be approximately 978,000 square feet and the total floor area of the project will exceed 1.1 million square feet. Foundation work is now in progress and construction of the superstructure will commence in the second half of 2003. The project is expected to be completed in 2005.

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station project. The office tower and the shopping mall of Phase One have been substantially leased. Phase Two will comprise the 88-storey Two International Finance Centre office tower which is scheduled for completion in mid-2003. The upper 14 floors of the office tower have been sold to the Hong Kong Monetary Authority at HK\$3,699 million. The hotel complex of the project comprising one six-star hotel tower and a service apartment tower will be managed by Four Seasons Hotels and Resorts. There will also be a 510,000 square-foot Phase Two shopping mall, which is anticipated to become the largest entertainment hub in Central, Hong Kong. The project is scheduled for completion by the end of 2004.

The Group has a 50 per cent interest in the Sai Wan Ho Ferry Concourse development project. Construction of the superstructure is now in progress and the project is expected to be completed in 2005.

Residential buildings with a total gross floor area of approximately 1.4 million square feet will be developed. Since this is a waterfront site providing the residential units with scenic seaviews, demand for the residential apartments is expected to be promising.

## Employees and Productivity

The number of employees engaged in the town gas business was 1,989 as at the end of 2002, an increase of 1.7 per cent as compared with 2001; at the same time the number of customers grew by 4.5 per cent and overall productivity rose by 2.6 per cent. Total remuneration for the employees engaged in the town gas business amounted to HK\$656 million for 2002 and HK\$657 million for 2001. The Group offers our employees rewarding careers based on their capabilities and performance and provides them with various types of training in the areas of technical know-how and management skills. The Group will continue to enhance productivity whilst providing our customers with quality services.

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

## Finance

The Group's financial position remains strong. As at the end of 2002, the Group had net cash of about HK\$1,190 million and bonds and notes of about HK\$1,450 million, ready to meet future expansion needs.

## 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 17th April 2003. Including the interim dividend of HK 12 cents per share paid on 21st October 2002, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2003 shall not be less than that for 2002.

## 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 remained at the 1998 level. The Group's success in cost control and productivity enhancement has helped alleviate the impact of this 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 55,000 new customers in 2003. The Board of Directors looks forward to yet another year of steady growth in 2003.

**LEE Shau Kee**

*Chairman*

Hong Kong, 5th March 2003