

Business Review

Due to the persistent sluggishness of the global economy in the aftermath of the international financial crisis, China's GDP growth slowed in 2014 and showed a strong downward trend. At the same time, as corporate operating costs increase, many industries with high energy requirements are relocating to inland cities and outdated productions are being eliminated, China's manufacturing industry may be entering a difficult period in the next two to three years to come. However, with the joint efforts of all our staff, the Group's various businesses were able to record stable growth in 2014, and indicators in terms of total city gas sales volume, number of customers and sales of Bauhinia appliances rose steadily. Thus, despite situating in an environment with a slowdown in economic growth, our operating results were satisfactory.



Sales of Piped Gas

In 2014, the Group sold a total of 6.511 billion cubic metres of piped gas, representing an increase of 10% against the 5.945 billion cubic metres sold in the same period of last year. Among which, industrial gas sales grew by 348 million cubic metres to account for 59% of the total volume of gas sold by the Group. Commercial gas sales as a percentage of the total volume of gas sold by the Group were steady at 17%, while sales of residential gas as a percentage of the total volume of gas sold amounted to 24%. Our industrial and commercial gas sales continued to record a stable increase thanks to China's stable economic growth. Our project development strategy to strengthen industrial gas consumption is thus proving to be effective. A gas sales profile underpinned by industrial and commercial gas consumption ensures the persistent growth of our gas sales into the future. At the same time, the Group is able to transfer the cost of any upstream price adjustments promptly to industrial and commercial users, further assuring the ongoing growth in profitability of the Group's gas sales.

Development of New Projects

We continued to expand the geographic footprint of our business presence in 2014 with the acquisition of a total of nine new gas projects in Sichuan Province, Zhejiang Province, Jilin Province, Guizhou Province, Inner Mongolia Autonomous Region, Jiangsu Province, Yunnan Province, Shandong Province and Heilongjiang Province. These included city gas projects in Jiajiang County in Leshan City, Sichuan Province; Songyang County in Lishui City, Zhejiang Province; Siping City in Jilin Province; Xingyi City in Guizhou Province; Guyang County in Baotou City, Inner Mongolia Autonomous Region; Tongshan District in Xuzhou City, Jiangsu Province; Luliang County in Qujing City, Yunnan Province and Yangxin County in Binzhou City, Shandong Province; as well as a vehicle gas refilling station project at Qiqihar City in Heilongjiang Province. Total gas consumption with regard to the nine projects mentioned above is expected to reach approximately 800 million cubic metres in five years.

Except these nine new gas projects, Zhuojia Public Engineering (Maanshan) Co., Ltd. was also established in Maanshan City, Anhui Province during the year. This gas pipe assembly project manufactures precast and processes indoor gas pipe fittings in compliance with gas design and installation practices for on-site installation by gas companies of the Group.

In addition, the Group also developed a new project in early 2015, Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project in Anhui Province. It provided solid foundation for the development of the Group's business in 2015. Total gas consumption of the project is expected to reach 280 million cubic metres in five years.



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Details of the Group's 10 new projects in 2014 are as follows:

Project	Shareholding of the Group	Major Industries in the Operating Regions
1. Jiajiang County, Leshan City, Sichuan Province	70%	Ceramics
2. Songyang County, Lishui City, Zhejiang Province	51.35% (*)	Manufacturing of stainless steel pipes and copper metallurgy
3. Siping City, Jilin Province	80%	Manufacturing of machinery, special-purpose vehicles
4. Xingyi City, Guizhou Province	70%	Construction materials, pharmaceuticals and wine-making
5. Guyang County, Baotou City, Inner Mongolia Autonomous Region	85%	Magnesium metal processing
6. Tongshan District, Xuzhou City, Jiangsu Province	100%	Equipment and automobile manufacturing
7. Luliang County, Qujing City, Yunnan Province	100%	Chemical industry
8. Yangxin County, Binzhou City, Shandong Province	51%	Oil and gas chemical industry, stainless steel products, deep-processed industrial aluminum extrusion products
9. Vehicle gas refilling station project, Qiqihar City, Heilongjiang Province	55%	Vehicle gas refilling stations
10. Zhuojia Public Engineering (Maanshan) Co., Ltd.	37.5% (#)	Gas pipe assembly

Details of the Group's one new project in 2015 is as follows.

Project	Shareholding of the Group	Major Industries in the Operating Regions
1. Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project, Anhui Province	49%	Chemical industry, automobile parts and accessories and electronic components

(*) The Group directly holds a 65% equity interest in its holding company which holds a 79% equity interest in the project. As a result, the effective shareholding in the project by the Group is 51.35%.

(#) The Group holds a direct 25% equity interest. In addition, Maanshan Hong Kong and China Gas Company Limited, a joint venture in which the Group holds a 50% equity interest, also holds a 25% equity interest in the project. As a result, the effective shareholding in the project by the Group is 37.5%.



Customer Services

With the Group's ongoing commitment to the delivery of premium "Customer-oriented, Professional and Efficient" services, the number of our customers reached 9.20 million in 2014. To meet the increasing customer demand and perfect our service image, we have been expanding our service network, and optimising and upgrading the functions and image of our customer centres. In 2013, the Group introduced a brand-new concept of "Sunshine, Happiness and Home". Currently, the majority of our customer centres have adopted this concept and replaced the decoration with fashionable items, with a view to provide customers with an even more heartwarming one-stop service experience.

To build our service spirit to "treat customers like family", promote a heartwarming service culture and improve the service quality and skills of our customer service staff, we commenced our "Flying Dandelion" Programme in 2013. Our aim is to establish a training system to cultivate quality customer service staff with regular customer service training. For the "Flying Dandelion" Programme in 2014, we commenced three specific customer service training courses to train and certify the qualifications of 21 excellent trainers for the Group. Besides, we have also monitored service quality continuously. We have integrated the use of external "mystery shopping" as well as the internal cross evaluation of group companies in different districts since 2014, which has promoted experience-sharing, exploitation of mutual synergies between individual companies and the full implementation and promotion of standardised customer services.

With regard to the management of customer safety, we have stepped up our efforts in carrying out indoor safety inspections. In 2014, targets of 100% indoor safety inspections of existing customers within three years and 100% rectification of indoor Class I hazards were completed. We have also issued and fully implemented our "Implementation Guideline of Individual Installations for Separate Flats", through which we not only seek to ensure "the Safety of Every Customer once they are Connected" but also provide customers with a safe, satisfactory and decent environment for gas usage. At the same time, we upgraded the overall quality of our safety inspection personnel and enhanced the level of our safety inspection management with the commencement of the second round of our "corporate safety inspection service standard assessment", which will both help to ensure the continuous improvement of indoor gas safety standards for customers.



Outstanding trainers of "Flying Dandelion" Programme demonstrating service etiquette for customer services.

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In respect of improvement of our design, installation and construction work, drawing on the extensive experience of HKCG, our parent company, accumulated over many years, we strived to achieve the target of “professional, aesthetic and personalised” installation for new customers by introducing advanced industrial techniques and skills, applying the practices of various enterprises, as well as gradually promoting the adoption of new products and techniques. Our group companies also set specific targets in terms of safety and reliability of gas supply, service appointments, work efficiency, service attitudes and customer opinion handling, and published their actual performance results in respect of various service targets on a regular basis. These can help to get a thorough understanding and fulfill the needs of our customers, and thus enhance customer satisfaction. The Group and its group companies received national service awards for two consecutive years, reflecting a high recognition from the society and customers. In 2014, we took part and received a number of awards in “The Ninth Best Customer Services Contest in China” jointly organized by China Association of Trade in Services and China Information Association.

Bauhinia

In 2014, celebrity branding was our strategy in promoting the Bauhinia brand. He Jiong, a well-known TV presenter in the PRC, was invited to act as our brand ambassador, while a number of complementary marketing plans were launched. As a result, the sales of our Bauhinia gas appliances grew continuously and reached a total of 310,000 items. The brand image and market share of the brand were also further enhanced.



For brand communication, we made full use of the appeal of our brand ambassador and held four celebrity promotional events in Nanjing, Changchun, Taian and Chengdu with “Professional Gas Appliances and Happy Kitchens” as our theme of promotion, further enhancing our brand awareness and influence. Together with He Jiong, we also launched the large charity programme “Civilised Transportation for Bauhinia Children” to raise the public awareness with regard to the road safety of children and enhance the brand awareness. Activities of the programme include donations, interactions on Weibo as well as large exhibitions on knowledge of road safety for children. In addition, we placed advertisements on TV, in airports and high-speed rail links together with sizable outdoor advertising in the top five sales regions nationwide to actively promote Bauhinia’s brand image.

In terms of product, a brand-new series of gas stoves products with Bauhinia features was launched in 2014. The gas stove, which was manufactured with advanced overseas technologies and passed ongoing researches and tests, has a high cost-performance ratio and comes with multi-safety features such as firewall and flameout devices. Meanwhile, we were able to strengthen the research and development as well as production of our bi-functional heaters and cooking stoves with the adoption of the European advanced electrical technologies, based on the research results of our analysis on consumer demand.

Leveraging on the ninth anniversary of the launch of our Bauhinia products, we introduced our “Exclusive Privileges for our Persistent Ninth Anniversary” programme and held a number of product promotions during peak seasons in household consumption, including the “15th March Consumer Rights Day”, the “1st May Holiday” and the “1st October Holiday”. These events highlighted our commitment to long-term development, integrity, professionalism and accountability. Discount incentives were also offered to encourage customers to replace their old gas appliances and were well received by both customers and the market.

During the year, Bauhinia received the “Excellent Enterprise for Trustworthy Quality and Service in China” award presented by the China Quality Inspection Association. Bauhinia also won again the “2013-2014 China Marketing Award” jointly organized by Economic Observer and Hong Kong Management Association for our promotional campaign entitled “Bauhinia – Act from our Heart”, which is the only brand to receive this award for two consecutive years in the industry.

Safety and Risk Management

We insisted on carrying out monthly safety inspection by our general managers and conducted review and assessment on corporate safety and risk management. We have also strengthened our construction project management at the same time. The monthly safety inspection conducted by the general managers involves various aspects, covering transportation, gas stations, occupational safety and health, construction work, hazard rectification, self-evaluation on risk, security, operation and maintenance of our pipeline network and regular safety inspections for customers, office buildings and warehouses. We also conducted safety inspections in the Northeastern China, Eastern China and Southern China, and held workshops in Changchun and Chengdu. These activities further enhanced the safety and risk management standards of the Group and facilitated the exchange of safety and risk management experience between group companies.



Mr. Chan Wing Kin, Alfred, Chairman and Executive Director of the Company, conducting safety inspection in Southern China.

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Engineering and Procurement Management

The Group was invited to participate in the preparation of a number of national/industrial standards and local directives, including the "Code for Construction and Acceptance of City Gas Distribution Works", "Code for Pressurised Pipes – Communal Pipes", "Code for Design of Compressed Natural Gas Supply Stations", "Code for Design of Liquefied Petroleum Gas (LPG) Supply Works" and "Safety Technical Specifications for Operation, Maintenance and Emergency Repair of City Gas Facilities". In addition, we participated in the preparation and amendment of technical management guidelines including the "Design Handbook of Gas Stations", "Standard Manual of Cathodic Protection" and "Standardised Pressure Regulating Counters (Units)", pursuant to which the standard design requirements for the Group's new facilities was formulated in terms of technical specification and appearance. Meanwhile, the quality control over these facilities was also enhanced.

We further strengthened our quality controls on construction materials, including exertion of stringent monitoring over suppliers, establishment of clear product standards, reinforcement of review on technical documents for tenders provided by suppliers and extension of the area of on-site supervision for production.

We organized our first Pipeline Operating Technique Contest together with the Towngas Engineering Academy at Jinan. This initiative not only enhanced the technical standards of corporate pipeline operators but also provided specific improvements for previously identified problems.

Inspection work for the safe operation of gas stations was also enhanced. We improved the operation

and management of safety for plants and stations of various enterprises by providing them with engineering workshops and sharing with them our plant and station management experiences in the annual meeting, focusing on the inspection of plants and stations and their operations. Looking forward to 2015, the Group will be participating in the compilation of a number of professional standards, including "Sample Manual of Plant and Station Construction and Management", with a view to further strengthen the operation and management of safety of the plants and stations of various enterprises.



Live at the first Towngas China Pipeline Operating Technique Contest.

We conducted surveys and research on potential hazards like facilities construction in compliance with regulations and pipelines passing through a confined space. Meanwhile, the management on completeness of pipelines was also strengthened with enhancement in the construction, inspection and management of our steel pipe cathodic protection system. The Group prepared the “Training Material about Cathodic Protection”, and jointly commenced the first phase of training in relation to inspection works on cathodic protection and appointment of internal accredited officers with Towngas Training Institute, laying a solid technical foundation for and human resource protection to the Group in respect of pipe corrosion control measures, safe operation and comprehensive management of assets.

During the year, we continued to control cost and product quality by adhering to our joint procurement strategy, which we were also seeking to expand its application. Our supply management accreditation work has delivered significant results, as evidenced by the fact that the majority of our procurement staff possesses professional qualifications from international renowned institutions. We also organised workshops in relation to joint procurement and warehouse management, conducted training for staff and provided opportunities to facilitate the exchange of knowledge and enhance their specialist expertise.

At the end of May 2014, we convened our second management conference for our supply partners. At the event, we held a meritorious supplier contest to reward supply partners with outstanding performances and to encourage suppliers to provide quality services to the Group on an ongoing basis. Moreover, we put forward our advice and expectations for the suppliers in various aspects, including enhancement of management of our suppliers in future, technical and talent training, commitment to corporate social responsibilities, automation of production and management, as well as the enhancement of informatization, encouraging the suppliers to keep abreast of the times and make continuous improvements together with the Group.



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Staff Training and Development

As at December 2014, the Group had a total of 21,112 employees. In respect of staff training and development, staff occupational development and their lives have always been our utmost concern, as we strive to live up to our corporate motto of “health, harmony and happiness”.

During the year, we organized advanced training programmes consisting of both academic and commercial elements in four regions with Shandong University, Sun Yat-sen University, Southwestern University of Finance and Economics and Hohai University.

In order to meet the Group’s demand for talents and provide a development platform for our employees, we have introduced a corresponding succession training programme for important positions in senior, middle and junior management as well as professional and technical staff, so that the Group and its staff can stride ahead at the same pace. The programme was tailor-made for internal staff. During the year, over 100 talented employees with work commitment and a strong sense of belonging to the Group were chosen to take part in this programme. The programme not only created huge rooms for occupational development for our staff, but also fulfilled the long-term needs for talents of the Group to achieve stable development.

As an enterprise with strong social responsibility, the Group has established a closer business-school relationship with top institutes in the Mainland. Our internship programme was established in 2014 and acted as a pioneer by adopting the “rotation before permanent role” model. It provided a number of internship positions for students, allowing them to take up challenging tasks. Interns may gain realistic working experience rapidly by working in an environment that assimilated reality under the guidance of their mentors.



Mr. Wong Wai Yee, Peter, Executive Director and Chief Executive Officer of the Company, presenting prizes to “Dynamic Employees” from the “Dynamic Flame” Incentive Scheme.

To keep abreast of the latest development trends of online learning, we have commenced the enhancement of our online learning platform in 2014. The establishment of learning platform and development of the first round of online courses were completed. The platform allows the provision of a wide range of professional online courses for all staff, enabling both efficient learning without any time and space constraints as well as the building of a learning organisation with the characteristics of Towngas China.

We continued to carry out our Employee Assistance Programme (EAP) and launched a range of events under the theme of "Living with Positive Energy !" together with four specialist areas, namely "My Healthy Life", "My Low-carbon Life and Protection of the Environment", "My Happy Life" and "Assistance for Employees", to encourage employees to achieve a work-life balance and maintain sound physical and mental health. We also introduced our EAP Mental Health Consultation Hotline in May during the year to further care for the mental health of our employees.

Corporate Social Responsibilities

Fulfilling our corporate social responsibilities, the Group is committed to both environmental protection and the work of helping and supporting the underprivileged. Our aim is to promote the charitable traditions, begun by our parent company, HKCG, in mainland China.

Since the launch of "Gentle Breeze Movement", our flagship charitable campaign, in 2013, the Group has provided various charity services to schools and people in need in the society. In 2014, the "Gentle Breeze Movement" gained momentum in Weifang City, Shandong Province with the donation of teaching and daily commodities to five primary schools in Xiashan District, Weicheng District and Hanting District, Weifang City.



Towngas China's volunteers teaching visually-impaired students to use gas cooking stoves.



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Items donated include laptops, school uniforms, books, desks and chairs, sports equipment and musical instruments, all of which aiming to improve the learning environment of the students. After learning about the special needs of the Weifang School for Blind Children in Weicheng District, we also funded the setup of a cooking workshop and donated kitchenware items and cooking utensils, such as "Bauhinia" cooking appliances and range hoods, to provide the visually-impaired children with the equipment to learn basic living skills and to cultivate their ability to live independently.

The charitable project, "Guangcai Loving Home - Home of Happiness and Peace", was jointly organized by the China Guangcai Program Foundation and Beijing Global Village, with an aim to bring social services to the resident children as a demonstration of our care. In 2014, "Companionship for Resident Children Programme" of the Group jointed hand with the above mentioned programme. Two teams of volunteers were sent to visit the impoverished mountain areas in Wuxi County, Chongqing Province to serve as volunteers. They marked the beginning of the six-month "Companionship for Resident Children Programme". In addition to homework tutorials, music, art and sports activities, the volunteers also provided both physical and mental guidance to the resident children.

Since 2009, the Group has donated to the "Firefly Programme" run by the Shanghai Soong Ching Ling Foundation – BEA Charity Fund, to fund the building of "Firefly Paradises" at schools in Sichuan and Shandong Provinces. A new "Firefly Paradise" donated by the Group was completed in Hangzhou City, Zhejiang Province in June 2014.

Our annual welfare initiative, "Towngas Rice Dumplings for the Community", was held in May 2014. Towngas China volunteers, local students, community volunteers and senior citizens from throughout the country gathered together to make "Charity Rice Dumplings" to celebrate the Dragon Boat Festival with less-privileged groups – orphans, senior citizens and people in need, through the sharing of these "Charity Rice Dumplings".

We launched an environmental protection campaign known as the "Unlimited Recycling of Limited Resources". By taking the catchy "Towngas China Environmental Watchword", we called on staff and

their families, customers and the public to reduce their consumption of resources, effectively use and recycle resources while striving to alleviate the air pollution. The activities encouraged include tree-planting, conservation of water and electricity as well as avoidance of disposable items. At the same time, we encouraged staff in our group companies and their families, and the public to actively participate in "Earth Hour", contributing efforts to the environmental protection of our planet.



Towngas China's volunteers helping resident children in impoverished mountain areas of Wuxi County, Chongqing with their homework.

Long-term Development Strategy

The Group's mission is to provide customers with safe and reliable supply of gas and caring, competent and efficient services, while working to protect and improve our environment. The Group thus focused on investment, exploration and operations management in gas-related business, with principal businesses involving the sale and distribution of piped gas. Leveraging our professional management in customer services and safe and reliable gas supply, as well as our emphasis on corporate social responsibility, Towngas China has become a leading brand in China's gas industry. Our business footprint has also expanded rapidly, with the establishment of over 90 piped gas companies across 18 provinces, autonomous regions and municipalities including Anhui, Fujian, Guangdong, Guangxi, Guizhou, Heilongjiang, Hebei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Jilin, Liaoning, Shandong, Sichuan, Yunnan, Zhejiang and Chongqing. We will continue to identify new projects with business potential in the natural gas industry while expanding the scope of the Group's existing projects, so as to achieve long-term stable and sustainable growth of our business and continue to create values for shareholders.

Corporate social responsibility acts as the cornerstone in our development. Therefore, looking forward, we will continue to fulfill our responsibilities. We will actively reward our society by gathering more resources in the name of our charity label, "Gentle Breeze Movement", to ensure that our welfare activities will be carried out both more regularly and in a more structured manner as we put our unceasing efforts to contribute to the sustainable development of our community as well as our business.

