Towngas China celebrated its 10th anniversary in 2017. Over the past decade, our business portfolio has grown from just 25 city gas projects following the acquisition in 2007 when Panva Gas was acquired to 108 projects at present in city gas as well as vehicle gas refilling stations and midstream projects among others. In 2017, the Group sold 8,417 million cubic metres of gas to 11.77 million customers covered by a gas pipeline network stretching over 40,000 kilometres. Currently, 22,276 employees work for the Group. Riding on the growth of urban population, continuous push of clean energy and the expansion of our gas pipeline network, the business prospect of the Group looks promising.
On 22 November 2017, Foshan Gas, an associated company of the Group, was listed on the Shenzhen Stock Exchange. Funds raised by the listing has been earmarked for the third phase of the natural gas high-pressure pipeline network project in Foshan City, the second phase of the natural gas utilisation project in Sanshui District of Foshan City and the second phase of the piped natural gas project in Gaoyao City. Going public successfully marked a milestone for Foshan Gas since its establishment over two decades ago. Furthermore, this achievement will strengthen the company’s foundation while injecting new impetus to the business.

Under the theme of constructing a beautiful China, the 19th CPC National Congress has pledged to pursue environmentally responsible development and to accelerate an economy based on conservation, emission reduction, recycling and conversion of renewable energy from waste. Focusing on innovation and environmental-friendliness, and committed to our mission to improve the environment and provide our customers with reliable, efficient, safe and clean energy, we endeavor to steer our business in the direction in line with the nation’s development philosophy. Responding to China’s policy to “reduce carbon emission and smog”, our wholly-owned integrated energy project investment platform, Towngas China Energy Investment (Shenzhen) Limited (”TCEI”) was inaugurated in January 2017. Its goal is to drive the ambitious plan to build natural gas distributed energy stations so as to tap into the enormous potential of the gas consumption market.

Zhao Hai, Deputy Mayor of Foshan Municipal People’s Government (first left of the bell-ringing guests), Chan Wing Kin Alfred, Chairman and Executive Director of Towngas China (first right of the bell-ringing guests); Yin Xiang, Chairman of Foshan Gas (third left of the bell-ringing guests), and other guests hosted the Foshan Gas listing and bell-ringing ceremony.
Sales of Piped Gas
In 2017, total gas sales volume of the Group rose robustly by 18% to 8,417 million cubic metres and total number of customers reached 11.77 million, with 860,000 new customers. Industrial gas sales grew by 24% to 4,841 million cubic metres, accounting for 58% of the total volume of gas sold by the Group, while commercial gas sales reached 1,460 million cubic metres with an increase of 14%, accounting for 17% of the total volume of gas sold by the Group. Residential gas sales increased by 10% to 2,116 million cubic metres and accounted for 25% of the total volume of gas sold by the Group.

The Group has made the best use of its extensive network to further develop our existing market, come up with new launch of ancillary gas products in order to explore more business opportunities. We have also ridden on our abundant gas supplies to capitalise on the rise of the clean energy market to actively take part in natural gas development projects, which has created an ongoing growth driver for future gas sales.
Development of New Projects

During the year, the Group acquired two gas projects, a piped city gas project in Huji Town, Zhongxiang City, Hubei Province and a midstream natural gas pipeline network project in Guyang County, Baotou City in the Inner Mongolia Autonomous Region. Huji Town’s principal industrial activity is the production of phosphate compound fertiliser. This wholly-owned project marks the Group’s maiden expansion into Hubei Province. At the same time, we started our active diversification into the midstream pipeline transmission business, building on the back of our focused efforts in the past to acquire downstream city gas projects, which have resulted in rapidly expanding market share. The midstream natural gas pipeline network project in Guyang County will supply natural gas to our city gas project in the county, ensuring sufficient gas supply and facilitating our efforts to move increasingly towards unified gas supply management.

We also acquired a new piped city gas project in Liujiang District, Liuzhou City in the Guangxi Zhuang Autonomous Region in early 2018. The project further consolidates our business development in 2018 and creates regional synergies with the Guilin and Zhongwei piped city gas projects in Guangxi.

Actively committed to the use of clean energy in line with the "13th Five-Year Plan for Energy Development", we have unswervingly pursued the development of integrated energy service operations according to the policy guideline of “reducing carbon emission and smog”. We also continued to expand our distributed energy business in 2017, and established a new distributed energy project in the Shenyang Economic and Technological Development Zone in Liaoning Province, which consists of midstream natural gas pipeline transmission together with the sales of steam operations. The consumption is expected to reach 960 million cubic metres of natural gas equivalent in 5 years. In early 2018, the Group also developed two additional distributed energy projects in Jiawang District, Xuzhou City in Jiangsu Province and Jimo Chuangzhi New District, Qingdao City in Shandong Province, with the consumption expected to reach 150 million cubic metres and 8 million cubic metres of natural gas equivalent in 5 years respectively.
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Industrial and Commercial Markets
During the national “13th Five-Year Plan” period, energy structure optimisation and environmental pollution controls have become the most prominent drivers for natural gas consumption. It is expected that the proportion of natural gas in primary energy will increase to 10% from 6%. At the same time, the country’s recovery in industrial growth and its implementation of the strategy for efficient use of clean energy have brought new opportunities and challenges to the industrial and commercial gas market.

Leveraging the benefits of new policies and market environment, we have captured many new business opportunities, consolidating our existing markets and embracing fresh challenges with the use of the most advanced technologies and innovative applications. We also keep expanding our markets and strengthening our project development whilst driving our ventures into new fields of energy. These moves are expected to invigorate and ensure the sustainable development of our industrial and commercial gas markets.

Distributed Energy
To expedite the use of natural gas in the industrial sector, the NDRC, together with 13 other departments, jointly promoted and endorsed the “Opinions on Accelerating the Utilisation of Natural Gas”, which explicitly demands accelerated developments of natural gas distributed energy through promoting signature projects of natural gas distributed energy at places that have the needs for combined cooling, heating and power system, including energy load centres, industrial and logistics parks, tourist attractions, business centres, transportation hubs, hospitals and schools in large and medium-sized cities.

In 2017, we put into operation several distributed energy projects, such as Snow Brewery in Xindu District in Chengdu City, Sichuan Province, and the Luoshanhu Resort in Guilin City, with the total gas consumption reaching nearly 100 million cubic metres. TCEI confirmed a number of projects, including heat and power cogeneration as well as regional heating and heat supply in industrial areas. The total natural gas consumption is expected to reach 3.5 billion cubic metres by 2022. SCEI Distributed Energy Systems Co., Ltd. also signed eight investment agreements during the year.
The Group encourages its customers to upgrade their boilers and switch to natural gas to be in line with the country’s environmental protection policies. The five boilers of Jinan Nanjiao Thermao Power Plant in Shandong Province, are now natural gas-driven, consuming more than 30 million cubic metres of natural gas a year.

Boiler Conversion from Coal to Natural Gas
According to the goals of National Energy Administration, China’s coal consumption proportion should be reduced to 60% in 2017 and falling further to below 58% during the “13th Five-Year Plan” period. We have thus aligned our project development strategies with the nation’s coal-to-gas, clean energy and environmental policies to maintain our strong growth in the boiler conversion market. During the year, coal-to-gas boiler conversion projects contributed approximately 800 million cubic metres of gas consumption, which is 1.6 times higher than that of the previous year.

Furnace Conversion from Coal to Natural Gas
We are dedicated to research and innovation in industrial technology, seeking to develop new natural gas application technologies for different industrial production sectors. During the year, we introduced and upgraded energy-efficient technology to effectively promote the conversion of coal-fired furnaces to natural gas and reduce the gas consumption costs of our customers. In 2017, the more than 80 new furnace customers contributed to the sales of approximately 70 million cubic metres of gas.
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Small and Medium-sized Food Outlets
To encourage small and medium-sized food outlets to use piped natural gas, we actively seek the support of local government authorities and make every effort to implement and publicise environmental and safety-related measures. By replacing bottled liquefied gas with piped natural gas, customers can enjoy the benefits of lower fuel costs and enhanced gas safety.

Natural Gas Water Heating System
Seizing opportunities in the market, the Group continues to expand its natural gas business in new industrial and commercial applications. We successfully developed and promoted a natural gas water heating system for commercial use. Given its features of low cost, space-saving, flexible installation and easy control, the product has brought in many new customers, including small to medium-sized hotels, schools and fitness centres in eastern China.

A lighting manufacturer uses cleaner natural gas in production that can help increase the quality and value of products.
Residential Market

The number of residential customers and the volume of gas sold recorded year-on-year growth of 8% and 10% respectively. We have also expanded our customer service network by setting up four additional customer centres during the year.

We are committed to providing customers with safe and reliable energy as well as customer-centric services, to ensure the continuous upgrade of our service brand and image. According to a nationwide customer satisfaction survey by an independent consultant we engaged during the year, we gained the highest customer satisfaction ratings among the public utilities, such as providers of water, electricity and transportation services.

To optimise our business platforms, we will integrate our resource advantages by combining our online customer centre Virtual Customer Centre (VCC) and Ganghua Pay. As a professional payment platform, Ganghua Pay will be integrated into VCC platform’s payment channels, enabling VCC to operate as a one-stop portal, which addresses customer needs in a faster and more responsive manner. At the end of 2017, VCC earned the “2017 Top 10 Hybrid Cloud Users” and “2017 Outstanding Hybrid Cloud Business Case” in the “Outstanding Hybrid Cloud Business Cases and Top 10 Hybrid Cloud Users in China” contest organised for the first time by Open Source Cloud Alliance for Industry (OSCAR) under the guidance of the China Academy of Information and Communications Technology. This critical acclaim and recognition from the industry denote the efforts we have made to take our online customer services to new heights.

The Group organised a nationwide event, “Star Officers of Three Courtesies Competition”, for the first time in 2017 to select 40 frontline customer service staff who had satisfactorily applied the “Three Courtesies” i.e. politeness, caring and etiquette at work in 2016. The event helped reinforce friendly and caring customer service while raising the service standard of frontline staff.
Bauhinia Gas Appliances

Bauhinia stands for stringent product quality. The brand caters for the increasing product and service expectations of customers, which is particularly relevant in view of the rising household consumption standards in mainland China. The products under the brand are also highly innovative, as we seek to deliver more intelligent, comfortable and practical features to better meet customers’ needs. We also strive to improve our after-sale systems and service competencies, and are determined to offer premium products and services to customers.

Gas Dryers

During the year, Bauhinia launched a number of marketing campaigns to target customer segments. These included product advertising on WeChat and launched free-trial promotion on mobile applications. In our three key markets – eastern, southwestern and southern China, Bauhinia offered “free trials” in the community, which allows target customers to experience first-hand the superior performance of our gas dryers, with a view to gradually switching them over to the products. In 2017, Bauhinia sold more than 8,000 gas dryers, leading to a 30% growth in the average gas consumption of residential gas dryer users.

The Bauhinia Gas Dryer advertisement launched during the year with the theme of “Love and Warmth” was a breakaway from the traditional hard-selling advertising tactics. It also won the “Best Digital Video Advertising Design Award” presented by The Association of Accredited Advertising Agencies of Hong Kong.
Gas Heating Appliances
Benefiting from stable gas supplies and national environmental protection policies, the emerging household heating market saw an increasing demand for Combi boilers – more than 15,000 units were sold during the year, representing an increase of 35% compared with the previous year. Bauhinia also introduced the concept of “Comfort Home” during the year, launching our second-generation smart temperature control system, which features “Smart Temperature Controller + Mobile App” to highlight the intelligent, comfortable, energy-saving and safe performance of our gas heating systems.

The Group encouraged our project companies to expand group-buying markets. To this end, we developed and published the “Technical Manual for Design and Installation of Bauhinia Heating Systems” during the year to guide the design and installation training of these heating systems in eastern, southwestern, northern and northeastern China.

After-sales Services
Quality after-sales service is the cornerstone of a brand’s sustainability. Since inception, we have been committed to providing “three-year warranty and life-long maintenance” service for all Bauhinia products.

To continuously improve service skills and the competencies of our after-sales teams, we hold the nationwide “Bauhinia After-sales Service Skills Competition” every year to motivate their learning and enhance their training. These efforts bore fruits as our Bauhinia after-sales service teams received increased recognition from our customers and our peers, winning the “Top 10 After-sales Service Providers in China” presented jointly by the China General Chamber of Commerce, China Foundation of Consumer Protection and National Product After-sales Service Assessment Committee.
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Extended Services

Towngas Lifestyle
As a professional internet company within the Group, Towngas Lifestyle provides cloud service solutions for companies, building a reliable e-service platform. Towngas Lifestyle provides our customers with convenient and efficient internet and mobile operating platforms as well as one-stop comprehensive e-services offering kitchenware, eco-friendly food, gas insurance, gas detecting and alarm, among a host of other products and services.

In 2017, we set up 13 kitchenware zones in our customer centres in various cities and offered a variety of some 3,000 items in the relevant product catalogues of WeChat Mall. Customers were thus able to gain easy access to our vast range of premium cookware from around all over the world. They can make either physical purchases or simply scan a QR code to submit their orders, enjoying more personalised and convenient shopping experience.

VCC Platform Construction and Promotion
VCC is the Group’s one-stop internet service platform. It is managed by Towngas Lifestyle’s professional team who closely cooperates with China Mobile Communications Group in cloud computing resources and routing, offering a high level of network and data security equivalent to that for financial institutions.

Towngas Lifestyle Card
In 2017, the Group introduced a membership card exclusively for its gas users. It is designed to combine online and offline customer experience via the VCC’s membership scheme to build stronger customer relations. At the end of 2017, it has 840,000 “fans”.

Gas Insurance Business
We teamed up with Ping An Property & Casualty Insurance Company of China and the Huatai Insurance Group to launch home insurance for residential customers. Thanks to its low premium costs, which nevertheless offers comprehensive coverage to gas users, the service was well-received by customers. The gas insurance business has been extended to 45 city gas projects and further expanded into industrial and commercial markets in Mianyang, Changchun and Jianyang.

We made a series of upgrades to our VCC platform system in 2017 to flexibly meet the individual needs of more than 100 project companies within the Group. The upgraded system improved service efficiencies while reducing operation costs. During the year, the platform served 18 companies, covering 3.5 million users.
Mia Cucina, our high-end kitchen cabinet brand known for its exquisite craftsmanship of Hong Kong design and quality standards, aims to offer mainland customers elegant, ergonomic and fashionable cabinets using stringently-selected materials and accessories imported from Europe. The brand repositioned its promotional strategy during the year to focus on furnished apartment market. The brand also expanded its retail sales by showcasing Mia Cucina cabinets at our customer centres in a number of cities to provide discerning customers with modern and stylish Total Kitchen Solutions.
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Safety and Risk Management

Towngas China adheres to the longstanding, stringent safety standards and regulations of HKCG, our parent company. Project companies take direct responsibility for production safety and this allowed the Group to sustain an excellent safety record. The Group’s Safety Committee (“Safety Committee”) carries out two safety inspections each year, and has organised the “Safety Year” campaign for 10 consecutive years since 2008. This annual initiative ensures that the “Safety First” concept is incorporated and implemented in daily operations and services. The Group’s effective execution of safety and risk management measures has resulted in an overall improvement in gas safety performance. Over the past decade, the situations of pipeline leakage or damage have improved, with a significant drop in the number of serious accidents.

In 2017, the Group organised commemorative activities for the 10th anniversary of our “Safety Year” campaign. Safety Committee chose to carry out safety inspections in north-eastern and northern China, getting an update on the implementation of the Prefabrication Scheme, customer safety checks as well as gas safety promotion. Based on Safety Committee’s evaluation of individual incidents, the Group’s safety and risk management department would coordinate various regions to organise safety workshops, providing intensive and targeted operational safety training for project companies’ general managers as well as other employees, such as the engineering, risk management and customer service personnel.

In order to improve the quality and efficiency of project companies’ safety training, we have prepared 13-hour training materials on nine topics, including “Safety Related Laws and Regulations”, “HSE System of Towngas Group”, “Risk Basics”, “Occupational Health and Safety”, etc. during the year. Project companies also have access to the Group’s online learning platform.

During the year, we conducted 12 general manager safety inspections and two cross-checks among general managers to enhance safety and risk management performance as well as to reduce operational risks of project companies. We also conducted a survey on corporate risk management and control measures among 22 project companies to look into their risk management capability.
Engineering Quality Management

To ensure safe gas supply, we keep replacing aging gas pipelines to improve pipeline network safety. As the Group continues to implement quality assurance management in polyethylene pipeline engineering projects, we carried out surprise inspections and training for 16 project companies in five regions in 2017 in order to improve construction quality. We also developed an engineering mobile application system and promoted its use in 15 project companies to enhance supervision over construction contractors, improve management efficiency and ensure timely records of site conditions so as to fully comply with our quality standards and requirements.

Upholding our innovation-oriented concepts, we introduced a number of self-designed or modified tools or equipment to improve quality controls in pipeline engineering projects. Examples include the mechanical scraper, which facilitates the connection of polyethylene pipeline, fixture clamps and height-adjustable support rollers. We also actively promote innovative occupational safety and health equipment, such as multi-function remote control excavator, electric trolley, electric and pneumatic mud suction dredger and mechanical arm, to reduce physical stress and strain on our engineering teams and improve work efficiency.

In addition to the constant improvement of our engineering standards, we also participate actively in the compilation or revision of relevant national and industry specifications and standards. In 2017, the Group participated in the compilation of a total of eight national and industry standards and specifications, as well as providing advice and suggestions on the revisions to 14 national and industry standards and specifications.
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Human Resources

Focusing on innovation and environmental-friendliness, Towngas China is committed to being Asia’s leading clean energy supplier and quality service provider. Supporting this vision, our employees work unremittingly as they seek self-improvement, further advancement and career excellence along with the Group’s rapid and long-term business growth.

As a people-oriented company, we attach great importance to talent training and constantly offer room and ladder for career development so that the employees can grow with the company.

The Group launched the “Elite Internship Scheme” in 2014 and since then has been cooperating closely with key universities in mainland China, including Shandong University, Dalian University of Technology, Sichuan University, Chongqing University and Huazhong University of Science and Technology. University students are recruited as interns in our project companies to deepen their understanding of the industry and help them accumulate hands-on experience. Those who achieve outstanding performances are then hired as full-time employees. We also select internally young talent with career aspirations to join our “Talent Ladder Scheme”, which focuses on developing their business and leadership skills over a period of two to seven years, preparing them for promotion to senior management positions.

In view of our wide geographical footprint, we provide management training courses for employees throughout the country, enhancing their competency and management skills. Our online learning platform, without geographical or time constraints, not only provides employees with readily available learning opportunities tailored to individual needs, but also helps newly-established project companies to familiarise themselves with our comprehensive knowledge systems in a timely manner. Since its launch at the end of 2015, the online learning platform has provided more than 140 courses, approximately 40% of which have been designed and produced within the Group.

We continue to promote Total Quality Management (TQM), always encouraging employees to pursue excellence. Our efforts to promote the culture of “Three Courtesies”, i.e. politeness, caring and etiquette have resulted in significant improvements. The work attitude, service performance and relationships among colleagues have been improved markedly. This constructive corporate culture was also promoted to our customers and the community, allowing us to jointly contribute to the enhancement of social and civic standards.

The “Professional Development Programme” offered by Towngas Engineering Academy provides comprehensive and professional training for young colleagues.
Corporate Social Responsibility

As a public utility organisation attaching great importance to corporate social responsibilities, we are committed to providing our customers with reliable, efficient, safe and clean energy while actively engaging in various community activities to help improve the living conditions of residents in the less-developed areas. Adhering to our principle in corporate social responsibility “Actively participating in community services to benefit society, Dedicating effort to protect the environment to contribute to the community”, the Group focused on a range of activities during the year. These included tree planting events to protect the environment, community projects for the young and old, and education aids to support teenagers’ schooling and development.

Gentle Breeze Movement

In 2017, the “Gentle Breeze Movement” was expanded to cover Yangjiang City in Guangdong Province and Binzhou City in Shandong Province. Under the Movement, “Towngas China Charity Libraries” were set up to serve about 800 teachers and students, in addition to donation of teaching equipment and materials. Since the inception of the “Gentle Breeze Movement” five years ago, the donated supplies have benefited 27 schools in several provinces such as Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Sichuan and Guangdong.

Firefly Project

The sixth “Firefly Centre”, a multi-media classroom at Dashi Primary School in Dashi Town of Taihu County, Anqing City in Anhui Province, was established by the Group in 2017. With the new centre coming into operation, various education supplies as well as bookshelves and books were donated to enhance the students’ learning environment. As a platinum partner of the “Shanghai Soong Ching Ling Foundation – BEA Charity Fund”, the...
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Group has made donations to the Fund every year since 2009 to support the education and growth of teenaged youth in poverty-stricken areas. In cooperation with the BEA Charity Fund, the Group has established six “Firefly Centres” in Wenchuan County in Sichuan Province, Linqu County in Shandong Province, Hangzhou City in Zhejiang Province, Longkou City in Shandong Province, Taian City in Shandong Province and Anqing City in Anhui Province.

Volunteers from project companies carried out edutainment activities in a charitable education program for students, teaching them the safe use of gas while playing games with them.

Towngas China Environmentalism

Focusing on innovation and environmental-friendliness, the Group continues to fuel economic and social development with the provision of low-carbon energy. We encourage our employees and the public to preserve, protect and improve the environment with green and innovative practices. For example, we launched a range of low-carbon activities under our “Towngas China Environmentalism” initiative in 2017, calling on our project companies’ staff, their families, customers and the public to participate in activities such as the “Towngas China Plantation Day” and “Earth Hour”. In addition, we hosted green walkathons and plant exchanges together with a host of other low-carbon activities during the year.

Project company in Qingyuan has responded to the Group’s “Towngas China Plantation Day” for seven consecutive years, mobilising more than 30 employees and their families to plant a total of 100 trees.

Rice Dumplings for the Community

Our annual signature event “Rice Dumplings for the Community” was once again held during the Dragon Boat Festival. Numerous project companies of the Group participated in the event and distributed rice dumplings and other gifts to social welfare agencies and the underprivileged across the country.

Our project company staff and local residents gathered to learn how to wrap rice dumplings, which they would give to social welfare organisations.
Long-term Development Strategy

In line with the philosophy of our parent company HKCG to be a pioneer in green business, the Group’s new vision is “To be Asia’s leading clean energy supplier and quality service provider, with a focus on innovation and environmental-friendliness.” To accomplish this, our modified mission is “Whilst improving the environment, we are also providing our customers with reliable, efficient, safe and clean energy.”

Moving forward, we will continue to focus on gas-related investments, exploration, sales and operation management. We will continue to uphold the principle of prudent financial management while exploring business opportunities arising from the nationwide implementation of the country’s “coal-to-gas” policy and the increasing demand for “distributed energy”, with a view to boosting reasonable returns for our shareholders.

Under China’s “13th Five-Year Plan”, city gas is the focus of the country’s clean energy policy, poised to play an important role in the government’s response to climate change. Looking forward, we will continue to leverage our strengths, including our top-notch safety management and customer services, to seize every opportunity to expand market share and to strengthen our leading position in the industry.

As a responsible public utility organisation, we will continue to fulfil our corporate social responsibilities and carry out environmental protection and community care projects. We see these efforts as both benefitting the public and promoting the sustainable development of the Group and the community.