

Chairman's Statement



Chan Wing Kin, Alfred
Chairman

Business Performance in 2011

In 2011, China managed to record an increase of 9.2% in Gross Domestic Product over the previous year despite the debt crisis in the West led to greater instability in global economy and affected the pace of the global economic recovery. The continuous growth of the economies and attention to the environmental protection made the demand for clean energy in China remain strong, contributing to the rapid growth in the city gas industry. Together with the endeavours of staff within the Group, we achieved favourable results in 2011. Turnover of the Group increased by 44.9% to HK\$4,321 million during the year as compared to 2010, while profit after taxation attributable to shareholders of the Company amounted to HK\$709 million, representing a 62.6% growth over 2010.

Development of the Gas Industry

According to the forecast of the National Energy Bureau, the total consumption of natural gas in China will amount to 260 billion cubic metres by 2015, accounting for 8.3% of the primary energy consumption. During the "12th Five-Year Plan" period, China will be committed to the development of natural gas. A number of long distance natural gas pipelines will start operation during the period, ranging from phase two and three of the West-to-East gas pipeline; Sichuan-to-East gas pipeline; phase three of the Shaanxi-to-Beijing pipeline and the China-Myanmar pipeline, to a number of large liquefied natural gas receiving terminals which will be built sequentially along the coastal regions.

In 2011, major developments included the official launch of phase two of the West-to-East gas pipeline connecting Shenzhen in November, and China's fourth and fifth liquefied natural gas receiving terminals, namely Rudong Receiving Terminal in Jiangsu and Dalian Receiving Terminal, which commenced operation in November and December respectively.



Business Development Strategy

Under the “12th Five-Year Plan”, China is committed to developing the use of natural gas. In addition to entering a large number of natural gas import agreements with international suppliers, it has also made substantial investments in long distance pipeline projects and liquefied natural gas receiving terminals. The central and local governments will further pay close attention to the downstream natural gas markets to improve the business environment and encourage city gas enterprises in the gas distribution market to speed up investment, enabling the country to attain its goal to double the natural gas consumption during the “12th Five-Year Plan” period. The Group is therefore supporting the Group companies, investments for market development and accelerating our development of new projects mainly located in industrial park areas along phase one, two and three of the West-to-East gas pipeline, as well as industrial base in the Pearl River Delta, the Yangtze River Delta and the Bohai-rim region. The Group is also investing in city gas projects located in “demonstration areas of the central and western industries relocation” that support the relocation of industries from the developed coastal areas to the developing regions, in response to the country’s economic development trend. 2011 was the first year of the “12th Five-Year Plan”. Under the above development strategy, the Group successfully established five new projects in 2011, recording encouraging results.

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Awards

The European debt crisis, which has troubled the Western economies since 2011, has continuously affected exports and industrial output in China. Nevertheless, China remains one of the most promising countries to invest in worldwide and the city gas industry represents one of the most valuable industries for investment in China. As a recognition to the Group, the award of "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" under the Golden Bauhinia Awards of China Securities presented jointly by "Takungpao", The Hong Kong Chinese Enterprises Association, Hong Kong Securities Association, Securities Association of China and China Enterprise Confederation was honoured to the Group in 2011. During the year, the Group was also honoured with the "Hong Kong Outstanding Enterprises Award 2011" presented by the Economics Digest. The Group will continue to strengthen its investment in China's city gas industry.

Corporate Social Responsibility

The Group has been participating actively in community welfare activities in the mainland. A number of community activities are organized each year to encourage our employees to promote community welfare together with people from all walks of life, contributing to the sustainable development of the domestic community welfare.

In 2011, through organising various study aids and fund raising projects, the Group demonstrated its care about the education assistance and the physical and mental development of children living in poverty. Also, the Group placed special focus on environmental protection and launched the "Month of Tree Plantation and Carbon Reduction" programme aiming to actively promote and realise the concept of energy conservation and a reduction of carbon emissions.

In recognition of the Group's activities and achievements in terms of corporate social responsibility over the years, the Group was awarded the honor of the "China's Outstanding Corporate Citizenship", "The Best Model Brand of Public Service to Users' Satisfaction among Public Utilities in China" and "The Enterprise with Outstanding Community Service in China" during the year.

2012 Outlook

China's commitment to promote the extensive use of natural gas during the "12th Five-Year Plan" period is highly favourable to the development of the city gas industry. The Group will not only strengthen its investment to match the development of China's natural gas market, it will also be focusing on improving the competitive edges, corporate governance, safe operations, environmental protection, management efficiencies as well as the profitability of Group companies, building its reputation as a model enterprise in the city gas industry of China.

Looking forward to 2012, it will be a critical year for the rapid development of natural gas industry in China. Following the "Regulations on Administration of Urban Fuel Gas" which became effective on 1 March 2011, the "Regulations on Administration of Construction and Operation Management of Natural Gas Infrastructure" is currently at drafting stage and expected to see huge progress in 2012. Coupled with the trial reform in the natural gas pricing mechanism as announced on 26 December 2011, the regulatory chain for the entire natural gas industry is gradually being established. Closely monitoring the progress of this reform, the Group is well poised for seizing any opportunities that would immensely facilitate its development.

With the consistent increase in the supply of imported natural gas, accelerated development will be seen in China's natural gas market. Most of the gas projects of the Group are located in the regions where gas supplies are increasing with ever expanding pipeline networks, covering areas such as Northeast, Shandong, Hunan, Anhui, Jiangxi and Guangdong, which will be benefited from the clean energy policy advocated by the "12th Five-Year Plan". Overall, it is anticipated that the Group will achieve favourable and sustainable growth in its 2012 results.

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Chairman

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