



港华燃气  
Towngas



# Business Review

Having originated in 2008, the global financial tsunami dealt an unprecedented blow to China's economy last year. However, with implementation of economic control measures, the country's economy has recovered ahead of other regions in the world. Under these circumstances, the Group achieved satisfactory results in 2009 through consistent hard work to increase revenue and contain costs. Meanwhile, the Group has strictly adhered to its mission to prioritize safety, to put customers first and to provide quality services on a sustainable basis. On top of this, the Group's brand reputation was augmented by a number of top honours won during the year, including the "The China Best Corporate Citizenship Award", "2009 National Enterprise Environmental Excellence Award" and "2009 China 'Harmony • Responsibility' A Brand with Love" Award.



*Families using our Bauhinia brand appliances enjoy safety, convenience and relaxation in their homes.*



## Customer Services

In 2009, the Group adhered to its principle of “customers first” by establishing additional one-stop-shop customer service centres, in accordance with their needs and market developments. The Group has also set up customer services hotlines in various enterprises which serve to satisfy customers’ needs in all fronts through enthusiastic and professional services.

To ensure the safe use of gas appliances by customers, the Group has been promoting its Bauhinia gas appliance brand since 2007. As at the end of 2009, sales of Bauhinia products remained strong with accumulated sales reaching 85,000 units. Installation and routine maintenance work increases as sales of Bauhinia products expand. Therefore, in order to uplift standards, the Group further optimized the structure of after-sales services in 2009 and issued relevant guidelines to assist this process.

*Our technicians carry out regular safety inspections for domestic and commercial customers to ensure safety in their uses of gas.*





## Safety and Risk Management

In 2009, the Group convened a “Safety Management Conference for General Managers” in both Changchun and Chongqing, where action plans were formulated to raise safety and risk management standards. A number of taskforce teams, inaugurated by Group companies, were formed to review safety and risk management standards. With the relevant research results, it laid the foundation for the Group companies to elevate their safety and risk management level.

In 2009, Group companies implemented monthly safety and management plans by their respective general managers, in a bid to strengthen safety and risk management and performance and ensure all Group companies have sufficient preventive measures in place.

Over the years, the Group has established a comprehensive safety and risk management rating and auditing system across all its companies so as to elevate safety performance to international standards. In addition, the Group won a merit award at the “National Occupational Safety and Health Knowledge Contest” in 2009.



*Technicians carry out regular safety inspections against gas leakage for pipelines and facilities.*



## Engineering and Procurement

For several years, the Group's incessant efforts in building and improving gas facilities have resulted in a clean and safe gas supply for customers. Even under the spectre of a global financial crisis, the Group still continued to invest in a timely manner with an aim to improve capacity of gas transmission and reliability of supply. Standard engineering guidelines adopted by the Group's companies ensure that project safety, quality and cost control benchmarks are unified.

In 2009, a proactive approach was taken towards new gas supply transmissions through the Second West-to-East pipeline, Sichuan-to-East pipeline and regional pipelines. Gate stations and related pipelines were constructed to facilitate prompt delivery of this additional gas supply to urban and township markets. Because of this, Group companies are now assured of a more reliable supply of natural gas. Bottleneck limitations from an expanding customer base have been further eased to provide greater room for the Group's developments.

Perfecting its supply network further in 2009, the Group extended the scope of joint purchasing to include all frequently-used engineering materials. The Group also undertook gradual moves to upgrade the technological level of its supply-chain management, promoted the use of software in its materials management system and instituted workflow optimization, efficiency enhancements and cost reductions. An online joint purchasing platform was implemented in 2009 to realize real-time sharing of order and delivery information between headquarters, vendors and various companies. All these initiatives are expected to elevate the Group's supply chain management standards.







*The Group's continued effort in gas facilities establishment and enhancement demonstrates our commitment to provide safe and clean gas to customers.*





*On the occasion of the opening ceremony to the natural gas supply facilities under Huangshan Hong Kong and China Gas Co., Ltd.*

### Acquisitions

In 2009, the Group acquired a number of new projects in Sichuan, Shandong, Anhui, Jiangxi and Guangdong provinces. While the Group is engaging in proactive and careful market expansion, it signed an agreement in February 2010 for investment in, and establishment of, a piped gas project in the New Industrial District of Anshan City, Liaoning province.

### Piped Gas Project in Xinjin, Sichuan Province

A piped gas project in Xinjin County was signed in December 2008 and established in May 2009. The Group acquired a 60% equity interest in the project for a consideration of RMB60 million. Xinjin County in Sichuan province acts as the southern gateway to Chengdu City and boasts a thriving industrial and private sector. Xinjin Industrial Park receives large scale operational transfers from industrial enterprises in Chengdu City and manufacturers in the Jiangzhe area that have enabled rapid development and formation of a specialized industrial and production chain, as well as the creation of vast future potential for the industrial gas market. It is expected that annual gas consumption will be as high as 70 million cubic metres in five years time and will exceed 100 million cubic metres in the longer term.

### Piped Gas Project in Xindu, Sichuan Province

The Group acquired a 100% equity interest in a city piped gas project in Xindu District, Chengdu City, for RMB253 million. Xindu is an integral part of Chengdu City's urban sub-centre and 16 km away from downtown Chengdu. As a major industrial district of Chengdu City, Xindu's major industries include machinery (aviation), electronics, food, pharmaceuticals and furniture. Its annual gas consumption is expected to exceed 100 million cubic metres within five years.

### **Piped Gas Project in Chiping, Shandong Province**

The Group acquired an 85% equity interest in this project, which has a registered capital of RMB40 million. Located in the northwestern region of Shandong province, Chiping County is 100 km away from the provincial capital Jinan City. As a key national industrial base for the production and processing of aluminum products, Chiping County is home to several enterprises involved in aluminum and copper metal production and processing, vehicle component production, textiles and pharmaceuticals. Chiping County is one of the regions in Shandong province with fast economic growth and annual gas consumption is expected to reach 49 million cubic metres within five years.

### **Piped Gas Project in Huizhou District, Huangshan City, Anhui Province**

The Group holds a 100% equity interest in this project, which has a registered capital of USD2.1 million. As an industrial hub of Huangshan City, Huizhou District is dominated by fine petrochemical businesses offering huge potential for the development of a gas consumption market. Huizhou District is a newly-established project, scheduled to start operation in 2010. Annual gas consumption is expected to reach 6 million cubic metres within five years and 30 million cubic metres in the longer term.

### **Piped Gas Project in Huangshan District, Huangshan City, Anhui Province**

The Group holds a 100% equity interest in this project, which has a registered capital of USD3.5 million. With tourism as its key industry, Huangshan District has well developed catering and hotel industries. The government has also emphasized the need for proactive implementation of urban environmental policies, which has created room for development of the natural gas market. Huangshan District is a newly-established project and is expected to commence operation in 2010. Annual gas consumption is projected to be approximately 19 million cubic metres within five years and as high as 40 million cubic metres in the longer term.

### **Piped Gas Project in Changjiu, Jiangxi Province**

The Group has acquired a 60% equity interest in Jiangxi Jihua Energy Development Co., Ltd, which has a registered capital of RMB20 million. The project company is located in the core region of the Changjiu Industrial Corridor and Poyang Lake Ecological and Economic Zone, which covers Yongxiu County, Gongqing County, De'an County and Xingzi County, within the precinct between Nanchang City and Jiujiang City of Jiangxi province. As a newly constructed piped gas transmission line, the Changjiu project is expected to account for over 90% of the region's overall industrial gas volume. Annual gas sales from the project are expected to reach 200 million cubic metres within five years and 400 million cubic metres in the longer term.

### **Piped Gas Project in Yangdong, Guangdong Province**

The Group holds a 100% equity interest in this project, which has a registered capital of RMB50 million. Located in the southwestern coastal region of Guangdong province on the western fringe of the Pearl River Delta, Yangdong County is a robust industrial base for metal and cutlery businesses. With a relatively large number of gas-consuming enterprises, the County has a huge potential gas market. The project company is expected to achieve annual gas sales of approximately 30 million cubic metres within five years and 80 million cubic metres in the longer term. Investing in the Yangdong piped gas project has significant implications for the Group in furthering its project developments to the rest of western Guangdong and Guangxi provinces.



### **Piped Gas Project in Linqu, Shandong Province**

In November 2009, the Group acquired a 25% equity interest in Shandong Weifang Linqu Gas Company Limited, which has a registered capital of USD2.06 million. 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% interest in this project. Therefore, the Group holds an effective 42.41% equity stake in the Linqu project. Linqu County is undergoing rapid industrial development, and has a number of key industries including aluminum and stainless steel processing, chemical metallurgy and building materials processing which offer a gas-consumption market with vast potential. It is forecast that the project company will achieve annual gas sales of 56 million cubic metres within five years and 132 million cubic metres in the longer term.

### **Piped Gas Project in the New Industrial District of Anshan City, Liaoning Province**

In February 2010, the Group signed an agreement to invest in a piped gas project in the New Industrial District of Anshan City, Liaoning province. This project has a registered capital of USD15 million in which the Group holds a 100% equity interest. The project company has been authorized to operate a piped gas business in three industrial zones – Dadao Wan, Lingshan and Ningyuan in Anshan City. These three industrial zones feature a robust industrial base engaged in the equipment manufacturing business with a massive demand for natural gas. Their annual gas consumption is expected to reach 57 million cubic metres within five years and 100 million cubic metres in the longer term.

### **Disposal of LPG Operations**

As disclosed in a Company announcement on 2 April 2009 (supplemented by a subsequent announcement dated 1 June 2009), the Group disposed of its LPG operations for a total consideration of HK\$419 million. This transaction was approved at an extraordinary general meeting (“EGM”) held on 11 May 2009. The disposal, which was completed on 4 June 2009, has subsequently enabled the Group to focus its resources on developing its city piped gas business, thereby enhancing the profitability of the Group.

## Staff Training and Development

As of 31 December 2009, the Group had 14,251 employees, 99% of whom work in mainland China. The Group continued to strongly emphasize the importance of grooming its workforce to mitigate the impact of the financial crisis and to provide momentum for driving future developments.

The Group collaborated with the School of Economics and Management, Tsinghua University, to hold a “Senior Management Programme” for its senior executives. With Towngas Leadership Competency as its core objective, the programme was specially designed to broaden participants’ horizons and help cultivate a fresh mindset to overcome current and future challenges facing the Group as well as advance new solutions and innovative ideas to management.

The Group has also extended its Management Training and Succession Planning Schemes to senior executives to groom top-notch talent to spearhead the Group’s future expansion.





In addition to enhancing key performance indicators related to safety and engineering, the Group is also equally concerned to develop professional and technical talent. In 2009, the Professional Talents Development Scheme became a key management focus. Senior executives from the Group and its companies participated in research for the project with a mission to develop a mechanism and platform for sustained training and ensure adequate resources are located for this initiative. These measures are considered essential to reinforce professional and technical standards to facilitate the Group's continuing leadership within the industry. In 2009, the Group joined several other organizations, including the Department of Construction of Sichuan Province, Quality and Technical Supervision Bureau of Sichuan Province, Southwest Petroleum University and the Gas Association of Sichuan in establishing a training centre for the gas industry in Ziyang City, Sichuan province. This has enabled the Group to deepen its collaboration with government organizations, industry associations and academic institutions in a concerted effort to groom technical talent for the industry.

Through staff exposure to its corporate culture, Superior Quality Service Programme and 5S onsite management, the Group is providing its substantial workforce with opportunities for training in corporate philosophy and management techniques, thereby laying a strong foundation for staff's future career development.



## Corporate Culture and Social Responsibilities

It is a longstanding tradition for the Group and its workforce to participate in community services, sponsorship and sharing events and other activities to demonstrate their concern for the underprivileged. The Group's volunteers assisted the elderly and disabled, cared for children, provided relief to the poor and the destitute, as well as carried out publicity campaigns to promote gas safety within the community.

In 2009, the Group and its subsidiary companies also launched a "Book Donation with Love and Care Programme" with HKCG, collecting close to 30,000 books in less than a month, donating these to 10 schools in the disaster-stricken regions of Sichuan for use by about 20,000 school children. The Group's volunteers also visited these schools, working alongside students to build bookshelves and libraries.

The Group also donated RMB150,000 to the "Song Chingling Shanghai Foundation – Bank of East Asia Charity Fund" which embraces libraries, e-learning facilities and Internet access for village schools and their students, thus making an invaluable contribution to the cultural education of young people in poor areas.



## Business Review

In 2009, the Group was awarded the prestigious “The China Best Corporate Citizenship Award” from among 1,000 enterprises that participated in the event. The Group also won the “2009 China ‘Harmony • Responsibility’ A Brand with Love” Award, being an annual award organized by “New Century Magazine” for the fourth year. The above awards have demonstrated the Group’s commitments in serving the community, returning to the community and devoting to the communities over the years.

In building its corporate culture, the Group adheres to a people-oriented management model and adopts the guiding principle of “cultural diversification”. The Group’s internal magazine “Ming Qi” serves as a standard in the industry, publishing comprehensive insights, objective and timely reports regarding group companies and detailed descriptions of the work and life of employees with a human touch. “Ming Qi” won the “Best Internal Publication Award” in the “2009 Gasshow Performance Ranking” in recognition for its distinguishness among internal publication of gas corporations.

As regards environmental protection, the Group secured the “2009 National Enterprise Environmental Excellence Award”. Overall, the Group seeks to be an outstanding corporate citizen by not only fulfilling its obligations in gas safety and customer service, but also through major corporate social responsibility activities and events in paying back to the society with our utmost efforts.



*Voluntary workers from Towngas China paid visit to Shenzhen Min Ai Disabled Children’s Welfare Center (深圳市民愛特殊兒童福利院) with donated daily articles and played games with children who were receiving treatments there.*



