Chairman's Statement

The Year's Results

The Group's town gas business in Hong Kong maintained stable growth in 2017. Concurrently, the Group's city-gas businesses in mainland China and emerging environmentally-friendly energy businesses progressed well, thus bringing good growth to the Group's overall recurrent businesses during the year.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$8,225 million, an increase of HK$884 million compared to 2016. Earnings per share for the year amounted to HK58.8 cents, an increase of 12.1 per cent compared to 2016. Exclusive of the Group's share of a revaluation surplus from the International Finance Centre complex, the Group's profit after taxation for the year was HK$7,008 million, an increase of approximately 14 per cent compared to 2016 mainly attributable to a rise in profit from the Group's local and mainland businesses.

During the year under review, the Group invested HK$6,141 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 global economy recovered steadily in 2017, and concurrently, the local economy grew well. Favourable employment conditions and growth in the number of inbound visitors helped stimulate local consumer spending. Benefiting from a rise in commercial and industrial gas sales, total volume of gas sales in

Hong Kong for 2017 reached 29,049 million MJ, an increase of 0.8 per cent compared to 2016 whilst total number of appliances sold in 2017 was over 275,000 units, a similar level to 2016.

As at the end of 2017, the number of customers was 1,883,407, an increase of 23,993 compared to 2016, up slightly by 1.3 per cent.

Business Development in Mainland China

The Group's mainland businesses continued to progress steadily during 2017. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 245 projects on the mainland, as at the end of 2017, four more than at the end of 2016, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses in mainland China, including coalbed methane liquefaction, coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily. Benefiting from a steadily improving economy in mainland China and a gradual rebound of international oil prices, ECO recorded noticeable profit growth in 2017. ECO's in-house research and development of innovative technologies also progressed well with a number of achieved results gradually being applied commercially. Gradual commissioning and development of related projects is expected to 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 a number of years ago into a sizable, nation-wide, multi-business corporation focused on environmentally-friendly energy ventures and utility sectors.

Utility Businesses in Mainland China

The Group's city-gas businesses are progressing well. As at the end of 2017, inclusive of Towngas China, the Group had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2017 was approximately 19,500 million cubic metres, an increase of 14 per cent over 2016. As at the end of 2017, the Group's mainland gas customers stood at approximately 25.38 million, an increase of 10 per cent over 2016. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

The global economy saw moderate recovery in 2017, leading to increasing demand for commodities. As a result, mainland China's economy grew faster in 2017 compared to 2016, with major economic indicators better than expected, including double-digit growth for exports, reversing the decline of the previous two years. The exchange rate of the renminbi also rebounded during the year. Thriving industrial manufacturing boosted the country's demand for energy, including electricity, petroleum and natural gas. In the medium to long term, the Chinese government advocates developing the use of natural gas to reduce air pollution and improve smoggy atmospheric conditions. As natural gas is the most widely used clean energy on the mainland, long-term and steady growth in market demand is anticipated. The Chinese government has formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution and speed up the pace of greater use of natural gas to replace coal ("coal-to-gas")

across the country and to minimise the formation of smog, fostering a growing trend towards natural gas and environmentally-friendly energy. The competitiveness of natural gas relative to other energy sources has been enhanced following reductions in the mainland's non-residential natural gas city-gate prices at the end of 2015. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses.

In addition, with gradual commissioning of large-scale national natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and the West-to-East pipeline, and projects for importing piped natural gas from Central Asia and Myanmar, together with a scheduled supply of piped natural gas from Russia, as well as a rise in the sources of imported liquefied natural gas ("LNG"), supply of natural gas on the mainland is becoming ample, which is beneficial to market development. Mainland China is actively participating in international programmes to tackle global warming. As extensive areas of the country are experiencing serious smoggy atmospheric conditions, more and more provinces and cities are now promoting "coal-to-gas" policies. Natural gas as a fuel for household heating in winter is gradually becoming more widespread whilst the government is also advocating the use of natural gas to partially replace coal-fired power by promoting distributed energy systems. Thus, with ample sources of gas supply, expanding pipeline networks, rising living standards and society's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in future.

In the short term, the mainland's sources of gas supply in winter will still be insufficient but its gas storage capacity is swiftly improving. Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Construction of phase one of this project, developing a storage capacity of approximately 140 million standard cubic metres, was completed, with inspection passed, in January 2018. Construction of phase two, to develop a storage capacity of approximately 300 million standard cubic metres, will commence in late March 2018. This project is in line with the Chinese government's policy of advocating faster development of gas storage capacity, and will help the Group supplement and

regulate gas supplies during the peak winter period for a number of its city-gas projects in eastern China, thus facilitating the Group's business development in downstream city-gas markets.

The Group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well, with 122 stations to date spread across different provinces. Apart from this, the Group is also proactively developing a gas refilling business for marine vessels. Given that natural gas is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses promise good prospects for the Group.

The Group has been in the mainland water market, under the brand name "Hua Yan Water", for over 12 years and currently invests in, and operates, six 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; and 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. In addition, given food waste processing and utilisation is also a sizable environmentally-friendly industry, the Group is constructing 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. Commissioning is expected in the fourth quarter of 2018; this will be the Group's first project converting waste into valuable products.

The Group invested in an LNG receiving terminal and supporting pier project at Huanghua port, Cangzhou city, Hebei province in early 2018. This state-planned energy project, emanating from mainland China's Thirteenth Five-Year Plan, will be developed in phases. Construction will embrace four LNG storage tanks with a total design receiving capacity of 2.6 million tonnes of LNG per annum, half of which is expected to be commissioned in 2021, and an unloading pier with a capacity of 100,000 tonnes. This project is currently at the preparatory stage and is expected to become a major channel for importing LNG into Hebei province after completion, thus creating synergy with the Group's investment in a midstream natural gas project in this province, which together will then create a total new gas source for the whole of Hebei province. This project will also play an important role in safeguarding gas sources for the province's "coal-to-gas" conversion project, part of the government's air pollution control plan for Beijing city, Tianjin city and Hebei province.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and environmental waste processing and utilisation projects create ever-greater synergy and mutual advantages. Furthermore, these businesses generate stable incomes, provide good environmental benefits and exhibit high growth potential. 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 major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all operated well in 2017, contributing to ECO's steady profit growth. With a total turnover of approximately 6.55 million tonnes of aviation fuel in 2017, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly in 2017, providing a

quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas utilisation project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories was commissioned in November 2017. This further raises the proportion of landfill gas used by the Group, thus making an increasing contribution to energy conservation and emission reduction in Hong Kong.

As smog and air pollution on the mainland are growing concerns, the Chinese government stepped up its efforts in 2017 to promote "coal-to-gas" conversion – using natural gas to replace coal for steam raising, leading to a surge in LNG prices during the winter, benefiting the operating income of ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province. Output from this project increased by 11 per cent, bringing better profit growth in 2017 compared to 2016. In line with the mainland's policy of using LNG to replace diesel as fuel for heavy-duty trucks, ECO is proactively developing networks of natural gas refilling stations which are gradually taking shape and expanding, and the ECO brand name is gradually becoming more well-known in the market.

Conversion of biomass into clean energy and chemical products is an important part of ECO's business strategy which is also in line with the policy direction of mainland China. To this end, a plant, located in Zhangjiagang city, Jiangsu province to process inedible grease feedstock using ECO's self-developed technology, has been constructed. The initial trial production has successfully yielded a first batch of 3,000 tonnes of green and renewable hydro-treated vegetable oil (HVO) for export to European markets. This project has gained "International Sustainability and Carbon Certification" (ISCC), and, on this basis, is well on the way to achieving its aims of maximising both product value and environmental benefits.

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. However, ECO's research and development team has successfully developed a world leading approach regarding pyrolysis and hydrolysis technologies which could effectively break down agricultural and forestry waste into hemicellulose, cellulose and lignin for further processing, creating an innovative way to convert this waste into

value-added materials. To this end, ECO is planning to launch its first pilot project in a straw-rich mainland region applying hydrolysis technology to convert hemicellulose and cellulose in straw into furfural and paper pulp respectively; both are chemical feedstock and basic materials which will bring noticeable economic and environmental benefits. If successful, this pilot project will drive ECO to cultivate a broad green and low-carbon eco-system.

The operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region improved substantially in 2017, with a rise in the price of methanol and a 26 per cent increase in annual sales compared to 2016. Additionally, construction of a facility to convert a portion of the project's syngas into 120,000 tonnes of ethylene glycol annually has been completed, with trial production targeted to start in the first quarter of 2018. The success of this project will lay a foundation for ECO to further expand its syngas upgrading businesses.

In the past few years, ECO's scientific research focusing on the extraction of high-quality carbon materials from the bitumen part of high-temperature coal tar oil has achieved promising results, successfully producing meso-carbon micro-bead and high-quality activated carbon which meet the specifications required for commercial applications. Meso-carbon micro-bead is an ideal anode material for lithium-ion batteries, whereas high-quality activated carbon can be used for making super capacitors. Given the prevailing trend for promoting new energy electric vehicles and rail transport electrification in mainland China, prospects for these new carbon materials are promising. ECO has started preparatory work on its first pilot project of this kind in Ordos city, Inner Mongolia Autonomous Region, with gradual commissioning expected to start in early 2019.

As mainland China is now experiencing severe atmospheric pollution and carbon emissions, new energy driven reform is imminent. ECO continues to march along its well-defined new energy business development strategy by strengthening its capabilities in research and technological development, and, with that, building up its key businesses relating to low-carbon and clean-coal chemicals, efficient conversion and utilisation of straw, preparation of high-quality carbon materials, hydrogenation and upgrading of bio-grease, etc. In doing so, ECO is gradually migrating from its original emphasis on fuel substitutes to one encompassing higher value-added chemical and new material substitutes. A number of breakthroughs in key technologies have already been achieved, some of which can be commercialised shortly and able to deliver significant economic and environmental benefits. All these successes will create a significant competitive edge for ECO's future development.

Telecommunications Businesses

The Group's development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local telecommunications operators as well as large corporations, through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"), is progressing steadily. Benefiting from synergy created by laying fiber-optic cables along existing town gas pipelines, and leveraging European advanced "glass-in-gas" and "glass-along-gas" technologies, TGT has developed telecommunications networks in Liaoning province, Shandong province, Jiangsu province, Shenzhen city, etc. TGT is also working closely with telecommunications partners to further expand connectivity business on the mainland.

In addition, TGT has invested in, and is currently operating, seven data centres in Hong Kong and mainland China in Dongguan city,

Jinan city, Dalian city, Beijing city and Harbin city in total accommodating up to 16,000 server racks. Furthermore, based on its professional and reliable telecommunications infrastructure, TGT has built a highly flexible and secure cloud platform to cater for different needs of customers. TGT is embracing opportunities created by the "big data era", "5G wireless networks" and "the Internet of Things" by proactively developing advanced fiber-optic networks and maximising usage of its data centre network and cloud platform, aiming to meet a growing market demand for telecommunications services as well as data analysis and storage.

Towngas China Company Limited

(Stock Code: 1083.HK)

Towngas China, a subsidiary of the Group, recorded good growth in profit after taxation attributable to its shareholders, amounting to HK$1,365 million in 2017, an increase of approximately 40 per cent over 2016. As at the end of 2017, the Group held approximately 1,858 million shares in Towngas China, representing approximately 67.1 per cent of Towngas China's total issued shares.

Project development also progressed well during 2017 with Towngas China adding to its portfolio a city-gas project in Huji town, Zhongxiang city, Hubei province, a midstream natural gas pipeline network project in Guyang county, Baotou city, Inner Mongolia Autonomous Region and a distributed energy project in Shenyang Economic and Technological Development Zone, Shenyang city, Liaoning province.

Foshan Gas Group Co., Ltd., an associate of Towngas China, was listed on the Shenzhen Stock Exchange in November 2017. The Company is principally engaged in the piped city-gas business. Listing will help its business development in Foshan city and the surrounding areas.

Towngas China will continue to actively develop small to medium commercial and industrial gas markets on the mainland and to advocate "coal-to-gas" conversion. The Company is also planning to actively develop both household gas heating, hot water and clothes drying markets on the mainland in order to boost residential gas demand, and, in addition, distributed energy system projects to enhance the efficiency of natural gas applications thus increasing competitiveness.

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. Taking advantage of low interest rates, medium term notes totalling

HK$1,438 million, with maturity of 10 years, were issued during 2017. In line with the Group's long-term business investments, as at 31st December 2017, the amount of medium term notes issued had reached HK$13.4 billion with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.5 per cent and an average tenor of 15 years.

Inaugural Green Bond Issuance

The Group issued its inaugural green bonds in November 2017 based on a newly established Towngas Green Bond Framework, which was prepared in accordance with the Green Bond Principles 2017 of the International Capital Market Association. The inaugural 10-year green bonds, amounting to HK$600 million and JPY2 billion, were issued efficiently under the medium term note programme of the Group and attracted keen support from green investors. Proceeds from the bonds are earmarked for investment in the Group's waste-to-energy projects, including the landfill gas utilisation project at the South East New Territories landfill in Hong Kong and other eligible green investments in mainland China which demonstrate the Group's strong dedication to sustainable development and the fight against climate change. The Group is the first energy utility in Hong Kong to issue green bonds, laying a milestone for the Group's financial and environmental strategies.

The issuance of green bonds has allowed the Group to tap into a new base of green bond investors as an additional funding source for financing environmentally green projects under the Towngas Green Bond Framework. The Group is also pleased to play a part in developing a green finance hub in Hong Kong.

Employees and Productivity

As at the end of 2017, the number of employees engaged in the town gas business in Hong Kong was 2,022 (2016 year end: 2,019), the number of customers was 1,883,407, and each employee served the equivalent of 931 customers, an increase of 1.1 per cent over 2016. 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 2,388 as at the end of 2017 compared to 2,392 as at the end of 2016. Related manpower costs amounted to HK$1,090 million for 2017. In 2017, there was an approximately 3.6 per cent average increase in remuneration over 2016. 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 47,000 as at the end of 2017, a similar level to 2016.

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 by shareholders whose names are on the Register of Members of the Company as at 14th June 2018. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 6th June 2018, and if passed, share certificates will be posted on 22nd June 2018.

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 14th June 2018. Including the interim dividend of HK12 cents per share paid on 3rd October 2017, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2018 after bonus share issue shall not be less than the interim and final dividends for 2017.

Business Outlook for 2018

The Company predicts steady growth in its number of customers in Hong Kong during 2018. Stable economic development, favourable employment conditions and thriving inbound tourism in early 2018 all helped to stimulate domestic demand and consumer spending. The Group's gas business in Hong Kong is also benefiting 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 number of gas customers in the next few years. Additionally, town gas as an energy resource combining both environmental and economic advantages is creating a competitive edge fostering development of the Company's commercial and industrial energy markets. Following a slight rebound of international oil prices from a low level, fuel cost adjustment charges of the gas tariff have slightly increased but this is not affecting the competitiveness of town gas, relative to electricity in particular, in the energy market. However, increasing local manpower costs and operating expenses are leading to rising costs for businesses generally. The Company's increase in the standard gas tariff effective from 1st August 2017 is helping to offset some of its own rising operating costs. The Company will, however, continue to enhance operational efficiency so as to maintain stable development of its gas business in the territory.

Despite a number of uncertainties concerning the global economic outlook, recovery momentum in 2017 was steady and is continuing so far this year. High demand for commodities in international markets is helping the development of export manufacturing industries in mainland China thus leading to steady growth in industrial gas demand. These factors are beneficial to overall profit growth of the Group's city-gas businesses. Furthermore, the Chinese government's move to improve smoggy atmospheric conditions by tightening supervision and administration of related measures is in progress. On 1st January 2018, the Implementing Regulations for the Environmental Protection Tax Law became effective alongside the Environmental Protection Tax Law, aiming to further promote corporate initiatives to enhance their environmental protection levels by charging taxes in accordance with the quantity of pollutants discharged; this is helping the development of

natural gas markets. The Chinese government is also increasing its efforts to reduce carbon emissions and encourage the use of clean energy, creating opportunities for natural gas to replace use of coal in industrial production, as well as in boilers, power generation, distributed energy, household heating, etc. Natural gas price adjustments in late 2015 lowered upstream gas prices, thus enhancing competitiveness. In addition, increasing upstream gas supplies, expanding and improving pipeline networks and rapid urbanisation leading to a continuous rise in demand for utility facilities and energy, are all favourable to the downstream gas market and the healthy and long-term development of the natural gas business sector in general.

In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and recycling of materials, the Group is continuing to develop and apply new technologies for conserving energy and reducing pollutant emissions. There is also a growing trend for greater use of low-sulfur, high-quality oil, electricity and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. A rebound of international oil prices from their lowest point in early 2016 has created a favourable environment for profit growth of the Group's emerging environmentally-friendly energy businesses. ECO is also moving towards production of high-quality chemical products which are less sensitive to international oil prices, taking this as a guide for future business development. As ECO's in-house research and development of a number of technologies is gradually achieving results which are being put into commercial production, emerging environmentally-friendly energy businesses will ignite a new light for the Group, illuminating the way for long-term development 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 established operational base, successful technical experience, corporate brand names and sales channels built there over 20 years alongside society's growing concern over air quality, it is anticipated that there will be ever-rising demand for clean energy. According to the Thirteenth Five-Year Plan, the share of natural gas in the country's total energy mix is set to increase from 6 per cent currently to 10 per cent by year 2020, thus creating huge market potential for clean energy. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that this sizeable customer base will create a promising platform for its expanding new businesses.

The mainland's economic development is expected to maintain steady and favourable momentum in 2018. The Group has formulated, and is gradually implementing, plans in accordance with the country's energy and environmental policies. Overall, with society's growing aspiration for more environmental protection, demand for natural gas and environmentally-friendly and renewable energy will increase. Furthermore, the Group is actively promoting an innovative mindset and effectively putting this into practice, thus continuously injecting new impetus to foster business growth. The Group anticipates an ever broader and brighter development for its businesses in the future.

LEE Shau Kee
Chairman
Hong Kong, 20th March 2018