




THE MAINLAND UTILITY BUSINESSES

Upwards Momentum



119 city-gas projects
with gas sales reaching
13.4 billion cubic metres

Sales of Bauhinia appliances
reached **650,000** units,
an increase of 30 per cent

The first city-gas supplier to
invest in an **underground
gas storage** project in
mainland China

THE MAINLAND UTILITY BUSINESSES

As we look towards the future of the energy sector, the increasing significance of mainland China to our operations is clear. The market for clean energy is buoyed by the country's on-going economic development, urbanisation and investments in infrastructure as well as a determination to improve the environment. As a respected public utility and energy provider, we are well positioned to make the most of promising developments as they arise and are actively pursuing a range of projects and investments in the country.

Our City-gas Operations

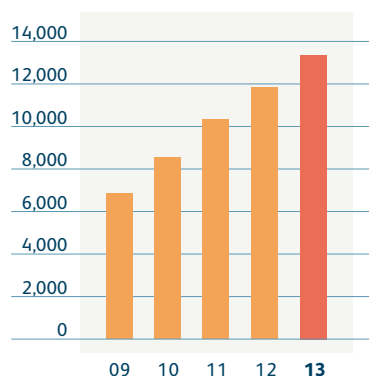
In mainland China, the energy market remains buoyant, supported by a strong industrial and manufacturing base, solid infrastructure and sound logistics. Both environmental considerations and a desire for clean-burning energy are feeding the country's increasing appetite for natural gas.

To capitalise on this demand, we are pursuing a strategy of sustainable growth through strong partnerships and a complete commitment to safety, service, product and engineering excellence.

In 2013, our city-gas operations enjoyed another year of strong growth. We welcomed 15 new

city-gas ventures to our business, bringing the total to 119 in 20 provinces, autonomous regions and municipalities. Our sales volume increased by 13 per cent to reach 13.4 billion cubic metres. Our network comprises 68,067 kilometres of gas pipes, serving 17.29 million customer accounts.

China Joint Ventures Gas Sales (million m³)



Natural gas torches are used to cut machine tools by a large-scale manufacturer in Jinan.



Including a midstream transmission network, our new city-gas project in Hangzhou is expected to achieve an annual gas sales of 1,000 million cubic metres in three years.

The Chinese government is implementing an on-going policy to develop rural areas and promote urbanisation. With the number of metropolitan inhabitants topping 700 million – more than half of the population – and the progressive shift to cleaner fuels, we believe that these measures will stimulate domestic demand for property, utilities and consumer goods, which will place our city-gas business in an advantageous position. As the use of natural gas widens, we will seize opportunities to meet the increasing demand for this essential resource.

Despite China's 2013 measures to cool down the nation's real estate environment, the Group recorded a continuous increase in new residential installations. Natural gas utilisation is still low, representing 5.9 per cent of the nation's total primary energy consumption. Despite the lower GDP growth forecast, we expect to see gas consumption expand at

15 per cent across mainland China in the coming years.

Midstream Facilities

Our goal to become a leader in the region's energy market advanced again in 2013 as we expanded our midstream business and became the first city-gas supplier to invest in an underground gas storage project in mainland China.

Our midstream natural gas projects in the country include the Guangdong LNG Receiving Terminal project, natural gas pipeline projects in Anhui province, in Hebei province and in Hangzhou, Zhejiang province; natural gas extension projects in Jilin and Henan provinces as well as midstream pipeline project located in Wafangdian, Dalian, Liaoning province. While helping the Group develop its downstream city-gas markets, these midstream projects generate good

returns and in 2013, the overall gas sales grew 22 per cent to 3.1 billion cubic metres compared to 2012.

Located in Jintan, Jiangsu province, our underground natural gas storage facility repurposes the cavern of a former salt mine in order to store natural gas throughout the year. This facility will help us to manage our inventory of gas to mitigate supply bottlenecks during peak seasons and to meet downstream demand. Not only is this expected to offset supply-demand imbalance, but there is also the potential to trade with other suppliers and expand our gas supply network in mainland China.

Water Supply and Wastewater Operations

One of the Group's core strengths is managing and operating utility businesses. Leveraging the similarities between natural gas and

water supply – location, brand, connections, technical skills and service – our water supply and wastewater operations business in mainland China is managed and run by Hong Kong & China Water Limited (Hua Yan Water). Our portfolio currently comprises six projects including water supply projects in Wujiang, Jiangsu province and in Wuhu and Maanshan, Anhui province; an integrated water supply and wastewater project, together with an integrated wastewater treatment project for a special industry, both in Suzhou Industrial Park, Jiangsu province.

Following the rapid expansion of the mainland Chinese economy, demand for clean water has grown steadily. A natural complement to our city-gas business, our water supply and wastewater operations concurrently enjoyed another successful year as annual sales of city-water increased by 5.5 per cent to 414 million tonnes.

Respected for our reliability and high quality service, we have been able to forge close ties with provincial and local authorities. In 2013, we won contracts covering two new water supply projects in Anhui province, including Zhengpugang Xin Qu in Maanshan and the starting area of Jiangbei Concentration Zone in Wuhu. We are now in a good position to

capture more quality city-water projects in other provinces.

Serving Our Customers

As a Group, we take pride in our one-stop service model and make great efforts to cultivate a friendly and caring service mindset among all our employees. Improving our processes and nurturing a “customer-oriented” culture is one of our top priorities and we constantly strive to better our service with new caring initiatives.

To complement our service excellence, we expanded our network of customer service centres by 15 in 2013 for a total of 215 in 80 cities. The centres, many of which have undergone a modern facelift and now feature our new design concept “Sunlight, Happiness, Home”, offer our customers a truly inviting one-stop experience.

To further monitor, review and standardise our level of customer service, we conducted a mystery shopping study across the country covering our customer service centres, hotlines and on-site visits. In 2013, our satisfaction ratings improved by 8 per cent compared to 2012, showing a steady upward trend in the level and consistency of our service.

We were pleased to have our efforts recognised when we received the “Best Customer Services in China Award 2012 – 2013” from the China

Association of Trade in Services, the China Information Industry Association and the China Customer Service Committee.

Our Bauhinia appliance brand forms part of Towngas’ all-round commitment to superior quality and safety. Complemented by a professional after-sales service, this approach has proved popular with our customers. Since its launch in 2005, Bauhinia has a sales record of over 2 million units across 70 cities, driving customer recognition of our brand throughout the country. In 2013, sales reached 650,000 units, an increase of 30 per cent from the previous year.



Our television series titled “A Journey of Flame Cooking and Chinese Cuisine” showed how to prepare a variety of local dishes from different cities across mainland China.

Leveraging our “Peace of Mind” positioning, we not only encouraged customers to replace outdated appliances with special discounts but also launched a 24-episode television show to promote flame cooking, which broadcasted on five provincial TV stations and key online video platforms.

During the year, we also patented a cost-effective, high-efficiency gas burner, which attained the Grade A national energy efficiency standard and won a number of industry awards. Our glass-ceramic hob was also named one of China’s “Top 10 Innovative New Gas Appliances” by the China National Hardware Association.

Efficient service delivery is impossible without integrated knowledge management. Our core values of leadership and creativity enable our people and our organisation to excel in this field. This is particularly evident in our deployment of IT solutions, including our Towngas Customer Information System (TCIS) Private Cloud, which provides our businesses in mainland China with a unified and convenient cloud-based customer information and billing system. The cloud reduces the need for on-site IT support while standardising processes and enabling our teams to deliver an enhanced customer experience based on timely, reliable and consolidated customer information.



We opened China’s first inland LNG fuelling station for vessels on the Yangtze River in Nanjing, Jiangsu province.

In 2013, our TCIS Private Cloud received the “Best Deployment of Emerging Technology” in the IT Excellence Awards, recognising our progressive and effective use of information technology.

A Proactive Approach to Safety

At Towngas, the safety of the public, customers and our employees is the highest priority. This safety mindset drives our stringent safety programmes, guidelines, training, drills and related exercises. We are determined to protect every one of our stakeholders and maintain the Group’s hard-earned position as a health and safety leader.

In mainland China, the “Year of Safe Operation” campaign represents an aspect of our

proactive approach to safety. The campaign, which was first launched in Xi’an in 2008, has been successfully rolled out across different areas of the Group’s operations on a yearly basis and helps us to identify and promptly address key risk areas in the locations in which we operate. To promote safety and risk management, we arranged various photo, leaflet design and essay writing competitions focused on reinforcing the Group’s core safety measures.

At the Group level, our senior managers make a public commitment to uphold our safety standards with direct involvement in safety processes and procedures at our monthly Group Safety Committee Meetings. The safety and risk management audits and General Manager Monthly Safety

Inspection Programme continue to play important roles in the Group's safety and risk management system. During the year, we also began to implement a cross joint venture General Manager Safety Inspection Programme within each region so as to encourage experience sharing between different businesses. This depth of engagement positively reinforces our "safety-first" culture.

Furthermore, forums on safety and risk management, engineering practices and customer service were organised for newly-established businesses to bring them up to speed on the quality standards demanded by the Group, as well as to establish qualification requirements for engineering supervision personnel. We also organised experience sharing visits for safety and risk management personnel from our mainland businesses, providing opportunities for them to learn, share and discuss important safety issues.

Combined, these activities effectively help us uphold the highest standards of safety across the Group. As a result, there has been a significant improvement in accident and safety figures. We are delighted to report that in 2013, the number of serious gas-related incidents fell again by a positive and encouraging 19 per cent.

Utility Businesses in Mainland China in 2013

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
TOWNGAS PIPED CITY-GAS PROJECTS				
Guangdong Province				
Panyu	1994	260	105	80%
Zhongshan	1995	240	96	70%
Dongyong	1998	178	75	82.6%
Shenzhen	2004	—	1,980	26.8%
Chaoan	2007	185	99	60%
Chaozhou Raoping	2011	189	106	60%
Central China				
Wuhan	2003	1,200	420	49%
Xinmi	2009	205	85	100%
Eastern China				
Yixing	2001	246	124	80%
Taizhou	2002	200	83	65%
Zhangjiagang	2003	200	100	50%
Wujiang	2003	150	60	80%
Xuzhou	2004	245	125	80%
Suining	2009	85	34	100%
Fengxian	2009	60	31	100%
Danyang	2004	150	60	80%
Jintan	2006	150	60	60%
Tongling	2006	240	100	70%
Suzhou Industrial Park	2001	600	200	55%
Changzhou	2003	248	166	50%
Nanjing	2003	1,200	600	50%
Fengcheng	2007	206	88	55%
Pingxiang	2009	87	35	100%
Jiangxi	2009	52	26	56%
Zhangshu	2009	86	34	100%
Yonganzhou	2010	100	68	93.9%
Hangzhou	2013	2,988	1,195	24%
Shandong Province				
Jinan East	2003	610	470	50%
Northern China				
Jilin	2005	247	100	63%
Beijing Economic-technological Development Area	2005	111	44	50%
Hebei Jingxian	2011	186	79	81%
Northwestern China				
Xi'an	2006	1,668	1,000	49%
Hainan Province				
Qionghai	2008	110	50	49%

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
TOWNGAS MIDSTREAM PROJECTS				
Guangdong LNG	2004	8,595	2,578	3 %
Anhui NG	2005	750	252	27.5 %
Hebei NG	2005	1,560	520	45 %
Jilin NG	2007	360	220	49 %
Suzhou NG	2009	60	40	29 %
Henan NG	2012	125	50	49 %
Jintan NG	2013	180	100	64 %

WATER PROJECTS

Wujiang	2005	2,450	860	80 %
Suzhou Industrial Park	2005	3,685	2,197	50 %
Wuhu	2005	1,000	400	75 %
Suzhou Industrial Park (Industrial Wastewater Treatment)	2011	550	185	49 %
Maanshan	2013	157	63	100 %
Jiangbei	2013	150	75	100 %

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province	Huizhou	Taian	Dalian Changxingdao	Southwestern China
Foshan	Tongxiang	Chiping	Dalian Economic and Technical Development Zone	Ziyang
Shaoguan	Huzhou	Linqu	Anshan	Weiyuan
Qingyuan	Yuhang	Laiyang	Lvshun	Pengxi
Yangdong	Changjiu	Zhaoyuan	Kazuo	Lezhi
Fengxi	Fuzhou	Pingyin	Beipiao	Pingchang
	Jiujiang	Feicheng	Wafangdian	Dayi
Eastern China	Wuning	Boxing Economic Development Zone	Xinqiu	Yuechi
Nanjing Gaochun	Xiushui		Jianping	Cangxi
Dafeng	Yifeng	Hunan Province	Changchun	Chengdu
Maanshan	Changting	Miluo	Gongzhuling	Zhongjiang
Zhengpugang Xin Qu Modern Industrial Zone	Shandong Province	Northeastern China	Qiqihar	Jianyang
Wuhu Fanchang	Jimo	Benxi		Pengshan
Bozhou-Wuhu Modern Industrial Zone	Laoshan	Chaoyang	Hebei Province	Mianyang
Bowang	Zibo	Tieling	Qinhuangdao	Xinjin
Anqing	Zibo Lubo	Fuxin	Yanshan	Xindu
Chizhou	Longkou	Shenyang Coastal Economic Zone	Cangxian	Mianzhu
Tunxi	Jinan West	Yingkou	Mengcun	Qijiang
Huangshan	Weifang		Shijiazhuang	Guilin
	Weihai			Zhongwei (Fusui)

MIDSTREAM PROJECT

Wafangdian NG



THE HONG KONG GAS BUSINESS
Energising Lives

 Scholtes



Won the **Innovation and Creativity Grand Award** at the 2013 Hong Kong Awards for Industries

Gas sales in the industrial sector grew by **21 per cent**

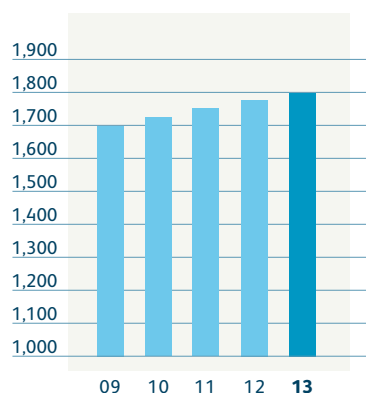
Saved about **one million** pieces of paper after adopting mobile devices for service inspections

THE HONG KONG GAS BUSINESS

Since 1862, our operations in Hong Kong have set the benchmark in terms of service, operational excellence, engineering and safety. We remain committed to innovation, to broadening the scope of our activities and expanding our horizons to retain our leading position in our home market.

Number of Customers

Company (Thousand)



Our Residential and Commercial Activities

The Hong Kong business continued to grow steadily throughout 2013. The volume of gas sales rose by 0.7 per cent, while our customer base further expanded to a total of 1,798,731 accounts, an increase of 22,371 over the previous year.

Faced with rising operational expenses and manpower costs, in April 2013, we adjusted our standard gas tariff by HK1 cent per megajoule, an increase of 4.6 per cent, with a commitment to no further increase in the following two years.



Renowned French chef and celebrity were invited to demonstrate the product features of Scholtès, a premium kitchen appliance brand from Europe at our grand launch event.



A leading manufacturer of traditional Chinese cakes and pastries adopts our high efficiency appliances.

Buoyed by Hong Kong's tourism boom, which stimulated the catering and hotel industries, and a widespread desire to use cleaner fuels, our gas supply to commercial and industrial businesses remained strong, particularly in the industrial sector where we saw growth of 21 per cent in gas sales. We have been actively promoting the conversion and application of diesel into town gas, a low-carbon, highly efficient fuel, while also providing businesses with incentives and technical solutions to facilitate the change. During the year, we succeeded in acquiring a number of major new customers such as commercial

launderers, food processing facilities, crematoriums, etc and will continue to develop these markets by working closely with our customers to offer a complete energy solution tailored to their requirements.

As part of the Hong Kong Government's plan to upgrade public swimming pools in the territory, we won a number of contracts to provide water heating services. The programme will leverage our expertise in energy-efficient and green gas water heating systems to serve the general public.

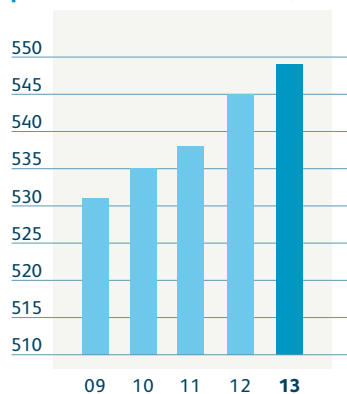
In addition, Towngas contributed to phase one of the Government's "Pilot Scheme on Community Care Service Voucher for the Elderly". We provided licensed non-governmental organisations (NGOs) with subsidised appliances and favourable maintenance contracts to support their work with elderly citizens in need. While offering an additional business opportunity, we also relished the chance to fulfil our corporate social responsibility.

On the residential front, we sold a total of 244,000 appliances in Hong Kong – a sign of customer confidence in the quality of our products and services. Sales were also enhanced by our marketing efforts throughout the year. For the first time, we participated in the 47th Hong Kong Brands and Products Expo 2012 – 2013, showcasing the Group's historical development together with a wide range of appliances and merchandise. Our efforts not only won us the "Best Booth Design Award" but also resulted in encouraging appliance sales.



We won the “Innovation and Creativity Grand Award” at the 2013 Hong Kong Awards for Industries for our proprietary invention, the Laparobot. A testament to our innovative culture, this tool was developed in-house to remotely inspect and repair underground pipes.

Number of Customers per km of Mains Company



Our kitchen appliance range was further expanded with the introduction of Scholtès. This upmarket European brand offers a complete range of kitchen appliances complemented by the Towngas quality service package for a thoughtfully premium experience. Since its launch, the brand has been well received by the market. Feedback from customers has been superb with regards to the quality of the products, our superior installation service and level of after-sales care.

The Mia Cucina line of high-end kitchen cabinets has enjoyed pleasing growth. With our high

quality products and proactive levels of end-to-end service delivery, it has been widely adopted by local property developers for bulk installations in new residential developments. Compared to 2012, overall sales have grown by 63 per cent as market awareness continues to gain momentum.

A Commitment to Customer Service

Technology has offered us a number of exciting and innovative ways to enhance the service we offer our customers. In 2013, we broadened our call centre communication channels to include

multimedia and social media. We also began disseminating SMS reminders to customers prior to their appointments, reminding them of their service time and providing them with the technician's contact number. This small gesture is one more way we aim to enrich our communication with our customers and is an extension of our "5-Heart" caring service programme, which was launched in 2012.

Hand-in-hand with technology developments, the mobile revolution is enabling us to reduce

our reliance on paper. Equipped with mobile devices to replace traditional forms, this technology enables our frontline technicians to conduct inspections in a paperless fashion, and will soon be implemented across all maintenance calls in order to provide our customers with the relevant information in a timely manner. The move to mobile will save approximately one million pieces of paper a year, mostly in the form of records and orders.

In 2013, we implemented an innovative method to replace

aging water heaters without the need to erect scaffolding. The specially-designed kits reduce the cost of installation, are more efficient and enhance work safety by eliminating the need for the construction and use of elevated work platforms.

Our commitment to innovation also manifested at a retail level as we applied QR codes across our outlets and on marketing materials to offer our customers a simple way to access an in-depth range of products and service information.

Results of Towngas Service Pledge 2013



RELIABILITY

Uninterrupted gas supply (over 99.99%)
99.992%

Three days prior notification in case of supply interruption on account of maintenance or engineering work
100%

Restoration of gas supply within 12 hours
100%



SAFETY

Emergency Team arrived on site within 30 minutes
95.84%



APPOINTMENTS

Availability of maintenance and installation services within two working days

Average 1.13 day



SPEED AND CONVENIENCE

Customer Service Hotline (calls answered within four rings)
94.06%

Connect or disconnect gas supply within one working day
100%
upon customer's request

Deposit refunded at Customer Centres (two hours after disconnection of gas supply)
100%
upon customer's request



SERVICE QUALITY

Efficiency¹
8.79

Courteous and friendly attitude¹
8.80



HANDLING SUGGESTIONS

Reply within three working days
100%

Resolution, or a statement of when the matter will be resolved, within two weeks
100%

1. The result was based on monthly surveys conducted from January to December 2013 by an independent research company. Our target is to exceed a score of 8 out of 10.



Equipped with Mia Cucina height-adjustable kitchen cabinets, Towngas KIDchen at our new cooking centre offered more workshops for parents and children to share the joy of flame cooking.

This year marked our first foray into e-commerce with the launch of the Towngas Shop (www.towngasshop.com). The site has been designed to meet the needs of customers who prefer to shop online and offers a convenient way to purchase some of our most popular health and beauty, eco-friendly and cooking-related lifestyle products with a door-to-door delivery service.

During the year, the Towngas Cooking Centre moved to Lee Theatre in Causeway Bay and introduced a new concept: the KIDchen, an inspiring space that encourages children to enjoy flame cooking with their parents. With new and spacious practical and demonstration

classrooms, the Towngas Cooking Centre remains a cornerstone of our commitment to ignite the passion of flame cooking in Hong Kong.



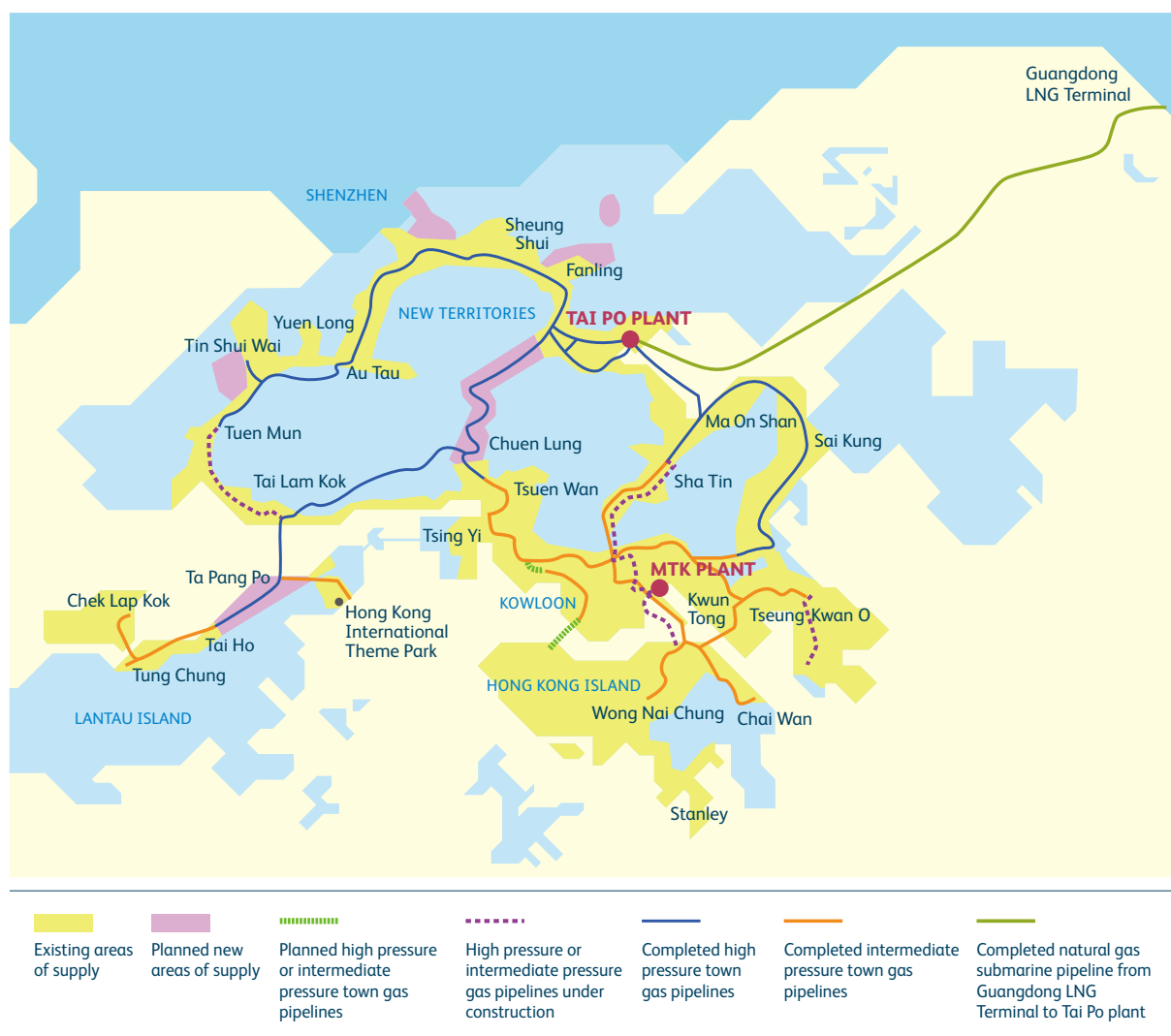
To cope with the Government's development of South East Kowloon, we relocated a twin submarine pipeline between To Kwa Wan and North Point.

Gas Infrastructure

Creativity is one of Towngas' key organisational values and one that drives innovation in our gas supply infrastructure projects. This year, our team developed several leading technologies that will help enhance our efficiencies.

The first, a Smart Pipe, offers a cost-efficient way to repair corroded service branches from the main riser that crosses building walls without the need to erect scaffolding. This minimises the impact of time, cost and disruption to customers. The second, named the Quadricopter Inspector, saves time and manpower by performing aerial inspections of exposed gas pipes on slopes,

Towngas Network in Hong Kong

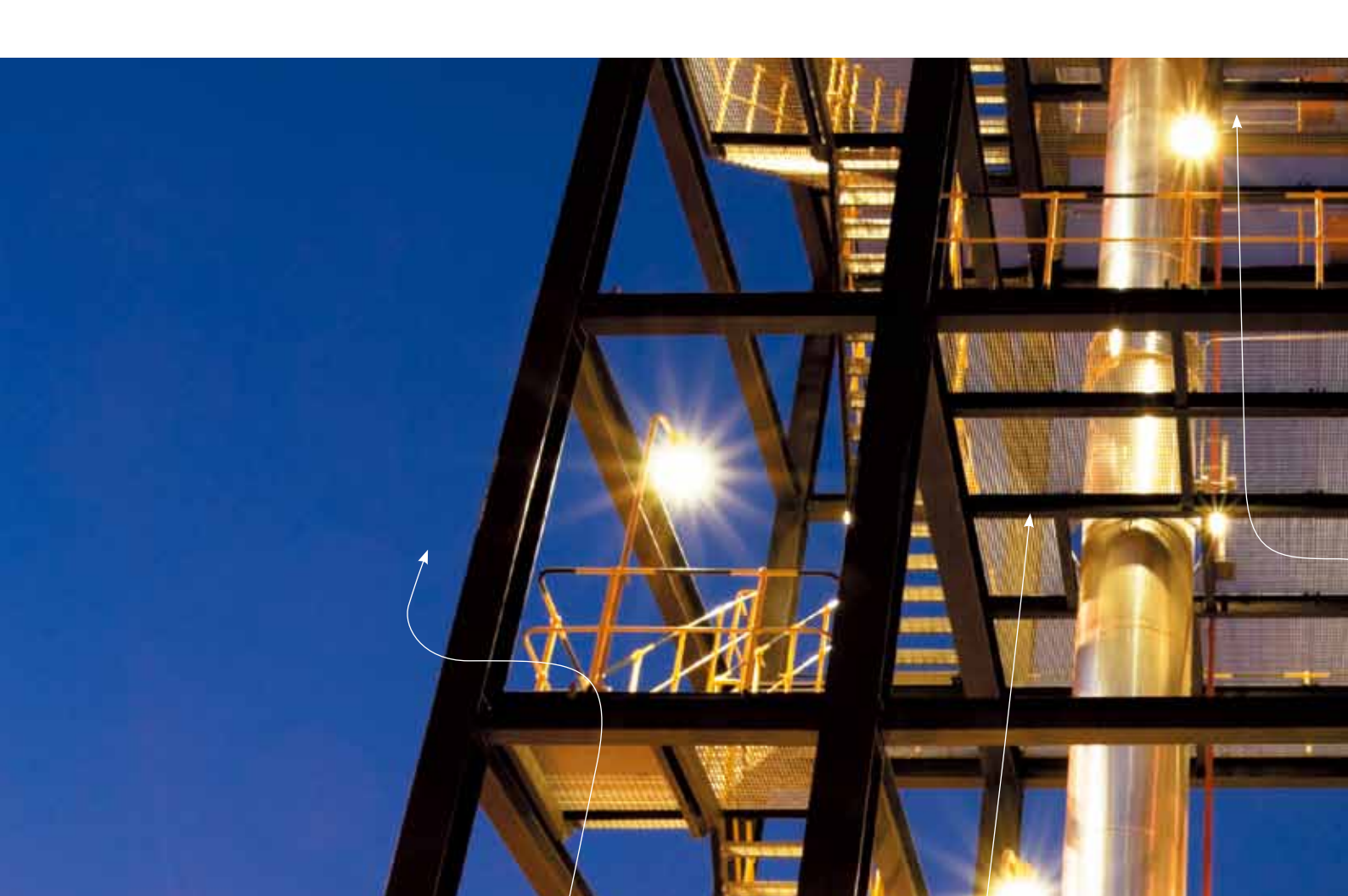


bridges or otherwise difficult to access locations.

The upgrade of our Ma Tau Kok plant is also underway. Natural gas will replace naphtha as part of the feedstock for the production of town gas. This is more economical and also emits fewer polluting elements into our atmosphere, providing tangible environmental benefits.

In addition to modernising our network and infrastructure, Towngas is also committed to expanding the piped gas network in Hong Kong. To this end, we are working on pipelines to support the future development and expansion of South East Kowloon and the North East New Territories. The extension of this network is expected to serve a combined population of over 260,000 in the future.


At a service level, we focused on encouraging our customers to replace ageing gas pipes when renovating their estate properties – a successful campaign that saw pipe replacement grow 33.8 per cent compared to 2012. Replacing ageing pipes is a critical part of our mission to provide a safe and reliable gas supply throughout Hong Kong.



NEW ENERGY AND DIVERSIFIED BUSINESSES

Moving Forward





Cutting-edge technology
enables us to use
coke oven gas as feedstock
for the production of LNG

Our plant in Inner Mongolia
paves the way to upgrade
methanol into **high-value**
fuel products

G-Tech, which provides
PE pipe system solutions, is
now fully operational

NEW ENERGY AND DIVERSIFIED BUSINESSES

It has been another dynamic year for our new energy business. We continued to develop our liquefied natural gas (LNG) value chain, advanced our capability to upgrade methanol into clean and high-value gasoline-type chemical products, and embarked on a new project to transform plant fatty-acids into green diesel-type products. As we focus on “Expanding New Horizons”, we are primed to move ahead and build the next chapter in the story of our growth.

New ECO Energy

Since the company was founded as a wholly-owned subsidiary of the Group in 2000, ECO Environmental Investments Limited (ECO) has been playing a key role in our business expansion to become a new energy pioneer. A trailblazer in the field of new energy and committed to protecting the environment, ECO drives innovation in new technologies and environmentally-friendly energy businesses by focusing on fuel products that are low in emissions and pollutions. With a rich breadth of chemical processing knowledge and depth of engineering experience, we have refined our business portfolio and are ready to swiftly capture market demand.

In the fast-paced world of new energy, we remain focused on finding ways to turn low-grade resources and waste into high-grade products. Our Research and Development (R&D) Centre continues to develop innovative technologies for the production of clean

fuels and chemicals, which include converting coke oven gas into methane, cooling methane into LNG, converting coal to methanol, upgrading methanol to clean gasoline-type chemical products and transforming plant fatty-acids into green diesel-type chemical products.



Road tankers transport liquefied coalbed methane from our plant in Jincheng, Shanxi province.



Our clean coal-based methanol plant in Inner Mongolia is fully operational with an annual capacity of 240,000 tonnes.

Furthermore, research into the gasification of unwanted agricultural waste into sought-after fuels and chemicals is on-going. As our R&D and project implementation capabilities have evolved, we believe that encouraging economic benefits resulting from innovation lie ahead.

Meanwhile, our ECO Aviation Fuel Facility, which was opened in 2010 in Hong Kong, enjoyed another year of smooth operations providing aircraft fuel to Hong Kong International Airport. This specialised facility, which is capable of storing up to 264,000 cubic metres of aviation fuel, handled 5.56 million tonnes of fuel in 2013.

Following the gradual strain on global petroleum resources and associated price increases, mainland China is proactively developing alternative substitutes to meet its growing demand for energy and to reduce its reliance on imported crude oil. This has been reflected in the country's Twelfth Five-Year Plan to enhance environmental protection and drive consumption towards clean energy.

One way to achieve this is through the use of unconventional resources such as coalbed methane, a natural gas equivalent that exists in coal seams. After extraction, the gas can be processed through cryogenic liquefaction technology, reducing the gas to 1/625th of its original

volume. The resulting liquefied coalbed methane (LCBM) therefore has a higher energy density and is easily transportable. LCBM has a wide range of applications: it can be used as vehicular fuel, for industrial products, and to meet peak periods of demand for city-gas.

Our pioneering LCBM plant in Shanxi province has an annual production capacity of 250 million cubic metres. The facility has been operating smoothly, and we are currently exploring additional expansion opportunities. Our current efforts focus on the Qinshui Basin in southern Shanxi province, a region with some of the most abundant reserves of coalbed methane in China.



ECO gas filling stations in mainland China provide heavy-duty vehicles with a cleaner and more economical fuel.

Our LNG initiative accelerated this year as we began to utilise another unconventional gas resource – coke oven gas. Coke oven gas is a by-product of the coke making industry. The gas is rich in hydrogen and carbon monoxide, which can be synthesised into methane and further refrigerated into LNG. We will soon launch two facilities in Jiangsu and Shanxi provinces respectively that will greatly enhance our supply capability when the plants are operational in 2015.

On the demand side, we have 25 vehicular fuel stations in operation, under planning or construction on the mainland. Operations are continuing to run smoothly. The stations provide clean LNG and compressed natural gas primarily to commercial vehicles including taxis and heavy-duty trucks. In line with the mainland Government's initiative to deal with issues on air pollution, we will maintain our momentum to develop more stations in the future.

Another exciting venture is our coal-based methanol plant in Inner Mongolia, which employs clean coal technology to generate syngas before it is further synthesised into methanol, an excellent feedstock for additional chemical upgrading. The plant is now fully operational. Annual production in 2013 reached 240,000 tonnes, 20 per cent higher than originally planned. To further enhance our production capacity, we will look into de-bottlenecking current processes. Moreover, we began constructing an add-on methanol upgrading process to turn methanol into high-value gasoline-type chemicals, for which there is superb market potential.

After years of consistently strengthening our R&D capabilities, in 2014, we will start to upgrade plant fatty-acids, including palm acid oil and used cooking oil, into green diesel-type chemical products in Jiangsu province. This patented process is particularly significant as it was developed in-house. The planned capacity for phase one is to turn 150,000 tonnes of feedstock into 120,000 tonnes of clean fuel products.

Telecommunications

Towngas Telecommunications Limited (Towngas Telecom) is strongly positioned to capitalise on the boom in cloud computing and rapid digitalisation of our workplace. The ability to lay fibre optic infrastructure inside gas pipes or alongside newly-constructed gas networks provides us with an unparalleled competitive advantage in terms of cost and speed of deployment. Consequently, the move towards cloud computing and the cost efficiencies of contracting out data centres and data management has been an area of rapid growth for the Company.

Large corporations, service providers and telecommunications carriers rely on us for our well-developed infrastructure facilities to host a number of cloud computing applications. To support our operations, we open the second data centre, with a floor area of 22,000 square metres in the Tseung Kwan O Industrial Estate, in 2014.

In mainland China, to meet the increasing demands of the IT industry, Towngas Telecom is currently establishing world-class data centre clusters in the provinces of Guangdong, Liaoning and Heilongjiang. Together with the existing data centres in Hong Kong and Shandong province, we are primed to capture the data storage, processing and transmission businesses between Hong Kong and mainland China. Given the continued trend towards outsourcing hosting and telecommunication services, we believe this will be a lively area of potential growth as the market is expected to expand exponentially.

Civil and Building Services Engineering

U-Tech Engineering Company Limited (U-Tech) enjoyed another excellent year providing consultancy services and working on utilities

installation, infrastructure and building services projects for public and private organisations in Hong Kong and Macau.

During the year, we completed the electrical installation at a new residential complex of 2,500 flats in Yuen Long. Another electrical installation project covering 2,000 flats across phases two and three of a residential development in Lok Wo Sha, Shatin also made good progress. Furthermore, we

participated in the construction of infrastructure for the Kai Tak Development Area and also began laying a 2 kilometre-long main water pipe in Tai Po, due to be finished at the end of 2016.

These projects, once completed, will continue to enhance our reputation as a leading one-stop utility contractor for gas, water, drainage, sewerage, telecommunications and building services projects in Hong Kong.



M-Tech's new generation of gas meter uses Micro-Electro-Mechanical Systems technology to measure mass flow and is now in production at the manufacturing plant in Longgang, Guangdong province.



G-Tech's manufacturing plant in Zhongshan was fully operational in 2013.

Manufacturing Facilities

As part of our commitment to maintaining the highest standards of safety across the supply chain, we design and manufacture polyethylene (PE) fittings and jointing parts for both gas and water systems. This year, G-Tech Piping System (Zhongshan) Company Limited, our wholly-owned subsidiary, began to supply piped gas operators with quality PE pipes manufactured under a stringent quality control system. We also established logistics hubs and regional warehouses in Jiangsu and Liaoning provinces to support the expansion of the business and

supply to our customers across a diverse geographical network. The business has been supported by GH-Fusion Corporation Limited, our joint venture with the British Fusion Group, which develops additional PE fittings to more comprehensively serve the mainland China gas market.

Advancing this approach, M-TECH Metering Solutions Company Limited (M-Tech) has developed and offered new smart metering solutions that have been well received in the market. In the past year, over 60 of our mainland ventures have purchased the Micro-Electro-Mechanical Systems

meters, the first of its kind in the gas metering industry, and we have also been granted a licence to produce industrial meters. These smart meters can help reduce unaccounted gas losses due to ambient temperature and pressure fluctuations. M-Tech will also release a new series of products to replace the traditional diaphragm meters currently used by small commercial businesses. At the same time, we are actively looking into entering the European market and preparing for the launch of our new residential meters to capture the vast markets in mainland China and abroad.

New Energy and Other Projects in 2013

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
NEW ENERGY PROJECTS				
Coal Mining				
Jiangxi Fengcheng	2008	1,100	236	25 %
Inner Mongolia Erdos Xiaoyugou	2009	447	120	70.1 %
Inner Mongolia Erdos Kejian	2011	450	150	100 %
Coal-based Chemical				
Jiangxi Fengcheng	2009	1,250	350	40 %
Inner Mongolia Erdos	2009	1,170	400	70.1 %
CNG/LNG Filling Stations				
Shaanxi Xianyang	2008	12	12	100 %
Shaanxi Huitai	2010	54	27	100 %
Anhui Maanshan	2006	15	11	30 %
Shanxi Yuanping	2008	40	20	42 %
Dalian DETA	2010	40	20	49 %
Shandong Chiping	2010	30	15	70 %
Shandong Jining	2010	30	15	51 %
Shandong Dongping	2010	43	26	91 %
Henan Xinmi	2010	29	15	100 %
Shandong Jiaxiang	2012	50	28	70 %
Henan Anyang	2012	29	14	100 %
Shanxi Lingshi	2013	25	20	75 %
Guangdong Guangzhou	2013	26	13	100 %
Henan Kaifeng	2013	29	15	100 %
Henan Linzhou	2013	30	20	100 %
Upstream Projects				
Shanxi LCBM	2006	600	200	70 %
Jilin Tianyuan	2007	140	5	50 %
LCMM Project	2010	520	180	50 %
Coal Logistic Project				
Shandong Jining Jiaxianggang Logistic Port	2011	540	180	55 %

TELECOMMUNICATION PROJECTS

Shandong Jinan	2008	80	40	90.1 %
Shandong Jinan Chibo	2009	170	68	65.5 %
Liaoning Dalian DETA	2010	14	10	49 %
Dalian Yida	2011	190	76	90 %
Shandong Laiyang	2011	14	10	90 %
Xuzhou Fengxian	2011	11	8	100 %
Xuzhou Peixian	2013	13	9	100 %
Harbin	2013	158	63	80 %
Dongguan	2013	240	80	60 %

OTHER PROJECTS

Shenyang Sanquan Construction Supervisory	2011	4	3	60 %
M-Tech	2011	30	30	100 %
GH-Fusion	2002	87	43	50 %
Towngas Technology	2011	30	21	90.1 %
Suzhou Industrial Park Broad Energy Services	2012	170	71	25 %
G-Tech	2013	27	13.5	100 %
GH Yixing Ecology	2013	184	184	100 %

	Year of Establishment	Project Investment USD M	Registered Capital USD	Equity Share %
OILFIELD PROJECT				
Phetchabun Province in Thailand	2012	181	12,000	100 %



CORPORATE SOCIAL RESPONSIBILITY
Shaping a Sustainable Future



Donated HK\$1.5 million to
deliver **fresh food packs** to
underprivileged families in Hong Kong

Launched the **Gentle
Breeze Movement**
community programme in
mainland China

Engaged employees with
our **Healthy Living
Every Day** campaign

CORPORATE SOCIAL RESPONSIBILITY

As Hong Kong's leading supplier of low-carbon clean energy, the success and sustainability of our business is built on the trust of our people, customers, business partners and the public. As such, we make a total and uncompromising commitment to conduct our business in an ethical and responsible manner. This is the foundation of our promise to care for our employees, the communities we serve and our planet.

Protecting Our Environment

As a responsible energy company, we aim to provide our customers with quality products and services while minimising any impact of our operations on the environment. To this end, we were proud to be one of the first local companies to commit to the Environment Bureau's Energy Saving Charters on Indoor Temperature and No Incandescent Light Bulbs. This will complement our current efforts to reduce our carbon footprint, for which we were awarded the CarbonCare® Label, which recognises a 5 per cent reduction in office-related carbon emissions.

In 2013, we continued to participate in and support a series of initiatives organised by green groups, including the annual Tree Planting Challenge organised by Friends of the Earth (HK), Green

Power's liberal studies programme entitled "Waste to Energy", WWF's annual "lights-out" Earth Hour initiative, Greeners Action's Lai See Packet Reuse and Recycle Programme and Hong Kong Green



To mark International Senior Citizens' Day 2013, we reinforced our commitment of caring for the elderly by organising an event which offered free haircuts to 800 senior citizens.



We joined forces with The Conservancy Association to organise the Green Leaders Bloc training programme and foster the spirit of greening among the younger generation.

Day organised by the Green Council. Moreover, we were the exclusive sponsor of the World Green Organisation's Food Waste Reduction Pilot Scheme and one of the first corporations to join the organisation's GOALS Programme, sharing our green office best practices through workshops and media interviews.

In order to promote green cooking, we completed a study examining the carbon footprint of gas stoves and developed a series of eco-friendly cooking tips to help customers not only save on fuel costs but also protect the environment by reducing carbon emissions.

In mainland China, the Group collaborated with its subsidiaries to kick-start the Towngas China Green Journey programme in a bid to reduce smog. The initiative encouraged employees to implement the Green Convention through small but vital steps such as taking the stairs and using handkerchiefs. Thanks to the concerted efforts of our employees, about 20,000 trees have been planted covering a greening area of almost 50,000 square metres. Meanwhile, our Carbon Reduction Competition for our mainland business ventures remains a cornerstone of our efforts to reduce our carbon footprint in the country. In the four years since the

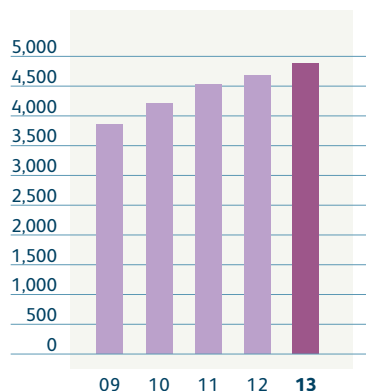
competition launched, we have prevented approximately 23,000 tonnes of carbon per year from entering the earth's atmosphere.

Supporting Our Communities

2013 marked a significant milestone in our community and volunteer programmes. We have contributed over 466,000 hours of community service since 1999 and received the championship of the "Highest Service Hour Award" in the category of "Private Organisations – Best Customer Participation" for the sixth consecutive year from the Social Welfare Department. The generous efforts of our volunteers

Revenue per Employee

Company (HK\$ thousand)



were also recognised when we were awarded the Community Chest's "President Award" and named a "Friend of Social Enterprise" by the Home Affairs Department.

In partnership with The Salvation Army and CookEasy, we donated HK\$1.5 million to launch the Warmth and Care Fresh Food Aid Programme. In 2013, we distributed 15,600 nutritious fresh food packs to underprivileged single-parent families in Tung Chung and Kwai Chung, with deliveries being made twice a week for a year. The programme was a great success and will be extended for another year to help single-parent and low-income families living in Sham Shui Po and Kowloon City.

Our Volunteer Service Team plays an active role in our community activities. This year, we worked

with the Kwong Wah Hospital to promote a balanced diet as part of the Healthy Diet – Healthy Life for Diabetes Mellitus campaign. The team also launched the Farming for Fun initiative and donated the crops grown to food banks and other charitable groups helping those in need. The volunteer team invited students from the Ebenezer School and Home for the Visually Impaired to experience organic farming, further spreading the spirit of warmth and care throughout the community.

Our on-going Rice Dumplings and Mooncakes for the Community initiatives are now a much-loved part of our annual programmes. This year, volunteers wrapped and distributed 230,000 low-carbon rice dumplings to elderly people living alone. In September, we held our annual mooncake drive and distributed 250,000 mooncakes across Hong Kong.

In March 2013, the "Gentle Breeze Movement" was launched in mainland China as the umbrella name for our community projects. During the year, we helped seven schools in Jiangxi and Anhui provinces to upgrade their facilities. Moreover, we provided financial assistance to enable 100 promising students from underprivileged families affected by the Ya'an

earthquake in Sichuan province to attend university in partnership with the Sichuan Youth Foundation. We also continued our Book Donation with Love and Care Programme and have set up 22 book corners in nine provinces.

Recognising our innovative approach to business and commitment to good citizenship, we were honoured with the "Five Stars Outstanding Corporate Citizen in China 2013" by the China Association of Social Workers. Furthermore, the China News Service and China Newsweek named Towngas China the "Enterprise with the Best Corporate Social Responsibilities 2013". Caring for the community, our customers and our planet will remain an integral part of the way we do business now and in the future.

Caring for the Well-being of Our Employees

At Towngas, we believe that healthy, happy and motivated employees are the key to our success. As a result, we are committed to nurturing our people and providing them with a pleasant and harmonious workplace.

As part of our continuing efforts to promote a family-friendly environment, this year we opened a dedicated mother and baby room

to support breastfeeding mothers returning to work. Our mainland utilities business also launched a programme aimed at the children of our employees, offering promising students with good results the opportunity to apply for a scholarship to attend university. This scheme has been a resounding success as ten children from eight joint ventures have been awarded scholarships, enabling them to further their education.

We also organised a number of activities designed to boost the well-being of our employees. One such initiative was the Healthy Living Every Day campaign. Promoting a balanced diet alongside physical and mental well-being, the programme included informative health talks, health checks and smoking cessation seminars, while particularly keen employees took part in marathon race and stairs climbing competition to boost their fitness.

In addition to meeting the needs of current employees, we also reached out to our retirees by forming the Towngas Buddy Club. Offering retirees a way to participate in regular social activities and continue socialising with former colleagues, the Club organised two well-attended events for its members in 2013.



Our employees actively participated in a running race as part of our Healthy Living Every Day campaign.

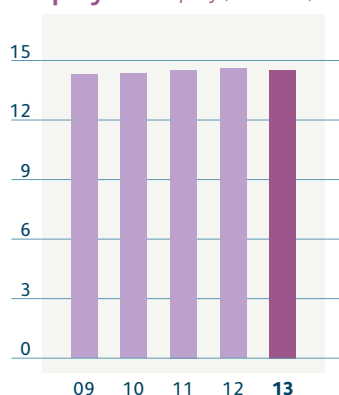
Developing Our People

To cope with the rapid expansion of our business, we make every effort to build a skilled and sustainable workforce. As such, we equip our employees with essential management, leadership and technical training to enable them to excel.

Our Towngas Engineering Academy (TEA) aims to develop qualified professionals equipped with industry-leading safety, service and technical skills. During the year, TEA offered a total of 142,675 man-hours of training. To sustain our premier position and nurture a solid foundation of knowledge, the

apprenticeship training course offered in Hong Kong has been extended from one year to two years, with graduates qualifying for a full Registered Gas Installer licence. In addition, we have also partnered with vocational institutions in Changzhou, Guangzhou and Shandong province to offer mainland graduates additional ways to enter the gas industry. In mainland China, TEA now has four training facilities in Jinan, Changchun, Ziyang and Shenzhen to meet the Group's demand for accredited professionals and a new training base will be opened in Suzhou in 2014.

Town Gas Sales per Employee Company (million MJ)



Our Volunteer Service Team in Thailand helped a local school to repaint its library and renovate its facilities.

The passion, interest and engagement of our employees drive Towngas' lively continuous learning culture. In 2013, our Continuous Professional Development Committee organised 3,171 hours of additional training covering the latest engineering, safety, and information technology developments alongside professional growth, healthy living and quality management.

During the year, we welcomed a further 20 graduates to our Hong Kong graduate trainee and ECO management trainee programmes. At the senior management level, two project management courses were held alongside a course in Leading Others, attended by over

350 supervisors who completed more than 5,000 hours of training. In addition, 18 managers from Hong Kong and mainland China completed an 18-month accelerated programme as part of the Corporate Towngas Leadership Competencies Scheme, designed to support the next stage of their career. Furthermore, for the sixth year running, 36 senior managers attended the week-long Tsinghua University Executive Development Programme (EDP) to keep abreast of the latest developments on the mainland.

We organised four EDPs in 2013 in partnership with various universities across mainland China, which involved 158 executives. Our

Developing Learning Champions for Joint Venture Companies Programme was honoured to receive the American Society for Training and Development's "Excellence in Practice Citation (2012)". This programme aims to develop the leadership and creative skills of participants drawn from our mainland projects and, to date, has involved 1,500 employees.

Internal exchange is vital to build and enhance our corporate culture across the Group. In 2013, 523 colleagues from outside Hong Kong joined us to share experiences and best practices. Towngas Telecom also held a number of workshops to share and align strategy across the business.

In addition to technical, management and leadership competencies, we have focused on cultivating our employees' soft skills with courses on grooming, etiquette and service. Over 300 employees participated in our newly-launched Courtesy Campaign. Further activities are planned for 2014, all designed to build on our strong foundation of courteous and professional etiquette.

Safety Starts with Us

The health and safety of our employees, contractors, customers and the wider public has always been our first priority.

This year, we launched a "pointing and calling" programme at our

production plants and ECO gas filling stations in Hong Kong. The programme is designed to enhance the presence of mind and concentration levels of operators by coordination among vision, thought, movement, speech, and hearing. Meanwhile, we introduced the Towngas Health, Safety, Environment (HSE) and Caring Programme to provide new employees with additional training and guidance, including mentorship and HSE online training and assessment. In order to further enhance our risk management capabilities, Corporate Risk Assessment Refresher Training was organised for all personnel responsible for managing risk within the Company.

Our ongoing Contractor HSE Programme aims to reinforce relationships between contractors and engage them in two-way communication so as to provide the safest workplace possible. Conducting regular HSE inspections at contractor workplaces is another crucial part of our approach to contractor safety. We also organised a Contractor Occupational Health and Safety Forum as part of our regular HSE Month.

In 2013, HSE Month took place between November and December and included a number of enlightening HSE sharing sessions and corporate visits, alongside seminars on occupational health and safety, fire safety and

Environmental Performance Table (Hong Kong)



OZONE LAYER PROTECTION

- All of our vehicle air-conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.



AIR QUALITY

- Total NOx output was 4.59 kg/TJ of town gas.
- Total SOx output was 0.02 kg/TJ of town gas.
- Total CO2 output was 12.09 metric tonnes/TJ of town gas.



GREENHOUSE GAS EMISSION

- Greenhouse gas emissions from major gas production equipment was 365,981 metric tonnes in terms of CO2 equivalent.



WATER QUALITY

- Total wastewater output was 4.2 m³/TJ of town gas.



CHEMICAL WASTE

- Total chemical waste output was 1.94 kg/TJ of town gas.



NOISE

- All installations and operations complied with the statutory requirements.
- No noise abatement notice has ever been received.

All legal requirements relating to environmental protection were fully complied with.

sustainability. This annual event is an important part of our commitment to raise awareness of work health and safety.

During the year, we added a sixth “S” – Safety – to the 5S Management System and implemented this management system across our stores. 5S is a system that aims to improve order and cleanliness in the workplace. Now incorporating safety, our 6S system was awarded the Gold Award in category of other industries in the Good Housekeeping Competition 2013 organised by the Occupational Safety and Health Council (OSHC).

In recognition of our outstanding safety performance, we were also honoured with the “Safety Performance Award” for the third year running as well as the Gold Prize in the “Occupational Safety & Health Annual Report Award” for the fourth consecutive year at the “12th Hong Kong Occupational Safety & Health Awards” organised by OSHC.

Driving Growth and Building Long Term Value

From our humble beginnings as a town gas supplier lighting Hong Kong’s streets 151 years

ago, we have developed into an innovative, diverse and resourceful energy pioneer.

The foundation of our success is our commitment to delivering a safe and reliable supply of energy and the caring, competent and efficient service that customers expect. As a result, the Towngas brand has come to represent a thriving business, acclaimed service and safety standards, and a promise to work responsibly with our communities.

From this base, our management theme “Expanding New Horizons” indicates how we will approach the next stage of our growth. This multidimensional and multifaceted strategy will drive a future that is sustainable, flexible and diversified. The energy market will be our core business and public utilities will serve as our platform.

As a Group, we are inspired by the enormous potential of new technology and engineering innovations. This is embodied in our investments in new energy and diversified upstream and downstream markets. These areas are both in line with our strategy and global energy trends, as we commit to developing environmentally-friendly and clean solutions to light up our future.

Business Drivers



Organisation Values

