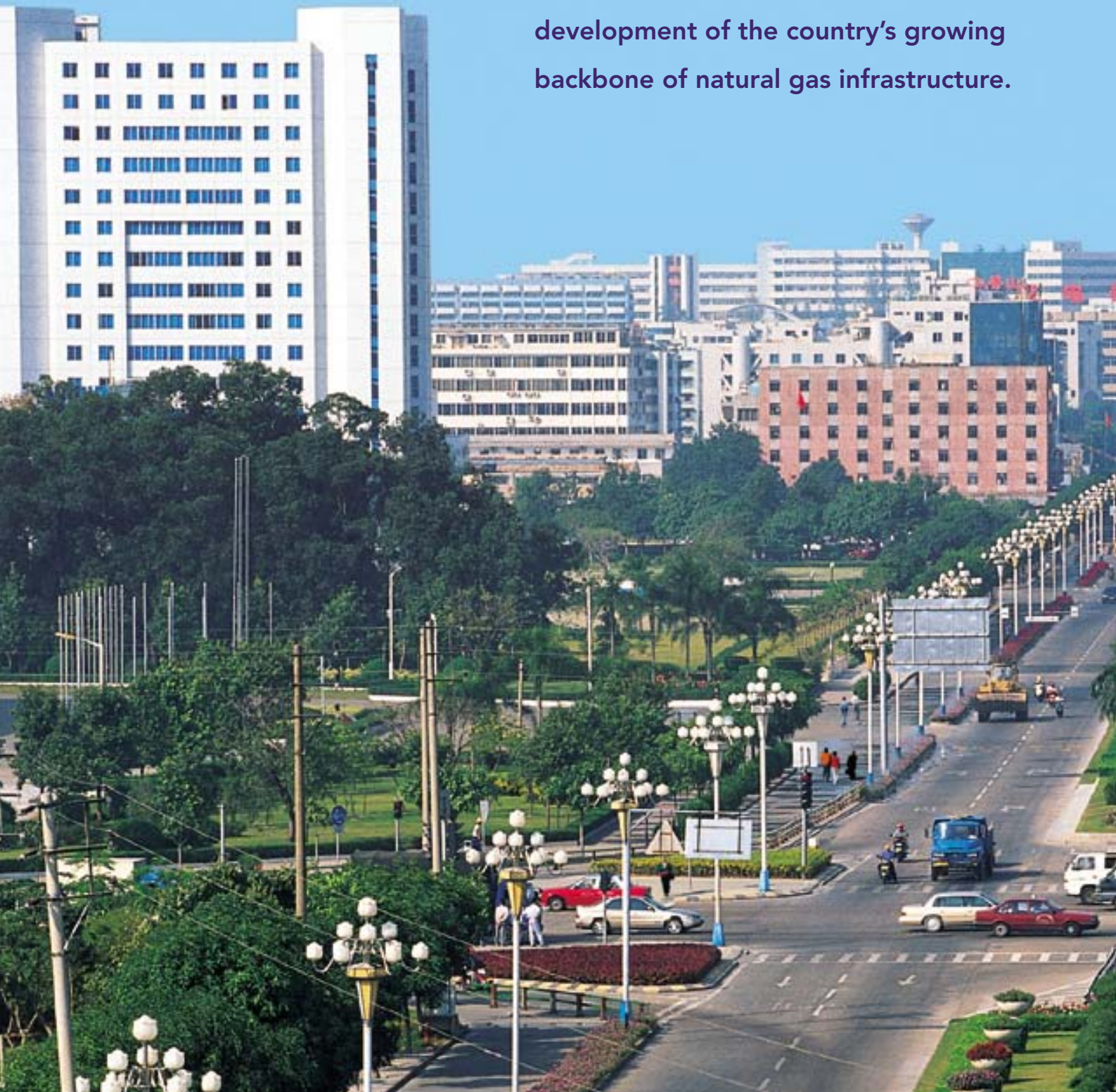


Towngas is present in China's most economically vibrant cities and regions and is an integral partner in the development of the country's growing backbone of natural gas infrastructure.



Towngas' City Piped Gas Joint Ventures in Mainland China

Guangdong Province

1. Zhuhai
2. Zhongshan
3. Panyu
4. Guangzhou (Science City)
5. Guangzhou (Dongyong)

Central China

6. Wuhan

Eastern China

7. Tongxiang
8. Suzhou Industrial Park
9. Yixing
10. Nanjing
11. Changzhou
12. Taizhou

Shandong Province

13. Laoshan
14. Jimo
15. Zibo
16. Longkou

- Established JVs
- Signed Framework Agreement
- Being established
- West-to-East Gas Transmission Pipeline
- ◆◆◆ Guangdong Liquefied Natural Gas Project





Hong Kong & China Gas Investment Limited, established in 2002, is the asset management arm of our strategic mainland joint ventures.

The Yangtze River Delta is one of China's economic powerhouses. Our goal is to create a strong city natural gas network eventually fed by offtake from the West-to-East gas pipeline. We expanded our footprint in Jiangsu Province during 2002 by adding two new JVs, located at the transportation hub of Taizhou and the industrial centre of Changzhou, to already operational JVs at Suzhou Industrial Park and Yixing. Three others are under discussion. A framework agreement signed with Nanjing, the region's foremost metropolis with projected annual gas consumption of over 800 million cubic metres, is expected to receive formal authority approval by mid 2003. We are also currently establishing a JV at Tongxiang and exploring other possibilities in Zhejiang Province, a prosperous region just south of Shanghai where high standards of expertise and technical know-how from participants in natural gas ventures is at a premium.

Shandong Province is an expanding industrial eastern seaboard area, located south of Tianjing across the Bohai Sea. In 2002, we established JVs in the ceramic and porcelain city of Zibo, in the port city of Longkou, and in the Laoshan industrial district of Qingdao (set to host the 2008 Olympic Games sailing events). Together with Jimo, these four JVs now strategically position Towngas to capitalise on the

Beijing Government's pollution reduction programme for the whole province due to start in May 2003. We also anticipate harnessing natural gas from Henan and the Ordos Basin by 2003, and the Bohai Basin by 2005.

Hubei's provincial capital, Wuhan, located in extreme weather-prone central China, has a rapidly industrialising population of over 4 million. It is estimated Wuhan's natural gas consumption will exceed 1.2 billion cubic metres within a few years, once PetroChina completes its 700 km pipeline link to Zhong Xian by 2004. Towngas' JV framework agreement signed in May, with a total projected investment of over HK\$1.1 billion, signifies our exceptionally positive outlook from this large undertaking. Formal approval from relevant authorities is expected by the second quarter of 2003.

West-to-East Gas Pipeline Progress

The construction of this mega PetroChina-led natural gas pipeline backbone for new energy services, of which Royal Dutch/Shell and Towngas jointly hold a 15 per cent equity interest, is ahead of schedule. Towngas is well placed to exploit this first supply of clean energy, especially in the Yangtze River Delta region where initial commercial availability is expected by early 2004.

Guangdong LNG Terminal

Given the long distances from other pipelines and gas reserves, the Pearl River Delta's gas network will be significantly enhanced once the Guangdong LNG Receiving Terminal is complete in three years' time. Phase One has an anticipated capacity of 3 million tonnes, sufficient to feed the whole region, including all Towngas businesses. The Company has a 3 per cent stake in the LNG Terminal and is well placed to leverage its investment in this booming economic zone once offtake begins.

Other Business Initiatives

The construction of infrastructure associated with gas pipeline expansion is giving rise to a number of opportunities that complement Towngas' natural gas market development initiatives. Since establishing GH-Fusion Limited, with Fusion Group (Holdings) plc of the UK in 2000 for example, demand for our high quality polyethylene connecting fittings for gas and water pipe systems has been extremely strong.



A shuttle kiln powered by gas supplied by our city piped gas joint venture in Yixing, Jiangsu Province.

Following this success, we are currently exploring options for forming strategic alliances to jointly capitalise on the need for high-pressure regulating stations to boost natural gas through the mainland's long distance pipelines.

Brand Awareness and Product Growth

We made a concerted effort to raise our brand image in the mainland during 2002 by upgrading the interiors of newly opened customer centres in Suzhou and Yixing. Spacious stores with customer-friendly staff showcase imaginative home layouts displaying the latest appliance ranges including cookers, water heaters, central heating units and, a novelty for China, gas fires. Our goal is to develop a unique retail environment that will drive loyalty and repeat visits.

Future Prospects

China's strong economy, expanding industrial base, rising disposable incomes especially in coastal cities, and aggressive pursuit of pollutant-free energy sources is driving an enormous potential natural gas market. Therefore we will vigorously continue our search for lucrative opportunities to build critical mass where it matters – in affluent city areas which have rapidly rising residential and industrial demand – to broaden gas utilisation and enhance profit prospects. In this respect, increasing the number of joint ventures in strategic locations and creating cluster synergies is crucial to delivering on Towngas' mainland strategy.

NEW BUSINESSES

Diversification into gas-related businesses in recent years has both added to our portfolio and contributed to earnings and cash flow. We have sought niche market opportunities that capitalise on our experience and expertise, our commitment to environmental protection and clean-energy supply, and our established name for service quality.

U-Tech

Increasingly, U-Tech Engineering Company Limited (U-Tech) seeks to benefit from strong environmental imperatives to reduce open-cut trenching and pipeline construction, complete work quickly and by-pass physical constraints with the minimum of disturbance. During 2002, U-Tech successfully

installed all underground utilities for one of the Government's major housing developments, ahead of agreed deadlines. As a result, U-Tech's growing reputation won it a HK\$22 million chlorination plant relocation contract from the Highways Department last year. U-Tech has also formed a strategic alliance to bid for the Water Supplies Department's mega



U-Tech's trenchless technology for pipe-laying greatly reduces disturbance to the public and the environment. Here, engineers use pipe ramming to lay 1,800 mm-diameter pipes in Lok Ma Chau, the largest such project in Hong Kong.

pipe replacement projects, forecast to last throughout the decade. With its exacting standards, U-Tech has now succeeded in positioning itself as a major player in trenchless engineering with strong potential leverage to capture future new business, both in Hong Kong and in the mainland.

Liquefied Petroleum Gas (LPG) Filling Stations

The Government is intent on reducing harmful vehicle emissions, not least by switching Hong Kong's 18,000-strong taxi fleet from diesel to LPG. Towngas' ECO Stations sell around 60,000 tonnes of LPG annually and have secured a third of market share in the last



With the establishment of the fifth ECO Station in Wan Chai, Towngas reinforces its commitment to incorporating environmental protection into its business development plans.

“Niche market diversification is creating long-term steady revenue”

two years. During 2002, turnover increased by 28 per cent helped by opening a fifth station in August in the key downtown location of Wanchai. We expect business in this sector to remain robust, particularly with the Government's endorsement of voluntary conversion to LPG of over 4,000 public minibuses and on-going commitment to improve the metropolis' air quality.

iCare

Since launching iCare 1608 at the end of 2001, this IDD retail service has attracted 65,000 customers and begun to generate a pleasing income stream. Buoyed by this success, iCare further added to its portfolio in 2002 by introducing iCare Broadband - offering several family Internet log-on accounts and generous e-mail storage facilities, a Do-It-Yourself Domain - allowing customers to host their own websites in order to communicate more efficiently with social and business associates, and a cost-effective Fax-to-Email service - eliminating the need for a fax machine. All these new activities have seen good initial response rates and bode well for future return on investment.