

Chairman's Statement



Business Performance in 2012

While worldwide financial markets continued to be volatile, economic conditions in China were largely stable, with the Manufacturing Purchasing Managers' Index rebounding in the fourth quarter to above 50 and the nation recording a 7.8% year-on-year growth in Gross Domestic Production. Thanks to the brilliant efforts and dedication of all employees across the Group, the Company reported favourable results for 2012. Turnover increased by 20.0% over 2011 to HK\$5,183 million, while profit after taxation attributable to shareholders amounted to HK\$841 million, an increase of 18.6% as compared to 2011.

Development of the City Gas Industry

As at the end of 2012, the urbanisation ratio of China reached 52.6%, signifying that its urban population had outnumbered its rural population. It is estimated that the urbanisation ratio will continue to rise at a rate of 1% per annum. China's ongoing economic growth, rapid urbanisation and improving living standards are all favourable to the development of the city gas industry. Regarding the availability of gas sources, with the increasing natural gas supply through upstream domestic exploration and foreign importation, a better balance in supply and demand is gradually achieved. As such, China's city gas industry will enjoy thriving development for many years to come.



Ample Sources of Natural Gas

China consumed 106 billion cubic metres of natural gas in 2010, while gas demand in 2020 is estimated to reach 350 billion cubic metres. To realise the goal of gas supply all over China, the country is rolling out the construction of a long-distance natural gas transmission pipeline network with extensive coverage. This includes: Phase I of the West-to-East gas pipeline and the Sichuan-to-East gas pipeline which have been completed and operating for a number of years; Phase II of the West-to-East gas pipeline which was completed at the end of 2012; Phase III of the West-to-East gas pipeline of which construction started in October 2012; Phases IV and V of the West-to-East gas pipeline for which preliminary planning has commenced; as well as Phases I, II and III of the Shaanxi-to-Beijing gas pipeline, which have entered into service, among others. In addition, the China-Myanmar natural gas pipeline and a number of large liquefied natural gas receiving terminals located in coastal regions will also be completed gradually. China will thus have an ample supply of natural gas, to the benefit of the long term development of the city gas industry.

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Business Development Strategy

China is experiencing vigorous development in its natural gas sector during the “12th Five-Year Plan” (2011–2015) period. Apart from the enormous efforts expended in upstream natural gas exploration and importation, the country also made significant investments in long-distance transmission pipelines and liquefied natural gas receiving terminals. To attract private investment in this sector, the government published a document entitled “Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment” in 2010 to encourage private investment in the municipal and energy sectors. Subsequently in May 2012, the encouragement of private investment in the municipal and energy sectors was raised again by the State Council Executive Meeting. This facilitates the ongoing improvements in the business environment so that city gas operators and other private capital would be encouraged to step up their investments, thereby driving fulfillment of the target to multiply natural gas consumption of China during the “12th Five-Year Plan” period. Capitalising on this positive opportunity, the Group will expedite the development of new projects, in addition to supporting investment for market development in project companies. Our targeted regions include: industrial parks along Phases I, II and III of the West-to-East gas pipeline; as well as industrial bases in the Pearl River Delta, the Yangtze River Delta and the Bohai Rim regions. Moreover, in line with the country’s economic development trend and to support the policy of relocation of industries from the developed coastal areas to the central and western regions, the Group will invest in relevant city gas projects, enlarging the coverage of pipeline network and speeding up the utilisation of natural gas. Results have been encouraging as the Group successfully established eight new projects in 2012 and continues to drive efforts according to this development strategy.

Awards

In line with the escalating concern for sustainable development, businesses in the international community have started to focus on companies with outstanding sustainability performances. In this connection, the Group’s admission as a constituent stock to the “Hang Seng Corporate Sustainability Index Series” in Hong Kong in 2012 highlighted the industry’s recognition of our strenuous efforts to fulfill our corporate social responsibilities and our outstanding performance in sustainable development. Riding on the back of our unique strengths and efficient business development model, we made our way into the “Top 10 Stock Price Gainers” in the “Top 100 Hong Kong Listed Companies” presented by the Finet and Tencent during the year under review. Mr. Wong Wai Yee, Peter, the Executive Director and Chief Executive Officer, was also named in “The Best CEO of Chinese Listed Companies” by Forbes China in 2012. The inclusion of Mr. Wong in this prestigious list not only affirms the Group’s longstanding leadership in the industry but also highly recognises Mr. Wong’s outstanding management calibre and contributions.

Corporate Social Responsibility

As a responsible corporate citizen, the Group is committed to the advocacy and fulfillment of generally accepted social values and ethics. We vigorously fulfill our corporate social responsibilities with the aim of serving as a leading example among our peers in creating value for the community. In 2012, the Group hosted a "Summit Forum on the Social Responsibility of Chinese Corporate Citizens," in Beijing during which the "Guideline for Compiling Corporate Social Responsibility Report of Towngas China" was also announced. Specialists from both within and outside the industry, journalists and renowned corporates were invited to hold discussions and share their experiences over corporate social responsibility issues. The Group is pleased to report that numerous honours and awards, including "Outstanding Enterprise in Community Service of China 2012" and "China's Outstanding Corporate Citizenship 2012" were received during the year in view of our outstanding performances.

Share Placement

In January 2013, the Company conducted the placing of 150 million new ordinary shares in the market at a price of HK\$6.31 per share. Net proceeds from the share placement (after deduction of share placement commission and other expenses) amounted to HK\$930 million. Investors showed enthusiastic response to the share placement with an over-subscription of more than 20 times.

2013 Outlook

With China's ongoing growth into an affluent society, the Group's competitive edges both in gas supply safety and excellent customer services will become more prominent. Looking forward, we will be leveraging opportunities arising from the "12th Five-Year Plan" to expedite our development and increase efficiencies, while doing our best to enhance the management standards and customer satisfaction levels of the Group and its project companies, in order to sustain our leading position in the market.

Under the "12th Five-Year Plan", the economy of China will develop rapidly and focus will be put on environmental protection as well as pollution reduction. We will be seeking growth underpinned by quality and efficiency. Apart from setting aggressive business targets, project companies of the Group will also ensure that challenging targets are achieved in conjunction with relevant benchmarks in gas safety, customer services and human resources, while we continue to serve as a role model in China's city gas industry.

CHAN Wing Kin, Alfred

Chairman

Hong Kong, 15 March 2013