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Starting off China's "12th Five-Year Plan" period, 2011 could have profound implications at such remarkable time. In addition to the ongoing commitment towards urbanisation, the "12th Five-Year Plan" specifically encourages that energy savings and the reduction of greenhouse gas emissions should be integrated with development plans. With this background, the city gas and natural gas industries are ready for the prominent development trend ahead. With its persistent endeavour to capture business opportunities, the Group achieved strong business growth and outstanding results.

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Leveraging this stable business growth and corporate competencies, the Group was once again honoured with the "Hong Kong Outstanding Enterprises Award 2011" presented by the Economics Digest, as well as "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" Award under the Golden Bauhinia Awards of China Securities 2011 co-organised by "Takungpao", The Hong Kong Chinese Enterprises Association, Hong Kong Securities Association, Securities Association of China and China Enterprise Confederation. These awards demonstrate the recognition received for the Group's development.



Mr. Chan Wing Kin, Alfred, the Managing Director (right) of HKCG, represented HKCG to receive "The Best Listed Company" Award; Mr. Wong Wai Yee, Peter, the Executive Director and Chief Executive Officer (left), represented the Group to receive "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" Award.

Sales of Piped Gas

In 2011, the Group sold a total of approximately 4.67 billion cubic metres of piped gas, representing a substantial increase of 15.9% against 4.03 billion cubic metres sold last year. Industrial gas sales grew by 410 million cubic metres, representing an increase to approximately 59.8% in the total volumes of gas sold by the Group while commercial gas sales maintained their level at approximately 14.5% of the total gas volumes sold during the year. Residential gas sales in turn accounted for approximately 25.7% of total gas sold. The continuing growth of our industrial gas sales demonstrated the success of the Group's project development strategy to strengthen industrial and commercial gas consumption. Benefiting from the stable growth in China's economy, the heavier weight in industrial and commercial gas consumption in our gas sales profile will help to ensure the continuing growth of the Group's future gas sales volumes. Moreover, the Group is able to shift upstream price adjustments to industrial and commercial customers in a timely manner, further reflecting the profitability of the Group's gas sales will continue to increase.

Project Acquisitions

In 2011, the Group continued to expand its business profile geographically with the acquisition of five new projects in Jiangxi, Hunan, Anhui and Liaoning Provinces, with projects in Xiushui County of Jiujiang City in Jiangxi Province; Wuning Industrial Park of Jiujiang City in Jiangxi Province; Beipiao City in Liaoning Province; Bowang New District of Maanshan City in Anhui Province, as well as the piped gas project in Miluo City — the Group's first project in Hunan Province. Close to Changsha City and Yueyang City, the project's operations cover the Miluo City Urban Planning District and Cyclic Economy Industrial Park, a provincial-level industrial park, with high potential for industrial gas consumption, paving the way for the Group's further city gas project development in Hunan Province. Total gas consumption for the five projects is expected to reach about 450 million cubic metres in five years.

Additionally, in early 2012, the Group invested in two new projects in Liaoning Province consisting of a city gas project as well as a midstream piped natural gas project, both in Wafangdian City of Dalian, establishing a sound foundation for the Group's business development in 2012. The total gas consumption of the two projects is expected to reach about 150 million cubic metres in five years.



Qu Zi Temple, also known as Qu Yuan Temple, is a memorial temple where Qu Yuan, a senior official of Chu, a vassal state during the time of Warring States, is worshipped. Located in Miluo City, Hunan Province, the temple is a landmark attraction and architecture of the city. In 2011, the Group first expanded its business to Hunan Province, carrying strategic importance.

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Details of the Group's seven new projects are as follows:

	Project	Shareholding of the Group	Major Industries in the Operating Regions
1.	Xiushui County, Jiujiang City, Jiangxi Province	80%	Mine processing, ceramics and quartz processing
2.	Wuning Industrial Park, Jiujiang City, Jiangxi Province	100%	Energy-saving lights, mine ore processing, pharmaceuticals and chemicals processing
3.	Miluo City, Hunan Province	70%	Precision processing of secondary copper, aluminum, stainless steel and plastics
4.	Bowang New District, Maanshan City, Anhui Province	75.1%*	Cutting tools, machine tools manufacturing, auto parts and metallurgical pressing
5.	Beipiao City, Liaoning Province	80%	Powder metallurgy and metallurgical casting
6.	Wafangdian City, Dalian, Liaoning Province	60%	Bearings, forging and machinery equipment
7.	Midstream project in Wafangdian City, Dalian, Liaoning Province	30%	This project is a midstream piped natural gas project

* The Group holds a direct 60% equity interest. Maanshan Hong Kong and China Gas Company Limited ("Maanshan HKCG"), a joint venture in which the Group holds a 50% equity interest, has also acquired a 20% equity interest in this project. Dangtu Hong Kong and China Gas Company Limited, a company in which Maanshan HKCG holds a 51% equity interest also owns a 20% equity interest in this project. As a result, the Group owns a 75.1% effective shareholding in this project.



Customer Services

In 2011, the Group promoted the culture of “Warmth and Care” as we reinforced our provision of quality “Customer-oriented, Professional and Efficient” services. Initiatives included a series of activities under “Smiles Brighten Life” to provide training to foster quality service skills and “Service with a Smile” for both frontline customer service staff and general management to establish a comprehensive and sustainable system of promotion and training for “Service with a Smile”. The Group also developed a “Treat Our Customers as Our Family” standard, aiming to continuously enhance service quality and provide excellent services to customers.

Group companies have also introduced service commitments to set up specific service targets with regard to the safety and reliability of products, customer appointments, work efficiencies, service attitudes and the handling of customer opinions and comments. Our performance results for these service commitments are publicised regularly. Enhancing customer satisfaction, customer services teams, customer services hotlines and customer services committees for handling customers’ feedbacks have been established to fully understand and satisfy customer needs.

In 2011, in our customer services and safety sector, the Group achieved its target to complete a 100% on-site safety inspections to existing customers within a 3-year period. These comprehensive safety inspections have significantly enhanced the safety of our customers with specific maintenance work being carried out to remedy identified hazards, further ensuring the safe use of gas by our customers.



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Bauhinia

With the “Professional Services Rendering Peaceful Mind at Home” belief, our Bauhinia brand promotes healthy diet and the Chinese flame cooking culture with high quality of international standards as well as “one-stop” professional service convenience.

Since 2006, the Group has been holding an annual “Bauhinia Cup” cooking competition, to promote the concept of “Safe Kitchens” to our customers. In conjunction with our 6th “Bauhinia Cup” cooking competition, held in September 2011, China’s leading chefs gathered together, demonstrating the benefits of flame cooking spirit by dishes assessment through comprehensive criterion of “Color Matching, Smell, Taste, Meaning and Presentation” and live kitchen gas safety knowledge quiz competition.

In view of the brand’s excellent market performance, with its ever increasing product research and after-sales services, many of Bauhinia’s energy saving products are listed on the Government’s energy-efficient appliance list. As one of the few chosen brands in the industry to be included on this list, Bauhinia has secured the leading position in the industry because of its outstanding quality.

In 2011, the Group co-organised a “Celebration Ceremony for Bauhinia’s One Millionth Appliance Sale” with HKCG in Chengdu to publicly announce the sale of Bauhinia one millionth appliance in mainland since the brand was launched in 2005. With its products’ presence in more than 60 cities in China, Bauhinia targets to become the industry’s leading gas appliance brand over the next five years.



Safety and Risk Management

The Group's Safety and Environment Committee holds monthly meetings on work safety to discuss and solve all risk and safety problems throughout our operations. Senior management in headquarters also make safety inspections to Group companies on a regular basis, participating in the supervision and enhancement of safety issues until they are resolved thoroughly.

Based on the satisfactory results obtained from the "Year of Safety" campaigns held previously in the northeastern and Sichuan regions, the Group extended the campaign into the Shandong region with the organisation of a "2011 Safety with Me" Knowledge Competition in Safety and Environmental Protection. The research and promotion of 10 "Key Management Projects" also helped to enhance safety, which could be witnessed from the improvements in all "Key Performance Indicators" throughout Group companies.

Raising safety and risk management standards, the Group held one of China's most established national safety and risk management seminars in Jinan, sharing our experiences and discussing on more than 30 relevant topics. A pipeline network emergency drill was also held in the Taian Project in Shandong, working hand-in-hand with staff from Hong Kong, Shenzhen, Jinan and Taian via video-conferencing to fine-tune interaction, emergency coordination and deployment measures and information systems. The Group also started the safety and risk initiative management. Workshops on self-assessment of risk were held in Sichuan, Jiangxi and northeastern China and self-assessment of risk was also commenced in Group companies, to ensure the ongoing identification and mitigation of related risks.

The Group carried out safety and risk management assessments and evaluations in Group companies regularly and an "Environmental Protection Project" assessment was also introduced, highlighting the Group's concern and belief in the protection of our environment. Continuous endeavour has been given to this task, significantly raising the safety and risk management standard of Group companies.

Apart from the above, all Group companies also carried out a range of activities under "Towngas China's Months of Safety Production" with emergency drills, hazard inspections, safety training and safety competitions to intensify gas safety promotion and gas safety management.



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Engineering and Procurement Management

To ensure the enhancement of the stability of city gas supplies, as at the year end of 2011, various Group companies completed the construction of liquefied natural gas storage facilities, with a gas tank volume of 10,000 cubic metres and a natural gas storage capacity of 6 million cubic metres, providing a strong base for the Group's market expansion and gas supply replenishment. In view of the West-to-East gas pipeline, the Sichuan-to-East gas pipeline, the Qinhuangdao-Shenyang gas pipeline and regional new gas sources, the Group is actively planning the construction of ancillary natural gas facilities, to hasten the development of Group companies.

In 2011, the joint procurement strategy was widely applied within the Group to maximise our operational synergies. With our ongoing optimisation of the supply network to match the regional business expansion of the Group, we developed a "Quality Assurance and Control System" for the Group's joint procurement based on "Active Safety Management" concept which covers various stages including pre-control, during-the-process-control and post-control reviews on suppliers entering the assessment, on-site monitoring, quality inspection, inspections on materials supplied, spot checks, sampling inspection, factor analysis of quality abnormality and risk prevention.



Liquefied natural gas tanks located in Dalian Lvshun Hong Kong and China Gas Company Limited

Staff Training and Development

As of the end of 2011, the Group had 16,513 employees. With regard to staff training and development, the Group has taken a proactive role, establishing a suitable learning environment and training platform for the professional development of our people, an area in which we have achieved extraordinary results. Building on the Group's and HKCG's outstanding achievements in the cultivation of our corporate culture and talent development in China operations, HKCG was honoured with the "BEST" training enterprise award from the American Society for Training and Development in October 2011.

The Group's training and development activities cover our people at every level both in Hong Kong and on the mainland. In 2011, the Group continued our senior management programme with Tsinghua University, which sought to implant a deeper understanding on "Towngas Leadership Competency" among our senior management and improve corporate management and operation standards. To further explore and develop the personal competencies of senior and middle-level management, the Group also launched an "Improvement Programme" in conjunction with universities in Chongqing, Xi'an and Hunan. Under the programme's "win-win" structure, both mentors and students were able to improve their capabilities.

The Group also introduced an elite programme to meet the growing demand for high caliber staff due to ventures' rapid business development. The aim was to train well-experienced young employees with strong leadership potential based on the "Leadership Competency" model. The first batch of trainees graduated in 2011 and are now serving in different positions, as they make their contribution towards the future development of the Group.



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Committed to enhancing the service and personal qualities of general staff, regular training was carried out in training institutions of Shandong, Sichuan and Changchun. “Service with a Smile” training was launched in August, to reinforce, among our frontline staff, our “customer-oriented” services concept as a routine working practice.

Making sure that staff abilities provide the ideal fit for their work responsibilities, the Group adopted professional tests and assessment tools to help our people to determine their career path. Completed by all general managers of Group companies in 2011, indicating the involvement of senior management, the tools and feedbacks helped them to plan their career paths.

In respect of corporate culture promotion, the Superior Quality Service (“SQS”) programme was first introduced into HKCG ventures in China in 2001. The Group decided to follow in HKCG’s footsteps and launched SQS in Group companies afterwards. So far, 54 Group companies have participated in SQS with highly pleasing results. In 2011, four Group companies won the first and second-class awards at the National Competition for Quality Control Units. As the Group celebrated the 10th anniversary of SQS in China in 2011, it had taken part in a number of activities with HKCG, aiming to encourage staff to review SQS development in the last ten years, sharing their views and SQS experiences with others to well prepare for future challenges.

Corporate Social Responsibilities

Fully committed to the development of social welfare, the Group launched a range of community and social activities to raise educational subsidies, care for children, support the environmental protection and help people in poverty. Capitalising on our resources and advantages, the Group encourages the public, Group companies and employees to understand and participate in these welfare programmes, which facilitate the sustainable development of community welfare programmes in our society.

In 2008, the Group started the “Help for a student, support for a family” initiative, an education subsidy programme. In 2011, 30 students from the earthquake stricken area in Sichuan, completing their studies under a three-year sponsorship programme, joined our 15 gas projects in the Sichuan region. Recognising the long-term education assistance given to the students in the stricken area, the Group received the “Most Influential Enterprise of Corporate Social Responsibility Affairs in 2011” prize granted by the China International Public Relations Association and China Public Relations Website.

During the year, the Group jointly organised an innovative “Towngas Rice Dumplings for the Community” competition with the BEA Charity Fund, Xin Du Hong Kong and China Gas and Zhongjiang Hong Kong and China Gas at Wenchuan No. 2 Primary School. Both members of the media and staff volunteers were invited to support the activity, which aimed to constantly care about the physical and mental development of children in the stricken region. Towngas China volunteers also showed their care for children in the Shenzhen Children’s Welfare Organisation, by taking part in the family rice dumplings competition and volunteering to act as the surrogate parents of the children.

The Group sponsored the “Parent-child Reading to Promote China’s Reading Culture” reading activity held by the Family Education Professional Committee of the China Education Society on the “16th World Reading Day” in 2011, to promote the development of good parent-child reading habits of “Read Good Readings Leads to Love Reading” in families across the country. In conjunction with HKCG group companies, the Group also collected around 10,000 books during the year, using these resources to establish ten Towngas China Caring Libraries in nine regions — Hunan, Henan, Heilongjiang, Guangdong, Guangxi, Anhui, Chongqing, Jiangxi and Sichuan. As at the end of 2011, we had collected around 40,000 books for the use of some 10,000 poverty students in 20 schools.



As an energy provider, the Group pays particular attention to the environmental protection. During the year, the Group published the “2011 Towngas China Green Statement” in conjunction with HKCG. Almost 100 Group companies also collaborated to organise activities under our “Month of Tree Plantation and Carbon Reduction” campaign, which integrates our various green and environmental protection activities, from tree planting, energy saving and water saving to low carbon promotions and low carbon office activities, to implement and promote concept of energy saving and the reduction of carbon emissions. Participating Group companies planted around 6,000 trees in 2011, in a greening area of approximately 26,000 square metres.

The Group’s corporate social responsibility practices and achievements over the years have won us a number of awards in 2011, this included the “China’s Outstanding Corporate Citizenship” award presented by the China Corporate Citizens Committee under the Ministry of Civil Affairs; “The Best Model of Public Service Satisfaction among Public Utilities in China” presented jointly by The Economy, Industry Newspaper Association of China, China Trade News and Global Competitive Organisation; as well as “The Enterprise with Outstanding Community Service in China 2011” organised jointly by the China Social Welfare Education Foundation, China Real Estate Association and CCTV Website.

Corporate social responsibility forms the cornerstone of a company’s development. Looking forward and honouring its responsibilities as a corporate citizen, the Group will continue its commitment to actively contribute to our communities, as it seeks to ensure the sustainable development of both the community and the Group.