

chairman's statement



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The Year's Results

The Group's business continued to develop steadily in 2004. Profit attributable to shareholders for the year was HK\$3,052 million, an increase of HK\$0.8 million over 2003. Profit attributable to shareholders of the Group for 2003 included a sum of over HK\$200 million which represented the Group's share of profits arising from the sale of 14 floors of Two International Finance Centre to the Hong Kong Monetary Authority. After including profits from property investments made by associated companies and adjusting for number of shares repurchased, earnings per share for 2003 amounted to HK 53.9 cents. Earnings per share for 2004 amounted to HK 54.2 cents, an increase of 0.6 per cent over 2003.

During the year under review, the Group invested HK\$1,007 million in pipelines and facilities, including those relating to the introduction of natural gas.

Gas Business in Hong Kong

Total gas sales volume in Hong Kong for the year rose by 0.5 per cent over 2003. In 2003, commercial and industrial gas sales volume decreased as a result of the adverse impact of the SARS outbreak on hotel and restaurant businesses. Compared with 2003, commercial and industrial gas sales volume for 2004 increased by 3.0 per cent whereas residential gas sales volume decreased by 1.4 per cent. As at the end of 2004, the number of customers was 1,562,278, an increase of 42,112 over 2003.

Business Development in China

The Group continues to expand its foothold on the mainland by developing natural gas and energy-related businesses as a long-term strategic priority.

The demand for energy consumption is substantial on the mainland due to its strong economic growth. The energy development trend on the mainland has been to focus on increasing the proportion of clean fuel within the energy consumption mix, as a result of which natural gas has developed into a premier choice of energy. In the last few years, the mainland has massively developed natural gas fields and laid gas pipelines. Since the fourth quarter of 2003, the West-to-East gas pipeline project has been supplying natural gas to eastern China. In late 2004, the Sichuan-to-Wuhan gas pipeline project was completed. This has resulted in an ample supply of natural gas to surrounding areas and has facilitated the rapid growth of gas consumption markets, which is beneficial to the Group's development of gas projects on the mainland.

The Group's development of city piped gas business on the mainland has been making good progress since 2004 with new projects successfully concluded in the Shunde District of Foshan in Guangdong Province, Danyang in Jiangsu Province, the Beijing Economic-Technological Development Area, Anqing in Anhui Province, Huzhou in Zhejiang Province and Jilin City in Jilin Province. The project in Jilin City is strategically important as it serves as a kick-start for the Group's business development in northeastern China and is instrumental in promoting our business prospects in the three provinces of Jilin, Heilongjiang and Liaoning. Overall, the Group now has joint ventures in 30 mainland cities across Guangdong, eastern China, Shandong, central China, northern China and northeastern China.

Besides city piped gas business, the Group is also exploring opportunities regarding other energy-related businesses such as investing in the construction and operation of natural gas distribution networks between cities within provincial areas; one midstream natural gas project in Anhui Province has already been concluded in this respect. Both midstream and downstream gas projects will help to strategically consolidate the Group's business in the clean fuel market. The Group is also exploring other business opportunities including development of natural gas filling stations for automobiles and regional natural gas air-conditioning systems.

The Group's joint ventures are operating smoothly and earning praise from local governments, citizens and the media for their operational safety and quality services. Natural gas conversion by the Group's joint ventures is either well under way or completed in many cities along the West-to-East gas pipeline like Nanjing, Changzhou, Suzhou Industrial Park, Yixing and Maanshan, etc., and in Wuhan which offtakes gas from the Sichuan-to-Wuhan gas pipeline project.

The Group's business developments on the mainland are progressing in a proper sequence and at an appropriate pace. The Group is gradually transforming from being a local Hong Kong company to a sizeable, nation-wide corporation.

Environmentally-friendly Energy Businesses

The Group's liquefied petroleum gas (LPG) filling station business is run by a wholly-owned subsidiary company, ECO Energy Company Limited (ECO). As at the end of 2004, there were 12 dedicated LPG filling stations in Hong Kong, of which five were ECO stations; and 38 petrol filling stations retrofitted with LPG filling facilities to meet the demand for LPG from the territory's

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approximately 18,000 taxis and 1,000 light buses. ECO stations have approximately 33 per cent of this market share and generate steady revenue for the Group.

ECO also entered into an agreement with the operator of the North East New Territories (NENT) landfill in 2003 to install a landfill gas treatment facility at the Ta Kwu Ling site and to connect a 19 km pipeline to the Tai Po gas production plant so as to utilise methane recovered from the landfill gas as an energy source for town gas production. Completion of this project will help both mitigate global warming through reducing emissions from burning methane at the NENT site and conserve natural resources by using treated landfill gas as a fuel to partially replace naphtha.

Pipelaying Projects

Paralleling Hong Kong's development, several substantial pipelaying projects are at the planning stage or currently under way.

Construction of a 3,500 kPa 750 mm-diameter transmission pipeline in the eastern New Territories, to augment the capability and reliability of gas supply, is progressing smoothly. The trunk main which will supply gas to the international theme park at Penny's Bay on Lantau Island was completed in April 2004. Gas sales in Hong Kong are expected to increase once this theme park opens in September 2005.

In order to receive natural gas from the Guangdong Liquefied Natural Gas Receiving Terminal as feedstock for town gas production, the Group has commenced a project to lay a twin 34 km, 450 mm-diameter submarine pipeline from Chengtougiao in Shenzhen to the Tai Po gas production plant in Hong Kong. The project is due for completion in mid-2006.

Company Awards

The Group gives high priority to quality management, customer services and enhancement of shareholder value, all of which have consistently won us public recognition, both locally and abroad. The Group was rated as one of the top ten companies in Yazhou Zhoukan's 2004 Chinese Business 500 listing and was ranked fourth for Hong Kong.

Over the years, the Group has committed to environmental protection. The Group was awarded the 2004 Hong Kong Awards for Industry: Environmental Performance Grand Award in recognition of our outstanding performance in preserving the environment through the implementation of a proactive and effective environmental management system.

Property Developments

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station property development project. The shopping mall and office tower of Two International Finance Centre are almost fully let. The project's six-star hotel tower and service apartment tower, both to be managed by Four Seasons Hotels and Resorts, are expected to commence operations in September 2005.

The Group has a 50 per cent interest in the Grand Promenade, Sai Wan Ho property development project. Pre-sale, which commenced in early August 2004, is progressing well and has received a good response. On completion in 2005, this project will provide 2,020 units, with a total floor area of approximately 1.7 million square feet. The project is expected to yield substantial returns.

The Ma Tau Kok south plant site is being developed into five residential apartment buildings, providing approximately 1,800 units, with a residential floor area of about 980,000 square feet. Including the commercial

area, total floor area will exceed 1.1 million square feet. Foundation work has already been completed; construction of the superstructure is now in progress. The project is due for completion in 2006.

Employees and Productivity

The number of employees engaged in the town gas business was 1,954 as at the end of 2004; the number of customers increased by approximately 42,000 in 2004 compared with 2003. Overall productivity rose by 4.6 per cent during the year under review. Total remuneration for employees involved directly in the town gas business amounted to HK\$636 million for 2004 compared to HK\$654 million for 2003. The Group offers our employees rewarding careers based on their capabilities and performance and arranges a variety of training programmes in order to constantly enhance the quality of customer 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.

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 at 22nd April 2005. Including the interim dividend of HK 12 cents per share paid on 25th October 2004, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2005 shall not be less than that for 2004.

Board of Directors

Dr. Lee Hon Chiu retired as Director with effect from 1st January 2005. Dr. Lee joined the Board of Directors in

July 1983. On behalf of the Board of Directors, I would like to thank him for his valuable contribution over the years and wish him a happy retirement.

Business Outlook for 2005

As Hong Kong's economy has been relatively sluggish during the last few years, the Group has kept its gas tariff and monthly maintenance charge at 1998 levels to help ease any potential financial burden of our customers. However, the Group's success in cost control and productivity enhancement has helped alleviate the impact of this price freeze on business results. The Group continues to expand and diversify into new markets to secure future business growth. The gradual recovery of the local economy and the revival of local consumer sentiment are expected to benefit the Group's business development.

The Company expects an increase of about 2 per cent in gas sales volume and an addition of about 43,000 new customers in 2005. The Group's joint venture business on the mainland will continue to develop rapidly. The Board of Directors expects the Grand Promenade property development project to make a satisfactory contribution to the Group's overall business results once the project is completed in 2005.

Lee Shau Kee

Chairman

Hong Kong, 11th March 2005