

Chairman's Statement





Business Performance in 2013

2013 generally saw stabilising global economy with occasional volatility, while China's economic performance fared better than the rest of the world. A 7.7% year-on-year growth was reported in the Gross Domestic Product of the nation in 2013. Thanks to the committed efforts of all our employees in the Towngas China Group, the Group reported favourable results for 2013. The Group's turnover jumped 30% over 2012 to HK\$6,716 million, while profit after taxation attributable to shareholders of the Company amounted to HK\$1,106 million, a significant increase of 32% as compared to 2012.

Development of the City Gas Industry

China is facing serious air pollution problem currently. Persistent smog with extensive geographical coverage has become a grave concern across the nation. In January 2013, the Chinese Government announced its target to limit the country's total energy consumption in 2015 to 4 billion tonnes of standard coal or less, representing growth in consumption at a mere 25% over 2010. This rather aggressive goal in energy conservation and emissions reduction drives the more active use of natural gas across the country and accelerates the conversion from the use of coal-fired to natural gas energy by the local governments. Coupled with the rapid growth of the country's urban population, China's city gas industry is expected to keep thriving in the long term.

Overview of the Natural Gas Supply

In accordance with the "12th Five-Year Plan" (2011-2015), China announced direction for reforms in independent operation of natural gas pipeline networks and opening up of such networks to private operators in a fair manner. The National Energy Administration also solicited the views of natural gas operators with regard to the regulation of mid-stream natural gas pipeline transmission rates and the equitable opening up of oil and gas pipeline and network facilities, indicating the imminent reforms for mid-stream natural gas operations. These developments will help to drive the growth of Mainland China's natural gas market as it will accelerate geographic coverage of natural gas supplies while also enhancing the overall economic and cost efficiencies of the natural gas industry chain.

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In July 2013, the National Development and Reform Commission ("NDRC") raised the natural gas city-gate prices for provincial non-residential consumption, while stating for the record that natural gas city-gate prices will continue to be adjusted in the future. The NDRC also stipulated that natural gas sales prices below the provincial level will be determined by the provincial pricing control authorities which will take local conditions into account.

Being driven by the market, China increased natural gas selling prices. This will attract more natural gas imports into China, alleviating the nation's undersupply of natural gas. The China-Myanmar natural gas pipeline was commissioned recently in 2013, while natural gas supplies from Russia are expected to materialise in 2017 at the earliest, following the breakthrough in China-Russian pricing negotiations for the supply of natural gas. In addition, the commencement of operation of various coastal liquefied natural gas receiving terminals will contribute towards the ongoing and stable development of China's natural gas industry and city gas sectors.

The move to increase city-gate prices for non-residential natural gas consumption in July 2013 has had a minimal impact on the Group's results for 2013, as the Group was able to pass the price hike onto industrial and commercial customers.

Business Development Strategy

The rapid development of the natural gas industry features prominently in China's "12th Five-Year Plan". Apart from expanding natural gas exploration and importation, the country has also made significant investments in the construction of major natural gas facilities. In 2013, the Chinese Government launched an industry consultation exercise with regard to the restructuring of the natural gas industry, including new measures for the opening up of natural gas facilities to private operators in a fair manner. Leveraging this sound opportunity for development, the Group will continue to develop new city gas projects, apart from also supporting market development and increasing investments in vehicular natural gas operations in our enterprises. 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. Furthermore, the Group will be accelerating its investments in city gas projects in the central and western regions in line with the nation's strategy to relocate certain industries from the developed coastal areas to the central and western regions, as well as the trend of economic development. Results have been encouraging with the successful establishment of 14 new projects in 2013 by the Group.

The Award – Winning Enterprise

– Winner of the "Hong Kong Corporate Governance Excellence Awards 2013"

At the prize-giving ceremony of the "Hong Kong Corporate Governance Excellence Awards 2013" jointly presented by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University held on 12 December 2013, Towngas China was honoured with the Award for Corporate Governance Excellence in 2013.

First introduced in 2007, the Hong Kong Corporate Governance Excellence Awards not only provide recognition, they also commend listed companies for their outstanding achievements and performance, among other factors, in protecting shareholders' rights, integrity, board independence and leadership as well as corporate social responsibility. Towngas China won the award under the Hang Seng Composite Index Constituent Companies category for our excellence in various aspects of corporate governance.

– “2013 The Best CEO of Chinese Listed Companies” by Forbes

Mr. Wong Wai Yee, Peter, our Executive Director and Chief Executive Officer, was once again named in the list of “2013 The Best CEO of Chinese Listed Companies” by Forbes, duplicating his feat of 2012. Mr. Wong’s inclusion in this prestigious list not only provides strong recognition of the Group’s long-standing leadership in the industry, but also recognises Mr. Wong’s outstanding management calibre and contributions.

– Other Awards

In addition, the Group won various honours in 2013 including the “Outstanding Marketing in China Award 2012-2013”, the “Best Customer Services in China Award 2012-2013”, as well as the titles of “Enterprise with the Best Corporate Social Responsibilities 2013” and “Five Stars Outstanding Corporate Citizen in China 2013”.

2014 Outlook

Given ever stronger calls for environmental protection in China and the increasing emphasis on enhancing air quality, together with the sequential commencement of operation of new natural gas sources in the mainland, we are projecting sound growth for the Group’s gas sales in 2014.

In view of the natural gas pricing reforms and the restructuring of the natural gas industry, which have already commenced, we will be closely monitoring related developments while maintaining effective communications with the relevant government authorities and industry. As China is still undergoing the phase of rapid construction, the demand for investment in natural gas and city gas remains robust. It is expected that China’s reforms in the natural gas sector will promote natural gas consumption and drive infrastructure investments in upstream gas supply.

As China grows to become a well-off society and its middle class continues to grow, consumers expect higher service standards. The Towngas China Group holds a distinctive edge in terms of both gas supply safety and customer services. The Group will continue to invest more and enhance its training to catch the trend.

China is still keeping a relatively high pace of growth under the “12th Five-Year Plan”. The Towngas China Group will persistently pursue growing opportunities underpinned by quality and efficiency, as well as continue to strengthen safety and risk management, while emphasising customer services and corporate social responsibility. Leveraging on the backing of its parent company, HKCG, and its experiences accumulated in successfully establishing public utilities business in mainland China over the years, the Group is an exemplary leader in the city gas industry in China. The Group, enjoying good fame and word of mouth which aid its development in new projects and new markets, holds enormous potential for building an even more thriving future.

CHAN Wing Kin, Alfred

Chairman

Hong Kong, 17 March 2014