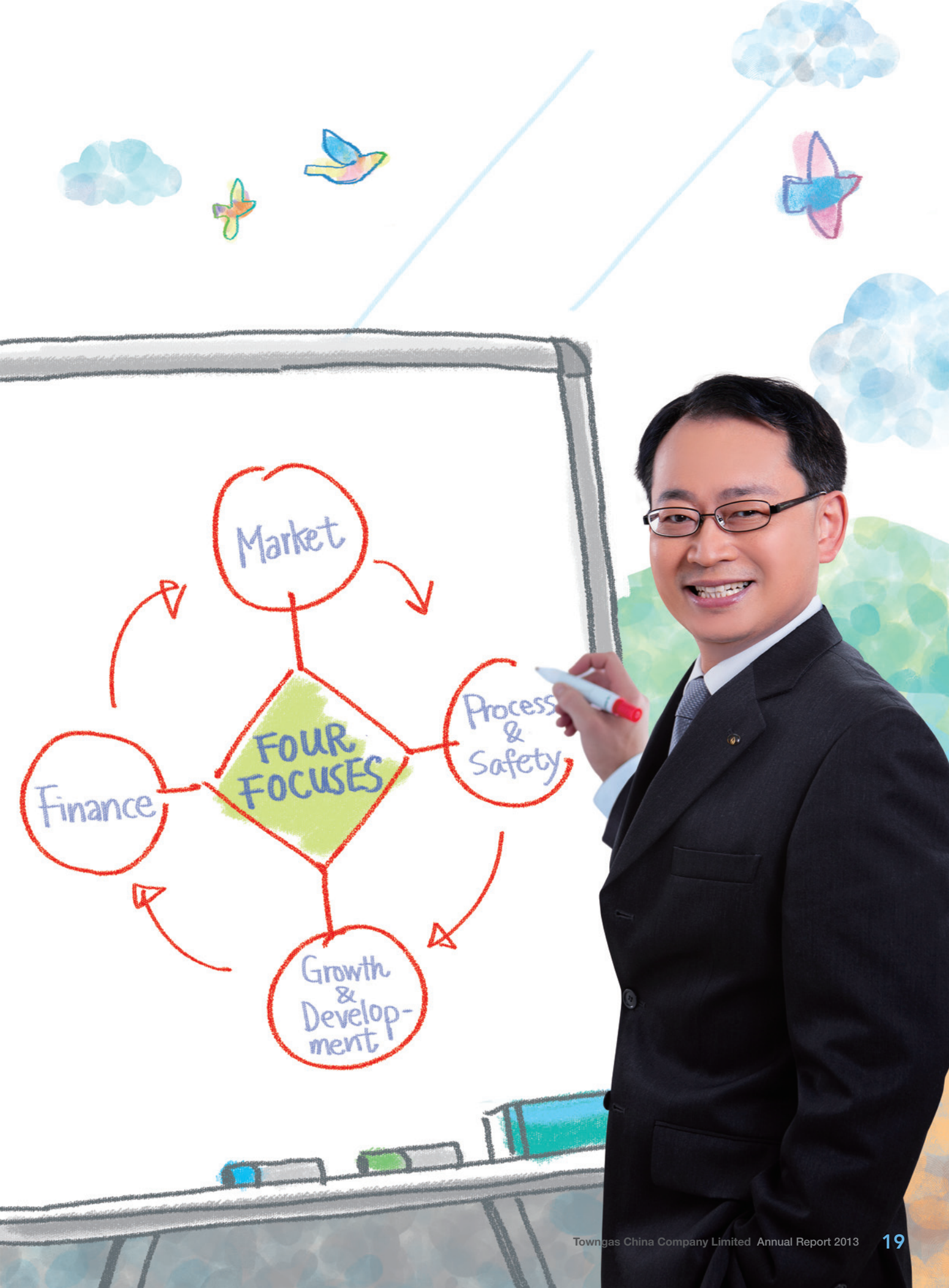


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China's economic development was generally stable in 2013, sustaining growth at a reasonable level. Bidding to ensure sustainable and healthy economic development, the new government adopted a range of policy measures to "pursue stable growth, control inflation and avoid risks". The Group was determined to continue systematic development, seeing steady progress and ongoing improvements in safety, customer services and market development. We boosted our business process information system whilst also launching customer service improvement programmes on a continuing basis to enhance customer satisfaction.





Market

FOUR FOCUSES

Process & Safety

Growth & Development

Finance

Business Review

Sales of Piped Gas

In 2013, the Group sold a total of 5.95 billion cubic metres of piped gas, representing an increase of 11.8% against the 5.32 billion cubic metres sold last year. Industrial gas sales grew by 390 million cubic metres to account for 58.8% 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 16.7%, while sales of residential gas as a percentage of total volume of gas sold decreased slightly to 24.5%. Benefiting from China's stable economic growth and the Group's development strategy to strengthen industrial gas consumption, we have been able to continue the stable growth of our industrial and commercial gas sales. A gas sales profile underpinned by industrial and commercial gas consumption ensures ongoing growth for the Group's profit from gas sales because this strategy allows the Group to reflect any upstream price adjustments on to industrial and commercial customers promptly.

Project Acquisitions

We continued to expand the geographic footprint of our business presence in 2013 with the acquisition of 14 new projects in Shandong, Anhui, Sichuan, Guangdong, Jiangsu, Liaoning, Hebei and Guangxi. These included city gas projects in Shiheng Town in Feicheng City and the Economic Development Zone in Boxing County in Binzhou City, Shandong Province; the Zhengpugang Xin Qu Modern Industrial Zone in Maanshan City, Fanchang County in Wuhu City and Bozhou-Wuhu Modern Industrial Zone in Bozhou City, Anhui Province; Mianzhu City, Sichuan Province; Fengxi District in Chaozhou City, Guangdong Province; Dafeng City in Jiangsu Province; Jianping County in Liaoning Province; the Zhongwei piped gas project in the Guangxi Zhuang Autonomous Region, as well as Cang County, Mengcun Hui Autonomous County and Yanshan County in Cangzhou City and the Shijiazhuang Southern Industrial Zone in Hebei Province. Total gas consumption of the 14 projects mentioned above is expected to reach approximately 1.6 billion cubic metres in five years.

In addition, the Group also developed 6 new projects in early 2014, consisting of city gas projects located at Jiapiang County in Leshan City, Sichuan Province; Songyang County in Lishui City, Zhejiang Province; Siping City in Jilin Province; Xingyi City, Guizhou Province and Guyang County in Baotou City, Inner Mongolia Autonomous Region, as well as a vehicle gas refilling station project at Qiqihar City, Heilongjiang Province. These projects will provide solid foundations for the development of the Group's business in 2014. The Xingyi and Guyang piped gas projects mark the Group's debut in Guizhou Province and Inner Mongolia Autonomous Region, respectively. This strategic move will facilitate the development of city gas projects in these two provincial-level areas as the next step. Total gas consumption of these six projects is expected to reach 0.5 billion cubic metres in five years.



Details of the Group's 14 new projects are as follows:

Project	Shareholding of the Group	Major Industries in the Operating Regions
1. Shiheng Town, Feicheng City, Shandong Province	100%	Metallurgical smelting, food processing, equipment fabrication
2. Economic Development Zone, Boxing County, Binzhou City, Shandong Province	65%	Steel coating
3. Zhengpugang Xin Qu Modern Industrial Zone, Maanshan City, Anhui Province	100%	High-end equipment fabrication, automobile parts and accessories, iron and steel
4. Mianzhu City, Sichuan Province	80%	Phosphorous chemicals, glass chemicals and building materials
5. Fengxi District, Chaozhou City, Guangdong Province	60%	Ceramic necessities and ceramic arts
6. Fanchang County, Wuhu City, Anhui Province	50%	New materials in construction, light textiles, metallurgical machinery and medication
7. Bozhou-Wuhu Modern Industrial Zone, Bozhou City, Anhui Province	49%	Manufacturing of modern machinery and equipment, electronic information
8. Dafeng City, Jiangsu Province	51%	Petrochemical industry, new materials, pharmaceutical chemistry, production of heavy machinery and equipment and papermaking
9. Cang County, Cangzhou City, Hebei Province	90%	Chemical industry, equipment manufacturing, communications and electronic products manufacturing
10. Mengcun Hui Autonomous County, Cangzhou City, Hebei Province	90%	Pipe fittings manufacturing
11. Yanshan County, Cangzhou City, Hebei Province	90%	Piping manufacturing
12. Jianping County, Liaoning Province	80%	Ceramics
13. Zhongwei piped gas project, Guangxi Zhuang Autonomous Region	100%	Aluminium, sugar production, glass products
14. Shijiazhuang Southern Industrial Zone, Hebei Province	45%	Building ceramics, pharmaceutical chemicals, cement building materials

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Details of the Group's 6 new projects in 2014 are as follows.

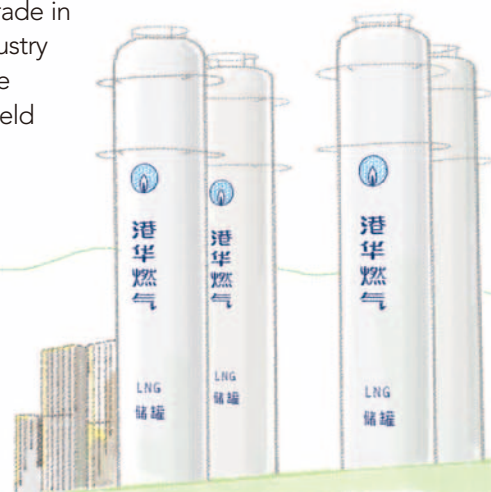
Project	Shareholding of the Group	Major Industries in the Operating Regions
1. Jiayang County, Leshan City, Sichuan Province	70%	Ceramics
2. Gas vehicular filling station project, Qiqihar City, Heilongjiang Province	55%	Vehicle gas refilling station
3. Songyang County, Lishui City, Zhejiang Province	51.35% ^(*)	Manufacturing of stainless steel pipes and copper metallurgy
4. Siping City, Jilin Province	80%	Manufacturing of machinery, special-purpose vehicles
5. Xingyi City, Guizhou Province	70%	Building materials, pharmaceuticals and wine-making
6. Guyang County, Baotou City, Inner Mongolia Autonomous Region	85%	Magnesium metal processing

^(*) 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%.

Customer Services

The Group firmly and continuously committed to the delivery of premium "Customer-oriented, Professional and Efficient" services through an increasing number of customer centres across the country in 2013. Customer centres were also renovated to reflect the theme "Sunshine, Happiness and Home" to enhance our "customer experience" with the provision of more heartwarming and convenient one-stop quality services.

During the year, the Group was honored to have won the "Best Customer Services in China Award 2012-2013" presented jointly by the China Association of Trade in Services, its Customer Service Committee and the China Information Industry Association. Following the nomination of 30 outstanding customer service officers in the Group's first "Service with a Smile Ambassador Contest" held in 2012, a "Service with a Smile Ambassador Club" was formed in 2013, hand-in-hand with the launch of the "Flying Dandelion" Programme to promote the Group's culture of heartwarming services. Junior customer service managers participated in a training programme entitled "Dandelion Service Sublimation", through which our employees not only enhanced their service skills, but also became true ambassadors of our customer service philosophy. We then launched nationwide "mystery customer inspections" of our customer centres, hotline centres and on-the-spot services, with a view to monitoring service quality and ensuring the implementation and stable enhancement of our high service standards.



Group companies also established service pledges continuously, setting specific service targets with regard to safety and reliability of the gas supply, service appointments, work efficiency, service attitudes and customer response. Performance results for these service pledges are published regularly. We also worked to enhance customer satisfaction by seeking both a thorough understanding as well as total fulfillment of customer needs through our customer service teams, service hotlines and customer opinion handling committees.

With regard to the management of customer safety, we continued to carry out our indoor safety inspections in accordance with a “three-tier procedure for hazard rectification” by achieving our target to complete 100% of indoor safety inspections within a three-year period together with a 100% rectification of indoor Class I hazards. During the year, we successfully upgraded the overall quality of our safety inspection personnel and the efficiency of our safety inspection work with the completion of the first round of our “corporate safety inspection service standard assessment”. This resulted in the general improvement of indoor gas safety standards as well as the assurance of safe gas consumption for customers. At the same time, “professional, aesthetic and personalised” designs and installation, as well as individual installations for separate flats, were implemented for new customers, ensuring not only a safe and assured, but also a convenient environment for gas consumption.



Business Review

Bauhinia

Bauhinia's brand image and reputation was further enhanced in 2013 with record-high accumulated sales of 2 million gas appliances, Bauhinia gas appliances sold reached 650,000 items in 2013 alone and were sold in more than 70 sales regions and cities.

Building on the brand's 2013 theme "Peace of Mind – Eight Years of Services from Bauhinia" and leveraging opportunities presented by the "March 15th World Consumer Rights Day" as well as the "May 1st Holiday", a number of publicity and marketing activities were organised to commemorate the eighth anniversary of the launch of Bauhinia's products. With a special emphasis on the brand's pledge towards "integrity and accountability", discounts were offered to encourage customers to replace their old gas appliances. Both customers and the market responded positively to these activities with a number of enthusiastic purchases.

The Group also won the "Outstanding Marketing in China Award 2012-2013" jointly presented by The Economic Observer and The Hong Kong Management Association for our promotional campaign entitled "Bauhinia – Rendering a Peaceful Mind at Home."



On the media planning front, we sponsored a sizable TV food show entitled “Bauhinia – Flame Food in China”, consisting of 24 episodes filmed in 24 cities across the country, to promote the culture of flame cooking throughout the year in association with five channels including MASTV, Jiangsu TV, Shandong TV, Jilin TV and Sichuan TV, in a vigorous drive to promote the strategic development of the Bauhinia brand.

With regard to products, 2013 marked the notable development of our proprietary gas cooking stove, the Taiji Gas Stove, which is compatible with China’s Class I National Energy Efficiency Standards. Helping to promote Bauhinia’s quality brand image, products exhibiting special design were also developed. In adherence to the brand’s mission – “Rendering a Peaceful Mind at Home with Professional Services”, we engaged in the active research and development of cutting-edge firewall technologies during the year to seek ongoing improvements in the safety standards of products supplied to customers. Besides, complying with national policies in environmental protection, we were committed to the research and development of highly efficient burners (with a heat efficiency of up to 60%) at a low cost to sustain the competitiveness of our products.

Safety and Risk Management

Following the numerous research achievements introduced under our Northeastern Safety Year 2009, Southwestern Safety Year 2010, Shandong Safety Year 2011 and East China Safety Year 2012, 2013 was designated as the South China Safety Year, under which research and promotions for eight Key Management Focus (KMF) Projects were rolled out simultaneously. This resulted in improvements in various key performance indicators. Activities such as photography and essay writing contests as well as competition in the design of pamphlets, posters and promotion columns were also organised to further incorporate a safety awareness mindset throughout our front-line staff in our operating sectors.

The Group continued the implementation of our monthly safety inspections by general managers with ongoing improvements being added to inspection requirements. Under this initiative, project inspections are carried out on a monthly basis by a team led by the general manager of each company. Results of these inspections by the companies’ general managers are summarised, analysed and discussed in the Group’s monthly safety meetings. On top of these activities, a new initiative was introduced during the year – general managers exchanged their safety inspection duties with their counterparts in other Group companies, either in the same region or in other regions. In this regard, the general managers of the companies would be appointed by regional general managers to review the monthly safety inspections completed by the other general managers, to facilitate exchanges, complementary interactions and mutual enhancements.



Business Review

The Group continued to conduct audit assessments on safety and risk management as well as construction project management at the company level together with the establishment of an internal accreditation system for site supervisors. In future, staff undertaking project management duties within the Group must possess qualifications recognised by the Group.

Safety and risk management workshops covering subjects such as safety, engineering work, operations, customer service, transportation, environmental protection, etc were arranged for new companies joining the Group. These activities provide comprehensive training for management personnel responsible for safety, engineering and customer service, while also enabling the management to swiftly familiarise themselves with the Group's management requirements and implement accordingly in their day-to-day operations together with services that will enhance the safety and risk management standards of these Group companies.

Engineering and Procurement Management

Supporting the Group's development objectives, the Engineering Department continued to provide assistance to Group companies in the formulation of scientifically sound plans in respect of engineering planning. Engineering investment costs effectively reduced as a result.

With respect to city gas standards, the Group was invited to participate in the preparation of a number of national/industrial standards and local directives. Our participation in the preparation of "Safety Technical Specification for Operation, Maintenance and Emergency Repair of City Gas Facilities", "Code for Design of Compressed Natural Gas Supply Station" and "Code for Design of Liquefied Petroleum Gas (LPG) Station" for the industry reflected the Group's strong technical standards. During the year, we completed the compilation of two important technical management guidelines including a "Checklist for Engineering Quality Supervision" as well as "Regulations for the Maintenance of Equipment and Facilities at Plants and Stations." In the absence of any previously drafted standards in these areas in the domestic gas industry in China, these two technical management guidelines effectively fulfill the need for management in these areas. They also provide a solid base in the formulation of standards for the gas industry in cities and townships highlighting the strong influence the Group has established over the national gas industry.

During the year, measures were adopted by the Engineering Department of the Group to optimise the process flow of Liquefied Natural Gas stations. Staged-gasifiers were adopted at large-scale Liquefied Natural Gas gasification stations to increase gasification efficiency, reduce site occupation and cut construction costs.

The Group Engineering Department enhanced management of operational safety at various plants and stations with the compilation of a checklist as well as audits on operation of sites and stations. Together with summary in cases manuals and the sharing of experiences facilitated through regional engineering workshops, operational safety management in our different Group companies was further strengthened.

To address rising costs for labour and other expenses, the Group maintained effective controls on cost outlays for engineering materials in 2013, through the adoption of a joint procurement strategy together with active consultation and close cooperation with supply partners under our annual "Cost Improvement" theme. At the same time, stringent controls were implemented over the quality of engineering materials, while the scope of random inspections, quality inspections and on-site supervision was enlarged. Additional inspection and testing equipment, such as a spectroscope, impact testing machine and stretch tester, was also purchased to enhance the Group's abilities and efficiencies in quality inspection of materials, resulting in further improvements to the Group's quality control systems.

Staff Training and Development

As at the end of 2013, the Group had 20,324 employees. As usual, the Group had been encouraging continuous learning, making every effort to provide a platform to facilitate ongoing development together with genuine care and assistance for our employees.

Together with our regional offices, we continued to organise advanced management seminars in association with leading universities in accordance with our “Towngas Leadership Competency” programme, with a view to nurturing the Group’s future leaders. 2013 marked the sixth year in our partnership with the School of Economics and Management, Tsinghua University, with a total of 36 of our senior managers being enrolled in advanced management programmes. At the regional level, 37 mid to senior managers took part in a second seminar jointly organised by our Northeastern regional office and the Dalian University of Technology, while 32 mid to senior management personnel took part in the first joint seminar organised by our North China regional office and Shandong University.

During the year, the Group introduced the EAP (Employee Assistance Programme) through four specialized areas – “My Healthy Life”, “My Low-carbon Life and Protection of the Environment”, “My Happy Life” and “Assistance for Employees”. It is hoped that employees can enjoy a healthier and happier life both at work and at home, in a bid to drive the healthy and rapid development of the Group.



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Training junior-level technical staff to enhance their specialized expertise and broaden their career prospects in line with our commitment to continuous learning, was an important measure adopted by the Group. In this connection, 15 employees from the Southwestern region received tertiary education certificates jointly awarded by our Towngas Engineering Academy and the Changzhou Higher Vocational School of Construction after achieving the required results in the 2-year training period and passing the examination on intellectual quality as well as a thesis defense session. These requirements form part of the academic accreditation process for this "2nd Internal Tertiary Education Accreditation".

The Group's "Engineering Graduate Training Programme" has been recognised by the Hong Kong Institute of Engineers, an official member of the Washington Accord for the international and mutual recognition of accreditations for academic and professional qualifications in engineering. This means that the Group became the first internationally qualified entity in China to implement such a training programme. Currently, we are running this programme in the Southwestern region on a trial basis.


Building on the learning culture fostered by the Group, and through a combination of the self-driven learning and sharing, learning by tools, online learning and offline learning, and with their internal platforms for information exchange and E-learning which are hubs for information flow among members of the Group. Group companies are sharing their experiences and learning on a daily basis. These have resulted in a culture of self-driven learning as well as a tank of calibre with outstanding performance competencies, motivation and commitment.

During the year, the Group was honored to receive an "Excellence in Practice Citation (2012)" award from the American Society for Training and Development. We were singled out from among 150 training institutions and enterprises around the world for our "Interactive Mentorship Programme". We also won the "7th Management Action Award – Excellence Award" presented by Business Review Magazine for our case study entitled "A Dual Approach to the Creation of a Learning-oriented Entity".

To foster a warm feeling for our staff and a stronger sense of belonging within the Group, the "Towngas China Scholarship Scheme for Children of Employees" was launched in 2013 in recognition of our employees' children who achieve outstanding academic results. 10 nominees and 19 winners of the merit awards, who sat for admission examinations for domestic tertiary institutions and who fulfilled criteria under the scheme, were selected. The scheme, one of the activities organised by the Group to show our care for our employees and their families, is designed to encourage care for the family from our staff, as well as commitment to the provision of good education for children and their nurturing. It also reflects an important element of our corporate culture which calls for a positive and harmonious philosophy in both work and life.

Corporate Social Responsibility

In March 2013, we founded our own charity label, the "Gentle Breeze Movement". Activities by the Group and Group companies such as our energy conservation and environmental protection campaigns, tree planting schemes, "Towngas Rice Dumplings for the Community", charity libraries, disaster relief and poverty aid schemes, now all fall under the Movement's umbrella. The name of "Gentle Breeze Movement" was chosen in the hope that in fulfilling our corporate social responsibilities, the activities conducted both by the Group and our Group companies will warm and benefit the wider public, and the warm culture of the Group can be extended like a "gentle breeze".



The Group launched an initiative entitled “Seven Options for Smog Reduction – Towngas China’s Green Journey” in association with our Group companies as well as HKCG. Under this initiative, employees were encouraged to avoid driving, use the stairs and to use one’s own handkerchiefs, etc, with a view to leading an all-rounded green-life. Besides, our tree planting activities during the year planted more than 20,000 trees over a green area of nearly 50,000 square metres.

The “Towngas Rice Dumplings for the Community” campaign is organised every year during the Dragon Boat Festival. In June, staff volunteers made nearly 20,000 rice dumplings, distributing them to senior citizens and other groups in need.

In 2013, a number of donations for educational purposes were made under the “Gentle Breeze Movement”. These included the renovation of teaching blocks for seven schools in Xiushui, Jiangxi and Jiangbei District in Maanshan, Anhui; the building of charity libraries and e-classrooms; as well as donations for teaching, everyday facilities and sporting equipment. To date, 22 Towngas China Charity Libraries have been built across the country. Additionally, scholarships jointly donated by HKCG and the Group were awarded through the Sichuan Youth Development Foundation to help 100 outstanding but financially underprivileged students from the counties of Lushan, Baoxing and Tianquan in the quake-struck Ya’an district. Having passed their 2013 university entrance examinations and received offers for full-time programmes at tertiary institutions, the scholarships enable the students to fulfill their dreams for university education.

During the year, we were pleased to have won the “Enterprise with the Best Corporate Social Responsibilities 2013” title jointly presented by China News Service and China Newsweek, as well as “Five Stars Outstanding Corporate Citizen in China 2013” title, jointly presented by the Committee of Corporate Citizenship under the China Association of Social Workers, the CCTV Financial Channel and the Tencent Foundation. At the same time, our “Gentle Breeze Movement” also received the “Outstanding Project of Corporate Citizen in China 2013” award.

Long-term Development Strategy

The Group’s mission is to provide customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment. The Group is thus focused on gas-related investment, exploration and operations management, with our principal businesses involving the sale and distribution of piped gas. In view of our professional management in customer services, safe and reliable gas supply, as well as our emphasis on corporate social responsibility, Towngas China has developed into 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 17 provinces, autonomous regions and municipalities including Anhui, Fujian, Guangdong, Guangxi, Guizhou, Heilongjiang, Hebei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Jilin, Liaoning, Shandong, Sichuan, Zhejiang and Chongqing. Driving stable and sustainable growth into the future while also seeking to add value for shareholders, we will continue to identify new projects with business potential in the natural gas industry while also expanding the scope of the Group’s existing projects.

Corporate social responsibility acts as a major cornerstone in our development. Therefore, in continuous fulfillment of these responsibilities, we will actively serve our society. Looking forward we will be channeling additional resources into 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 our business.