

# THE MAINLAND UTILITY BUSINESSES



Radiant heating at a construction machinery plant in Xuzhou, Jiangsu province



Eight new city-gas projects, taking the total to 127 projects, serving around 18.98 million customers



Named the Company of the Year at the Gas Industry Awards



Sales of gas appliances reached a record high of 720,000 units

# VITAL MOMENTUM



# THE MAINLAND UTILITY BUSINESSES

Celebrating 20 years since the establishment of its first joint venture in mainland China, in 2014 Towngas continued to expand the scope and breadth of its activities in this vital market. Motivated by a desire to provide excellent service in pursuing a range of projects and investments across the country, we are rising to the challenges and opportunities presented by China’s evolving clean energy landscape and priorities.

## Our City-gas Operations

In mainland China, the prospects for natural gas remain buoyant, despite sharp falls in both coal and crude oil prices. The cost of natural gas increased in 2014, while further challenges are presented by China’s GDP growth slowing to 7.4 per cent, lower than forecast, and signs of a downturn in new home construction and property sales in many cities.

In the face of these unfavourable factors, we recorded 14 per cent

growth in gas sales volume, which reached 15.2 billion cubic metres for the year, accounting for a tenth of the national urban gas market. The Chinese economy remains underpinned by a strong industrial and manufacturing base, solid infrastructure and sound logistics, while both environmental considerations and a desire for clean-burning energy are feeding the country’s increasing appetite for natural gas.

**China Joint Ventures Gas Sales** (million m<sup>3</sup>)



Natural gas is harnessed for spray-painting at an automobile factory in Suzhou, Jiangsu province.

China has set its course on reforming energy production and consumption. Published in June 2014, the State Council's Energy Development Strategic Action Plan (2014-2020) identifies natural gas as the best solution to satisfy energy demands and solve environmental challenges, including persistent hazy atmospheric conditions, and affirms its use can have multiple economic, environmental and social advantages. The International Energy Agency has estimated demand for natural gas in China will increase by 90 per cent in the next five years.

Significant milestones were reached in gas supply sourcing in 2014. In November, China concluded an



With the slogan "Hearing Our Smiles", our 24-hour hotline offers caring, efficient and competent customer service.

**In November 2014, we inaugurated Zhuojia Public Engineering, the Group's first gas pipe system prefabrication business, in Maanshan, Anhui province. Raising efficiency and quality whilst lowering costs, this subsidiary prefabricates pipe systems for natural gas and water distribution, and is expected to have provided 60,000 such systems for new residential units by the end of 2015.**

agreement with Russia under which the latter will supply 68 billion cubic metres of piped natural gas annually, helping to secure a significant proportion of the country's energy needs going forward. The pipeline projects for importing natural gas from Central Asia and Myanmar were also commissioned. With more supply coming on board, particularly in the northeastern and southeastern regions of the country, the gas industry has an opportunity to expand its market share.

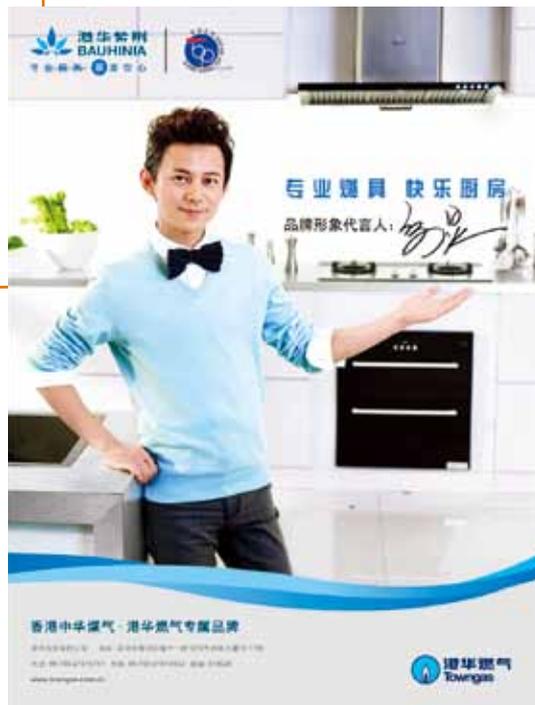
With favourable natural gas utilisation policies also resulting in demand continuing to strengthen, the Group will look to seize on what is a golden opportunity to foster

development and increase the scale and profitability of its city-gas business in mainland China. As a clean energy supplier we are focused on replacing dirtier fuels, both coal and oil, ensuring a reliable and safe supply that can power China's changing and fast-urbanising economy as the government looks to promote indigenous consumption.

In 2014 we added eight new city-gas ventures to our portfolio, including two in new provinces for us – Guizhou and Yunnan provinces. The Group now operates 127 city-gas projects in mainland China, covering 23 provinces, autonomous regions and municipalities and serving around 18.98 million residential and business accounts.

Towngas China was honoured to be named the Company of the Year at the Gas Industry Awards, organised jointly by the Institution of Gas Engineers & Managers of the United Kingdom and the Energy and Utilities Alliance. It was the third time Towngas Group had won this award, but the first time a mainland China gas enterprise had been honoured, and was therefore a major milestone for us, reflecting an endorsement of our efforts to extend and anchor the Group's vision, mission and values in the mainland gas market.

For our new marketing campaign, we appointed He Jiong, the well-known mainland TV host and actor, as the spokesperson for Bauhinia appliances.



## Midstream Facilities

Our goal of becoming a leader in the region's energy market advanced further in 2014 as we continued to build our midstream business with a range of pipeline and facilities projects that generated satisfactory returns while supporting the downstream city-gas markets. These include natural gas pipeline projects in Anhui, Hebei and Liaoning provinces; natural gas extension projects in Jilin and Henan provinces; and our Guangdong LNG Receiving Terminal project.

We started work on an underground natural gas storage project in Jintan, Jiangsu province, which will allow for

storage of pressurised natural gas at salt cavern. When it is completed in 2020, the total gas storage capacity at the 10 caverns deployed will be up to 400 million cubic metres. The project will help us manage our gas inventory through mitigating supply bottlenecks during peak seasons to meet downstream demand. The facility will also be used for gas trading when that commodity market opens.

## Water Supply and Wastewater Operations

Leveraging the similarities between natural gas and water supply in terms of technical and operational expertise, our water supply and wastewater operations in mainland China are managed and run by Hong Kong & China Water Limited (Hua Yan Water). The Group currently operates six water projects, including water supply joint venture projects in Wujiang district, Suzhou, Jiangsu province and in Wuhu, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan and in the starting area of Jiangbei Concentration Zone, Wuhu, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment project for a special industry, both in Suzhou Industrial Park, Suzhou, Jiangsu province.

Regular pipeline inspections ensure a reliable gas supply.



As demand for clean water has grown steadily, we now provide water to 1.04 million households and businesses. Sales volume grew by 2.3 per cent to 424 million tonnes in 2014.

A modern water purification plant with annual production capacity of 70 million tonnes was built and commissioned in Suzhou Industrial Park. Proper wastewater treatment is hugely beneficial in terms of protecting the environment and preventing water supply contamination, a critical priority in mainland China.

With support from the Ministry of Housing and Urban-Rural Development, as well as local governments, we also staged the Hua Yan Water Forum 2014, with

more than 20 water companies and over 150 industry leaders and specialists coming together to discuss water source safety, water supply management and intelligent water scheduling in Suzhou, Jiangsu province.

### Serving Our Customers

The Group is committed to the highest standards in customer service and customer relations, and our mainland businesses excelled in this vital area in 2014, winning a total of eight awards in China's Best Customer Service Awards. Improving our processes and nurturing a customer-oriented culture is one of our top priorities and we constantly strive to better our performance in this regard.

In 2013 we initiated the Dandelion Scheme, an elite customer service training scheme, with certified trainers now delivering exclusive programmes across Group businesses. Our Customer Safety and Service Workshop meeting brought around 460 people from 118 ventures together to reinforce the Group's standards in these areas.

We also expanded our network of customer centres by 13 in 2014. We now have a total of 228 such centres in 80 mainland cities, offering customers a one-stop experience that complements our overall dedication to service excellence.

We strive to offer more convenience to increase customer satisfaction. During the year, we signed a strategic co-operation agreement to link our self-developed billing and payment system with UnionPay Merchant Services. We also introduced self-service payment at customer centres and continued to promote online and mobile payment methods.

Our flagship appliance brand, Bauhinia, is renowned for providing high quality products that conform to the highest safety standards. In 2014, we introduced 34 new models of Bauhinia appliances, including cooking hobs and water heaters. With the help of a successful marketing campaign, sales grew by 11 per cent, with around 720,000 units of appliances sold in 2014, taking total sales to over 2.9 million

since 2005 and helping to cement the brand's leadership position in the sector. The brand's success has also enhanced home gas safety across the mainland market.

## Safety

Aiming to be the safest national city-gas operator in the country, we are proud that even as our customer base has grown considerably, serious gas-related incidents have gone down by 48 per cent in the last five years. We are determined to ensure customer and public safety and maintain the Group's hard-earned position as a leader in gas safety.

In 2014 – which was themed the “Year of Safety Re-inspection” across Towngas China – we conducted comprehensive production safety re-inspections at our gas facilities, installations and networks around mainland China. We also performed audits of security and risk management and project supervision involving some 30 mainland businesses.

We provided gas safety training across the board and conducted Health, Safety and Environment management workshops. During the year we held our first Pipeline Network Operation Competition among our mainland companies, in which contestants were tested on their technical knowledge, emergency procedures, work regulations and procedures, and proper handling of equipment.

## Utility Businesses in Mainland China in 2014

### TOWNGAS PIPED CITY-GAS PROJECTS

#### Guangdong Province

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
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	49%
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#### 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%
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#### Hainan Province

Qionghai	2008	110	50	49%
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**MIDSTREAM PROJECTS**

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
Guangdong LNG	2004	8,595	2,578	3%
Anhui NG	2005	750	252	27.5%
Hebei NG	2005	2,760	920	45%
Jilin NG	2007	360	220	49%
Henan NG	2012	125	50	49%
Jintan NG	2013	180	100	64%

**LNG REFILLING STATION**

Nanjing (Marine)	2014	600	204	40%
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**WATER PROJECTS**

Wujiang	2005	2,450	860	80%
Suzhou Industrial Park	2005	4,705	1,597	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**

Foshan  
Shaoguan  
Qingyuan  
Yangdong  
Fengxi

**Eastern China**

Nanjing Gaochun  
Dafeng  
Tongshan  
Maanshan  
Bowang  
Zhengpugang Xin Qu  
Modern Industrial Zone  
Wuhu Fanchang  
Bozhou-Wuhu Modern  
Industrial Zone  
Anqing  
Chizhou  
Tunxi  
Huangshan  
Huizhou

**Tongxiang**

Huzhou  
Yuhang  
Songyang  
Changjiu  
Fuzhou  
Jiujiang  
Wuning  
Xiushui  
Yifeng  
Changting

**Shandong Province**

Jimo  
Laoshan  
Zibo  
Zibo Lubo  
Longkou  
Jinan West  
Weifang  
Weihai  
Taian  
Chiping

**Linqu**

Laiyang  
Zhaoyuan  
Pingyin  
Feicheng  
Boxing Economic  
Development Zone  
Yangxin

**Hunan Province**

Miluo

**Northeastern China**

Benxi  
Chaoyang  
Tieling  
Fuxin  
Shenyang Coastal  
Economic Zone  
Yingkou  
Dalian Changxingdao  
Dalian Economic  
and Technical  
Development Zone

**Anshan**

Lvshun  
Kazuo  
Beipiao  
Wafangdian  
Xinqiu  
Jianping  
Changchun  
Gongzhuling  
Siping  
Qiqihar

**Hebei Province**

Qinhuangdao  
Yanshan  
Cangxian  
Mengcun  
Shijiazhuang

**Inner Mongolia**

Baotou

**Southwestern China**

Ziyuan  
Weiyuan  
Pengxi  
Lezhi  
Pingchang  
Dayi  
Yuechi  
Cangxi  
Chengdu  
Zhongjiang  
Jianyang  
Pengshan  
Mianyang  
Xinjin  
Xindu  
Mianzhu  
Jiajiang  
Qijiang  
Guilin  
Zhongwei (Fusui)  
Xingyi  
Luliang

**MIDSTREAM PROJECT**

Wafangdian NG

**CNG REFILLING STATION**

Qiqihar

**OTHER PROJECT**

Zhuojia Public Engineering