

Chairman's Statement



Economic Landscape

The global economy picked up remarkably in 2017 with economic growth reaching 3.7%, generally better-than-expected economic growth in major economies such as the United States and Europe, as well as the rebound in international oil prices. Also benefitting from the improvements in supply-side reform, hand-in-hand with the implementation of the “One Belt and One Road” initiative, mainland China’s domestic economy showed steady advancement. As a result, China posted a growth of 6.9% in its economy for the year,

showing an improvement in domestic economy recorded for the first time since 2010. Foreign trade recorded a growth of 14.2%, while the added value of industrial output increased 6.6% as compared to the corresponding period in the previous year, representing a 0.6 percentage point higher than in 2016. Other macro data also suggested that market supply and demand became more active and the business environment appeared in good shape with signs of steady improvement, both of which are beneficial to the development of energy market.



Market Prospects for Natural Gas Business

At the 19th National Congress of the Communist Party of China, it is reported that improving ecological environment, pursuing green development and building a beautiful China would be important strategies for the future development of the country. As a quality, efficient and clean low-carbon energy, natural gas is thus the ideal and practical solution for the supply of clean energy and China's transformation towards a low-carbon economy. Encouraging this development in the natural gas market, the National Development and Reform Commission ("NDRC") and energy-related authorities issued the "13th Five-Year Plan for Natural Gas Development"

and "Opinions on Accelerating the Utilisation of Natural Gas", stating clearly that the development objective is to work towards a 10% share of natural gas in the composition of primary energy consumption by 2020, and further increasing to a 15% share in energy consumption by 2030. In December 2017, the "Plan for Clean Heating in Winter in Northern Areas (2017 to 2021)" was issued, stating that the objective is to achieve a 70% share of clean heating in northern areas by 2021, replacing the burning of 150 million tonnes of coal for heating. With the successful implementation of the above favourable policies, the future natural gas market in China will continue to grow rapidly, thus the prospects for the natural gas industry are more promising.

Reforms in the Marketisation of Natural Gas

In May 2017, the Central Government issued the "Certain Opinions on Further Structural Reforms of the Oil and Natural Gas Sector", confirmed the direction of reforms in the marketisation of natural gas. NDRC promulgated the "Guidance Opinion on Enhanced Regulation over the Pricing of Gas Distribution", setting out the investment rates of return on gas distribution and encouraging gas companies to enhance efficiency and share benefits with users. Specific measures in prices of gas distribution were successively unveiled in a number of provincial areas such as Hubei, Fujian, Jiangsu and Heilongjiang. In September 2017, the NDRC issued the result of price assessment for gas supply of 13 cross-provincial natural gas pipeline transportation companies to further standardise the operation of natural gas in middle stream.

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Relevant national authorities have promulgated policies to encourage natural gas companies to carry out trading transactions on the Shanghai Petroleum and Natural Gas Exchange such that the rules that prices were allowed to be determined by market forces would be developed. In 2017, gas volumes traded on the Shanghai Petroleum and Natural Gas Exchange rose to over 25 billion cubic metres, representing approximately 11% of the natural gas consumption on a nationwide basis. In municipalities such as Shanghai and Chongqing, measures had already been announced, linking adjustments between non-residential upstream and downstream gas prices in line with the new trends in the market-oriented pricing of natural gas and its regular price changes in the future.

The above progress shows a further development of reforms in the marketisation of natural gas in China. At the same time, the mechanisms for the market-oriented pricing are becoming increasingly more mature.

Business Outlook

In view of China's economic recovery together with the country's increasingly active industrial and commercial sector, the government's aggressive efforts to promote the utilisation of clean energy and raise the people's standard of living, as well as the strong growth in the consumption demand of natural gas in the future, the Group is riding on the opportunity to continuously broaden our industrial and commercial customer base, a specific example

being our vigorous development of coal-to-gas projects for industry and commerce. Through the implementation of total quality management and the improvement of our business processes, we will push our business growth and raise our quality standards, working to enhance our competitive advantages in safety management, customer services and operational capabilities. These moves will provide the foundations for our proactive expansion of new gas applications and extended businesses so as to achieve steady business growth.

We are actively expanding natural gas distributed energy business in mainland China, aiming to promote efficient use of clean energy. The first phase of construction of underground gas storage project at Jintan City of Jiangsu Province, owned by The Hong Kong and China Gas Company Limited (“HKCG”), the Group’s parent company, had been completed and commenced operation. It will be able to supply natural gas to the Group’s companies in winter, ensuring adequate supplies as well as providing gas storage service to external parties through these facilities.

We have also made positive progress in the planning, development and purchase of liquefied natural gas (“LNG”) imports, furthering our expansion in the trading of LNG. In 2017, the Group cooperated with China National Petroleum Corporation and Shanghai Gas (Group) Co., Ltd.. This further acquisition of imported LNG will not only enable us to provide supplemental LNG to some of the Group’s project companies in Eastern China, it also raises our capabilities in the supply of natural gas, particularly in the winter months when shortages of gas have been experienced in the past.

In the residential market, Bauhinia, our gas appliances brand, is being used by numerous households, providing solid foundations for our residential household heating installation engineering and maintenance business. We recently expanded into middle to high-end cabinet sale and installation business, building an environment with modern home furnishing for our customers. With the ongoing promotion of this brand in the sale of deluxe homes by the country, the business not only holds bright prospects for the future, it is also expected to provide the Group with a new source of profit growth.

China is at a critical stage in the building of a well-off and all-rounded society. The general trend is thus to expand the utilisation of clean energy. This will not only help to improve the environment but also cater to the pursue for a top-quality lifestyle amongst the general population. As we remain committed to our vision – “to be Asia’s leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness”, we will grasp the historic opportunity arising from the development and use of natural gas in China. Striving for innovation and execution, and with a focus on city gas, the Group will continue to explore the business with competitive edge to achieve rapid and quality growth in the Group. The many successes of our past will pave the way forward, leading to many new achievements and triumphs into the future!

Chan Wing Kin, Alfred

Chairman

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