

hong kong core business

HONG KONG'S economy was much more buoyant during the year under review, compared to 2003, partly bolstered by a rise in tourism. A further influx of visitors and extensions of stay are expected when the Hong Kong international theme park opens at Penny's Bay on Lantau Island in 2005. As a result, Towngas gave a large amount of attention in 2004 to preparing for an anticipated increase in gas consumption in the coming year.

Residential and Commercial Activities

Towngas has excellent credentials and competes successfully against other forms of fuel such as electricity, diesel and liquefied petroleum gas (LPG) in Hong Kong. Our knowledge and experience have enabled us to apply increasing sophistication to developing competitive services and products in the last year. The Company saw a modest rise in gas growth during 2004 as property market sentiment picked up, employment improved and deflation disappeared in the second half of the year.

Gas consumption

Although gain in residential customers was up by 2.8 per cent in 2004 to 1.548 million, this did not easily translate into increased gas consumption. Cool weather snaps at the beginning and end of the year only served to highlight

IFC, a prestigious financial, office, upmarket shopping and restaurant complex, has become both an iconic landmark in Hong Kong, symbolising the turnaround in the economy, and a magnet for visitors with the rebound in tourism.





A sleekly-styled built-in hob, incorporating a user-friendly touch sensitive panel to make heat adjustment easier, was added to our inner-flame product series in 2004.

one of the driest and warmest periods on record for the months in between; government and private developers' housing policies continued to ensure restrictions on the supply of new flats; and as if to make up for limited travel during the SARS crisis, Hong Kong people enthusiastically took the skies.

However, whilst domestic gas sales were lower than expected, this was off-set by commercial consumption which increased 3.8 per cent year-on-year as restaurants and hotels benefited from a surge in visitor arrivals. We are optimistic this knock-on effect will gain even more momentum in 2005 with the inauguration of the Hong Kong international theme park in September.

New products

Towngas' residential customers are very discerning. They expect value for money as well as state-of-the-art features that help to make their lives easier. In March 2004, we therefore launched a new generation gas dryer with larger capacity, faster drying performance and a more stylish appearance. Consumers have welcomed this model

upgrade, creating good sales follow-through. We also developed and put to market during the year, an innovative, touch-sensitive, safety-glass built-in hob featuring a higher heat intensity inner-flame. Together with a modular version, this product series is proving popular with the more high-end luxury market. Furthermore, we expanded our LPG products for mid-range customers by designing a temperature-controlled water heater; this complements existing LPG cooking appliances.

Commercial gas appliance sales were well-supported by the introduction of a new, low-noise wok range and noodle cooker during the year, which encouraged greater gas use especially in popular open-kitchen restaurants. The growth in three-star, four group accommodation

Launched in March, a new model, large-capacity TGC gas clothes dryer saves time by drying faster than similar appliances, making it ideal for today's modern family needs.



also gave a boost to the Blueflame water heating system which is especially suitable for providing small hotels with hot water.

Promotion of products and services

Our objective is always to match our quality products with quality services. At the same time, we recognise that we must not become complacent. There is a need to win over younger generations with very different expectations from those of our more mature, loyal and long-standing customers. We believe in starting early. Towngas Cooking Centre organised cooking demonstrations for over 3,000 students and visited nearly 100 schools in the 2003-04 academic year. A very successful series of cooking activities was also arranged for the Girl Guides in 2004, strengthening our image and arousing the culinary awareness of this popular youth group.

In addition, two promotional competitions were held during the year aimed at stimulating student interest in home-based cuisine. Towngas sponsored the 6th Secondary Schools Flame-Cooking Contest to nurture a cooking culture among young people, and launched a public competition in June, challenging contestants to think creatively by designing a kitchen using state-of-the-art Company products.

These contests were complemented by the findings of a survey in September commissioned by SIMPA, a gas

appliance brand marketed by Towngas, which suggested many Hong Kong people rate quality of home life as central to their overall well-being. Cooking and family dining are becoming more important, as is renovating or installing new kitchens and bathrooms. We therefore continued a trend started in 2003, and opened two further contemporary customer service outlets during 2004. Our new-look Towngas Customer Centres are located in prime positions with high population densities to attract maximum usage. They offer a full range of



Gas-fired heat generator units evenly distribute hot air for drying spray-painted KMB buses within specially designed booths, helping to considerably reduce the time required to complete this kind of work.

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Our stylish and contemporary **customer centres** offer a relaxing environment for patrons to browse the latest range of high-quality Towngas appliances and discuss their needs with knowledgeable, friendly and courteous staff.





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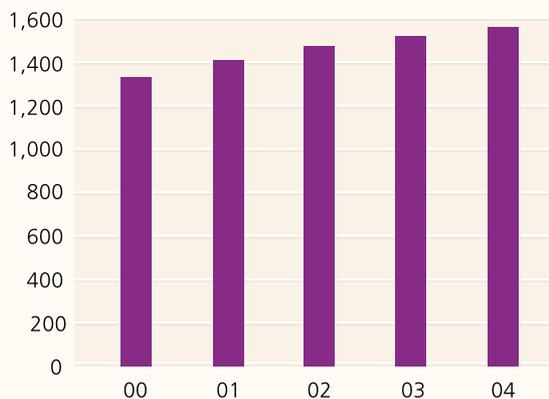


Towngas Cooking Centre's redesigned website aims to encourage a love of cooking amongst all generations in Hong Kong by offering a huge variety of practical and demonstration courses, mouth-watering recipes and helpful tips.

services including real-life settings for appliances and innovative interior modification assistance for minor building works, the latter generally not available from product retailers. This value-added service is not only encouraging purchases by saving customers the bother of finding plumbers and installers willing to do small job alterations, but is also enhancing Towngas' standing as a proactive, caring utility business.

Number of Customers

Company (Thousand)



Service Initiatives

Towngas Avenue, our combined up-market retailing and lifestyle outlet, continued to successfully promote its open-kitchen restaurant and self-cooking dining areas during the year, two concepts that have since been widely copied throughout the city.

We also gave particular focus in 2004 to enhancing the public's sense of gas safety, and especially leveraged our good relations with District Councils to foster this objective. Council members visited our main gas plant to gain a better understanding of gas security and attended more informal gatherings to discuss town gas services within the community. This past year, we became increasingly engaged in district-related work on the ground as well. For example, we helped to devise both district development and annual strategic business plans which enabled us to offer a more timely input of our utility expertise.

In other efforts to reach out to our customers, we sought to boost the basics of service provision in 2004. Customer service and selling skills of frontline staff were raised through 'Service Pro', a training and performance measuring programme; we stepped up customer surveys; and we energetically promoted the use of comment cards to solicit on-the-spot opinions on customer centre services. Combined with a major up-grade of our Customer Relationship Management System that took

Results of Towngas Service Pledge 2004

Reliability	Uninterrupted gas supply (over 99.99%)	99.997%
	In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
	Restoration of gas supply within 12 hours	99.95%
Safety	Emergency Team arrives on site within 30 minutes (90% of the time) ¹	94.24%
Appointments	Availability of maintenance and installation services within 2 working days	Average 1.08 days
Speed and Convenience	Customer Service Hotline (calls answered within 4 rings)	96.55%
	Connect or disconnect gas supply within 1 working day	100% (upon customer's request)
	Deposit refunded at Customer Centres (2 hours after disconnection of gas supply)	99.96% (upon customer's request)
Service Quality	Efficiency ²	8.69
	Courteous and friendly attitude ²	8.80
Handling Suggestions	Reply within 3 working days	95.29%
	Resolution, or a statement of when the matter will be resolved, within 2 weeks	95.23%

¹ Average 19.67 minutes

² The result was based on monthly surveys conducted from January to December 2004 by an independent research company. Our target is to exceed a score of eight out of ten

place in August, appliance sales, installation orders and maintenance requests are now being handled more quickly and effectively.

These strategies have all contributed to enhancing our reputation in terms of retailing, installation and customer service quality over the year. We were therefore delighted to be the first utility company in Hong Kong to be granted Q-Mark Certification from the Federation of Hong Kong Industries in May, for our excellent products and services. The results of our Service Pledge for 2004, as in preceding years, stand testimony to this award recognition.

Gas Supply

Our emphasis in 2004 was three-fold. We focused on forward planning in anticipation of importing natural gas to the territory by 2006; we continued to develop the gas supply system to cope with future demand; and not least, we concentrated on enhancing public safety.

Natural gas impact

In October 2004, the Legislative Council was briefed on the forthcoming introduction of natural gas into the territory. Natural gas will be delivered from the Liquefied Natural Gas (LNG) terminal in Shenzhen to Towngas'

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Natural gas will partly replace naphtha as feedstock in 2006 and be delivered to our Tai Po gas plant via twin submarine pipelines from the LNG Terminal in Shenzhen, Guangdong.

Tai Po plant via a pair of 34 km, 450 mm-diameter submarine pipelines, starting in 2006. Four town gas production units have already been modified and another four will be completed in the coming two years to accommodate the natural gas intake, which will replace about 60 per cent of the current annual consumption of naphtha feedstock.

Towngas has long looked for ways to enhance cost-effectiveness, sustain supply reliability and preserve our environment. Natural gas will reduce our reliance on oil products and hence, exposure to crude oil price fluctuations. Natural gas is also a very clean, environmentally-friendly fuel that will contribute to improving Hong Kong's air quality.

Network infrastructure and extensions

In 2004, we successfully migrated to a third generation Supervisory Control and Data Acquisition system and also updated our computer mapping system, both of which allowed us to augment monitoring and control of our gas transmission and distribution network. This is extremely

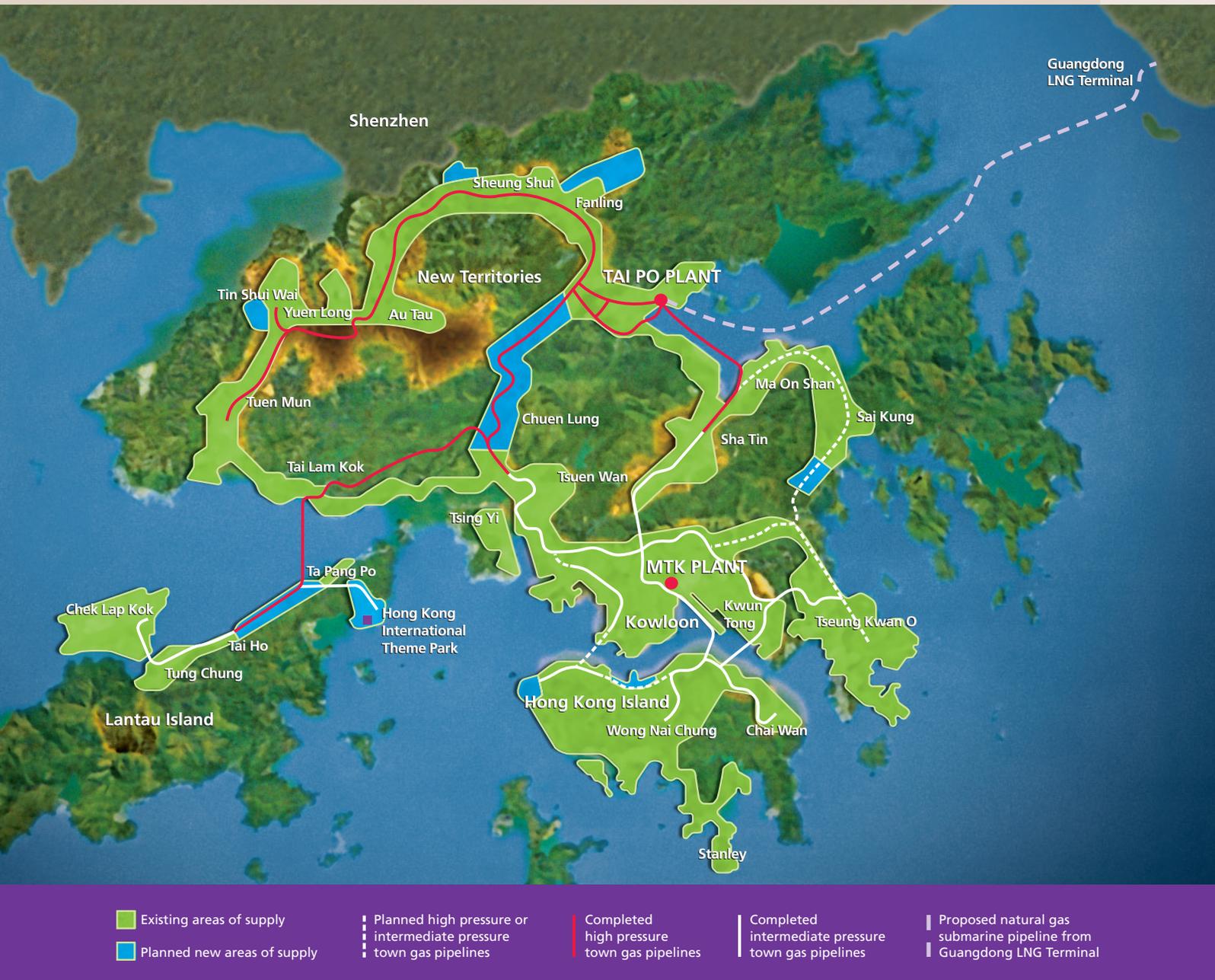
important as we seek to expand and further secure our lines of supply to meet Hong Kong's escalating infrastructure growth. In the eastern New Territories, Towngas is now constructing a 24 km, 750 mm-diameter Eastern Transmission Pipeline (ETP), due for completion in 2006. The ETP will not only boost the existing network but equally enlarge our peak gas storage capacity.

During the year, we also focused on extending our gas network to the Hong Kong international theme park where a 13 km trunk main was completed in April 2004. We are now laying service gas supply pipes in the park and working on installations for a special flame effect display at one of the park's adventure water rides.

Number of Customers per km of Mains

(Company)





Safety enhancements

In the past two years, cast iron pipes have been associated with some telecom manhole blast incidents that have undermined public confidence in the gas pipeline. As a result, Towngas decided to replace its remaining 30 km of cast iron pipes to allay community unease, subsequently completing this work in December 2004, well within our two-year scheduled framework. At the same time, we took the initiative to design a manhole duct-sealing technique that we hope will be recommended by the government and soon used by all telecom companies to secure their manholes adequately.

Our efforts to foster closer coordination with non-Towngas contractors who excavate ground near our gas pipelines continued unabated in 2004. By providing alignment drawings, monitoring their work, and offering safety advice and training, we have now managed to reduce third-party damage by more than 75 per cent since 1997, the year before we launched a vigorous third-party damage prevention campaign.

We also stepped up the frequency of regular leakage surveys during the year. We increased our checks of metal distribution pipes from twice in 2003 to three times in 2004, and to once a month for remaining cast iron

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pipes prior to their replacement, as an additional safety measure. Overall, our inspection system far exceeds the standards adopted by most other gas corporations in the world and helped to reduce gas leak incidents by 16 per cent in 2004, compared to the previous year.



Our 'Rice Dumplings for the Community' programme promotes the time-honoured tradition of making savoury or sweet dumplings and raises funds for the Community Chest at the same time.

Corporate Social Responsibility

Towngas makes every effort to stay abreast of shifting societal concerns regarding its corporate role and responsibilities. We very much care about the community in which we operate and actively seek to foster stronger relationships between the Company, employees and the public.

In the last few years, we have gradually transferred our emphasis from ad hoc charitable activities and sponsorship to structured partnerships which allow us to more closely communicate with our recipients so as to better address their needs. We now focus on providing resources to those who are least able to help themselves, complementing assistance from welfare services.

The elderly are always a priority. Senior citizens look forward to our Towngas Volunteer Team's regular free services, such as hair cutting sessions and distribution of hot soup. Traditional events are particularly well-liked as they evoke happy memories of by-gone days. Towngas' 'Rice Dumplings for the Community' programme was expanded in 2004 by sending packs of materials into schools and encouraging students to take these home and wrap rice dumplings with their families. Tasty dumplings, wrapped by District Council members, Towngas employees and community volunteers in June, and then delivered to the elderly, were very popular.

September 2004, was a similarly joyful time when we celebrated the Mid-Autumn Festival with our 'Mooncakes for the Community' programme as this elicited broad smiles on the faces of the elderly when they received these special festive cakes.

Whereas the old are our heritage, the young are our future. Towngas seeks to nurture children's talents, challenge their perceptions and build their competencies through a range of outreach activities. In 2004, we started an arts programme for young new immigrants in collaboration with the Hong Kong Open Print Shop, offering workshops to some 60 children in mask painting, sketching and print-making. In so doing, we aim to foster their creativity, enrich their artistic lives and expand their horizons. We also formed our very own Towngas Brownie unit for children of staff members in May to help develop their potential and their interest in serving the community. Embracing this same mantle, our youth volunteer programme organised a number of leadership and self-confidence boosting events over the summer for young volunteers. One of the highlights for these youngsters was designing a healthy menu and preparing dishes for less-privileged guests at a 'Feast for the Community' gathering.

Following the success of our elderly concession scheme, we initiated a similar programme for people with

To celebrate the Mid-Autumn Festival, Towngas Volunteers held a birthday party for 30 senior citizens where James Kwan, Executive Director and Chief Operating Officer, and well-known TV personalities joined in festive games with our guests.



disabilities in April 2004, in conjunction with the Social Welfare Department and the Hong Kong Council for Social Services. This scheme provides much-needed support in the form of gas consumption discounts and standard charge waivers for disabled persons who require constant assistance. In the same month, in combination with our annual safety inspection visit, we also began offering senior citizens free Personal Emergency maintenance checks to ensure their emergency intercom link to a 24-hour service centre is working correctly.

Towngas people are well-known for their munificence and 2004 saw no exception to their charitable support of the needy. As in previous years, we were a top fund-raiser for the Community Chest's Skip Lunch Day and Green Day.



Our 'Towngas Harmony Campaign' entry also earned us second place in the community relations category of the 6th China Golden Awards for Excellence in Public Relations, a biennial nation-wide competition.

We cannot end our review of 2004 however, without remembering the heartbreaking tsunami disaster in Southeast Asia. Hong Kong people responded with one of the largest donations per head of population in the world. We are proud to be a corporate member of this generous and empathetic community. Towngas, together with our substantial shareholder Henderson Land, bequeathed over HK\$8 million to the disaster fund, part of which matched the generous contributions of our employees. As the relief effort goes on, we will continue to monitor how we may help in the future.

Towngas believes in nurturing the enthusiasm of young people through community events and organised a homemade cookie activity for primary school children in December so they could share these treats with their families and the less privileged over Christmas.