

Chairman's Statement

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The Year's Results

The performance of the Group's gas business in Hong Kong remained steady in 2009. In comparison, the Group's city-gas businesses in mainland China thrived and continued to record good profit growth whilst its emerging environmentally-friendly energy businesses are under proactive development.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK\$5,175.0 million, an increase of HK\$872.5 million compared to 2008. Earnings per share for the year amounted to HK 78.7 cents, an increase of 22.0 per cent over

2008. Profit growth in 2009 was mainly due to growth in profits of mainland businesses, one-off gains from investments in projects in mainland China, and an increase in financial investment income.

During the year under review, the Group invested HK\$2,760.2 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various businesses in Hong Kong and the mainland.

Gas Business in Hong Kong

After a sharp decline during the first quarter of 2009 due to the

global financial tsunami, Hong Kong's economy showed signs of recovery in the second quarter. However, the tourism, restaurant and hotel sector businesses only began to pick up gradually in the second half of 2009. In addition, higher average temperatures in 2009 compared to 2008 and the threat of human swine influenza, which adversely impacted local spending associated with inbound tourism, led to a slight decrease in total volume of gas sales in Hong Kong by 1.1 per cent compared to 2008. On the other hand, total number of appliances sold in 2009 was 219,896 units, an increase of 6.1 per cent over 2008. This was due to an improving local

economy during the second half of 2009, the Company's introduction of more new products, expansion of sales channels and strengthening of market promotions. As at the end of 2009, the number of customers was 1,698,723, an increase of 26,639 compared to 2008.

Business Development in Mainland China

The Group's mainland businesses progressed well in 2009.

Although the impact of the global financial tsunami was severe in early 2009, the economic stimulus measures taken by mainland authorities helped their economy regain momentum in second quarter of 2009. The Group's city-gas and natural gas businesses benefited from this economic recovery, recording continuous growth. The Group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is also progressing well. ECO is currently at a stage of developing projects for investment. Construction work for some of its projects is now in progress. In the long run, both city-gas and emerging environmentally-friendly energy businesses on the mainland have good prospects and investment value.

Overall as at the end of 2009, inclusive of projects of the Group's subsidiary company, Towngas China Company Limited ("Towngas China"), the Group had 103 projects spread across 19 provinces/municipalities/autonomous regions, encompassing upstream, midstream and downstream natural gas sectors, the water supply and wastewater treatment sector, natural gas filling stations and emerging environmentally-friendly energy projects.

Diversification and an increase in the number of projects are rapidly transforming the Group from a locally-based company centred on a single business into a sizable, nation-wide, multi-business corporation with a focus on environmentally-friendly ventures and the energy sector.

(i) Mainland Utility Businesses

The Group's city-gas businesses progressed well in 2009, with new projects successfully established in Xinmi in Henan province, in Fengxian county Economic Development Zone and Suining county in Jiangsu province, and in Zhangshu, Fengcheng and Pingxiang in Jiangxi province. The project in Xinmi is the Group's first in Henan province. Inclusive of seven new projects established by Towngas China in 2009, the Group had 84 city-gas projects in mainland cities spread across 16 provinces/municipalities as at the

end of 2009. During the year under review, the number of residential customers on the mainland reached 10,617,000 and total volume of gas sales was 6,870 million cubic metres. The Group has become the largest city-gas enterprise on the mainland.

With completion in the next three years of large-scale natural gas projects including transmission pipeline projects from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline project, and an increase in the quantity of imported liquefied natural gas, the problem of natural gas supply not meeting demand will be mitigated. The Group therefore anticipates its mainland projects will have access to sufficient gas sources to enable them to continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province, and a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in Jilin province. These kinds of high-pressure natural gas pipeline joint ventures generate good returns and help the Group develop and strengthen its downstream city-gas market interests.

CHAIRMAN'S STATEMENT

The Group operates water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Jiangsu province. These projects are progressing well.

The Group will keep on looking for opportunities to invest in high-quality utility projects on the mainland.

(ii) Environmentally-friendly Energy Businesses

Liquefied Petroleum Gas Filling Stations and Landfill Gas Utilisation

The Group has been operating environmentally-friendly energy businesses in Hong Kong through ECO for several years. ECO's five dedicated liquefied petroleum gas filling stations and its North East New Territories landfill gas treatment facility continue to operate well. ECO is also endeavouring to acquire further landfill gas utilisation projects at other sites in Hong Kong. By making use of landfill gas which would otherwise be flared off, such projects help reduce greenhouse gas emissions and depletion of fossil fuels, thus improving air quality in Hong Kong.

Aviation Fuel Facility

Construction of ECO's phase-one aviation fuel facility, comprising a tank farm for storage of aviation fuel served by tanker jetties in Area 38, Tuen Mun, for Hong Kong

International Airport, is basically complete, and a professional operating team has been set up ready for commencement of operation scheduled for the first quarter of 2010. Tanker jetties and facilities for unloading and transporting aviation fuel to Hong Kong International Airport via submarine pipelines will be provided. The entire facility will become a major logistics base for supply of aviation fuel in Hong Kong. Construction of a neighbouring second tank farm is also progressing well; commissioning is expected before the end of 2010 by which time this airport-based aviation fuel storage and logistic facility will be the largest of its kind in the world.

Coalbed Methane and Coal-mine Methane Liquefaction and Utilisation

ECO has endeavoured to develop clean and emerging environmentally-friendly energy projects on the mainland since early 2008 and has achieved good progress so far. Phase one of the Group's coalbed methane liquefaction facility located in Jincheng, Shanxi province commissioned in the fourth quarter of 2008 operated well and produced approximately 100 million cubic metres of liquefied coalbed methane in 2009 for transportation by tankers to downstream markets. This is the first large-scale coalbed methane liquefaction and utilisation project on the mainland. Construction of

phase two of the facility is in progress. Once commissioned, which is expected to be in the fourth quarter of 2010, the annual production capacity will be increased to 300 million standard cubic metres, three times of its existing level. This project provides an additional gas source for the Group's city-gas projects. In 2009, ECO, in joint co-operation with mainland scientific research institutes, successfully developed and verified a technology to remove oxygen from coal-mine methane which typically contains about 40 per cent of methane and then to produce liquefied methane by using cryogenic liquefaction technique, similar to that used in coalbed methane liquefaction. The quality of liquefied methane is basically the same as, and compatible with, liquefied natural gas. ECO has recently pinned down a project in Chongqing to utilise the abundant coal-mine methane there for production of liquefied methane. This will be the world's first large-scale coal-mine gas utilisation project, other than in-situ power generation, to convert otherwise wasteful resources to fuel of high value.

Coal Mines and Coal Chemical Processing

ECO is also monitoring new technology for the production of clean energies from coal as a substitute for petroleum products, and keeping abreast related market trends and potential investment opportunities

associated with these alternative fuels. To this end, ECO is now constructing a methanol production plant and developing a coal mine in Junger, Erdos, Inner Mongolia; both are expected to be commissioned by the end of 2010. The annual production capacity of this methanol plant is 200,000 tonnes of methanol. Additionally, ECO's coal mining and coking plant project in Fengcheng, Jiangxi province is progressing well. The total amount of resources reserves of coal mine projects invested by ECO is approximately 180 million tonnes, including thermal coal and prime coking coal. Plan is now in place to expand the coal resources reserves of these projects to 360 million tonnes. ECO is also proactively developing and establishing vehicular clean fuel filling station businesses in places such as Shandong, Shanxi, Shaanxi, Henan and Liaoning provinces following the successful commissioning of a compressed natural gas filling station in Shaanxi province in 2008, the largest of its kind on the mainland.

Establishment of Chinese Holding Company

In tandem with the rapid development of emerging environmentally-friendly energy businesses on the mainland, ECO established a Chinese holding company in Erdos, Inner Mongolia at the end of 2009 to enhance its management effectiveness and

financing flexibility. The energy market on the mainland has great potential to expand. ECO's development of emerging environmentally-friendly energy businesses and its conclusion of related agreements are expected to bring good economic benefits and business prospects to the Group.

(iii) Towngas China Company Limited (Stock Code: 1083.HK)

The Group currently has a 45.61 per cent interest in Towngas China which recorded a profit of HK\$265 million in 2009, an increase of 31 per cent over 2008.

The Group obtained an effective control over the majority of the board of directors of Towngas China, resulting from changes in the board of directors of Towngas China, in late December 2009. Therefore Towngas China was accounted for and consolidated into the consolidated accounts of the Group as a subsidiary as from 31st December 2009.

In 2009, Towngas China set up new city-gas project companies in Chiping county in Shandong province, in Xinjin county and the Xindu district of Chengdu in Sichuan province, in Huangshan in Anhui province, in Yangjiang in Guangdong province and in the Changjiu Industrial Corridor in Jiangxi province. Towngas China also signed agreements for the development of city-gas projects in Linqu in Shandong province and

in the New Industrial District of Anshan in Liaoning province in November 2009 and February 2010 respectively. Towngas China will focus on developing city-gas businesses in small to medium-sized cities and continue to strive for rapid expansion through mergers and acquisitions.

Pipelaying Projects

In order to cope with future demand growth and enhance reliability of gas supply in Hong Kong, several pipelaying projects are currently underway. Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is progressing well. Construction of a 9 km pipeline in the western New Territories to strengthen supply reliability is also in progress. In tandem with the development of West Kowloon, South East Kowloon and a cruise terminal, planning for the networks in these regions is underway, including a route diversion for the submarine pipeline from Ma Tau Kok to North Point. Meanwhile, the Group reached a 30-year agreement with Ocean Park Hong Kong in 2009 for gas supply and utilisation. A gas transportation system will be developed to supply gas to Ocean Park's existing attractions, facilities and new extensions under development.

CHAIRMAN'S STATEMENT

The Group will constantly allocate more resources to the renovation work of the network to ensure safe operation.

Property Developments

An overall total of approximately 1.21 million square feet of the Grand Waterfront property development project, located at the Ma Tau Kok south plant site, had been sold by the end of December 2009, representing over 98 per cent of the total residential floor area of the project. Leasing of the commercial area of the project is good.

The Group has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. An overall total of approximately 1.73 million square feet had been sold by the end of December 2009, representing over 99 per cent of the total residential floor area of the project.

The Group has an approximately 15.8 per cent interest in the International Finance Centre ("IFC") complex. Rental demand for the shopping mall and office towers of IFC continues to be good. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and Four Seasons Place, remains high.

Notes Programmes

In tandem with the Group's long-term investments on the mainland,

HKCG (Finance) Limited, a wholly-owned subsidiary of the Group, successfully issued and sold US\$1 billion notes guaranteed by the Company (the "Notes"; stock code: 4303.HK) in August 2008.

The issue was very well-received by investors. A high credit rating of A1 (stable) was assigned to the Notes by international rating agency Moody's Investors Service and a high rating A+ (stable) by Standard and Poor's rating services. The issue also won a number of awards granted by several leading financial publications. The Group's success in completing this transaction before a tightening of credit in the financial markets as a result of the financial tsunami has contributed effectively to the provision of long-term financing for its business developments.

In May 2009, the Group further established a US\$1 billion medium term note programme (the "MTN Programme") through HKCG (Finance) Limited. Since the establishment of the MTN Programme, the Group has issued medium term notes with an aggregate amount of HK\$3.01 billion up to now at nominal interest rates ranging from 3.90 per cent to 5.00 per cent per annum with a maturity of 10 to 40 years. These included the first ever issue of 30-year notes and 40-year notes - the longest term corporate papers ever issued - in the Hong Kong dollar bond market. The

good reception to these corporate papers reflects investors' confidence towards the Group's very strong credit standing and long-term development.

Company Awards

The Company has been honoured to receive the "2009 Hong Kong Awards for Industries: Customer Service Grand Award" in recognition of its strong tradition of putting "customers first" by providing them with the convenience of a one-stop service ranging from the supply of gas to appliance sales and after-sales services, including installation and maintenance. The "Hong Kong Awards for Industries" (the "Awards"), with full government support, is organised by various trade and industrial organisations representing different business sectors in Hong Kong. The organising committee is chaired by the Director-General of Trade and Industry. The Awards recognises the outstanding achievements of Hong Kong enterprises in different sectors, especially in their move towards higher technology and higher value-added activities. The Awards is highly valued by the local community and the trade and industrial sectors. The Company's persistent efforts in provision of more value-added services and introduction of innovations have once again earned it industry recognition.

In addition, the Company gained a "2009 Global Chinese Business 1000 – Hong Kong Top 20" award from Yazhou Zhoukan in recognition of the Company's top 20 market capitalisation ranking in Hong Kong as at the end of July 2009.

Employees and Productivity

The number of employees engaged in the town gas business was 1,908 at the end of 2009. During the year under review, the Company's customers increased by 26,639 with each employee serving 890 customers, slightly up compared to each employee serving 870 customers in 2008. Total remuneration for employees directly involved in the town gas business amounted to HK\$656 million for 2009. In 2009, there was an approximately 2.5 per cent average increase in remuneration over 2008. The Group offers employees rewarding careers based on their capabilities and performance and arranges a variety of training programmes in order to constantly enhance the quality of the Group's 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.

Bonus Issue of Shares

The Directors propose to make a bonus issue of one new share of HK\$0.25 credited as fully paid for every ten shares held on the Register of Members on 20th May 2010. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 28th May 2010, and if passed, share certificates will be posted on 31st May 2010.

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 20th May 2010. Including the interim dividend of HK 12 cents per share paid on 19th October 2009, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2010 after bonus share issue shall not be less than that for 2009.

Business Outlook for 2010

The Company anticipates steady growth and an increase of about 26,000 new customers in Hong Kong during 2010. Hong Kong's economy is gradually recovering from the global financial tsunami, with different business sectors

including tourism, restaurant, and hotel sectors now beginning to prosper once again. The Group expects commercial and industrial gas sales and appliance sales in Hong Kong to remain stable in 2010. On the other hand, the Group's city-gas and natural gas businesses on the mainland are expected to continue to progress well. In addition, following the mainland government's move towards a policy of energy diversification and environmental protection, the Group predicts good prospects for its emerging environmentally-friendly energy businesses, which will ignite a new light illuminating the way for the Group's long-term development and business growth.

It is anticipated that the results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will reach the same level as that of Hong Kong gas businesses in 2012, and will maintain growth momentum faster than Hong Kong businesses thereafter.

LEE Shau Kee

Chairman

Hong Kong, 16th March 2010