

Chairman's Statement



In 2014, the global economy remained in the shadow of the financial crisis. The developed countries experienced a weak economic recovery whilst emerging countries faced challenges in terms of slow financial growth. China was the only country among the BRIC nations to deliver a relatively better economic performance with a gross domestic product growth of 7.4%.

Leveraging the enormous market in China and the efforts of all of our employees, the Towngas China Group reported favourable results in 2014. The Group's turnover surged to HK\$7,882 million, representing an increase of 17% as compared to 2013. The profit after taxation attributable to shareholders of the Company excluding the unrealized exchange loss amounted to HK\$1,195 million, representing an increase of 26% as compared to 2013.

Determination to Promote the Use of Natural Gas in China

In order to address the serious air pollution problems, the Chinese Government is determined to substantially increase the use of natural gas. It has thus set an aggressive target of “increase consumption of natural gas to 360 billion cubic metres in 2020, representing 10% of the total primary energy consumption”. In 2014, China also successfully signed two natural gas import agreements with Russia, contracting to bring in up to 68 billion cubic metres of natural gas per year in total for a term of 30 years. These contracts are due to commence incrementally from 2018 onwards.

While promoting these natural gas imports from Russia, China also continued to speed up the development of natural gas import from Central Asia. With the commencement of operation of the Central Asian natural gas pipeline D in 2016, which is currently under construction, the transmission capabilities of the Central Asian natural gas pipelines will increase from 55 billion cubic metres to 85 billion cubic metres per year. These measures, together with the gradual commencement of operation of various coastal liquefied natural gas receiving terminals, will provide the natural gas and city gas industries in China with very reliable gas sources for sustainable development.

In view of the enormous transportation demand for imported natural gas, various natural gas pipelines construction projects are now underway simultaneously. Significant projects include the pipelines crossing three provinces in northeast China for the distribution of natural gas coming in from Russia to Shandong and Jiangsu, Phase IV of the West-to-East pipeline, Phase IV of the Shaanxi-to-Beijing pipeline as well as Sinopec’s Xinjiang coal-to-gas transmission pipeline engineering project (Xinjiang-Guangdong-Zhejiang Pipeline). The long-term development of the Group’s city gas businesses will be benefited from the robust development of upstream and midstream natural gas projects in China.

Price Reform of Natural Gas

The price reform of natural gas will accelerate the marketization of the natural gas industry in China. Following the unified increase of the natural gas city-gate prices in September 2014 with regard to the gas storage for non-residential consumption across the country, the Chinese Government also slightly raised the natural gas city-gate prices in April 2015 with regard to the gas storage while making relatively significant downward adjustments to the city-gate prices of incremental gas usage. As a result, the prices of natural gas storage for non-residential consumption would be in line with that of incremental gas usage, so that the consolidated price of natural gas for non-residential consumption in 2015 will be lower than that of 2014. The Group is well positioned for the marketization reform of natural gas price. Since the beginning of 2014, the Group has adopted “Year of Marketing Strategy” as the theme of management of the year, which has successfully driven our group companies to achieve greater business expansion both in the commercial and industrial gas consumption markets.

The price reform of natural gas for residential consumption was more prudent as compared to the marketization reform of natural gas for non-residential consumption. No adjustment will be made for city-gate prices of residential gas consumption in 2015. Instead, a progressive price level will be adopted. Our group companies are well positioned to make timely contribution to the establishment of a progressive price level system for residential gas consumption.

Chairman's Statement

The establishment of the Shanghai Oil and Natural Gas Trading Centre, as approved by the Chinese Government at the beginning of 2015, is having a profound impact on the landscape of demand and supply of natural gas in China as well as the price reform of natural gas in the future. The goal of the establishment of this oil and natural gas trading centre is to provide an influential regional trading platform for the import of oil and natural gas in Asia, especially in China.

An Award – Winning Company

◆ Company of the Year Award

In 2014, the Group won the "Company of the Year Award" in the "Gas Industry Awards 2014" jointly organized by the Institution of Gas Engineers & Managers (IGEM) and the Energy and Utilities Alliance (EUA) of the United Kingdom. This award aims to recognize enterprises and individuals with both passion and perseverance and have made outstanding contribution to the advancement of the gas industry. The Group won the "Company of the Year Award" on the back of our outstanding performance in terms of safety and reliability of our gas supply. We are the first gas operator in mainland China to have received this honour. Prior to this, The Hong Kong and China Gas Company Limited ("HKCG"), our parent company, was also awarded the "Company of the Year Award" in 1999 and 2006, respectively.

◆ Other Awards

The Group also received a number of other awards in 2014. These include the "2013-2014 China Marketing Award" jointly organized by Economic Observer, Hong Kong Management Association and China Economic Watch, the honour of "Outstanding Enterprise of the Year under the Social Responsibility Prize for People's Enterprises programme" of People's Daily Online, the award of "The Most Influential Company in China City-gas Industry of the Year" from Ta Kung Pao and Takungpao.com, "Most Innovative Treasury Practice - Highly Commended" as part of the "Taozhu Gong Awards 2014" from EuroFinance of the Economist Group, as well as "The 9th China's Best Customer Service Award" jointly presented by China Information Association and China Association of Trade in Services. These awards proved that the Group had the great distinction in areas including marketing, corporate social responsibility, city gas industry, financial management and customer services, which laid a solid foundation for the Group's future development.

Business Outlook

Given the ever-stronger calls for environmental protection in the country, China is implementing more aggressive policies to boost its use of natural gas. Under the government's 13th Five Year Development Plan, as China's urban population continues to grow apace, more natural gas will be imported into China while a number of key natural gas projects in the country will also commence operations. Looking forward, the Group is expecting to see satisfactory growth in natural gas sales in the next few years. However, the prolonged effects of the global economic crisis, the fluctuation of global oil price amidst the critical time of natural gas price reforms in China, together with the significant decrease in prices of oil and relevant products has all exerted pressure on the competitive advantages of natural gas.

2015 is a watershed year in view of China's transition from its 12th Five Year Development Plan to its 13th Five Year Development Plan. It is also a critical year marking an expedited marketization process of the natural gas in China. We will keep a close eye on the subsequent developments of natural gas price reforms whilst also maintaining close ties with the relevant government authorities and our industry peers. We will also pay strict attention to any business opportunities that may arise from the natural gas marketization reforms. We regard that these marketization reforms will provide customers with better choices. Along with China's ongoing transition into an overall affluent society, it will result in ever growing demand by China's expanding middle class for quality services in the city gas industry. Gas supply safety and customer services will thus play an increasingly important role.

The Group has been holding distinctive edges in terms of both gas supply safety and customer services in the gas industry in China. In 2015, we will continue to invest resources into gas supply safety and customer services, remain committed to our corporate social responsibilities and keep strengthening our staff training in customer services and professional marketing.

Leveraging the support of our parent company, HKCG, and its experiences accumulated in successfully establishing public utility businesses in mainland China over the past years, the Group is an industry leader, enjoying an excellent reputation as well as positive word of mouth recommendations in the city gas industry throughout the country. With the number of opportunities in the China city gas market arising from the rapid development under the 13th Five Year Development Plan, and policies related to environmental protection and emission reduction, the Group will continue to develop new projects and explore new markets of gas utilities in 2015, in order to capture the enormous potential for building an even more thriving future for its business growth.

CHAN Wing Kin, Alfred

Chairman

Hong Kong, 17 March 2015