

Chairmen's Statement

The Year's Results

Under the impact of global economic weakness and trade disputes between mainland China and the United States (the "US"), the mainland's economic growth slowed in 2019 compared to 2018 and the renminbi weakened. Hong Kong also faced instability caused by social conflict incidents during the second half of 2019 arising from opposition

towards the proposed amendments to the Fugitive Offenders Ordinance. Despite these setbacks, the Group's businesses in mainland China and Hong Kong maintained stable development with a slight decrease in profit of the Group's overall recurrent businesses in 2019.

The Group's profit after taxation for the year (exclusive of the Group's share of a revaluation surplus from

an investment property, the International Finance Centre complex) amounted to HK\$6,766 million, a decrease of HK\$517 million, down by approximately 7 per cent compared to 2018. Inclusive of the Group's share of the revaluation surplus from the investment property, profit after taxation attributable to shareholders of the Group for the year amounted to HK\$6,966 million, a decrease of



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HK\$2,347 million, down by approximately 25 per cent, compared to 2018. Earnings per share for the year amounted to HK41.2 cents.

During the year under review, the Group invested HK\$7,053 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.

Town Gas Business in Hong Kong

The overall global economic environment and uncertainties over trade tariffs between mainland China and the US led to a downturn in Hong Kong's import and export sectors and logistics businesses in 2019. Coupled with a drastic fall in the number of inbound tourists resulting from social conflict incidents during the second half of 2019, local spending declined; restaurant, retail and hotel sectors were severely impacted, thus adversely affecting commercial and industrial gas sales. Additionally, as the average temperature in Hong Kong during 2019 was higher than 2018, residential gas sales also declined. Overall, total volume of gas sales in Hong Kong for 2019 was 28,712 million MJ, a decrease of 2.8 per cent, in contrast to over 290,000 units of appliances sold, an increase of 2.4 per cent, both compared to 2018.

As at the end of 2019, the number of customers was 1,933,727, an increase of 25,216 compared to 2018, up slightly by 1.3 per cent.

Business Development in Mainland China

The Group's mainland businesses continued to progress steadily during 2019. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 265 projects on the mainland, as at the end of 2019, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, environmentally-friendly energy and efficient energy applications, water sectors and waste processing, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses, through ECO Environmental Investments Limited ("ECO"), include coalbed methane liquefaction, clean coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations. With a number of achieved results from research and development gradually being applied commercially, it is expected this will contribute to the long-term business growth of the Group.

Diversification and an increase in the number of projects have gradually transformed the Group from a locally-based company in Hong Kong centred on a single town gas business into a sizeable and nationwide utility and a multi-business corporation focused on environmentally-friendly energy ventures.

Utility Businesses in Mainland China

The Group's city-gas businesses on the mainland are progressing well. As at the end of 2019, inclusive of Towngas China, the Group had a total of 132 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2019 was approximately 25,550 million cubic metres, an increase of 11 per cent over 2018. As at the end of 2019, the Group's mainland gas customers stood at approximately 29.78 million, an increase of 8 per cent over 2018. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

2019 was the 25th anniversary of the Group entering into the mainland city-gas market. The Group's city-gas businesses, benefiting from the country's environmental protection policy and migration of population to cities, are continuing sustainable development. In 2019, China-US trade disputes brought uncertainties over tariffs on goods being exported to the US which adversely impacted export-oriented manufacturing enterprises on the mainland, some of which started to move their production lines to Southeast Asian countries in view of this unfavourable business environment. The mainland's economic growth therefore slowed in 2019 compared to 2018. Growth in demand for energy also slowed. Mainland China and US trade negotiators reached a phase one

trade deal in December 2019 and an agreement was signed on 15th January 2020, expecting to help release tariff pressure faced by the mainland's manufacturing industries which export to the US.

In the long term, the Group's city-gas businesses continue to benefit from the country's environmental protection policy of speeding up the use of natural gas to replace coal across the country in order to reduce carbon emissions and improve smoggy atmospheric conditions. Substituting piped natural gas for bottled petroleum gas is also being encouraged in mainland cities, aimed at lowering safety risks. In addition, greater use of household heating in the Yangtze River Basin is raising residential gas sales there. The government is also promoting distributed energy systems by advocating partial replacement of coal-fired power with natural gas. The Group is also actively developing intelligent integrated energy system businesses, combining power, natural gas, renewable energy and power storage functions. Coupled with application of big data, artificial intelligence, the Internet, etc. to strengthen the management of energy use, the Group is endeavouring to achieve energy conservation and emission reduction, whilst also generating economic value.

The Chinese government has been making strong efforts to drive market-oriented reforms for natural gas and city-gas industries in recent years with several new policies announced, including:

- With effect from 30th July 2019, a national policy to remove the requirement for Chinese partners to hold a majority stake in certain industries, including city-gas and thermal pipeline networks, in cities with populations of more than 500,000, so as to help open up related markets. This will benefit the Group's sustainable development of its city-gas businesses.
- The "Guiding Opinions on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinions on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" published in 2017 and June 2019 respectively which set out proposed return rates for both gas distribution and gas facility installation businesses of city-gas enterprises. In future, the Group's city-gas companies may face the risk of having to adjust their natural gas selling prices and gas facility installation fees accordingly which is creating uncertainties for the Group both operationally and financially. In view of the above, management is actively monitoring changes as a result of these policies and will take appropriate measures to address as necessary.

Nevertheless, as natural gas is being promoted as a major clean energy on the mainland, long-term and steady growth in market demand is anticipated. In view of this, the country is striving to maintain an ample supply of natural gas which is now becoming abundant with a gradual increase in imported piped

natural gas from Central Asia and Myanmar and a rise in the sources of imported liquefied natural gas ("LNG"), both to the benefit of market development. In addition, Russia's Siberian east-route pipeline, which was commissioned in early December 2019, is expected to increase upstream gas sources for the Group's city-gas projects in northeastern and northern China. A number of mainland provinces and cities are also gradually implementing gas storage facilities to help boost supply capacity over winter alongside the construction of coastal LNG receiving stations to increase import channels. All these projects will contribute to a stable supply of natural gas, helping the Group's mainland city-gas businesses continue to thrive in the future.

The Group is actively enhancing its own gas storage capacity on the mainland. Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project is the first of its kind built by a city-gas enterprise on the mainland. Phase one involves the construction of 10 wells; the first three wells were commissioned at the end of October 2018. Phase two involves the construction of 15 wells. Upon completion, total storage capacity of the whole facility will reach 1.1 billion standard cubic metres, enabling the Group to supplement and regulate gas supply during the peak winter period for a number of its city-gas projects in eastern China. In the longer term, it is planned that this facility will supply gas to the Group's city-gas

projects in other regions through interconnected upstream pipeline networks, thus assisting the Group's business development in downstream city-gas markets.

The Group has been in the mainland water market, under the brand name "Hua Yan Water", for over 14 years and currently invests in, and operates, seven water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a water services joint venture project in Foshan city, Guangdong province through investment in Foshan Water Environmental Protection Co., Ltd., being the Group's first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, given food waste processing and utilisation is also a sizeable environmentally-friendly industry, the Group has constructed a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand; trial production formally commenced in mid-February 2019 and is the Group's first project

converting municipal environmental and sanitary waste into value-added products. This type of business is targeted to be gradually extended to other affluent mainland regions.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and municipal environmental and sanitary waste processing and utilisation projects are creating ever-greater synergy and mutual advantages. Furthermore, these businesses generate stable incomes and provide good environmental benefits. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

An outbreak of coronavirus disease (COVID-19) causing pneumonia, starting in early 2020, is severely impacting the country. Enterprises under the Group are actively responding to full deployment; public utility businesses, in particular, are the most important, with a mission to ensure both supply and provision of services, while making every effort to conduct epidemic prevention and control.

As the outbreak of the coronavirus disease across the country is serious, different kinds of production and business premises nationwide have been closed for some time whilst resumption of work after the Chinese New Year holiday was postponed. Consumer spending and manufacturing have shrunk significantly, leading to a drastic fall in demand for gas and water in commercial and industrial sectors. At the same time, local governments on the mainland have launched

measures to support the ongoing development of small and medium-sized enterprises in response to the epidemic by requiring public utility enterprises to implement preferential policies such as reducing fees and deferring fee payment, which will, inevitably, impact the results of the Group for the year 2020.

Emerging Environmentally-Friendly Energy Businesses

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – are all operating well, contributing to ECO's steady profit growth. ECO's landfill gas utilisation projects in the North East New Territories and the South East New Territories generate noticeable environmental benefits by avoiding in-situ burning and emission of landfill gas whilst enabling partial replacement of fossil fuels, thus increasing the Group's contribution to energy conservation and emission reduction in Hong Kong.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, and clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, are operating well. However, both projects were severely impacted by a significant fall in the selling prices of LNG, methanol and ethylene glycol caused by a reversal of the economic environment and weak consumer spending on the mainland as a result of ongoing China-US trade disputes, coupled with

a warmer winter affecting peak demand for LNG. Nevertheless, the business environment is expected to improve following the recent signing of the China-US phase one economic and trade agreement.

ECO's project which processes inedible bio-grease feedstock into hydro-treated vegetable oil (HVO), located in Zhangjiagang city, Jiangsu province, is in the trial production stage. The "International Sustainability and Carbon Certification" (ISCC) gained by this project successfully established the advance nature and viability of ECO's self-developed patented technology. On this basis, ECO is constructing phase two of this project to enhance production capacity to 250,000 tonnes per annum; commissioning is expected in mid-2020. This project is expected to generate promising economic benefits, and will be a key business for ECO to develop.

Mainland China is a sizeable agricultural production country generating a large quantity of agricultural waste every year. Apart from using a small portion of this in fields or for power generation, there are currently no effective measures to make good use of the rest of this waste. ECO has entered into a stage of industrial application of its research and development results focused on the effective use of agricultural and forestry waste. A pilot project, located in Tangshan city, Hebei province, is expected to enter into trial production during the first half of 2020, yielding furfural and paper pulp, helping to ascertain the feasibility of ECO's

self-developed patented technology. In addition, ECO has commenced another pilot project in Cangzhou city, Hebei province, utilising agricultural and forestry waste by further processing decomposed cellulose into cellulosic ethanol. As an advanced biofuel that can be added to gasoline, cellulosic ethanol will help ECO meet its target to replace fossil fuels whilst generating good economic value.

ECO continues to march along its well-defined new energy business strategy, developing in-house technology and integrating the application of existing technology. On this basis, ECO selects research and development results with higher economic and environmental protection value for commercialisation.

Telecommunications Businesses

The Group is developing telecommunications businesses through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"). As a Hong Kong fixed network service provider and industry-leading telecommunications infrastructure enabler, TGT is committed to providing connectivity, data centres and diversified telecommunications services to Hong Kong, mainland China and international telecommunications providers, operators and enterprises. TGT's businesses are progressing steadily, with seven data centres currently located in Hong Kong and mainland China. TGT is strengthening its foundations to cater for data

transmission, processing and storage needs as well as swifter market development in the future.

TGT's world-class data centre located in Tseung Kwan O, Hong Kong, records promising rental. TGT is also proactively promoting business development in mainland China. Shenzhen Internet Exchange Co., Ltd., an associated company of TGT, has been granted several value-added telecommunications service licences to provide services related to the Internet and data centre businesses in Shenzhen city. In addition, TGT has formed a new joint venture company with a strategic partner in Beijing for the development of connectivity, data centre and fog computing (small-scale data centre) businesses on the mainland. TGT is also planning to expand its telecommunications services business to other regions in Asia.

As demand for telecommunications services is rapidly progressing, coupled with the strategic location of the Guangdong-Hong Kong-Macao Greater Bay Area, TGT, possessing data centres in Hong Kong and mainland China, together with communication channels connecting mainland China, Hong Kong and overseas, is expected to exhibit greater room for development in the future.

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

Towngas China, a subsidiary of the Group, maintained stable business growth in 2019. Compared to 2018,

profit after taxation attributable to shareholders (excluding impairment provision of goodwill) for the year rose by 19 per cent to HK\$1,456 million. After deducting the one-off impairment provision of goodwill, profit after taxation attributable to shareholders for the year amounted to HK\$1,308 million, an increase of 7 per cent compared to 2018. As at the end of December 2019, the Group held approximately 1,945 million shares in Towngas China, representing approximately 67.76 per cent of Towngas China's total issued shares.

Project development progressed well in 2019 with Towngas China adding 11 new projects to its portfolio, comprising U-Tech (Guang Dong) Engineering Construction Co., Ltd., a piped city-gas project in Laoshan district, Qingdao city, Shandong province, and Liaoning Clean Energy Group Co., Ltd., as well as eight distributed energy projects located in Fengnan Ligang Economic Development Zone, Tangshan city, Hebei province; in the Maanshan Economic and Technological Development Zone South District, Anhui province; in Dangtu Economic Development Zone North District, Anhui province; in Anhui province (developing sales of power); in Changzhou Photovoltaic Industrial Park, Jiangsu province; in Wangcun Industrial Zone, Songyang county, Lishui city, Zhejiang province; in the Xinmi Yinji International Tourism Resort, Zhengzhou city, Henan province; and in Shenzhen city, Guangdong province.

As mainland China is accelerating the restructuring of green and

efficient energy consumption, continuously augmenting the share of natural gas in primary energy consumption, and is increasingly focused on improving energy efficiency to reduce carbon emissions, Towngas China expects to see more growth in natural gas sales in the coming years. In response to changes in the economic environment and industrial development, Towngas China is continuing to strengthen its upstream, midstream and downstream coverage, by enhancing its gas supply capacity during peak seasons, reducing cost of gas sources and striving to provide customers with clean energy and quality services. In addition, Towngas China will continue to develop coal-fired boilers and coal-to-gas conversion projects for industrial kilns to increase gas sales to industrial and commercial customers. Towngas China is also proactively exploring commercial integrated and distributed energy services business opportunities in sales of goods and services including hot water, washing, steam and heating, aiming to save customer costs through appropriate energy solutions. In respect of extended businesses, Towngas China is seeking to make strategic cooperative arrangements, under the Group brand name "Towngas Lifestyle", to increase sales of gas insurance and "Mia Cucina" kitchen cabinets, and to provide customers with intelligent living services through an online customer centre platform. As there are increasing opportunities for developing these types of new businesses, Towngas China is

confident it can maintain high quality and sustainable growth through innovative development.

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. Medium term notes totalling HK\$858 million, with a tenor of 30 years, were issued during 2019. In line with the Group's long-term business investments, as at 31st December 2019, the nominal amount of medium term notes issued had reached HK\$14.8 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.4 per cent per annum and an average tenor of 16 years. The Group updated the programme during 2019 and increased the issue size by US\$1 billion to US\$3 billion, introducing more flexibility for future financing.

In January 2014, the Group issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Securities"), amounting to US\$300 million, through Towngas (Finance) Limited, a wholly-owned subsidiary of the Group. These Perpetual Securities were redeemed in January 2019. Since Perpetual Securities have no fixed maturity date, they are accounted for as equity instead of borrowings in financial statements, which also helps to strengthen the Group to maintain its high investment grade credit ratings. Therefore, the Group issued US\$300 million new Perpetual Securities again in

February 2019 and the proceeds are mainly used to refinance the redeemed Perpetual Securities. The newly issued Perpetual Securities keep the coupon interest rate at 4.75 per cent per annum for the first five years. The Perpetual Securities are redeemable, at the option of the Group, in February 2024 or thereafter every six months on the coupon payment date. This issuance of the Perpetual Securities, rated A3 and BBB+ by international rating agencies Moody's Investors Service and Standard and Poor's Rating Services respectively, received an overwhelming response from investors and were more than 14 times oversubscribed. The Perpetual Securities, guaranteed by the Company, were listed on The Stock Exchange of Hong Kong Limited on 13th February 2019 (stock code: 5749.HK).

Employees and Productivity

As at the end of 2019, the number of employees engaged in the town gas business in Hong Kong was 2,096 (2018 year end: 2,052), the number of customers was 1,933,727, and each employee served the equivalent of 923 customers. 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 2,474 as at the end of 2019 compared to 2,418 as at the end of 2018. Related manpower costs amounted to HK\$1,201 million for 2019. In 2019, there was an approximately 4.5 per cent average

increase in remuneration over 2018. 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.

Exclusive of businesses in Hong Kong, the total number of the Group's employees in mainland China and other places outside Hong Kong was approximately 50,410 as at the end of 2019, an increase of approximately 710 compared to 2018.

On behalf of the Board of Directors, we 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 twenty existing shares held by shareholders whose names are on the Register of Members of the Company as at 15th June 2020. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 5th June 2020, and if passed, share certificates will be posted on 23rd June 2020.

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 of the Company as at 15th June 2020. Including the interim dividend of

HK12 cents per share paid on 2nd October 2019, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2020 after bonus share issue shall not be less than the interim and final dividends for 2019.

Business Outlook for 2020

The Company predicts steady growth in its number of customers in Hong Kong during 2020. Although local social conflict incidents, lasting for several months, have now eased slightly, the spread of the coronavirus disease from mainland China to Hong Kong in late January this year, with confirmed cases continuing to rise, coupled with related epidemic prevention measures, has decreased the number of inbound visitors significantly and weakened consumer sentiment, strongly hitting retail, tourism, restaurant and hotel sectors and leading to a rise in unemployment. The local economy is therefore expected to decline further this year. Facing this challenging business environment in Hong Kong, the Group is adopting measures to broaden sources of revenue and cut expenditure and costs. The Company continues to promote smart innovation to enhance customer services and operational efficiency so as to maintain stable development of its gas business in the territory. The Company's increase in the standard gas tariff effective from 1st August 2019 is also helping to offset some of its rising operating costs. In the long term, the Group's gas business in Hong Kong will benefit from the efforts of the Government of the

Hong Kong Special Administrative Region to increase land and housing supply which should help maintain stable and good growth in the Group's number of gas customers over the next few years.

China-US trade tensions eased following the signing of the phase one economic and trade agreement in mid-January this year, bringing an initial turnaround to the mainland's export manufacturing sector. However, since early 2020, the outbreak of the coronavirus disease has significantly affected various business sectors on the mainland creating a severely challenging business environment. Nevertheless, once commercial and industrial sectors fully resume operations after the epidemic eases at some time in the future, demand for gas will gradually return to normal levels. In the long term, the Chinese government's efforts to promote reduction of carbon emissions and use of clean energy are helping the development of natural gas markets. In addition, increasing upstream gas supplies, expansion and improvement of pipeline networks and the Chinese government's formation of a national pipeline company in December 2019 to advocate natural gas market reforms, together with rapid urbanisation, all favour the development of the downstream gas market and a healthy natural gas business sector in general.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its established operational base,

successful technical experience, human resources, corporate brand names and sales channels built there in the past 25 years, alongside society's growing concern over environmental protection, it is anticipated that there will be ever-rising demand for clean energy and good potential for growth in the natural gas market. The Group is also developing intelligent integrated energy system businesses on the mainland, coupled with a diversified energy mix, energy storage facilities and application of technologies including big data and the Internet, with the aim to enhance energy efficiency and achieve energy conservation and emission reduction. The Group's mainland businesses are therefore expected to further prosper and diversify. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that a sizeable customer base will create a promising platform for expansion of various extended businesses. Furthermore, in line with the country's development plan for the Guangdong-Hong Kong-Macao Greater Bay Area, the Group is seizing investment opportunities to explore environmental protection projects in the Pearl River Delta region.

The impact of the coronavirus disease on the mainland economy for the whole of 2020 is still uncertain; it will, however, be relatively significant during the first quarter. The recent spread of the coronavirus disease to various countries and regions worldwide, coupled with future development of China-US trade relations and a sharp fall in international oil prices, are

creating a number of uncertainties for the global economic and business outlook. In Hong Kong, while social conflict incidents lasting for several months have already adversely impacted retail, tourism, restaurant and hotel sectors, the outbreak of the coronavirus disease has further hit related business sectors which is, inevitably, unfavourably affecting commercial and industrial gas sales in the short term. With public utilities as its core business, the Group has a relatively strong resilience to the impact of economic downturns, given its continuing efforts to broaden sources of revenue and cut expenditure and operating costs. It is expected that when the epidemic is over, the Group's businesses will return to normal within a relatively short period of time. Overall, with society's growing aspiration for more environmental protection, demand for natural gas and renewable energy will increase. The Group will continue to formulate, and is gradually implementing, plans in accordance with mainland China's energy and environmental protection policies. In addition, with sizeable customer base resources built up after years of operating urban utilities, alongside the development of various value-added services, the Group anticipates an ever-broader development for its various businesses in the future.

Lee Ka-kit **Lee Ka-shing**
Chairman *Chairman*
 Hong Kong, 19th March 2020