CHAIRMAN'S STATEMENT

The Year's Results

The performance of the Group's gas business in Hong Kong remained steady in 2013. In comparison, the Group's city-gas businesses in mainland China thrived, continuing to record good profit growth; concurrently emerging environmentally-friendly energy businesses are being developed at a fast pace. The Group's overall recurrent businesses recorded good results in 2013.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$6,854 million, a decrease of HK$858 million compared to 2012. Earnings per share for the year amounted to HK71.7 cents. Exclusive of the Group's share of a revaluation surplus from investment properties and a one-off net gain, the Group's profit after taxation for the year increased by HK$767 million to HK$6,680 million, an increase of 13 per cent compared to 2012 mainly attributable to a rise in profit from the Group's local businesses and mainland utility businesses.

During the year under review, the Group invested HK$5,294 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

Gas Business in Hong Kong

The local economy continued to grow moderately in 2013. Tourism, restaurant and hotel sectors, all still benefiting from an increase in the number of inbound tourists, continued to prosper. As a result, commercial and industrial gas sales achieved good growth in 2013. However, as the average temperature in the first quarter of 2013 in Hong Kong was slightly higher than the same period in 2012, residential gas sales were affected. Overall, total volume of gas sales in Hong Kong for the year increased slightly by approximately 0.7 per cent to 28,556 million MJ whereas appliance sales increased by approximately 3.3 per cent, both compared to 2012.

As at the end of 2013, the number of customers was 1,798,731, an increase of 22,371 compared to 2012.

Business Development in Mainland China

The Group's mainland businesses progressed well in 2013 in respect of the number of projects and profit.

The mainland economy continued to grow steadily during 2013 maintaining an annual growth rate similar to that of 2012. The Group's city-gas and natural gas businesses, benefiting from both on-going economic advancement of the country and a significant increase in production, import volume and consumption of natural gas on the mainland, recorded continuous growth during 2013. The Group's development of emerging environmentally-friendly energy projects and related research and development of new technologies, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), are progressing well. A number of projects are now at various stages of investment, construction and gradual commissioning which is laying a new foundation for the long-term development of the Group's businesses.

The Chinese government is proactively advocating urbanisation which is favourable to the development of utility businesses. With regard to environmental protection, a natural gas utilisation policy, formulated to improve air quality, is encouraging faster exploration and utilisation of natural gas. Therefore it is expected that there will be increasing demand for clean energy in mainland China in the long run. This, coupled with increasing upstream natural gas supplies, is creating good prospects and investment value for the Group's mainland city-gas and emerging environmentally-friendly energy businesses. In addition, following the development of its telecommunications businesses in Hong Kong and the mainland over the last few years, several data centre and telecommunications conduit system project companies have since been established, which are now contributing to ever-more diversification of the Group's businesses.

Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 173 projects on the mainland, as at the end of 2013, 23 more than at the end of 2012, spread across 22 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications, energy resources' exploration and utilisation, as well as telecommunications.

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

Utility Businesses in Mainland China

The Group's city-gas businesses are progressing well with a total of 15 new projects added to its portfolio in 2013, including one located in economically vibrant Hangzhou city, the provincial capital of Zhejiang province and a world famous tourist city with great potential for growth in the number of customers and increase in gas consumption. As at the end of 2013, inclusive of Towngas China, the Group had a total of 119 city-gas projects in mainland cities spread across 20 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2013 was approximately 13,400 million cubic metres, an increase of 13 per cent over 2012. As at the end of 2013, the Group's mainland gas customers stood at approximately 17.29 million, an increase of 17 per cent over 2012.

The Group continues to be a large-scale city-gas enterprise with outstanding performance on the mainland.

A rise in the gate price of natural gas for non-residential use, following the implementation of natural gas price reform on the mainland in July 2013, has impacted demand in the commercial and industrial gas market in the short term. However, in the medium to long term, natural gas is still projected to be the clean energy of choice on the mainland for reducing pollutant emissions to improve foggy atmospheric conditions. With gradual commissioning of the country's large-scale natural gas projects including transmission pipelines from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline, and pipeline projects for importing natural gas from Central Asia and Burma coming on stream, as well as a rise in the quantity of imported and domestic liquefied natural gas ("LNG"), supply of natural gas on the mainland is increasing. Thus, with increasing sources of gas supply, expanding pipeline networks and the public's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include natural gas pipeline projects in Anhui province, in Hebei province and in Hangzhou city, Zhejiang province; natural gas extension projects in Jilin and Henan provinces; the Guangdong LNG Receiving Terminal project; and Towngas China's midstream pipeline project located in Wafangdian, Dalian city, Liaoning province. These kinds of high-pressure, natural gas pipeline projects generate good returns and help the Group develop its downstream city-gas markets.

The Group has so far invested in, and operates, six water projects, including water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; a wholly-owned water supply project in Zhengpugang Xin Qu, Maanshan city, Anhui province; an integrated water supply and wastewater joint venture project, together with an integrated wastewater treatment project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a water supply project in the starting area of Jiangbei Concentration Zone, Wuhu city, Anhui province, acquired in December 2013. With increasing demand for clean water resources across the country, the Group's water projects are progressing well, with steady growth in volume of water sales.

Operation and management of businesses encompassing city-gas, city-water and midstream natural gas projects create positive synergy and mutual advantages. Furthermore, these businesses generate stable income and provide good environmental benefits, with room for expansion. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

Emerging Environmentally-Friendly Energy Businesses

ECO's two major businesses in Hong Kong – an aviation fuel facility servicing Hong Kong International Airport, and dedicated liquefied petroleum gas ("LPG") vehicular filling stations – are operating smoothly. Total turnover for the aviation fuel facility for 2013 was 5.56 million tonnes, providing a safe and reliable fuel supply to Hong Kong International Airport and continuing to contribute to ECO's steady profit growth. Profit margins for the LPG refilling station business for 2013 were significantly higher than those of 2012.

Haze and air pollution on the mainland are a growing concern. The Chinese government is therefore increasing its efforts to promote the utilisation of natural gas with the aim to improve air quality. Developing refilling station networks supplying LNG as a fuel for vehicles and vessels, and gradually replacing diesel as a fuel for heavy-duty trucks, are gaining momentum. In response to this trend, ECO has started to reinforce its LNG supply capacity with unconventional gas resources such as coalbed gas and coke oven gas. ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly and its liquefied products' selling prices have risen significantly, benefiting from a recent upward adjustment of the gate price of natural gas on the mainland, thus creating good prospects for this business. ECO is now seeking more natural gas and coalbed gas supply sources on the mainland in order to expand its liquefaction capacity and extend its distribution areas.

In addition, ECO has recently endeavoured to speed up its negotiations with several coking plants to conclude long-term supply agreements of coke oven gas to be used for producing LNG through methanation and then liquefaction. Preparatory work for ECO's first project of this kind, located in Xuzhou city, Jiangsu province, has commenced; commissioning is expected in the first half of 2015. A similar project located in Jiexiu city, Shanxi province, is also expected to be concluded in the near future; construction will then start immediately.

When ECO extended its business into the mainland in 2008, its first project was the construction of a compressed natural gas refilling station for heavy-duty trucks in Shaanxi province. After several years of development, a network of ECO natural gas refilling stations has gradually taken shape in provinces including Shaanxi, Shandong, Shanxi, Henan and Liaoning. ECO is also now planning to provide LNG refilling facilities for incoming and outgoing heavy-duty trucks and river transport vessels at the logistics port of Jining city, Shandong province – a port which links an upstream railway with the nearby downstream Beijing-Hangzhou canal. All in all, ECO currently has 25 refilling stations in operation, under planning or construction, and further expansion of this business into other provinces is actively in progress. As the number of refilling stations increases, the ECO brand name will gradually become more well-known in the market.

In view of a worldwide shortage and rising prices of petroleum, the country is developing alternative substitutes at a faster pace in order to reduce its reliance on importing crude oil. ECO is proactively studying the utilisation of innovative resource conversion technologies to produce high value-added, and environmentally-friendly, energy. It is making progress with converting low-value raw materials into high value-added energy and related research and development work has shown promising results recently, which could help strengthen ECO's competitive edge in this new energy sector in future. ECO has completed testing verification for upgrading plant fatty-acids (palm oil residue) to petrol or diesel and has applied for a patent for this technology. The company's first project in this field, with an annual capacity to upgrade 150,000 tonnes of plant fatty-acid and to be located in the Chemical Industrial Park of Zhangjiagang city, Jiangsu province, will be an important step forward in developing ECO's biomass energy business.

ECO's methanol production plant in Inner Mongolia finished trial production in late 2013 and has been running smoothly since commissioning. Methanol, a good chemical feedstock, can be further processed into the high value-added products of olefin and paraffin using cracking and polymerisation techniques. ECO's self-developed technology can upgrade methanol into high value-added products which can substitute for gasoline, and this has also led to the commencement of a new project in Inner Mongolia to upgrade methanol into 140,000 tonnes of high-quality gasoline substitute, an important milestone for ECO's methanol upgrading business. This project is expected to be commissioned before the end of 2014.

With regard to ECO's upstream resources business, the operation of the oilfield project in Thailand is relatively stable, now mainly focusing on stepping up exploration activities so as to optimise oil drilling plans. In contrast, coal mining businesses in Inner Mongolia have suffered as the decrease in demand for coal on the mainland has adversely impacted direct sales. However, the Group's investment in coal mine exploration is not substantial. In the long term, such businesses will help towards stabilising material costs in the Group's utilisation of coal for clean energy.

Towngas China Company Limited

(Stock Code: 1083.HK)

Towngas China, a subsidiary of the Group, continued to record good growth in profit after taxation attributable to its shareholders, amounting to HK$1,106 million in 2013, an increase of approximately 32 per cent over 2012. As at the end of December 2013, the Group had an approximately 62.31 per cent interest in Towngas China.

Towngas China is also progressing well with project development. It acquired 14 new piped-gas projects in 2013 located in Zhengpugang Xin Qu Modern Industrial Zone, Maanshan city, in Fanchang county, Wuhu city and in Bozhou-Wuhu Modern Industrial Zone, Bozhou city all in Anhui province; in Cang county, in Mengcun Hui Autonomous County and in Yanshan county, all in Cangzhou city, and in Shijiazhuang Southern Industrial Zone all in Hebei province; in the Economic Development Zone, Boxing county, Binzhou city and in Shiheng town, Feicheng city both in Shandong province; in Mianzhu city, Sichuan province; in Dafeng city, Jiangsu province; in Fengxi district, Chaozhou city, Guangdong province; in Jianping county, Liaoning province; and Zhongwei piped city-gas project in Guangxi Zhuang Autonomous Region.

To capture investment opportunities resulting from both the mainland's commitment to promote the utilisation of natural gas during the period of the Twelfth Five-Year Plan (2011 – 2015) and from related national policies which facilitate sustainable growth of city-gas businesses, Towngas China will continue to both increase its investment in city-gas industries and proactively develop new projects.

Development of Town Gas Network and Facilities in Hong Kong

The network supply capability of the Company is expanding at a good pace in line with market growth. Several network development projects are in progress to meet long-term demand.

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, was substantially completed in 2013. Modification of associated stations and Ma Tau Kok plant's facilities is progressing to cope with the natural gas supply. Commissioning of the pipeline is expected in the third quarter of 2014. Construction of a 9 km pipeline in the western New Territories to strengthen supply capability and reliability is more than halfway complete. In tandem with the government's development of West Kowloon and South East Kowloon, network planning, design and construction in these locations are underway. The gas supply pipeline to the Kai Tak Cruise Terminal was commissioned in mid-2013. Construction of pipelines to supply a large housing development at Anderson Road in East Kowloon, which is now at the planning stage, has commenced. Construction of a new submarine pipeline from Ma Tau Kok to North Point is progressing well with commissioning expected in the coming year.

The Group will constantly allocate resources towards renovating Hong Kong's town gas network to ensure safety of the whole system and a reliable supply.

Property Developments

Leasing of the commercial area of the Grand Waterfront property development project located at Ma Tau Kok is good. The Group also 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 robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

Financing Programmes

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. In line with the Group's long-term business investments, the Group had issued, as at 31st December 2013, medium term notes of an aggregate amount equivalent to HK$10.2 billion with tenors ranging from 5 to 40 under this programme.

In January 2014, the Group also issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Securities"), amounting to US$300 million, through Towngas (Finance) Limited, another wholly-owned subsidiary of the Group. These Perpetual Securities have a nominal interest rate of 4.75 per cent per annum for the first five years, a record low for securities of the same kind issued by corporations in Asia, and thereafter will have a floating interest rate. With no fixed maturity, the Perpetual Securities are redeemable, at the option of the Group, in January 2019 or thereafter every six months on the coupon payment date. The issuance of the Perpetual Securities, rated A3 and A- by international rating agencies Moody's Investors Service and Standard and Poor's Rating Services respectively, received an overwhelming response with six times subscription. The Perpetual Securities, guaranteed by the Company, were listed on The Stock Exchange of Hong Kong Limited on 29th January 2014 (stock code: 6018.HK). The issuance helps further strengthen the Group's balance sheet, improve its financing maturity profile, diversify its funding sources and maintain solid investment grade ratings. The proceeds will be used for refinancing and general corporate purposes.

Company Awards

The Company reached "Forbes Global 2000 Leading Companies" in 2013, with an overall ranking of 878th, and a local ranking of 24th from 46 Hong Kong companies on the list, based on a mix of four metrics: sales, profits, total assets and market capitalisation. The Company was also once again listed by Yazhou Zhoukan in 2013 in its "Global Chinese Business 1000" with eighth ranking for Hong Kong.

By virtue of their outstanding performance in corporate sustainability, both the Company and Towngas China have been selected as constituent companies of the Hang Seng Corporate Sustainability Index Series for the last three consecutive years, indicating the Group's high standard of performance regarding environmental, social and corporate governance aspects as well as workplace practices. Towngas China also won "Hong Kong Corporate Governance Excellence Award 2013", in the Hang Seng Composite Index Constituent Companies category, presented jointly by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University.

With good business results and comprehensive strengths in its business operations, the Company once again reached the "Top 100 – Comprehensive Strength", the main ranking of the "Top 100 Hong Kong Listed Companies" jointly organised by Finet Group Limited and Tencent, moving from 61st in 2012 to 43rd in 2013. The Company also received "The Outstanding Listed Company Award" from The Hong Kong Institute of Financial Analysts and Professional Commentators Limited in recognition of its performance in promoting investor relations and greater transparency over the past year.

The Company's self-developed multi-functional robot won the "2013 Hong Kong Awards for Industries: Innovation and Creativity Grand Award". This robot makes underground pipeline repair work safer, faster, more environmentally-friendly and cost-effective.

The Company also won the "Hang Seng Pearl River Delta Environmental Awards – Silver Award" for 2011/12 presented in 2013 by the Federation of Hong Kong Industries and Hang Seng Bank, and the "Green Enterprise Awards 2013" presented by CAPITAL Entrepreneur, both for outstanding performance in environmental protection. The Company also received the "Supreme Public Utility Service Award" presented by CAPITAL CEO and CAPITAL Entrepreneur for commitment and excellent service to customers. Several overseas' awards were gained for outstanding performance in both training and development, and information technology, namely "Excellence in Practice Citation (2012)" presented by the American Society for Training and Development, the "United Nations' World Summit Award 2012", and the "Best Deployment of Emerging Technology" in the IT Excellence Awards 2013.

Hong Kong Employees and Productivity

As at the end of 2013, the number of employees engaged in the town gas business in Hong Kong was 1,966 (2012 year end: 1,943), the number of customers was 1,798,731, and each employee served the equivalent of 915 customers, slightly up compared to 2012. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,327 as at the end of 2013 compared with 2,282 as at the end of 2012. Related manpower costs amounted to HK$883 million for 2013. In 2013, there was an approximately 4.7 per cent average increase in remuneration over 2012. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange 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 for every ten existing shares held on the Register of Members on 12th June 2014. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 4th June 2014, and if passed, share certificates will be posted on 20th June 2014.

Final Dividend

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members as at 12th June 2014. Including the interim dividend of HK12 cents per share paid on 2nd October 2013, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2014 after bonus share issue shall not be less than the interim and final dividends for 2013.

Business Outlook for 2014

The Company predicts steady growth in the number of customers in Hong Kong during 2014. Restaurant, hotel and retail sectors in Hong Kong are all benefiting from a prospering tourism industry. Nevertheless, the local economy is expected to continue to be affected by the uncertain global economic outlook. In Hong Kong, operating costs for all business sectors are increasing. However, an increase in the standard gas tariff with effect from 1st April 2013 is offsetting some of the Company's own rising operating costs. The Company will continue to enhance its operational efficiency so as to maintain stable development of its gas business in the territory.

In mainland China, the government is advocating increasing urbanisation and is endeavouring to optimise its energy mix and to promote energy conservation, emission reductions and utilisation of clean energy to improve air quality. Combined with the state's advocate of expanding domestic consumption of goods and services to boost economic growth, it is anticipated that there will be a continuing rise in demand for utility services and energy. Recent natural gas price reform better reflects the market situation on the mainland and favours a healthier development of the natural gas business sector in the long term. The Group's city-gas and natural gas businesses on the mainland are therefore expected to continue to achieve good growth. In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and the creation of a more circular economy, there is a trend for the continuous development of new application technologies and use of low-sulfur, high-quality oil and natural gas as fuels for vehicles and vessels, to reduce atmospheric pollution. This trend is beginning to ignite a new light illuminating the way for the Group's long-term development of its emerging environmentally-friendly energy businesses and business growth strategy.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its successful corporate brand names and sales channels built there over the last 20 years, and the mainland's rising concern over air quality and an anticipated rising demand for clean energy, coupled with a sizeable customer base of over 19 million in Hong Kong and mainland China for its piped-gas business amid an expanding business coverage ensuring a promising return, the Group predicts good prospects and an even broader and better future for all its businesses in the years to come.

LEE Shau Kee
Chairman
Hong Kong, 19th March 2014