

Niche gas-related businesses, such as our landfill gas utilisation project at the North East New Territories landfill site, increase efficiency of our operations and improve the lifestyle of public.



Diversifying for a better way of life



Diversified Businesses

Towngas has long embraced diversification into related niche businesses so as to capitalise on core skills and knowledge and create value by opening up new investment opportunities. We look especially for synergies that can harness our expertise in gas supply, pipeline construction and customer services.

ECO Energy

Gas sales volume from our five liquefied petroleum gas (LPG) vehicle refilling stations remained steady throughout 2006. Most trade comes from Hong Kong's 18,000 taxis, which run on environmentally-friendly LPG as opposed to diesel, and an increasing number of public light buses. A new pricing formula was implemented in March 2006 that permits pump tariff adjustments in a timelier manner, which has facilitated more predictable sales performance.

ECO's large North East New Territories (NENT) landfill gas utilisation project is now at the final testing stage. Both the on-site treatment facility and a 19 km, 400 mm-diameter pipeline linked to the Company's main gas production plant at Tai Po were completed in 2006. Full commissioning is expected by mid-2007. Rather than flaring off the landfill gas, methane,

a by-product created in the decomposition of waste, will be captured and processed to a usable form. The treated gas will then be piped to Tai Po for use as fuel to produce town gas.

The recovery of energy from landfill gas brings significant environmental benefits, particularly improvements in air quality and energy conservation. As a result, ECO is looking for similar opportunities to harness normally flared-off methane at other landfill sites.

Towngas Telecom (TGT)

Towngas Telecom continued to leverage Towngas' extensive gas pipeline network during 2006 by laying fibre optic cables in existing gas pipes, resulting in lower capital telecom installation costs and rapid expansion. These are uniquely advantageous aspects for TGT not available to other local operators.

U-Tech using multi-utilities duct approach to minimise disruptive road work



Business is steadily building up with a strong recurring income base. TGT gained more quality customers throughout the year, providing high bandwidth network, Internet and data centre services to global and local carriers, mobile phone operators, Internet Service Providers, hotels, universities, government and other corporations. Since launching “tgconnect intelligent home services” in 2006, several premier property projects have incorporated this high-tech feature into their developments, one of which has also installed TGT’s first infotainment system, a collaborative venture with Microsoft and other business partners.

As the telecom market in the mainland is rapidly expanding, future development strategies in conjunction with the Group’s gas and water JVs are now under consideration.

U-Tech

U-Tech flourished in 2006 as appreciation of its expertise and quality work continued to grow. The large building services installations, which U-Tech project managed at the Group’s Grand Waterfront residential development, passed regulatory inspections in November. The subsidiary’s success in handling this enormous above-ground scheme has boosted U-Tech’s brand name and helped to further strengthen its business reach.

U-Tech’s mega water pipe undertaking in the New Territories for the Water Supplies Department is progressing smoothly. In addition, U-Tech is now planning a sectional rehabilitation of two 1,400 mm-diameter water pipes at Fanling, part of a raw water trunk mains supply source from mainland China, which is almost certainly the biggest trenchless insertion project

for water pipe rehabilitation to be contemplated to date in Hong Kong. U-Tech also extended its horizons in 2006 to the neighbouring enclave of Macau, where it is now involved in designing and installing LPG systems for the burgeoning hotel and casino business.

Property Developments

Pre-sale of the Grand Waterfront property development, located at Ma Tau Kok south plant site, commenced in late August 2006. An occupancy permit was issued in November and by the end of December, 630,000 square feet, from a total residential floor area of around 1.2 million square feet, had been sold. The project consists of five apartment buildings providing 1,782 units, each with high-quality fixtures and fittings and linked to Towngas Telecom’s fibre optic system. The Group is entitled to 73 per cent of the net sales proceeds of

Diversified Businesses

the residential portion of the project. Approximately 150,000 square feet have been allocated for commercial purposes.

The Group also has a 50 per cent interest in the Grand Promenade property development at Sai Wan Ho. This complex provides 2,020 units covering a total floor area of about 1.7 million square feet, of which 1.3 million square feet had been sold by the end of 2006. The apartments are fully fitted out with Towngas appliances and the project has gained an award for its compliance with environmental protection standards in engineering, construction and finishing. Residential occupancy started in early 2006, and the property is now yielding substantial returns.

Grand Waterfront, the height of quality living



The two office towers and the shopping mall of the International Finance Centre (IFC) are fully let. The related hotel complex, comprising the Four Seasons Hotel which has 400 six-star guestrooms and Four Seasons Place which provides 520 serviced suites, is very popular and business is strong. The Group has an approximately 15.8 per cent interest in IFC.

Water Supply and Wastewater Treatment in Mainland China

Shortage of potable water and insufficient sewage disposal systems are encouraging the central government to invest in, and open up, the mainland's water sector. This is presenting good opportunities for business growth especially within expanding urban areas. Towngas' operational and management experience, good municipal relationships and growing brand image, honed through our piped city-gas businesses, are a perfect foundation for developing the country's water supply infrastructure.

Modern water
treatment facilities
in Suzhou



During 2006, the Group's water business experienced a healthy turnover from a current base of approximately 400,000 customers. Demand and coverage potential will continue to intensify as we further extend our network of water supply pipelines in the years ahead. In addition, the prevailing water tariff, which is currently relatively low, is projected to gradually rise as the central government seeks to conserve water resources and develop fresh water facilities.

Towngas has three water business projects in hand. Our water JVs in Wujiang, Jiangsu province and Wuhu, Anhui province concentrated on enhancing operations and engineering expertise and optimising plant efficiency during

2006, under a consultancy agreement with Berlinwasser International, a renowned German water company.

Suzhou Industrial Park (SIP), Jiangsu province, location of the Group's largest water investment project, is a benchmark model for end-to-end integration of water supply and sewage treatment operations. SIP is highly attractive to foreign investors, due to its proximity to Shanghai and good quality infrastructure, and has become one of the mainland's most successful economic industrial parks. With high GDP growth and an above-average per capita income, SIP has an assured need for fresh water and sewage treatment facilities which the Group's JV has exclusive rights to operate for 30 years.

Both Wujiang and SIP are in areas where we have already established piped city-gas JVs. These partnerships are therefore in a good position to gain from synergies of location and better use of resources which are placing these JVs in the vanguard as pioneers of nascent one-stop-shop water and gas utility businesses.

The Group is now ready to take on new water projects. With effective management, prospects for this new diversified business look extremely promising.