





# Business Review



In 2010, the world economy rebounded gradually from the global financial crisis, aided by the quantitative easing monetary policy implemented as the rescue measure in various countries. China's economic growth maintained strong momentum in 2010 benefiting from its relatively sound banking system and the continuously expanding domestic demand. The development of new projects by the Group in the neighbouring cities of its existing projects was in line with the rapid development strategy of the gas industry encouraged by the Chinese government. In addition, as the Group's projects in Shandong and Northeastern China are located in the regions targeted for increases in natural gas consumption during the 12th Five-Year Plan period, the Group is well-positioned for sustainable development.

In December 2010, in the "Hong Kong Outstanding Enterprises Parade 2010" organised by the Economic Digest, a leading financial publication in Hong Kong, the Group was honoured with the "Hong Kong Outstanding Enterprises Award 2010" for its potent growth and its excellent corporate competencies. This award demonstrates the recognition of the Group's achievements from the financial market.



Mr. Ho Hon Ming, John, the Executive Director and Company Secretary, represented the Group to receive the "Hong Kong Outstanding Enterprises Award 2010".

## Sales of Piped Gas

In 2010, the Group sold a total of approximately 4.03 billion cubic metres of piped gas, representing a substantial increase of 27.5% as compared to approximately 3.16 billion cubic metres of the same period last year. Industrial gas sales grew by 550 million cubic metres, representing an increase to approximately 59.1% of the total gas volume sold by the Group during the year. Commercial gas sales maintained at approximately 14.0% of the total gas volume sold by the Group during the year. Residential gas sales accounted for approximately 26.9% of the total gas volume sold, representing a slight decrease of one percentage point. The optimisation of the customer mix as illustrated by the increase in proportion of industrial and commercial gas consumption in the gas sales profile would be a strong drive to the Group's future gas sales volume growth. Additionally, with greater autonomy in determining the selling prices of industrial and commercial gas, the Group can more easily shift the price adjustments from upstream companies to its industrial and commercial customers. As such, the profitability of the Group's gas sales will remain continuously strong.

## Acquisition of Six Piped Gas Projects from HKCG

On 17 March 2010 and as announced on the same day, the Company entered into a sale and purchase agreement (the "Agreement") with Hong Kong & China Gas (China) Limited ("HK&CG (China)"), a wholly-owned subsidiary of HKCG. Pursuant to the Agreement, the Company agreed to purchase all the issued share capital of Towngas (BVI) Holdings Limited, a target company held by HK&CG (China), and to take assignment of all the outstanding loans and liabilities owed by the target company to HK&CG (China) and its associates. The Agreement and its contemplated transactions, together with the relevant whitewash waiver, were approved at the Extraordinary General Meeting held on 29 April 2010. On 15 July 2010 and as announced on the same day, the Company entered into a supplemental agreement with HK&CG (China), pursuant to which part of the reorganisation yet to be fulfilled would become a post-completion obligation. Accordingly, the acquisition was completed on 15 July 2010.



The geographical coverage of the Group has been expanding. In 2010, the Group further expanded its business into Zhejiang Province and Guangxi Zhuang Autonomous Region.



The Company issued 485,000,000 consideration shares credited as fully-paid to HK&CG (China) as the consideration for the acquisition. The consideration shares represent approximately 24.76% of the issued share capital of the Company upon the execution of the Agreement and approximately 19.81% of the enlarged share capital of the Company upon completion of the transaction on 15 July 2010.

Upon completion of the acquisition, the Group held 40% to 100% of the equity interest in six piped gas project companies in Liaoning and Zhejiang Provinces in the People's Republic of China (the "PRC") through the target company:

Name of Project Companies	Shareholding
<b>Zhejiang Province</b>	
Hangzhou Hong Kong and China Gas Company Limited	50%
Tongxiang Hong Kong and China Gas Company Limited	76%
Huzhou Hong Kong and China Gas Company Limited	98.85%
<b>Liaoning Province</b>	
Yingkou Hong Kong and China Gas Company Limited	100%
Dalian Changxing Hong Kong and China Gas Co. Ltd.	100%
Dalian DETA Hong Kong and China Gas Co., Ltd.	40%

Liaoning and Zhejiang are provinces strategically located on the Northeastern and Eastern coast of China, adjacent to a number of provinces, such as Jilin, Shandong and Anhui, where the Group currently has a significant presence. The Group believes that the acquisition will enhance its financial positions and cash flow. The acquisition also allows the Group to increase its scale by issuing new shares as consideration, without having to raise additional cash to fund the transaction. In addition, HKCG's increased shareholding will bring considerable benefits to the Group in securing new piped gas projects in the PRC as HKCG is widely recognised for its experience and expertise in the piped gas business in the PRC. Furthermore, the Group will have continued support from HKCG's abundant financial resources and continue to benefit from its operational expertise and managerial support at the corporate and regional management levels.





Huzhou of Zhejiang Province is a significant production base of heat resistant materials in China. The photo shows a heat resistant brick factory which is one of the major gas customers in Huzhou.

## Acquisitions

In 2010, in addition to the six projects acquired from HKCG in Liaoning and Zhejiang Provinces, the Group also secured eight new projects in Jiangxi Province, Liaoning Province, Shandong Province and Guangxi Zhuang Autonomous Region, including Linqu County of Weifang City and Nanhai New District of Laiyang City in Shandong Province, the New Industrial District of Anshan City, Lvshun Economic Development Zone of Dalian City and Kazuo County of Chaoyang City in Liaoning Province, Chengdong Harbour District of Jiujiang City and Fubei Industrial Park of Fuzhou City in Jiangxi Province, and Lingui New District of Guilin City, being the first piped gas investment project of the Group in Guangxi Zhuang Autonomous Region. As a provincial development area, Lingui New District is the future development focus in Guilin City and is of strategic significance for the Group's city gas project development in Guangxi. The expected total gas sales of the eight projects above will be approximately 500 million cubic metres in five years.

In addition, the Group acquired two new projects operating in Xiushui County and Wuning Industrial Park of Jiujiang City, Jiangxi Province, in early 2011. The expected total gas sales from the two projects in five years will be 150 million cubic metres. As such, the Group's investment in five projects in Jiangxi Province has facilitated its further penetration in the province and established solid foundations for its development in 2011.

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

	<b>Project</b>	<b>Shareholding of the Group</b>	<b>Major Industries of the Operating Region</b>
1.	Linqu County, Weifang City, Shandong Province	42.41%*	Processing of aluminium and stainless steel, metallurgical and chemical processing and processing of construction materials
2.	New Industrial District, Anshan City, Liaoning Province	100%	Manufacturing of equipment
3.	Lvshun Economic Development Zone, Dalian City, Liaoning Province	100%	Manufacturing of ships and equipment
4.	Lingui New District, Guilin City, Guangxi Zhuang Autonomous Region	95%	Metals processing and bio-pharmaceuticals
5.	Kazuo County, Chaoyang City, Liaoning Province	100%	Metallurgy, foundries and purple pottery
6.	Chengdong Harbour District, Jiujiang City, Jiangxi Province	60%	Petrochemical, manufacturing of ships, production of construction materials, processing of food and oil
7.	Fubei Industrial Park, Fuzhou City, Jiangxi Province	40%	Smelting and processing of non-ferrous metal, and production of construction materials
8.	Nanghai New District, Laiyang City, Shandong Province	100%	Advanced technology, food processing and manufacturing of machinery
9.	Xiushui County, Jiujiang City, Jiangxi Province	80%	Mine processing, ceramics and quartz processing
10.	Wuning Industrial Park, Jiujiang City, Jiangxi Province	100%	Energy-saving lights, mine ore processing, pharmaceuticals and chemical processing

\* The Group directly holds a 25% equity interest in this project, and Weifang Hong Kong and China Gas Company Limited, a joint venture in which the Group holds a 50% equity interest, has also acquired a 34.82% equity interest in this project. As a result, the Group owns a 42.41% effective shareholding in this project.

## Customer Services

In 2010, the Group continued to reinforce the principle of providing “customer-oriented, professional and efficient” quality services, offering customers innovative gas products and consistent service quality so as to establish the brand image of quality services. To ensure that customers can enjoy convenient and prompt services, modern customer service centres were established to offer one-stop services ranging from the sales of gas appliances and payment services to the opening of gas accounts, technical consultations and after-sale services. The Group catered for customers’ needs closely by conducting survey on customers’ satisfaction, and establishing customer service committees for handling customers’ feedbacks. Active steps had been taken to enhance the communication with customers. Service targets were determined according to the changes of customers’ needs every year, optimising continuously on the safety and reliability of products, customer appointment arrangements, work efficiencies, service attitudes and the handling of customers’ opinions.

Customer service hotline serving as an important channel for communication and service provision is operated by all Group companies with “you can hear our smiles” as our philosophy. Customers’ phone calls are answered by our staff personally, enabling a better understanding of customers’ needs and opinions while offering friendly, professional and efficient services.





## Business Review

Regular on-site safety inspections as a core part of services provided play an important role in ensuring customers' safety in gas usage. In 2010, the Group maintained great efforts in implementing the "Regular Safety Inspection" programme under which professional and qualified gas technicians visit customers on a regular basis to conduct inspections on gas appliances and pipelines to ensure the safety of gas facilities. Currently, all Group companies carry out this safety programme. Regular safety inspection has become one of the most representative services of the Group and has been well received by customers.

In addition to its endeavours to improve gas safety and customer services, the Group also actively participated in a range of community activities through its customer service teams, seeking to increase public awareness on the safe use of gas. The Group sets up consultation counters in public areas to answer customer enquiries on the safe use of gas on the spot. On the "Consumers' Day" held on 15 March every year, various group companies hold large-scale safety promotional activities and distribute safety manuals to promote safe gas usage.

In recognition of its active promotion on safe gas usage and outstanding contributions to community services, the Group was awarded "The Enterprise with Outstanding Community Services in China 2010".



## Bauhinia

The Group's Bauhinia gas appliances have been introduced in 31 cities, in which the Group's projects locate, with 56 sales locations established. Sales volumes for 2010 reached a record high of 110,000 units. The success of the Group proved that convenient one-stop services have been well-received in the mainland market and laid a solid foundation for the development of its gas appliance brand.

During the year, the Group launched a mass media advertising campaign on express railways and national newspapers to promote the Group's brand philosophy of safety, professionalism and excellence and to position itself as an expert on gas appliances. As 2010 was the fifth anniversary since the launch of Bauhinia, the Group organised a national "Healthy and Tasty Dishes with Flame Cooking" Competition. The competition's national final and the 5th anniversary ceremony were held in Wuhan on 15 September 2010 with the PRC national and local media coverage, promoting the Bauhinia image of concerning customers' safety and comfortable lifestyle with gas usage.

In view of its excellent market performance, ultra-modern product design and consistently improving after-sale services, supported by ongoing product research and development, Bauhinia was once again honoured as one of the Hong Kong top brand names in 2010.



## Safety and Risk Management

In 2010, the Group established Safe Production Committees, which hold regular meetings on work safety to discuss new safe production requirements in different regions and to deploy safety and risk management throughout its operations. Regional risk managers are also invited to exchange experiences on safety issues on a monthly basis. Moreover, workshops and quizzes on health, safety and environment (HSE) were held in various regions in 2010.

Based on several research findings derived from the “Year of Safe Production” in the northeastern region in 2009, the Group applied these findings to other regions in 2010, and introduced the “Year of Safe Production” campaign in Sichuan to capitalise on regional advantages and accelerate the development of all its member companies. Each regional general manager kept track of the monthly safety and risk management inspection report in person. The Group also conducted regional emergency drills, with Hong Kong, Shenzhen and regional enterprises participating via simultaneous video-conferencing facilities.

In addition, the Group has launched an online “10.10.10 Safety Action” programme, successfully accomplishing the participation target of reaching 100,000 employees and customers of the Group and the HKCG before 10 October 2010. This campaign promoted safety tips with ten guidelines for each of the three major aspects – Ten Rules for Corporate Safety Management, Ten Commandments of Employee Personal Safety and Ten Reminders of Customers Safety. This campaign increased the safety awareness both of staff and customers, at work and at home.



Mr. Chan Wing Kin, Alfred, the Chairman, visited Sichuan to inspect the safety measures of the gas business in Southwest China.



The Shandong Training Institute oversees the lectural training functions of the Group. The training facilities including multi-media classrooms, domestic and commercial and industrial gas appliances training rooms, pipeline construction training depots, SCADA demonstration facility and appliance showcase, etc.

## Staff Training and Development

As of 31 December 2010, the Group had 15,744 employees, 99% of whom work in mainland China. The Group has consistently focused on the continuous training of staff and enhancement of business skills. Staff ranging from frontline staff to senior management were involved in training in a variety of ways. In August 2010, the Group continued to jointly organise the “Senior Management Programme” with Tsinghua University to ensure that the grooming of top-notch talent would be sustainable. It was a programme based on the Towngas Leadership Competency model flexibly structured in accordance with the characteristics and requirements of the Group. Leadership enhancement work also continued to develop for regional management in 2010. In July, a leadership enhancement course for the management in Shandong region commenced in Peking University. In October, the 4th graduation cum the 5th opening ceremony of the senior management training course for Sichuan region was held at the Southwestern University of Finance and Economics. This course was devised to explore innovative business strategies, human resources management and marketing skills to maintain the competitive edge of the Group. In order to improve the working quality of frontline staff, the Group conducted specifically designed training programmes in accordance with the needs of staff in Sichuan last year. This further enhanced the technical skills of staff, resulting in an even greater value for customers and the Group.

The Group has strived to comply with the principle of “committing to innovation and creativity to provide quality services for the benefits of the Group, its customers and employees” throughout all its operations. Through the launch of comprehensive training on Superior Quality Service (“SQS”) for its employees, the innovation and quality services of employees have been persistently enhanced. By now, 41 group companies have implemented SQS. Three companies of the Group were awarded second prizes at the National Competition for Quality Control Units organised by the China Association for Quality in April and July 2010. The Group will further enhance its professionalism, quality and effectiveness in the implementation of SQS.

In addition to providing training to its employees, the Group actively responded to post-“5·12” Sichuan earthquake educational support and subsidised 30 students from the affected areas to study in Jiangsu Changzhou Higher Vocational School of Construction, specialising in gas. As of September 2010, these 30 students, having completed their pre-job training at the Group’s training centre in Sichuan, are participating in internship programmes in 15 group companies in Sichuan. The Group ensured full employment for students, while expanding its gas service teams with professional members.

## Corporate Social Responsibility

The Group recognises the importance of its corporate social responsibility role. Over the years, the Group has been actively participating in community activities and providing support and showing its concerns for the needs of the underprivileged. All Group companies also share the community contribution spirit by making donations to victims of disasters, offering help to the elderly, students, the poor and people in need while also participating in other community activities. Currently, volunteer teams have been set up in over 70% of all Group companies. With total service hours amounting to nearly 300,000 man-hours in 2010, volunteer teams helped more than 200,000 people in need.

Responding with compassion towards the earthquake in Yushu County, Qinghai Province on 14 April 2010, the Group companies together with its staff acted promptly to raise funds, which amounted to over RMB700,000, to support and help with the relief work immediately after the earthquake. The Group's volunteers delivered two trucks of food and clothes, 150 tents and medicines to the collection point in Xining City for the victims of Yushu County to ease the immediate difficulties of victims.

In June 2010, in conjunction with Mianyang Hong Kong and China Gas Co., Ltd., a Group subsidiary, the Group organised a "Towngas Rice Dumplings for the Community" event together with the Association for Promotion of Next Generation Caring in Mianyang. The programme involved hundreds of people, including Group volunteers, the elderly from the local community, teachers and students from the Liujia Village Secondary School and Dong Lin Primary School in Mianyang, working together to make ten thousands of rice dumplings for distribution to the elderly, teachers and students in the community. Similar activities were also organised by other Group companies to show their care and support for their local communities.



In October 2010, the Group was invited by the “Shanghai Soong Ching Ling Foundation – BEA Charity Fund” to support “The Firefly Project”, a volunteer teaching programme for the Hopeful School in Jianchang, Lixin County, Bozhou, Anhui. Volunteers from Group companies in Anhui gave interesting lectures in three days, representing the Group to make a contribution to education in these less-developed areas. Furthermore, several Group companies such as Sichuan Pingchang Hong Kong and China Gas Company Limited and Chengdu Xindu Hong Kong and China Gas Company Limited, also conducted a variety of activities to help the homeless children and children in poverty.



As a responsible energy provider, the Group has been committing to protect and improve the environment as well as promoting the development and utilisation of clean energy. The Group companies organised a number of local environmental protection activities, including supporting “Earth Hour” launched by the World Wildlife Fund and organising various tree-planting activities, to promote an environmentally-friendly attitude and lifestyle and to enhance the sustainable development of the Group, the community and the environment.

The Group’s social contribution was widely recognised with the receipt of “The China Best Corporate Citizenship Award” from the Corporate Citizenship Committee of the China Association of Social Workers, China Central Television (“CCTV”) and the Tencent Charity Foundation; “Low-carbon Innovative Enterprise” from Chinese Youth Daily and the Jingji Magazine; “The Enterprise with Outstanding Community Service in China” from the Ministry of Civil Affairs, China Social Welfare Education Foundation and CCTV; and “Commitment to Gas Safety Education” from The Chinese Society of Education and China Journalists Association in 2010.

On 11 March 2011, a tree planting activity in which over 100 volunteers of Towngas China were involved was jointly organised by the Group, Forestry Bureau of Shaoguan and Shao Guan Hong Kong and China Gas Co., Ltd.. Similar activities were also organised by our joint ventures in China.

