Chairman's Statement

"The Group's business continued to develop steadily in 2006 ...... and the Board of Directors anticipates a satisfactory development for the Group's overall businesses in 2007."

The Year's Results

The Group's business continued to develop steadily in 2006. Profit after taxation attributable to shareholders of the Group for the year was HK$5,862.6 million, including HK$3,224.4 million arising from the Group's gas business and property rental income - an increase of HK$162.6 million as compared with 2005. Profit after taxation attributable to shareholders from the sale of properties, together with a revaluation surplus from an investment property, amounted to HK$2,638.2 million for the year.

Profit after taxation attributable to shareholders of the Group for the year included approximately HK$1,779.4 million, which represented the Group's share of profits arising from the sale of units at Grand Waterfront, Grand Promenade and King's Park Hill property development projects, and HK$858.8 million, which represented the Group's share of a revaluation surplus from an investment property, the International Finance Centre complex. In comparison, the Group's share of profits from sale of properties was HK$1,621.5 million, and its share of a revaluation surplus from the investment property was HK$598.1 million, for 2005. After excluding both profit from the sale of properties and also the revaluation surplus from the investment property, earnings per share for the year amounted to HK 58.5 cents compared to HK 55.0 cents for 2005.

During the year under review, the Group invested HK$2,296.8 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

A slower pace of completion and occupancy of new residential units, compounded by higher temperatures during the year, led to a decrease of 2.3 per cent in the volume of residential gas sales compared with 2005, whilst the volume of commercial and industrial gas sales increased by 1.1 per cent. Total volume of gas sales in Hong Kong for the year decreased slightly by 0.8 per cent compared with 2005. As at the end of 2006, the number of customers was 1,622,648, an increase of 25,375 over 2005.

Introduction of Natural Gas to Hong Kong

Since October 2006, with the introduction of natural gas from the Guangdong Liquefied Natural Gas ("LNG") Terminal to Hong Kong, the Group has been using a dual naphtha and natural gas feedstock mix for the production of town gas. The grand opening of the natural gas receiving station at Tai Po gas production plant was held in November 2006. The Group has contracted to take natural gas at a price currently lower than naphtha which helps reduce production costs thus enhancing the competitiveness of the gas tariff. Fuel savings are being passed on to customers through the existing fuel cost adjustment mechanism. In addition, the introduction of natural gas also helps protect the environment.

The Group has a 3 per cent interest in the Guangdong LNG Terminal project (the "Project"). The official commissioning ceremony of the first phase of the Project was hosted by Chinese Premier Wen Jiabao and Australian Prime Minister John Howard on 28th June 2006. LNG for the Project is supplied from Australia. The Group has signed a 25-year supply contract for natural gas, facilitating stable costs over the long term.

Acquisition of Panva Gas Holdings Limited

On 4th December 2006, the Company, Panva Gas Holdings Limited ("Panva Gas") and its largest shareholder, Enerchina Holdings Limited ("Enerchina"), jointly announced that Panva Gas would acquire the Group's equity interests in ten mainland piped city-gas companies and take assignment of shareholder loans of these companies. Panva Gas would then issue approximately 773 million new shares to the Group. Relevant resolutions were unanimously approved in the respective extraordinary general meetings of Panva Gas and Enerchina. Since the completion of the transaction on 1st March 2007, the Group has become the largest shareholder of Panva Gas by acquiring an approximately 43.97 per cent equity interest. On a combined basis, the Group and Panva Gas have 60 piped city-gas projects on the mainland. Panva Gas also has liquefied petroleum gas businesses in 15 mainland cities. The transaction represents a significant milestone in consolidating the Group's position as a premier piped gas operator on the mainland.

Business Development in Mainland China

During the year, the Group reached a new milestone in diversifying its business on the mainland. Following investment in the water supply and wastewater sector starting in 2005, the Group successfully entered the energy upstream arena in 2006 by participating in the development of emerging energy projects, such as coalbed gas and natural gas liquefaction, thus further expanding the Group's business scope on the mainland. Having built up a well-established base, the Group's piped city-gas and other related businesses also continued to expand during the year.

In 2006, the Group acquired its first coalbed gas joint venture project in Shanxi province where the country's largest reserve of coalbed gas resources is located. As the components of coalbed gas are similar to those of natural gas, this can be developed as a major alternative source of energy to help alleviate the country's temporary energy shortages and environmental pollution. The Group also concluded a joint venture agreement during the year to invest in a natural gas liquefaction project in Yan'an, Shaanxi province. This project will provide an additional gas source for piped city-gas projects.

In 2006, the Group signed agreements to establish piped city-gas companies in Xi'an, Shaanxi province; Yuhang, Hangzhou, Zhejiang province; Tongling, Anhui province; Jintan, Jiangsu province and Yingkou, Liaoning province. Inclusive of Panva Gas, the Group now has 60 piped city-gas projects in mainland cities across eastern, central, northern, northeastern, western and southwestern China as well as in Guangdong and Shandong provinces. The joint ventures' gradual conversion to natural gas has boosted demand for this fuel. The Group's investment and operation of upstream projects will help provide new gas sources for these piped city-gas projects. Since the implementation of the state plan of transmitting natural gas from Sichuan province to eastern China and Shandong province, and an increase in the quantity of imported LNG, the Group's mainland projects are projected to thrive within the next three years.

The Group's high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province continue to operate smoothly. This kind of midstream investment underpins downstream joint venture projects which enable the Group to strengthen its piped city-gas market interests. The Group is also developing other natural gas-related businesses such as natural gas filling stations for automobiles and supply of LNG for heavy duty trucks.

Since entry into the water supply and wastewater business sector on the mainland in 2005, the Group has been operating water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and managing an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Increasing economic prosperity and expansion of population are boosting demand for clean water sources. The central government is opening up the water utility market, thus expanding business opportunities in this sector. Leveraging its rich experience in the construction, management and operation of pipelines, the Group will continue to seek opportunities to develop water projects in other cities.

Inclusive of Panva Gas, the Group currently has a total of 70 projects spread across 13 provinces and an area of Beijing, encompassing upstream, midstream and downstream natural gas sectors as well as the water supply and wastewater treatment sector. Diversification is rapidly transforming the Group into a sizable, nation-wide, multi-business corporation from its origins as a local company focused on a single business.

Environmentally-friendly Energy Businesses

The landfill gas project at the North East New Territories landfill site developed by a subsidiary of ECO Energy Company Limited ("ECO"), which is wholly-owned by the Group, is progressing well. Installation work of a landfill gas treatment facility was completed at the end of 2006 and operational tests will soon be concluded. Construction work of a 19 km pipeline to Tai Po gas production plant has also been completed. The plant expects to start using the treated landfill gas to partially replace naphtha as a fuel for town gas production by mid-2007. Using landfill gas effectively will help limit depletion of oil resources and reduce air pollution, thereby further contributing to the Group's commitment to protect the environment.

ECO's liquefied petroleum gas filling station business is progressing well. With recovery in the domestic economy during the year, ECO achieved growth in turnover.

Pipelaying Projects

In order to cope with the demand arising from city developments in Hong Kong, 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. In order to receive natural gas from the Guangdong LNG Terminal, the Group has laid twin 34 km, 450 mm-diameter submarine pipelines from Chengtoujiao in Shenzhen to Tai Po gas production plant in Hong Kong and constructed control and metering stations at Chengtoujiao and Tai Po. Both the pipeline and stations have now been commissioned and since October 2006, the Guangdong LNG Terminal has been supplying natural gas via the submarine pipelines to Hong Kong. Natural gas is used to partially replace naphtha as feedstock for the production of town gas.

Property Developments

Pre-sale of the Grand Waterfront property development project, located at the Ma Tau Kok south plant site, commenced in late August 2006. Take-up was good. The project consists of five residential apartment buildings, providing 1,782 units with a residential floor area of approximately 1.2 million square feet. The Group is entitled to 73 per cent of the net sales proceeds of the residential portion of the project. The commercial area is approximately 150,000 square feet. An occupation permit for the project was issued in late 2006. By the end of December 2006, approximately 630,000 square feet of the residential floor area had been sold.

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 of which approximately 1.3 million square feet had been sold by the end of December 2006. Residential occupancy started in early 2006, and the whole project has yielded substantial returns for the Group.

The Group has an approximately 15.8 per cent interest in the International Finance Centre ("IFC"). The shopping mall and office towers of IFC are fully let. The business of the project's hotel complex, comprising the Four Seasons Hotel and Four Seasons Place which provide approximately 400 six-star guestrooms and 520 serviced suites respectively, is highly successful.

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 2006 Chinese Business 500 listing and was ranked fifth in Hong Kong.

Employees and Productivity

The number of employees engaged in the town gas business was 1,912 at the end of 2006. Compared with 2005, the number of customers for the year increased by 25,375 and overall productivity rose by 1.0 per cent. Total remuneration for employees involved directly in the town gas business amounted to HK$613 million for 2006, a slight decrease of HK$2 million compared with 2005. 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.

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 14th May 2007. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 21st May 2007, and if passed, share certificates will be posted on 22nd May 2007.

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 14th May 2007. Including the interim dividend of HK 12 cents per share paid on 23rd October 2006, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2007 after bonus share issue shall not be less than that for 2006.

Business Outlook for 2007

The Company has not increased its basic gas tariff for the past nine years. Nevertheless the Company has made every effort to enhance its operational effectiveness, thus maintaining steady business performance. As a result of the implementation of a dual naphtha and natural gas feedstock mix in October 2006, and the signing of a long-term contract to take natural gas when international oil prices were comparatively low, bringing a lower feedstock cost, the Company has been able to lower its gas tariff to the benefit of customers and enhance its competitiveness in the energy market, thus promoting future business development.

The Company anticipates an increase of about 25,000 new customers and a slight growth in gas sales volume in Hong Kong during 2007. The Group's mainland business is expected to further prosper given that the total number of piped city-gas projects has increased since the acquisition of Panva Gas as its associated company in early March 2007. The Board of Directors anticipates a satisfactory development for the Group's overall businesses in 2007.

LEE Shau Kee
Chairman
Hong Kong, 19th March 2007