

CHAIRMAN'S STATEMENT





Economic Landscape

In 2015, the extremely volatile international market had a strong impact on the development of China's natural gas market. Although the US economic recovery had begun to take hold, the sluggish and unstable global economy, coupled with increasing geopolitical risks, led to a continuous decline in energy prices, particularly international oil prices slumped and remained at low levels. Coupled with the weakness of the global economy and the continuing currency depreciation in various countries around the world and despite China's vigorous efforts to push forward its economic transformation into 2015, the country's imports and exports as well as its industrial sectors were greatly affected. This, in turn resulted in lower growth in the country's Gross Domestic Product (GDP), which reached 6.9% in 2015, against the target of 7%. The uncompetitive natural gas prices, caused by the lag in the adjustment of China's natural gas city-gate prices against 2015's plummeting oil prices, resulted in crippling gas sales volume of the city gas operators during the year.

In spite of this challenging business environment of 2015, the Group reported a slight increase in results thanks to the concerted efforts of our employees. The profit after tax attributable to shareholders of the Company, excluding one-off provisions such as the unrealised exchange loss and the disposal of coke plant in Changchun Gas Co., Ltd. ("Changchun Gas"), increased to HK\$1.202 billion, an increase of 1% as compared to that of 2014.

Natural Gas Price Reforms

In 2015, achievements were made in the reform of non-residential natural gas city-gate and residential natural gas end-user selling prices, laying the foundations for the marketisation of China's upstream, midstream and downstream natural gas industries. In the residential natural gas market, though the city-gate prices remained unchanged, the adoption of progressive price levels in numerous cities, helped to drive revenue for city gas operators from residential users. In the non-residential natural gas market, the Chinese government merged the prices of non-residential existing gas and incremental gas in April 2015 by slightly raising the natural gas city-gate prices for existing gas and substantially lowering the natural gas city-gate prices for incremental gas, resulting in a slight decrease in the overall natural gas city-gate prices for non-residential gas as compared to 2014. However, the significant decline in international oil prices from US\$100 per barrel in mid-2014 to US\$65 per barrel at the time, coupled with a slackening in energy demand due to lacklustre global economic conditions, resulted in the oversupply of natural gas in China from the second quarter of 2015. Non-residential natural gas city-gate prices were adjusted downwards by the Chinese government by RMB0.7 in November 2015. This move mitigates the impact of the slump in oil prices to gas sales and brought some industrial and commercial customers back to piped gas again.

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CHINA'S TARGET

By 2030, carbon dioxide emissions to reduce from the 2005 levels

60%



Market Prospects for the City Gas Business

Despite a domestic economic slowdown and the recent weaknesses in the natural gas market in China, the natural gas and city gas markets will maintain their steady development in the long term, given that the consumption of clean energy and the vigorous development of natural gas is an important focus in the Chinese government's policies. In the past two years, the government has announced a number of important development plans that will be carried out to 2020. These include the "National New-type Urbanisation Plan (2014–2020)", "Energy Development Strategy Action Plan (2014–2020)" and "Work Plan on Enhancing Prevention and Treatment of Air Pollution in the Energy Industry". The size of China's natural gas market is, therefore, expected to increase by 100 to 300 billion cubic metres during the thirteenth five-year plan (the "Thirteenth Five-Year"). In addition, in June 2015, China submitted a binding commitment to the United Nations in June 2015, pledging to cut carbon dioxide emissions per unit of GDP by a targeted 60% by 2030 from 2005 levels. According to the Thirteenth Five-Year Plan, natural gas and city gas will form the focus of the country's energy development strategy as a modern society. This indicates that more supportive policies will be issued by the government into the future.

Looking back the Twelfth Five-Year Plan Period, the Group was able to seize the opportunities to push forward the development of existing projects, expand the gas pipeline network and supervise the business expansion of project companies into new markets. At the same time, we worked to improve the quality of products and services in our existing markets. Entering the first year of the Thirteenth Five-Year Plan Period, we will maintain our efforts and work with national energy policies to promote the development of China's clean energy and piped gas industry.

Business Outlook of the Group

Despite the recent ongoing effects of the global economic recession, the Group's natural gas business will benefit from the Thirteenth Five-Year Plan with its goal to build a relatively affluent society by 2020. The increasing requirements for environmental protection and energy efficiency as well as accelerated rate of urbanisation in China during this period will drive the ongoing supply and demand for natural gas and city gas. As such, the Group expects to see satisfactory growth in natural gas sales in the next few years, particularly as a number of key natural gas pipeline projects in China commence operations in the Thirteenth Five-Year Plan Period.

With the adoption of the "Year of Marketing Strategy" as our management theme in early 2014, the Group encourages our project companies to push the replacement coal-fired boilers with the use of natural gas in the catering sector. In the residential market, the Group leveraged on the newly introduced progressive price level system and the ample supply of gas resources to actively explore the household heater and dryer market, which has led to extremely positive business results. In addition, we have strengthened our planning and technical capabilities in the supply of natural gas, while also advocating the advantage of natural gas as a price-competitive clean energy. The Group will take initiatives in developing the combined heat and power projects and improve the thermal efficiency of natural gas power generation, so as to increase our marketing effectiveness.

The Group has always been committed to the constant improvement of gas safety and customer services. As a result, we have established a leading position in the country's natural gas industry. In 2016, we will maintain this commitment, continuing to invest resources into these fields, while at the same time focusing on our corporate social responsibilities, strengthening staff training in customer services and professional skills, as well as gearing up for the opportunities in the China's city gas market in the country's welcoming Thirteenth Five-Year Plan Period.

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CHAN Wing Kin, Alfred

Chairman

Hong Kong, 17 March 2016

