



Chairman's Statement

Business Performance in 2010

With the rapidly increasing demand for clean energy in China and the continuous endeavours of staff within the Group, the Group achieved a splendid performance in 2010. Turnover of the Group's piped gas business was HK\$2,981 million, representing an increase of 47.2% as compared to 2009. Profit after taxation attributable to shareholders of the Company amounted to HK\$436 million, representing an increase of 64.4% over 2009, while basic earnings per share were 19.93 HK cents. In view of the continuous growth in the Group's results, the board of directors of the Company ("the Board") has recommended a final dividend of three HK cents per share.

Continuous Economic Growth in China

In 2010, China's GDP increased by approximately 10%, representing the fastest period of economic growth since the outbreak of the global financial crisis. Despite a series of tightening measures launched by the Chinese government to cool down property prices during the year, demand for properties remained strong, attributable to the rapid urbanisation in China. Coupled with the recovery of Western countries from the financial tsunami, China's imports and exports as well as industrial enterprises experienced ample development. These two factors were highly favourable to the gas industry of China and the business of the Group.

Development of Gas Industry

During the year, China successfully increased the natural gas supply through various significant measures, including the partial operation of the Second West-to-East gas pipeline and the full operation of the Sichuan-to-East gas pipeline. In addition, the construction of the China-Myanmar pipeline, China National Offshore Oil Corporation's Zhuhai Liquefied Natural Gas Project in Guangdong Province and China Petrochemical Corporation's Qingdao Liquefied Natural Gas Project in Shandong Province had commenced. With regard to the natural gas imported from Russia, it is expected that 30 billion cubic metres of natural gas will be imported annually through the Altai Pipeline from 2015 onwards. The significant increase in natural gas supply will lay a solid foundation for the rapid growth of the gas industry in China.

The "Regulations on Administration of Urban Fuel Gas" (the "Regulations"), were approved by the State Council of China on 19 October 2010 to come into effect from 1 March 2011. The Regulations mark a better planned development of the city gas industry in China, which are in line with the government's emphasis on the use of natural gas in the 12th Five-Year Plan. The Regulations will also play a deep and significant role in protecting the legal rights of gas providers and users as well as the healthy development of the gas industry.



Natural Gas Prices

On 1 June 2010, the ex-factory prices of domestically produced onshore natural gas rose. The Group has always paid attention to the movement of natural gas prices in China, maintaining good communication with the local governments and major customers beforehand. As such, the Group was able to shift the upstream price adjustments to its downstream non-residential customers in a timely manner when the price soared. Therefore, this ex-factory price adjustment did not impact on the gross profit of the Group's industrial and commercial gas sales business.

Generally, there is a time lag in the adjustment of the gas selling price for residential customers as hearing procedures are involved. On 25 November 2010, the National Development and Reform Commission stipulated the stabilisation of the commodity prices of necessities. Consequently, the adjusted gas prices for residential customers could not be implemented in some provinces though hearing procedures for the natural gas price adjustments had been conducted. The time lag in the gas price adjustment for residential customers affected some of the group companies but with minimal impact on the Group's overall profit as the Group's business strategy mainly focuses on industrial and commercial customers.

Seasonal Gas Shortages

During the winter of 2009, there was a large-scale gas shortage in China. Hence, apart from expediting the exploitation of natural gas in the country and the imports of piped natural gas and liquefied natural gas, China has also emphasized in investing resources to construct natural gas storage facilities. Additionally, with the consecutive commencement of operation of several large-scale gas pipelines, such as the Second West-to-East gas pipeline, the Sichuan-to-East gas pipeline and the Third Shaanxi-to-Beijing gas pipeline, gas shortages in the winter of 2010 existed but was less severe as compared to previous years. The National Energy Administration has estimated that a balance between the supply and demand of natural gas will gradually be restored after 2012.



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Group Business Development Strategy

The Group has strengthened its market development strategy to develop new gas projects in the neighbouring cities of existing projects since 2009. With the efforts from the management of existing projects, the Group achieved encouraging results, successfully establishing 17 new projects in the past two years.

The development of new projects in the neighbouring cities of existing projects is in line with the national strategy to promote the rapid development of the clean energy industry under the nation's 12th Five-Year Plan. In addition, the Group's projects in Shandong Province and Northeastern China are located in the target regions, where natural gas consumption is being boosted under the 12th Five-Year Plan. The Group believes that more projects will be secured in these regions to enhance its sustainable development.

Corporate Social Responsibility

The Group recognises the importance of its corporate social responsibility role. Over the years, the Group has been actively participating in community activities and providing support and showing its concerns for the needs of the underprivileged. After the earthquake in Yushu County, Qinghai Province, in April 2010, the Group and its employees acted promptly to raise funds, dedicating love and care to the victims. Additionally, as an energy provider, the Group is committed to protecting and improving the environment, as well as promoting the development and utilisation of clean energy to save energy and reduce the emission of greenhouse gases.

As an appreciation from the society and the industry for the Group's corporate social responsibility, the Group won a number of honours, such as "The China Best Corporate Citizenship", "Low-carbon Innovative Enterprise" and "The Enterprise with Outstanding Community Service in China" in 2010.

2011 Outlook

Following the introduction of the 12th Five-Year Plan of China in 2011, the annual average of GDP growth rate is estimated to remain at a high level of 7% in the next five years. To facilitate the economy's rapid development through the use of clean energy, China's natural gas consumption will account for over 8% of the non-renewable energy used in 2015, representing a significant increase from 3.9% in 2010. The overall demand for natural gas is expected to increase from 110 billion cubic metres in 2010 to more than 260 billion cubic metres in 2015. The growth of city gas consumption will be the fastest among all natural gas applications. To this end, the National Energy Administration has begun formulating "The 12th Five-Year Development Plan for Oil and Natural Gas", "Nation-wide Natural Gas Pipeline Networks and the 12th Five-Year Development Plan", "The 12th Five-Year Plan for Liquefied Natural Gas" and "Construction Plan of Natural Gas Reserve and Adjustment Capability (2010–2020)", which lay down the direction and solid foundations for the rapid development of the natural gas industry.

In order to grasp the development opportunities for the city gas industry arising from the 12th Five-Year Plan, the Group will focus on improving its competitive advantages, corporate governance, environmental protection efficiencies, management efficiencies and the profitability of its project companies in 2011.

With the increase in upstream supply of natural gas in 2011, the Group will be able to better utilise its existing market advantages to provide greater gas supply sufficiencies to the industrial, commercial and household customers of its project companies, while further penetrating neighbouring markets. The rapid construction of major nation-wide natural gas pipelines will also provide an extensive platform and long-term prospects for the development of city gas projects. In addition, the accelerating urbanisation and construction of affordable housing will drive the expansion of the Group's customer base. It is expected that the growth in the Group's results in 2011 will remain promising.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

CHAN Wing Kin, Alfred
Chairman

Hong Kong, 14 March 2011