CHAIRMEN'S STATEMENT

The Year's Results

The coronavirus disease causing pneumonia (COVID-19) spread globally and severely hit the world economy in 2020. Following the implementation of effective measures to prevent and control the epidemic, mainland China has gradually resumed steady economic growth since the second quarter of last year. Despite the epidemic affecting the Group's businesses in mainland China and Hong Kong, the Group's active response, by increasing revenue and reducing expenditure, has been effective, thus mitigating the impact of the epidemic on its businesses. Furthermore, benefiting from the commissioning of new projects during the year, the Group's businesses maintained sustainable development.

The Group's operating profit of principal businesses after taxation for the year amounted to HK$7,256 million, an increase of HK$243 million, up by approximately 3 per cent, compared to 2019. The Group's profit after taxation (exclusive of the Group's share of a decrease in revaluation from an investment property, the International Finance Centre complex) amounted to

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HK$6,484 million, a decrease of HK$282 million, down by approximately 4 per cent, compared to 2019. Inclusive of the decrease in revaluation of the investment property, profit after taxation attributable to shareholders of the Group for the year amounted to HK$6,007 million, a decrease of HK$958 million, down by approximately 14 per cent, compared to 2019. Earnings per share for the year amounted to HK33.8 cents.

During the year under review, the Group invested HK$7,295 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.

Development Strategy of the Group

As a common challenge facing the world, climate change is receiving unanimous attention from governments around the world. By setting a clear goal to limit the increase in global average temperature, the Paris Agreement signed in 2016 advocates reducing greenhouse gas emissions and accelerating transition to a green and sustainable growth model. All participating countries have now set out their own goals and policies to reduce carbon emissions, forming a global climate governance framework.

At a critical moment when the world was facing the dual challenges of the coronavirus pandemic and climate change, President Xi Jinping announced at the United Nations General Assembly in September 2020 that China's goal, in response to climate change, would be to strive to have carbon dioxide emissions peak before 2030 and achieve carbon neutrality before 2060.

The Group has always taken clean energy as a focus in formulating its development policy. Over the years, the Group has developed natural gas markets on the mainland, effectively helping to reduce air pollution and carbon emissions, and thus promote transformation of the national energy mix. As natural gas is the cleanest fossil energy source, mainland China has developed large-scale natural gas infrastructure facilities and accelerated the establishment of natural gas production, supply, storage and marketing systems to enhance gas supply capabilities. Therefore, in the process of striving to achieve carbon neutrality, high-quality development and broad market prospects for city-gas are foreseeable.

Meanwhile, renewable energy sources such as photovoltaics, wind energy, hydrogen energy and biomass energy, which are in line with the country's long-term goal of carbon neutrality, are poised to enter a state of rapid development.

Leveraging on the huge market and customer resource advantages of city-gas businesses, alongside the support of national policies, the Group has actively developed a distributed energy system business over the past few years, creating energy-efficient applications and enhancing customer benefits. More recently, the Group has broadened its revenue sources by launching a smart energy business, using photovoltaic power generation on the rooftops of large factory buildings, and combining this with power storage functions, the Internet and big data analytics and dispatch management platforms, to effectively reduce demand for purchasing electricity from the grid. Besides, energy innovation is a development trend encouraged by national policies. The Group has set up research and development bases in Shanghai city and Suzhou city, focusing on the conversion and utilisation of biomass to produce advanced biofuels using agricultural waste and inedible bio-grease feedstock. The Group's project, located in Jiangsu province, which converts bio-grease feedstock into hydro-treated vegetable oil ("HVO") using its self-developed technology, with an annual production capacity of 250,000 tonnes, was fully commissioned during the third quarter of 2020. Our HVO has been accredited under the "International Sustainability and Carbon Certification Scheme" of achieving a 90 per cent emission reduction.

It is qualified as an advanced biofuel for the European markets, generating good environmental and economic benefits with promising prospects. As the next step to realise research and development achievement, the Group is planning to put into trial production sustainable aviation fuel (SAF) using biofuels as a base within this year in order to foster new market growth area.

In summary, the Group's future development strategy is to harness its city-gas businesses to, corresponding to the country's energy plan, promote natural gas as a clean energy for different applications as a substitute for high-emission fossil fuels such as coal and petroleum. Concurrently, the Group will accelerate the development of renewable energy production and utilisation by, on one side, taking photovoltaic power generation as a focus to develop smart energy, and, on the other side, by producing biofuels, environmentally-friendly chemical products and materials on a commercial scale using agricultural waste through innovative research and development, thereby paving the way towards greater use of renewable energy.

To conclude, the Group's development strategy is to be in line with both global environmental protection trends and mainland China's goals and policies for carbon neutrality. The Group's development experience of over 20 years in mainland China, with businesses now spread across 27 provincial areas, will facilitate sizeable growth of other new businesses. Coupled with innovative research and development and favourable operating resources across different areas, the Group foresees long-term and broad development prospects. Furthermore, the Group has always paid attention to strengthening and improving its ability to perform well in the three aspects of environmental, social and governance ("ESG") sustainability and has formulated guiding policies and goals for implementation of an holistic strategy over the years. The Group's core business development, in particular, is linked to environmental protection focused on clean energy, sewage treatment and coal-to-gas conversion, amongst others, to realise its vision of blue skies, white clouds, green mountains and clear water. In 2020, the Group was presented with the "Gold Award in the Public and Community Service sector" in the "Hong Kong Awards for Environmental Excellence", and was also ranked in the "Exemplar tier of the Greater Bay Area Business Sustainability Index", demonstrating the Group's leading position in ESG performance. The Group will continue to invest resources in the research and development of more environmentally-friendly innovative technologies to fulfill its responsibilities for protecting the environment, and to create a better future for the next generation.

Town Gas Business in Hong Kong

The Hong Kong economy was severely impacted by the coronavirus pandemic in 2020. With inbound tourism coming to a standstill and restaurant, retail and hotel sectors strongly hit, the local economy contracted sharply by 6.1 per cent in 2020 compared to 2019. As a result, during 2020, volume of commercial and industrial gas sales decreased notably, whilst volume of residential gas sales increased owing to a rise in both household cooking and use of hot water, both compared to 2019. Overall, total volume of gas sales in Hong Kong for 2020 was approximately 27,947 million MJ, a slight decrease of 2.7 per cent, whilst the number of appliances sold also decreased by 12.7 per cent due to a drop in people moving into new properties and lower consumer sentiment impacted by the epidemic, both compared to 2019. Despite this, with an effective market strategy, appliance sales decreased only slightly by 8.3 per cent compared to 2019.

The Company proactively supported the catering sector, which was significantly hit by the epidemic, by extensively assisting eateries to implement infection control and by launching a "Supporting F&B and the Economy" campaign in May 2020, aiming to help recovery of this sector when the epidemic eased.

Given the slowdown in people moving into new properties due to the epidemic, the number of customers was 1,943,777 as at the end of 2020, a slight increase of 10,050 compared to 2019.

Businesses in Mainland China

The Group's mainland businesses continued to progress steadily during 2020. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 436 projects (2019 year end: 406 projects, inclusive of city-gas projects re-invested by the Group's companies) on the mainland, as at the end of 2020, spread across 27 provincial regions. These projects encompass upstream, midstream and downstream natural gas sectors, environmentally-friendly energy, smart energy, water sectors and city-waste treatment, as well as telecommunications.

Utility Businesses

During the first quarter of 2020, the coronavirus epidemic led to city lockdowns and suspension of work, production and transportation in most regions on the mainland, all negatively impacting economic activity. By March 2020, mainland China was gradually bringing the epidemic under control with work and production resuming in an orderly manner throughout the country. The mainland economy has since gradually recovered, with gross domestic product turning from contraction in the first quarter of 2020 to positive growth in the three consecutive quarters thereafter, recording a 2.3 per cent increase for the year 2020 compared to 2019.

During the coronavirus epidemic on the mainland, enterprises under the Group actively responded to full deployment. This was particularly important for the Group's public utility businesses which had to ensure a safe supply of both city-gas and water alongside provision of services, whilst also making sterling efforts to ensure epidemic prevention and control measures were properly implemented within its enterprises. The Group's various businesses on the mainland have gradually resumed normal operations since the second quarter of last year. However, the epidemic worldwide reached "pandemic" status by mid-March 2020 and continues to fluctuate in a number of countries, leading to periodic city lockdowns to prevent its spread. The pandemic has, therefore, severely hit the global economy, leading to a fall in demand for commodities. Coupled with an adverse business environment arising from various factors, including trade disputes between mainland China and the United States, gas and water demand in commercial and industrial sectors on the mainland were adversely affected. In addition, as local governments on the mainland have launched measures to support small and medium-sized enterprises, public utility enterprises have been required to reduce fees, defer fee payments, etc. and these temporary measures have impacted the results of the Group for the year 2020.

As at the end of 2020, inclusive of Towngas China, the Group had a total of 282 city-gas projects on the mainland (2019 year end: 273 projects, inclusive of city-gas projects re-invested by the Group's companies). The total volume of gas sales for these projects in 2020 was approximately 26,900 million cubic metres, an increase of 5 per cent compared to 2019. As at the end of 2020, the Group's mainland gas customers stood at approximately 31.81 million, an increase of 7 per cent over 2019.

The Group added several smart energy projects to its portfolio in 2020, including installation of solar photovoltaic power generation systems on rooftops of large production plants and logistics warehouses, and establishing energy storage facilities. With substantial demand for these renewable energy facilities, business prospects are promising. Coupled with application of big data, artificial intelligence and the Internet to enhance energy utilisation and dispatch efficiency, the Group is endeavouring to achieve energy conservation and emission reduction, whilst also generating economic benefits.

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, the first of its kind built by a city-gas enterprise, will eventually comprise a total of 25 wells with a total storage capacity of 1.1 billion cubic metres, to be built in two phases, four wells of which have now been commissioned and successfully interconnected with the West-to-East Gas Pipeline and the Sichuan-to-East Gas Pipeline, being two large-scale national-level natural gas transmission pipelines. Located in economically active eastern China with a superior geographical location, the Group's storage facility enables city-gas projects to supplement gas supplies in this region during the peak winter period. In the longer term, it is planned that the facility will supply gas to other regions through interconnected pipeline networks. As the mainland's national pipeline network has already been officially commissioned, this is also an opportunity to explore a new means of commercially operating the Group's gas storage facilities.

During the year, the Group also acquired a storage tank project at the liquefied natural gas ("LNG") receiving terminal in Tangshan city, Hebei province. The Group has been granted the right to use two storage tanks of 400,000 cubic metres in total alongside a jetty for importing 1 million tonnes of LNG per annum for a contract term of 50 years. Use of the storage tanks will start before the end of 2023 but use of the jetty will be exercised earlier – by the end of 2022. This project will significantly enhance the Group's gas storage capacity and reduce the need to build separate gas storage facilities by different companies under the Group. The Group can also purchase gas directly from overseas to reduce costs.

Environmental governance businesses have broad development prospects. Leveraging on the rich experience in sewage treatment gained from the Group's water sector "Hua Yan Water", the Group successfully developed an urban organic waste resource utilisation project in Suzhou Industrial Park, Jiangsu province in 2019. This project has cumulatively processed more than 170,000 tonnes of organic wastes and produced nearly 5 million cubic metres of bio-natural gas. Construction of phase two of this project, to increase daily processing capacity from 500 to 800 tonnes, is in progress, expecting to commence operation in the second quarter of 2021. Furthermore, in order to coordinate the development of its environmental governance businesses, the Group has formed an investment platform company, "Hua Yan Environmental", in Changzhou city, Jiangsu province, to develop a waste incineration business in the city. A food waste resource utilisation project already operating in Tongling city, Anhui province has also been successfully acquired. The Group is also developing food waste treatment, waste incineration power generation, industrial wastewater and sewage treatment projects in other cities so as to further bolster the Group's environmental protection businesses.

Operation and management of businesses encompassing midstream natural gas, city-gas, water and municipal environmental protection businesses are creating ever-greater synergy. Furthermore, these businesses generate stable incomes. The Group will therefore keep on investing in high-quality utility projects of these kinds.

Emerging Environmentally-Friendly Energy Businesses

The research and development team of ECO Environmental Investments Limited ("ECO") under the Group has long been striving hard for breakthroughs in the field of biomass utilisation. Several patented technologies which target on the utilisation of inedible bio-grease and agricultural waste as two different feedstocks, are now gradually being implemented in a number of projects.

The first project, located in Jiangsu province, which converts inedible bio-grease feedstock into HVO using ECO's self-developed technology, with an annual production capacity of 250,000 tonnes, was fully commissioned during the third quarter of 2020. Having gained the accreditation under the "International Sustainability and Carbon Certification Scheme" and thus qualified as an advanced biofuel defined by the European Union, ECO's HVO is entirely exported to European markets. With European countries paying keen attention to climate change and setting specific emission reduction policies, the market potential for advanced biofuel is substantial. Successful implementation of our project in Jiangsu province has laid a solid foundation for ECO's further development of its biomass utilisation business.

ECO's another set of patented technologies is to refine agricultural waste through pyrolysis and hydrolysis into a product scope encompassing biofuels, biochemicals and biomaterials. For this, ECO is now developing two pilot projects in Hebei province – one producing furfural and paper pulp as main products expected to commence trial production in the second quarter of 2021, followed by another one producing furfural and cellulosic ethanol expected to commence trial production in the fourth quarter of 2021. Cellulosic ethanol is yet another highly demanded advanced biofuel as defined by the European Union.

Following its formulated new energy business strategy, ECO is now in full swing to develop green and sustainable low-carbon businesses founded on its self-developed innovative technologies.

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

Towngas China, a subsidiary of the Group, recorded profit after taxation attributable to its shareholders for the year amounting to HK$1,447 million, an increase of approximately 11 per cent compared to 2019. As at the end of December 2020, the Group held approximately 2,025 million shares in Towngas China, representing approximately 68.21 per cent of Towngas China's total issued shares.

Facing the sudden outbreak of the coronavirus epidemic in 2020, staff at all levels in Towngas China actively responded to and performed their duties diligently to ensure a safe supply of gas, aiming to fight the epidemic alongside their customers. Despite great challenges, the business as a whole continued to record steady growth for the year.

Following the execution of a capital increase agreement among Towngas China, Shanghai Gas Co., Ltd. ("Shanghai Gas") and Shenergy (Group) Company Limited in October 2020, all parties are now liaising on various business aspects to proceed further as scheduled. With a population of over 24 million, Shanghai city is a huge gas market. Shanghai Gas has a customer base of 6.3 million with natural gas sales reaching over 9,000 million cubic metres per annum. Through this cooperation, Towngas China will not only extend its city-gas business to Shanghai city, the most economically developed city on the mainland, but will also create extensive synergy for its businesses in Shanghai city with those in eastern China and the entire Yangtze River Delta region, helping to expand the company's business scale and enhance the quality of its business development. In addition, Towngas China will be able to expand its channels for purchasing natural gas directly from overseas through the LNG receiving terminal at Yangshan Port operated by Shanghai Gas.

Apart from continuing to pursue in-depth development of city-gas markets and to explore distributed energy and smart energy sectors, Towngas China will also proactively advocate development of its extended businesses to achieve economies of scale with the Internet platform as a backbone to enhance value-added service capabilities, thus fostering new horizons.

Towngas China added five new projects to its portfolio during 2020, of which three are centralised heating projects located in Eastern Park of Tongling Economic and Technological Development Zone, Anhui province, and in Fuxin Industrial Park and Xiliu Textile Industrial Park, Haicheng city, both in Liaoning province. The other two comprise a shale gas project and an extended business project, both in Sichuan province.

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$5,986 million, with a tenor of 3 to 30 years, were issued in 2020. In line with the Group's long-term business investments, as at 31st December 2020, the total nominal amount of medium term notes issued has reached HK$20.7 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.0 per cent per annum and an average tenor of 15 years.

Furthermore, the Group also made use of perpetual securities for long term funding. As at 31st December 2020, the Group had Perpetual Subordinated Capital Securities (the "Perpetual Securities") of US$300 million, issued in February 2019, with a coupon rate at 4.75 per cent per annum. The Perpetual Securities are redeemable at the option of the Group in February 2024 or thereafter every six months on the coupon payment date.

Employees and Productivity

As at the end of 2020, the number of employees engaged in the town gas business in Hong Kong was 2,130 (2019 year end: 2,096), the number of customers was 1,943,777, and each employee served the equivalent of 913 customers. Inclusive of employees engaged in local businesses such as telecommunications, liquefied petroleum gas vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,495 as at the end of 2020 compared to 2,474 as at the end of 2019. Related manpower costs amounted to HK$1,233 million for 2020. In 2020, there was an approximately 2 per cent average increase in remuneration over 2019. 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 51,270 as at the end of 2020, an increase of approximately 860 compared to 2019.

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. During the coronavirus epidemic, in particular, staff at all levels have performed their duties diligently and tackled different challenges proactively to ensure the safe operation of the Group's public utility businesses in both Hong Kong and mainland China, and to maintain the stable and sustainable development of the Group's other businesses.

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 10th June 2021. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 2nd June 2021, and if passed, share certificates will be posted on 21st June 2021.

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 10th June 2021. Including the interim dividend of

HK12 cents per share paid on 14th September 2020, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2021 after bonus share issue shall not be less than the interim and final dividends for 2020.

Business Outlook for 2021

A number of countries worldwide have successively launched coronavirus vaccination programmes since the end of last year. The Government of the Hong Kong Special Administrative Region began to arrange vaccinations for its citizens in late February this year. Although the pandemic is expected to stabilise, to a certain extent, uncertainties still remain at this stage. Despite this, the Company predicts steady growth in its number of customers in Hong Kong during 2021. The Group is adopting measures to broaden sources of revenue, cut expenditure and costs appropriately and optimise work flow, and is also endeavouring to promote smart innovation to enhance customer services and operational efficiency whilst also continuously developing new town gas applications to increase volume of gas sales. All these aim at maintaining a stable development for its gas business in the territory.

In respect of mainland businesses, Towngas China under the Group will acquire a 25 per cent equity interest in Shanghai Gas after the latter's increase of registered capital in 2021 as planned, thereby increasing the Group's gas customers to 40 million, making the Group a more sizeable city-gas enterprise overall. This project will also increase channels for the Group to import LNG. Through this project, the Group can also participate in the long-term integration development of the Yangtze River Delta. With public utilities forming its core business, the Group has a relatively strong resilience to the impact of economic downturns. It is expected that when the epidemic is over, the Group's businesses will return to better growth within a relatively short period of time. ECO's self-developed advanced biofuel business is operating well, expecting to generate stable revenue growth for the Group. With its HVO project located in Jiangsu province successfully commissioned in August 2020 and seeing the ever-increasing demand in European countries for low carbon emission fuels, ECO is taking steps to enhance its HVO production capacity within the year 2021. The agricultural waste utilisation projects located in Hebei province will construct a sophisticated feedstock supply chain to implement the comprehensive and efficient use of agricultural waste by transforming it into biomass products that help reduce carbon emissions and alleviate pollution problems caused by incineration, thus contributing to the improvement of the local environment.

Mainland China's Fourteenth Five-Year Plan commenced in 2021. The central government has also set a long-term vision for up to 2035, aiming at enhancing the country's economic and technological strength and fostering a new development paradigm featuring "dual circulations", with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. Under a national policy of green development, support for natural gas, smart energy, renewable energy and biofuels sectors, etc. is expected through corresponding environmental protection policies, which in turn are predicted to bring long-term growth for the Group's related businesses. The Group thus anticipates a more prosperous development for its various businesses in the future.

Lee Ka-kit	**Lee Ka-shing**
Chairman	*Chairman*

Hong Kong, 19th March 2021