



“The Group’s business continued to develop steadily in 2005... The Board of Directors expects a satisfactory development for the Group’s overall businesses in the year 2006.”

The Year’s Results

The Group’s business continued to develop steadily in 2005. Profit after taxation attributable to shareholders of the Group for the year was HK\$5,281.4 million including profit after taxation arising from the gas business of HK\$3,061.8 million, an increase of HK\$19.7 million over 2004. Profits from the sale of properties and a revaluation surplus from an investment property amounted to HK\$2,219.6 million.

Profit after taxation attributable to shareholders of the Group for the year included approximately HK\$1,621.5 million which represented the Group’s share of profits arising from the sale of units at Grand Promenade and King’s Park Hill property development projects;

and HK\$598.1 million which represented the Group’s share from a revaluation surplus of an investment property, the International Finance Centre complex, as compared to a revaluation surplus of HK\$204.6 million for 2004. After adjusting for the number of shares repurchased and excluding profits from the sale of properties and revaluation surplus of the investment property, earnings per share for the year amounted to HK 55 cents compared to HK 54 cents for 2004.

During the year under review, the Group invested HK\$2,395 million in pipelines and facilities in Hong Kong and the mainland, including those relating to the introduction of natural gas to Hong Kong.

Gas Business in Hong Kong

Compared with 2004, total gas sales volume in Hong Kong for the year rose by 0.5 per cent; residential gas sales volume increased by 1.4 per cent whereas commercial and industrial gas sales volume decreased by 0.7 per cent. As at the end of 2005, the number of customers was 1,597,273, an increase of 34,995 over 2004.

Business Development in Mainland China

The Group's business on the mainland is now entering a new stage of diversification. The Group continues to focus on natural gas and expand its city piped gas and other energy-related businesses. After years of expansion and operation, the Group's gas business is now well-established. Using this as a role model, the Group successfully entered the mainland's water supply and wastewater business in 2005. Involvement in yet another utility sector has further extended the scope of the Group's investments on the mainland.

In early 2006, the Group signed an agreement for establishing a joint venture piped gas project in Xian, Shaanxi province. This will be the Group's largest gas investment project on the mainland to date and lays a foundation for the Group's future move into northwestern China, a huge market noted for its rapid economic growth. The Group now has city piped gas joint venture projects in 31

mainland cities across Guangdong, eastern China, Shandong, central China, northern China, northeastern China and western China. To tie in with the arrival of natural gas, the Group's various joint venture projects in Shandong, eastern China and central China including Weihai, Changzhou, Yixing, Wujiang, Maanshan, Huzhou and Wuhan have now fully converted to natural gas. To be in line with the arrival of natural gas in the near future, several joint venture projects in Guangdong province will commence conversion work in the second half of this year. As the availability of natural gas will greatly boost gas consumption, these joint ventures are poised to enter a thriving period for their business development.

Besides city piped gas projects, the Group continues to develop other energy-related businesses. It is participating in the investment and operation of high-pressure natural gas pipeline joint venture projects in Anhui and Hebei provinces. It has also joined hands with Shell Group to invest and operate a high-pressure natural gas pipeline system in Hangzhou, Zhejiang province. Investing in these projects will enable the Group to open up other downstream joint venture projects and thus further strengthen the Group's development in the city-gas market. In addition, the Group has been proactive in developing other natural gas-related businesses including natural gas filling stations for automobiles and district gas air-conditioning systems.

Given the mainland's robust economic development, the demand for energy will continue to increase rapidly. As a result of a temporary shortage of coal, oil and electricity, energy prices remain at a high level. In comparison, natural gas excels both in terms of price level and environmental benefits, and hence its market potential is huge. The Group's mainland city-gas joint ventures are highly praised for their safety, modern management and quality service provision and they have built up an excellent brand reputation across all cities where they are located. Therefore, the Group forecasts a very promising future for its gas business, with a primary focus on natural gas.

Leveraging its rich experience in the city piped gas utility business and its professional expertise in the construction, management and operation of pipelines, the Group has diversified its business portfolio to include the water supply and wastewater business. Synergies between city piped gas and water businesses could certainly increase the cost-effectiveness of both operations. The Chinese government is currently taking a proactive approach to reforming the water sector in order to cope with the increasing demand for clean water and this is providing excellent opportunities for the Group to diversify into the water sector.

In 2005, the Group successfully entered the mainland's water sector. Following the successful establishment of water supply joint ventures in Wujiang, Jiangsu province and Wuhu, Anhui province, in the second half of 2005, the Group established an integrated water supply and wastewater joint venture project with Suzhou Industrial Park in Suzhou, Jiangsu province. Suzhou Industrial Park is geographically well-located given its proximity to Shanghai, Hangzhou and Nanjing, and enjoys robust economic development. With a 50 per cent interest in this project, the Group has further consolidated its investment in the water sector on the mainland. The Group's investment in these three water projects amounts to approximately RMB2 billion in total.

With increasing urbanisation on the mainland and growth in the size of cities, the consumption of water will continue to increase steadily. The Group will seek to capture opportunities resulting from the further opening up of this utility market and continue to develop other city-water projects with a view to further expanding its scope of investments.

The Group's business development on the mainland is progressing well and its businesses are now spread across 33 cities in nine provinces and an area of Beijing. From a local company focusing on a single business, the Group is gradually transforming into a sizable, nation-wide, multi-business 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). ECO's turnover continued to grow despite rising LPG costs in 2005. One of the major reasons for growth last year was expansion in the number of public light buses using LPG.

ECO's landfill gas project at the North East New Territories (NENT) landfill site is progressing well. Design of a landfill gas treatment facility has already been completed and installation work commenced at the end of 2005. A 19 km pipeline to Tai Po gas production plant, now under construction, is due for completion by April 2006. The plant will use substitute natural gas produced from treated landfill gas to partially replace naphtha as fuel for town gas production starting from the second quarter of 2006, thereby contributing to the Group's commitment to protect the environment.

Pipelaying Projects

Paralleling Hong Kong's development, several substantial pipelaying projects are currently under way.

Construction of a 24 km transmission pipeline in the eastern New Territories to augment the capability and reliability of gas supply is progressing smoothly. Town gas

supply has been extended to the international theme park at Penny's Bay on Lantau Island which was opened in September 2005.

In order to receive natural gas from the Guangdong Liquefied Natural Gas Terminal, the Group is laying a twin 34 km, 450 mm-diameter submarine pipeline from Chengtoujiao in Shenzhen to Tai Po gas production plant in Hong Kong. The project is progressing smoothly. By the fourth quarter of 2006, the Guangdong LNG Terminal should be supplying natural gas to Hong Kong which will then be used to partially replace naphtha as feedstock for the production of town gas.

Company Award

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 2005 Chinese Business 500 listing and was ranked fourth in Hong Kong.

Property Developments

The Group has approximately a 15.8 per cent interest (15 per cent interest at the end of 2005) in the International Finance Centre (IFC). The shopping mall and office towers of IFC are fully let. The project's hotel complex, comprising Four Seasons

Hotel and Four Seasons Place which provide approximately 400 six-star hotel guestrooms and 520 hotel suites respectively, commenced operation in September 2005; business is progressing well.

The Group also has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. This project provides 2,020 units, with a total floor area of approximately 1.7 million square feet. Pre-sale, which commenced in early August 2004, has received a good response. As at the end of 2005, the floor area that had been sold was approximately 1.16 million square feet. Now completed, the whole project is yielding substantial returns to the Group.

The Ma Tau Kok south plant site is being developed into five residential apartment buildings. This project, which has been named the Grand Waterfront, will provide approximately 1,800 units, with a residential floor area of approximately 1.2 million square feet. Total floor area, including the commercial area, will exceed 1.35 million square feet. Construction of the superstructure and fitting out of the interior are now in progress. The project is due for completion by the end of 2006.

Employees and Productivity

The number of employees engaged in the town gas business was 1,901 at the end of 2005. Compared with 2004, the number of customers for the year increased by approximately 35,000 and overall productivity rose by 5.0 per cent. Total remuneration for employees involved directly in the town gas business amounted to HK\$615 million for 2005 compared to HK\$636 million for 2004. 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 12th May 2006. Including the interim dividend of HK 12 cents per share paid on 24th October 2005, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2006 shall not be less than that for 2005.

Business Outlook for 2006

As Hong Kong's economy was relatively sluggish in the past, the Group froze its gas tariff and monthly maintenance charge at 1998 levels to help ease any potential financial burden of our customers. As a result, the town gas business in Hong Kong remains stagnant. The Group has endeavoured to control costs and enhance productivity and continued to expand and diversify into new markets. 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 32,000 new customers in 2006 and a slight increase in gas sales volume. The Group's joint venture businesses on the mainland will continue to develop rapidly. As the Grand Promenade property development project is now complete and the Grand Waterfront property development project will be completed by the end of 2006, the Board of Directors expects a satisfactory development for the Group's overall businesses in the year 2006.

Lee Shau Kee
Chairman

Hong Kong, 20th March 2006