

## HONG KONG MARKET PERFORMANCE

The Hong Kong economy was severely challenged for much of 2003. Rising unemployment, Severe Acute Respiratory Syndrome (SARS) and a downturn in tourism all dampened public spending. Combined with a sluggish property market and the Government's continuing 2002 "no-sell" policy for Home Ownership apartments, total gas sales only managed a modest 1.4 per cent rise year-on-year.

### Residential Market

Product innovation plays a large part in creating market momentum. We therefore constantly seek to capitalise on our extensive R&D experience and encourage imaginative solutions in order to pre-empt consumer needs and encourage purchases. Perfect examples of this in 2003 were the addition of temperature-modulated, super-slim and under counter-top water heaters and a state-of-the-art, ceramic glass, inner-flame hob to our top of the range TGC brand. All have had an enthusiastic reception from discerning customers who value their combination of stylish looks and high-tech capabilities, a trend driven by the increasing pursuit of a modern home lifestyle.

We also notched up another first for the Company during the year when we unveiled our very own Hong Kong-created SIMPA series of appliances. SIMPA's "simple" and "practical" brand positioning is targeted specifically at the mass market in price, design and originality. At the same time, our



*Hong Kong's latest icon and tallest building, Two IFC, symbolises the vibrancy of the city, an economy on the rebound and the importance of the territory as a financial and business hub.*

TGC 2-in-1 washer/gas dryer continued to be extremely popular due to its convenience and suitability for compact Hong Kong kitchens. The positive reaction to these differing product ranges suggests that our strategy of reaching out to a broad span of society is both prudent for Hong Kong and a benchmark for future growth.

Residential customers passed the 1.5 million mark by the end of 2003, up 3.4 per cent on the previous year. This, and the fact that families stayed at home during the SARS crisis thereby using more hot

**“Reaching out to consumers positively impacts perception and preference.”**

water, partially compensated for the consumption decline in commercial markets. Nevertheless, consumer sentiment remained poor throughout the year and, coupled with a rather depressed property market, caused overall unit sales of gas appliances to drop by one fifth.

Towngas Avenue however, continued to be a beacon of light throughout the whole of 2003, building on its celebrated lifestyle theme by promoting gourmet cooking workshops, celebrity chef demonstrations and a number of fine-dining events, all of which attracted substantial media publicity and critical acclaim. During the coming year, we shall seek to further develop both this strong brand



*SIMPA, Towngas' latest appliance brand, has been designed specifically with Hong Kong's mass market in mind.*

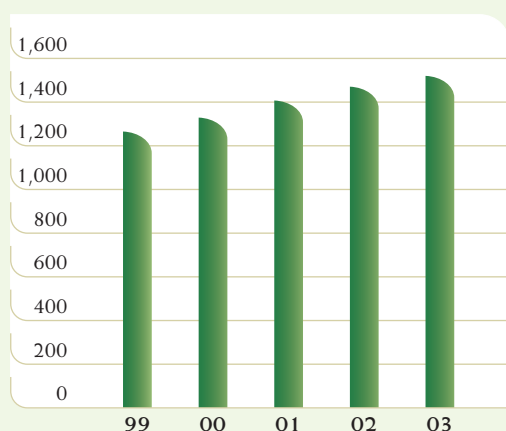
image and the concept of flame cooking with quality living.

### Commercial and Industrial Market

The commercial and industrial sectors were hardest hit by the impact of SARS. Hotels and restaurants suffered due to a fall in tourist numbers and people no longer dining out. Towngas quickly responded to these circumstances by extending the credit payment period for these establishments to assist them through this difficult time and lessen pressure on their cash-flow situation. We also provided the Hong Kong Catering Industry Association with a sponsorship of HK\$2 million toward the "Our Ten Commitments" campaign held from May to August, to help restaurants promote a clean and hygienic environment in order to win back customers.

## Number of Customers

Company (Thousand)

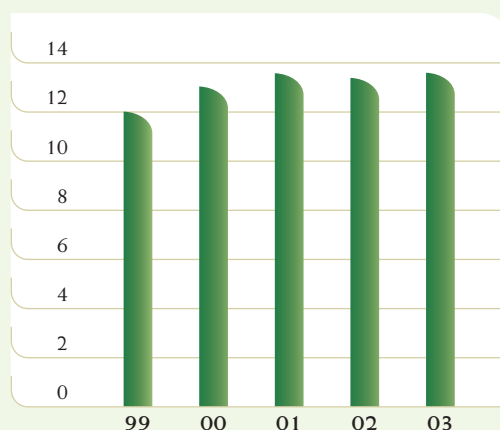


By the third quarter of 2003, the economy showed signs of recovery, and hotel occupancy rates began to pick up underpinned by strengthening inbound tourism. This was rapidly followed by a marked improvement in the restaurant trade. In the wake of this welcome news, the Hong Kong food scene got an additional lift from the third Best of the Best Culinary Awards, held in November. This popular event, co-organised by Towngas and the Hong Kong Tourism Board, showcases the culinary skills of the city's top chefs using flame cooking to produce classic Chinese delicacies. To further encourage the emerging feel-good factor, Towngas Cooking Centre promoted the award champions by hosting demonstration sessions of the winning dishes in December.

The restaurant sector generally is a discerning market, always in search of enhanced cost efficiencies and operational convenience. Mindful of these needs and the fact that Hong Kong eateries use a huge amount of boiling water for Chinese tea and hot water for washing dishes, Towngas introduced two new temperature-modulated water heaters to its Blueflame commercial range in 2003. Given the slight increase in commercial and industrial customer numbers during the year and the commensurate boost in consumption, we believe the signs are good for a more prosperous 2004.

## Town Gas Sales per Employee

Company (million MJ)



## NEW BUSINESSES

Niche diversification enables us to build scale in areas that complement, drive and give added-value to our core interests. We look to start up new businesses that will offer competitive advantages and leverage the talent, skills, efficiency and best practices inherent in a company with a well-established track record for service, safety, innovation and environmental sustainability.

### U-Tech

During 2003 U-Tech continued to further its reputation for using trenchless technology and for quality water pipe construction by successfully relocating a water chlorination plant and winning projects to replace water mains in the New Territories, and reprovisioning a salt water service reservoir on Hong Kong Island. It is also working on underground infrastructure projects at Hong Kong's international theme park on Lantau Island, and building the services for property development projects. The subsidiary passed a major milestone towards the end of the year when, in a joint venture with a highly regarded local construction and engineering company, it was awarded a Government contract worth HK\$255 million to undertake 51 km of water pipe rehabilitation in the New Territories. U-Tech's growing experience through partnering on large-scale projects of this kind will qualify it to take on engineering work of a similar nature in future.

### iCare

iCare is now successfully positioned within the Towngas family as a reputable e-commerce, IDD and ISP service provider. With more than 360,000 users and an annual revenue in excess of HK\$80 million, iCare capitalised on its growing brand awareness throughout 2003 in a number of key areas. iCare1608 IDD continued to attract customers by a sustained campaign of tariff promotions, including those targeting callers to mainland China. iCare's ISP service increased subscriptions with the addition of two new value-added functions – Fax@ease (faxing through email technology) and "I'm InTouch" (accessing home or office PCs from anywhere in the world through remote PCs, mobile phones and PDAs). Four new iCare Hotspots, complementing the iCare website, were also opened during 2003, bringing the total to eight throughout the territory. It is anticipated that iCare's business will further prosper in the coming year given the emergence of more positive consumer sentiment as Hong Kong's economy improves.

## Towngas Telecom

For the last few years, Towngas has been leveraging its gas pipeline system to install fibre optic cables using glass-in-gas technology, creating a cutting-edge telecom infrastructure which has been successfully employed for the Company's own internal telemetry needs. During 2003, Towngas Telecommunications Company Limited (Towngas Telecom), a wholly owned subsidiary of Towngas, began investigating opportunities to provide similar state-of-the-art services to telecom carriers and large corporations. Backed by Towngas' financial

**“Strategic diversification leverages core competencies and emerging technologies.”**

strength, engineering expertise and renowned customer service experience, Towngas Telecom is now set to offer high quality, cost effective, customised solutions that are capable of meeting the increasingly demanding telecom requirements and rollout schedules of dynamic Hong Kong businesses.

## ECO Energy

Liquefied Petroleum Gas (LPG) is now powering over 90 per cent of Hong Kong taxi cabs and is increasingly the fuel of choice for the territory's fleet of public mini-buses. The Government's incentive schemes to encourage replacement of diesel with LPG for public modes of transport underpin Towngas' development of its ECO Stations which

generated steady income for the Group in the past two years. In 2003, ECO's revenue was in excess of HK\$200 million.

Following the success of its LPG business, ECO Energy also began to actively seek opportunities in other environmentally friendly projects during the year. Its first plan in this direction was to enter into an agreement with the operator of the North East New Territories (NENT) landfill to utilise the methane recovered from the landfill gas as an energy source for town gas production. ECO will oversee installation of a landfill gas treatment facility at the Ta Kwu Ling site and connection of a 19 km pipeline to Towngas' Tai Po gas production plant. Once the project is up and running, it will help to both mitigate global warming through reducing emissions on site at NENT and conserve natural resources as Towngas harnesses the treated landfill gas as a fuel to partially replace naphtha.



*The North East New Territories (NENT) landfill is one of the deepest in the world and subject to stringent environmental monitoring.*



Our innovative inner-flame hob epitomises Towngas' care and attention to detail with its safe heat-resistant surface and concentrated heat – ideal for Chinese dishes – allowing everyone to enjoy cooking at the flick of a switch!



