

In 2005, the Company moved to harness synergies of location, management and technical skills between our expanding mainland China city-gas ventures and the immense untapped potential of the country's water utility sector, thus adding a new and exciting diversified business to our portfolio.





Towngas establishes diversified businesses only if they are complementary to our core capabilities and we can see competitive advantages within the marketplace. A long-term objective is to substantially increase the value and potential of the Group's diversified operations through symbiotic cross-border knowledge transfer. This demands a willingness to step out of our comfort zone and take on new challenges coupled with an ability to detect and adapt to changes in business environments.

ECO Energy

Turnover at ECO Energy's five dedicated Liquefied Petroleum Gas (LPG) filling stations in Hong Kong continued to increase in 2005. Market share remained constant at about one third of total sales. Although revenue rose by 26 per cent over the year, profitability was somewhat eroded by surging oil prices in this period. This situation is slated to improve in early 2006 when a new pricing mechanism should better reflect fluctuating LPG costs in a more timely manner. We

are also hopeful that the HKSAR government's reiterated resolve to reduce vehicle emissions will improve growth, especially if more public light buses switch from diesel to LPG in due course.

ECO's landfill gas utilisation project at the huge North East New Territories (NENT) landfill site reached its peak of engineering work in 2005. A treatment facility and a 19 km, 400 mm-diameter pipeline link to the Company's main Tai Po gas production plant are due for completion by 2006. The environmentally-friendly scheme is projected to deliver treated landfill

Cutting-edge water pipe installation is positioning U-Tech as a foremost specialist trenchless utility contractor.



gas for over 25 years and will substantially reduce both flaring of landfill gas at NENT and consumption of naphtha as fuel. The commissioning of this project will mark Towngas, through ECO, as one of the leading green energy users and providers within Hong Kong.

ECO Energy is also considering business opportunities in the mainland where the central government's desire to boost energy efficiency and environmental protection bodes well for ECO's CNG filling station business and its tri-gen initiative which combines supply of power, heat and air conditioning into one distribution system.

U-Tech

U-Tech, our gas and water pipe-laying and rehabilitation specialist subsidiary, achieved a technological breakthrough in 2005 with the installation of a massive 757 mm-diameter, 43 mm-thick swagelining system through an ageing seawater pipe. This feat substantially minimised traffic disruption and the need for costly open-trench replacement. The success of the undertaking puts U-Tech in an excellent position to win further water infrastructure work and underpins its reputation for adopting innovative solutions. U-Tech is also pioneering cure-in-place technology on government water supply and underground railway contracts to

reline and refurbish existing pipes so as to provide many additional years of service. On-going building services projects for property developments, construction of the NENT pipeline and re-construction of a water service reservoir on Hong Kong Island continued to make good progress in 2005. U-Tech's overall revenue went up 70 per cent year-on-year.

iCare

The privatisation of Henderson Cyber in December 2005 gives the Group more flexibility for re-orientating iCare's development strategy. The main focus during 2005 was on developing iCare's retail, e-commerce, IDD and internet businesses. However, with strong market competition in all these areas, the Company recognises the need to take a prudent view of long-term investment activities and will monitor business conditions carefully in the coming months.

Towngas Telecom

Business is showing great promise as the Towngas Telecom (TGT) brand becomes more well-known within the industry with the rapid expansion of its fibre optic reach. By leveraging the existing Towngas pipeline system, TGT's fibre network now extends to 19 major districts in Hong Kong.



Towngas Telecom's fibre optic network utilises Towngas' pipelines to provide "build-to-order" infrastructure and high bandwidth services.

Following on from a survey indicating customers were very satisfied with Towngas Telecom services, TGT was encouraged to intensify development of its wholesale business during 2005 by increasing its “build-to-order” infrastructure and high bandwidth network links to local fixed carriers, global carriers, mobile phone operators and internet service providers. TGT also continued its block-wiring rollout to residential properties throughout the year and launched intelligent home network connections at several real estate developments. In addition, exploration of telecommunication opportunities in the mainland was accelerated in co-operation with Towngas JVs.

Hua Yan Water Supply and Wastewater Treatment

Increasing liberalisation of the water sector on the mainland is set to provide a new growth avenue for the Group as municipal localities look to overturn years of under investment and severe water shortages. The central government has stepped up national inducements to lure foreign investment, including potential deregulation of water prices, preferential tax plans and more transparent regulatory policies.

Towngas’ city-gas investments are providing significant competitive advantages for entry into the water supply sector. Our good local government connections, reputable brand name and strong balance sheet place us in an excellent position to astutely ride the restructuring of state-owned enterprises and China’s push for more reliable clean water to meet rapid population expansion in major cities.

Towngas’ new water supply and distribution and wastewater treatment business will help raise water standards in mainland China



With our high-calibre management, engineering expertise and solid natural gas presence in key regions of the mainland, Towngas is well-positioned to set up complementary tap water supply and distribution and wastewater treatment ventures. These are stable cash-flow businesses with considerable room for growth, especially now privatisation and more liberal pricing policies are gaining ground amongst municipalities anxious to stop wastage and pollution of water resources. Competition is not well developed and prospects for boosting market penetration are good.

In June 2005, we signed our first water supply joint venture agreement with Wujiang, Jiangsu province, an industrial and manufacturing region close to Shanghai, followed by a second agreement with Wuhu city government in Anhui province in August. We have since concluded a third project with Suzhou Industrial Park (SIP) to manage their end-to-end water business, including sewage treatment as well as water supply. SIP, home to a large number of Fortune 500 companies attracted by positive inward investment policies and close proximity to Shanghai, is experiencing an escalating demand for utility services generally.

With three water projects now in hand, we intend to seek additional opportunities for medium- to large-size water businesses in the years to come. Our focus will be on the economic powerhouses of the Pearl River and Yangtze River delta areas as well as provincial cities and municipalities where we already have established city piped gas JVs, such as in Wujiang and SIP. Our strategy embraces innovative and appropriate forms of cooperation and investment, long-term partnership agreements, and guaranteed best international practice and quality assurance from hiring veteran project managers and engineering consultants. In return, we gain the trust of government officials and local technical authorities, reassured we have the capability and expertise to deliver profitable projects to meet the mainland's emerging water needs.

After the city-gas sector, the water business on the mainland has immense public utility investment potential as privatisation only started a few years ago. The government has targeted more than 100 cities of significant size for possible future private sector participation. Bringing water standards up to international levels requires modern infrastructure facilities, enlightened management techniques, state-of-the-art

technology, sustainable development policies and quality customer services. Towngas' piped gas experience gives us the momentum to diversify confidently into the mainland's water business as both kinds of utilities have a lot of synergy, requiring similar engineering, operational and management skills.