



**HONG KONG
GAS BUSINESS**

Quality

Our first combined heat and power system using landfill gas in Hong Kong is now in operation at the Alice Ho Miu Ling Nethersole Hospital in Tai Po – an award-winning breakthrough in clean energy for social good.



Living

+

Our Mia Cucina high-end Total Kitchen Solution is growing in popularity, with more than 5,300 units sold in 2017, a 27 per cent increase in sales from the previous year.

+

The Towngas Cooking Centre celebrated its 40th anniversary of delivering exceptional experiences in flame cooking.

HONG KONG GAS BUSINESS

For more than 150 years, Towngas has brought the people of Hong Kong a safe, dependable and clean source of energy, while providing innovative products that make life more comfortable and convenient. Our insistence on quality products and service has earned us the loyalty and trust of our customers and will continue to underpin our success in the years to come.

Residential and Commercial Activities

During the year, our customer base further increased by 23,993 accounts to reach a total of 1,883,407. Total volume of gas sales was 29,049 million MJ, an increase of 0.8 per cent compared with the previous year.

To meet increasing operation and manpower costs, we adjusted the standard gas tariff upward by HK1.1 cents per MJ which, including the standard tariff and fuel cost adjustment, amounted to an actual increase equivalent to 4.3 per cent. We also pledged to keep the basic tariff unchanged for the next two years.

The year 2017 saw a brighter economic picture in Hong Kong, with GDP growth reaching 3.8 per cent as compared with 2.0 per cent in 2016. The booming stock and property markets as well as an increase in inbound tourist numbers helped to stimulate local spending, which benefited our



Ocean Park's new Water World project will use direct-gas fired absorption chillers to supply hot and cold water for indoor cooling and heating.

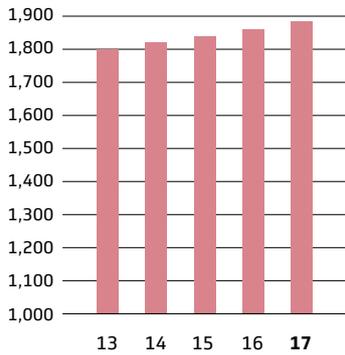
commercial clients and contributed to a positive growth in our sales of 2.6 per cent during the year.

Our commercial customers continued to look to us for cost-effective, environmentally-responsible energy solutions. Hong Kong's two theme parks

are currently using town gas in a wide range of applications, such as gas absorption chillers and dehumidification units, in place of their previous electricity-powered systems. In addition, we will be supplying gas to Ocean Park's new Water World and hotel for use in water heating as well as climate

Number of Customers

Company (Thousand)



control in the park's swimming pools and water carnival features.

Another major customer acquired during the year was Vogue Laundry, one of the leading commercial laundry companies in Hong Kong. When this customer moved to a new plant in Yuen Long, we provided the gas for its expanded production lines to power the four 12-tonne boilers that generate the high-pressure steam used in its washing machines, dryers and pressing

machines. Also in Yuen Long, we helped a well-established soy sauce factory, Koon Chun, to convert its diesel steam boilers to town gas.

Our first combined heat and power system in Hong Kong, which runs on treated landfill gas from the North East New Territories landfill site, operated smoothly during the year at the Alice Ho Miu Ling Nethersole Hospital in Tai Po. The system generates power while simultaneously making use of waste heat to maximise energy efficiency by up to 85 per cent, thus helping our client to save fuel costs and lower carbon emissions. Moreover, we commissioned the new landfill gas treatment plant at the South East New Territories (SENT) landfill site in November 2017, creating new potential for renewable energy by our business customers in the area.

The hotel and restaurant trades represent a significant share of our

commercial sales. During the year, we continued to support various activities that promoted the development of the industry and cemented our relationships with these clients. In September, we sponsored an exclusive event, the Master Chefs Flame-cooking Demonstrations, during the 2017 World Master Chefs Competition for Cantonese Cuisine held in Hong Kong. This event attracted the participation of over 100 teams from 40 countries and regions.

Our residential business benefited from the thriving property market and our concerted marketing efforts during the year. In 2017, we sold a total of over 275,000 appliances.

As part of the Total Kitchen Solution we offer to customers, we launched a line of kitchen cabinets under the Mia Cucina brand in 2013. Made of Italian and other premium European materials and accessories, these cabinets are



We produced a new TV commercial highlighting the unique designs and special functions of the Mia Cucina products.



At the Towngas Cooking Centre's 40th Anniversary Celebration, Towngas was the title sponsor of the popular Ahistoric Grandpa Cooking Show.

highly competitive against comparable brands in the market and come with lifelong after-sales service, a competitive edge unique to Towngas. In 2017, we added kitchen white goods such as refrigerators and microwaves to the brand. These kitchen packages have been very well-received by both retail consumers and property developers, who ordered more than 5,300 units during the year. Today, roughly 30 per cent of new residential units in Hong Kong are installed with Mia Cucina kitchen cabinets, which are well-regarded for the quality and value they offer.

To add a new dimension in flame cooking, we collaborated with Sanrio to launch Hong Kong's first Hello Kitty kitchen appliance: the TGC X HELLO KITTY built-in

hob. We also introduced a wide range of Hello Kitty-inspired kitchenware, such as a clay pot, tamagoyaki fry pan and wok, to bring consumers a complete and delightful cooking experience. The launch of this popular product range received widespread media attention, and sales results have been encouraging.

What's more, we introduced a mini stovetop oven designed especially for flame cooking. The stovetop oven combines grill-steam-bake functions in an all-in-one compact appliance that does not need extra counter space. Launched during Home Delights Expo, it won the Creativity Award 2017 of the Hong Kong Brand Corporate Association.

To provide customers with a better bathing experience in less space, we brought a new

generation of small-sized temperature-modulated 11L gas water heaters to market under the SIMPA brand. We also developed our own superslim temperature-modulated gas water heater that can fit into almost any small-size flat in Hong Kong.

Since 1977, Towngas Cooking Centre has been a resource for people to learn about the advantages of flame cooking through content-rich courses taught by expert chefs. In celebration of the 40th Anniversary of the Towngas Cooking Centre, in 2017 we staged a series of promotions that included a TV programme – The Ahistoric Grandpa Cooking Show – hosted by a popular Chinese cuisine master, Lee Ka Ding. Mr Lee was also invited to run cooking classes as the grand finale of the celebration activities. In addition, we enriched the Disciples Escoffier Professional Diploma with a pastry course, which is currently being held in our new and expanded Cooking Centre.

Customer Service

As a utility company offering services essential to daily life, we understand that meeting customer expectations is a key driver of our business. Throughout the year, we were honoured to receive nearly 6,000 written complimentary letters from customers as a testimony to our caring, high quality services and products.

2017 Results of Towngas Service Pledge



reliability

Uninterrupted gas supply (over 99.99%)
99.991%

3 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 average arrival time (within 25 minutes)
Average 22.57 minutes



appointments

Availability of maintenance and installation services within 2 working days
Average 1.11 days



service quality

Efficiency*
8.91

Courteous and friendly attitude*
8.87



speed and convenience

Customer Service Hotline (calls answered within 4 rings)
94.98%

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

Deposit refunded at Customer Centres 2 hours after disconnection of gas supply (upon customer's request)
100%



handling suggestions

Reply within 3 working days
100%

Resolution, or a statement of when the matter will be resolved, within 2 weeks
100%

* The results were based on surveys conducted by an independent research company. Our target is to exceed a score of 8 out of 10.

One of the hallmarks of Towngas service is the high safety level we offer. In addition to on-call maintenance services, we conduct regular safety inspections every 18 months to ensure these gas systems and appliances are safe and defect-free for our customers.

During the year, we also revamped our corporate website and online service platform to provide greater convenience as well as mobility for customers. To promote our paperless online services, we



The launch of the limited edition TGC X HELLO KITTY built-in hob brought the first-ever Hello Kitty themed kitchen appliance to Hong Kong.

The revamp of our corporate website and eService platform improved the user experience and increased eService usage.



Number of Customers per km of Mains Company



rewarded newly-registered eBilling customers who successfully applied to pay their gas bills via bank autopay with a one-off HK\$50 gas charge rebate. We also offered monthly lucky draws for prizes of HK\$1,000 in gas charge rebates under this promotion.

In recognition of our commitment to service excellence, we received the Sing Tao Service Awards – After Sales Services for the ninth consecutive year, *East Week's*

Hong Kong Service Awards – Public Utilities for the seventh consecutive year, and the Hong Kong Call Centre Association's Gold Award of Mystery Caller Assessment (Phone-in) for the third year running. This year, we obtained the Hong Kong Top Service Brand Award jointly organised by The Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong, which further reinforced our reputation for service excellence.

Gas Infrastructure

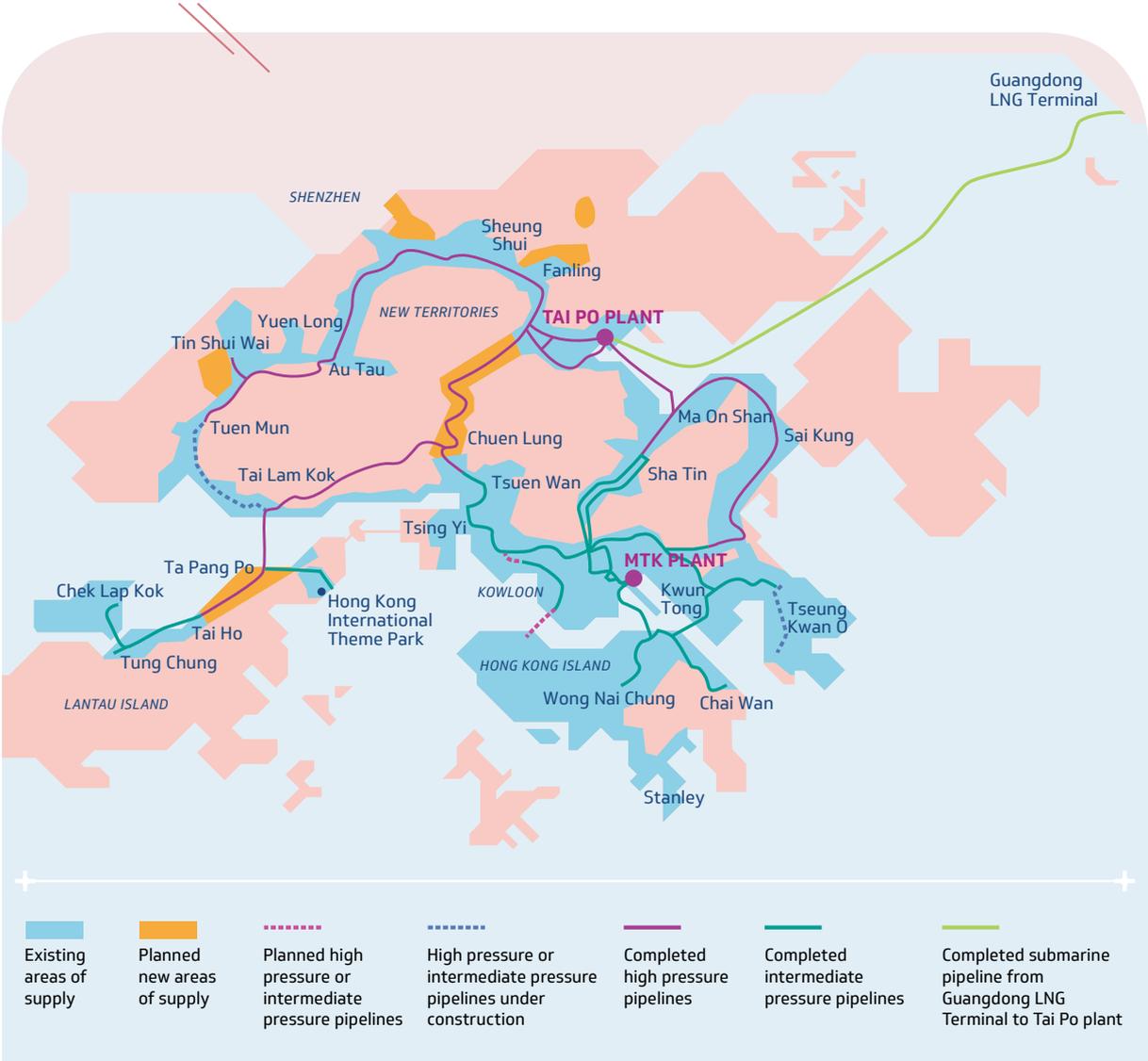
We are committed to long-term investment in the extension of our pipeline network in order to keep up with infrastructure development and meet Hong Kong's energy demands. These include the more than 15 kilometres of pipeline planned for the third runway at Hong Kong International Airport,

where more catering businesses are expected in the passenger terminal expansion.

Additionally, we will be significantly expanding our network coverage to reach the approximately 400,000 housing units in the New Territories that will be available for occupancy in phases throughout the next ten years. During the year under review, we continued to make progress on the network design for the residential developments in Fanling North, Kwu Tung North, Hung Shui Kiu and Tung Chung East.

To further enhance supply security, we made satisfactory progress linking up the supply network between Tuen Mun and Tsuen Wan and reinforcing the supply to major commercial and industrial customers in Tai Po and Yuen Long Industrial Estates, as well as the two theme parks in Hong Kong.

Towngas Network in Hong Kong



In November 2017, we brought the SENT Landfill Gas Utilisation Project in Tseung Kwan O on stream. It is currently the largest landfill gas treatment facility of its kind in Asia. The landfill gas we collect will be converted into synthetic natural gas at the facility, then transported to the

offtake station in Tseng Lan Shue through a 12 km pipeline and integrated into the gas supply network.

Despite the low leakage rate of our gas pipeline network, we continued to seek ways to identify very minor cases of seepage, even those undetectable by

sophisticated equipment. For example, we employ highly sensitive sniffer dogs to pinpoint leaks at busy traffic locations and other challenging environments. This enables us to locate leakage points quickly and accelerate the repair process, while reducing the extent of road digging and disturbances to the public.