
T O W N G A S
C O R P O R A T E
I N F O R M A T I O N

2012

ENVIRONMENTAL
SAFETY & HEALTH
OPERATIONAL & FINANCIAL
INFORMATION



Towngas

The Hong Kong and China Gas Company Limited

FOREWORD

The Hong Kong and China Gas Company Limited (Towngas), in its endeavour to enhance the transparency of its operations and services, publishes this Corporate Information Booklet 2012.

Supported by charts, the Booklet presents an update of the Company's accomplishments across a wide spectrum of activities which range from an annual business and operational review to its financial status.

Prominent in the Booklet is information on the Company's safety measures and practices. These include prompt response to emergency incidents as well as proactive efforts to maintain gas safety at customers' homes and enhance their knowledge of gas safety.

Towngas is also well aware that liaison with customers is a priority issue. Hence, complementary with the 24-hour Customer Service Hotline, the Customer Focus Team serves as an effective direct communication channel between the Company and its customers.

Furthermore, the Company has achieved high performance in its "green policy" to ensure an environmentally-friendly operation.

However, Towngas does not intend to be complacent. Instead it will continue to seek further improvement and provide the people of Hong Kong with even better and more value-for-money service.

For enquiries, please contact our Corporate Communications Department at 2963 3483.

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1. Annual Business Review

Starting as a relatively small company to provide public lighting for the streets of Hong Kong in 1862, we have since evolved into the Asian energy conglomerate that we are today. We now hold a market capitalisation of over HK\$190 billion, over 150 companies, more than 16 million customer accounts, and a diversity of utility and energy activities in Hong Kong, mainland China and the South East Asian region. The message is clear – Towngas is here, not only to stay but also to prosper!

Looking forward, we are seeking to grow our vision and broaden our activities even further with the introduction of our brand new management theme – Expanding New Horizons – from 2013 onwards.

(a) Hong Kong Gas Business Profit

Net profit after tax from sales of town gas in Hong Kong for the year 2012 amounted to HK\$2,499.3 million, a decrease of 0.1 per cent as compared with the net profit HK\$2,502.9 million for the year 2011. Despite total town gas sales volume grew by 0.8 per cent, the drop in net profit was mainly due to continuous increase in operating costs over the past few years. Although the Company has been implementing cost saving and process re-engineering measures, such initiatives could no longer offset the additional costs.

(b) Sales and Marketing

During the year, new customer accounts continued to grow at a steady rate, rising by a further 25,807 customers, to a total of 1,776,360 accounts. However, both the warmer weather as well as the slowdown in the global economy had a knock on effect in Hong Kong affecting gas sales. The total volume of gas sales thus rose a slight 0.8 per cent in comparison to 2011.

Our commercial and industrial activities however continued to do well. Working in close partnership with customers to create tailored solutions for their specific needs, together with the addition of several new customers, particularly in the laundry and food processing businesses, we saw sales growth of 22.6 per cent in the industrial sector over 2011.

Serving Hong Kong's commercial kitchens, our "Four Treasures" cool kitchen series continued its ongoing success. In addition to the design award won in the Hong Kong Awards for Industries last year, it won the Hang Seng Pearl River Delta Environmental Award – Silver Award for its energy saving properties in 2012. Equipped with a waste energy recycle system, these appliances can save up to 30 per cent in gas usage. Expanding this range, we introduced a heat recovery device that can be fitted to a stockpot, recovering flue heat to heat water elsewhere in the kitchen, together with an automatic programmable meat roaster to increase the productivity of meat roasting.

This close partnership with Hong Kong's Food and Beverage (F&B) trade is ongoing. Members of our F&B Environment Protection Group are always available to provide professional advice on saving energy and reducing emissions, as well as maximising efficiencies and cost-saving in Hong Kong's commercial kitchens. During the year, the group provided professional advice to more than 800 small and mid-range restaurants in this aspect. Taking these activities yet further forward we opened our Towngas Green Kitchen – literally a "green" kitchen where our partners in the trade can see the

benefits of our Towngas commercial appliances and applications.

On the domestic front, innovation and technology play a key role in the launch of our new products. Commemorating our 150th Anniversary, we introduced our 150th Special Edition – TGC Perfecto Series, which include a unique Vortex Built-in Hob and Infinity Water Heater. Highlighting their success, the Vortex Built-in Hob won the 2012 Hong Kong Awards for Industries: Consumer Product Design while the Infinity Water Heater won the Japan Good Design Award 2012. A further item launched during the year, the TGC Y-Hob with its contemporary and stylish appearance, together with its dual counter-top or built-in facility, also won the Japan Good Design Award 2012.

In addition to our new TGC appliances we also introduced a well-known European brand – Scholtès. With almost 100 years of French cuisine behind it, the full range of Scholtès appliances from cooking hobs and ovens to fridges, dishwashers and wine cabinets, provides high-end solutions for Hong Kong's kitchens.

This commitment to excellence has helped us to maintain our appliance sales over the years and in 2012, notwithstanding the slower market, we achieved healthy growth in sales revenue by 6.1 per cent over 2011 with over 241,000 appliances sold.

As part of our 150th Anniversary, we held our innovative “City WOW” celebration campaign, when over 1,500 businesses in Hong Kong worked with us to offer 8,000 Super Jetso coupons, specials deals and big discounts to Towngas customers. We also organised the first “Towngas Young Master Chef” cooking contest for secondary students. The Champion was able to realise her dream to attend a cooking course at Le Cordon Bleu in Paris.

(c) *Serving Our Customers*

Over the years we have established an excellent reputation for customer service, winning numerous awards along the way, achieving high ratings in customer satisfaction surveys, as well as receiving an increasing number of complimentary letters every year. 2012 was no exception and during the year we received 5,627 letters, which translates into 15 letters a day for every day of the year. Sing Tao Daily readers again voted us as an Excellent Service Brand in the “Excellent After-sales Service” category.

Despite this positive situation we continue our efforts to not only meet but surpass customer expectations and 2012, set up as an “innovative service year”, saw the launch of our “5-Heart” service programme. Working in tandem with this extended service programme, we also introduced a new Call Centre System, which uses the latest technology to enable our customers to get in touch with us in a number of ways – both traditionally, by phone and fax, and digitally via email, web chat or SMS.

Our ongoing Regular Safety Inspections continue to bear fruit. Apart from inspecting the safety of pipes and appliances in customer premises, we are also placing a special focus on replacing older equipment – such as cookers without flame failure devices, flueless and conventional-flued water heaters, with appliances that have more up-to-date safety features. The number of these items have now fallen to less than 6,000 throughout Hong Kong.

The focus on digital communication has been a major driver in our communications with our younger customers and the great majority of our recent customer and community initiatives have incorporated and even rely on both smartphone and Internet applications. Our communications in this direction have been so successful that our Towngas App gained a trophy in the United Nations' World Summit Award – Mobile Content in the “m-Government and Participation” category.

(d) The Gas Infrastructure

Hong Kong enjoys a high rate of supply continuity with a service supply rate of 99.99 per cent. These services are provided by our gas production and pipeline infrastructure which consists of two production plants at Tai Po and Ma Tau Kok with a combined production capacity of 12.26 million cubic metres a day, as well as our gas network which, with some 3,500 kilometres of pipeline, links almost every inhabited corner of Hong Kong to our services.

In line with our commitment to the environment we make every attempt to use green production fuels in our activities. Natural gas, currently the cleanest fossil fuel available, thus accounts for the lion's share, reaching around 55 per cent of our total feedstock usage. Landfill gas (LFG) contributes about 2 per cent and the remainder is made up by the light fuel oil, naphtha. Looking forward we expect both the use of natural gas and LFG to increase – the former with the completion of a 15-km natural gas pipeline bringing this fuel to our Ma Tau Kok plant and the latter, as talks are in good progress with the Hong Kong Government on the use of LFG from the Southeastern New Territories (SENT) landfill site. Once SENT is up and running we expect to more or less double our use of LFG. We are particularly focused on the use of this methane-rich gas as it turns what would be an otherwise waste material into a valuable resource. It also reduces the use of fossil fuels as well as the release of greenhouse gases into the atmosphere.

In addition to the natural gas pipeline from Tai Po to Ma Tau Kok, which is nearing completion, we are also carrying out the relocation of a twin submarine pipeline between To Kwa Wan and North Point to cope with the Government's new development plans in South East Kowloon. Consisting of about 8 km of pipeline in total, this project is expected to be finished at the end of 2013. The 9-km ring-feed pipeline in the Northwest New Territories is also progressing and is about halfway accomplished, while a number of network extension projects bringing gas services to new customers in Lei Yue Mun and the Tai Po Industrial Estate for example, were also delivered.

The use of new technology plays a crucial role in enhancing our ongoing operation efficiencies. A pilot installation to replace our aging underground galvanised iron pipes with corrugated polyethylene (PE) piping was carried out successfully. We also introduced a number of innovations, a new Ovality Measurement Tool, for instance, enhance the quality control of PE fusion joints; the “Laparobot” removes dip pipes in condensate receivers which are used for collecting water condensate in gas in the older metallic network to facilitate trenchless pipe insertion rehabilitation work; and the “Predator” uses infra-red thermography to locate leakage points in underground piping. All three inventions were developed in-house and are the first of their kind in the world.

(e) *Towards a Sustainable Future*

As a leading supplier of energy, our goal is to provide clean and green products and services in every aspect of our business. We are helped by the nature of our product as gas is a cleaner energy than many other energy alternatives. Additionally, natural gas, which accounts for about 55 per cent of our feedstock in Hong Kong, is the cleanest fossil fuel available today. To help protect the environment, we utilise landfill gas to cut the emission of carbon dioxide and reduce the consumption of naphtha.

We also seek to conserve energy, reduce carbon emissions and promote a green lifestyle in our everyday operations. These initiatives include the introduction of waste heat recovery systems in our Tai Po plant which has resulted in a substantial reduction of carbon emissions. Our cool kitchen series, also featuring waste heat recovery technology, has done much to not only reduce energy usage but also to create a cooler environment for our customers and seeking to reduce carbon emissions even further, we also completed a study on the carbon footprint of a typical gas appliance.

Within the community, we continue our sponsorships and partnerships with leading Green groups, such as Friends of the Earth (HK)'s tree planting challenge and WWF's "Earth Hour" initiative. The leadership training programme under the "Green Leaders Bloc", organised by the Conservancy Association was also completed, with 17 student "leaders" being trained and equipped to lead and carry out environmental campaigns.

(f) *Empowering Our People*

A business is only as good as its people. To this end we make every effort to attract and keep a skilled, motivated and professional workforce, who in helping us to achieve our business goals, will also fulfill their own career objectives. We therefore do our utmost to offer a positive and rewarding work environment that ensures employee well-being while also making the best of their abilities through comprehensive training and development. At the same time, as our businesses grow in scale and scope, our aim is to provide our people with ample opportunities for career advancement.

The first step in building a quality workforce is to ensure that our employees have the necessary skills to carry out their jobs both ably and professionally. We thus run a number of trainee and apprenticeship schemes, turning out qualified gas engineers and technicians for the industry. Towngas China has received approval from the Hong Kong Institute of Engineers to train young engineers via a two-year structured engineering programme and together with Institution of Gas Engineers and Managers' tailor-made route for engineers to achieve world-class qualifications, our Towngas Engineering Academy is turning out a number of qualified professionals to serve the industry.

Technical competencies aside, management and leadership development also play a key role in our activities. Not only do they help to develop a pool of talent for our needs, they also foster personal development and career growth for our people. Another key area of focus is the endorsement of our corporate culture – an understanding of our goals and values promotes mutual appreciation, awareness and respect, as well as the better achievement of shared goals.

As part of our corporate Towngas Leadership Competency programme we continue our Executive Development Programmes (EDP) which are held in partnership with

various universities and professional institutions. During the year, 17 executives participated in our week-long Tsinghua EDP while 35 participants completed the more recently established Zhongshan University programme in Southern China.

Nine new graduate trainees came on board during the year under our Graduate Trainee Scheme, while 17 fresh graduates joined ECO as ECO Management Trainees (EMTs). As part of their training programme, the 18 EMTs recruited in 2011, spent two weeks in Hong Kong familiarising themselves with our operations.

Happy people translate into happy customers. We are committed to ensuring the health and well-being of our people, not only with a positive and pleasant work environment hand-in-hand with a rewarding remuneration package but also with a sense of unity and belonging to our Towngas family.

This sense of belonging received a strong boost during the year as we celebrated our 150th Anniversary. Fully aware that this success would not have been possible without “our people”, a number of events were held throughout the Group to both celebrate this success and to thank our employees for their contribution. This “Thank You” took a physical form in Hong Kong when every employee on board on our actual birthday, 3rd June 2012, received a gold coin in commemoration of their service.

A range of activities also took place under our “Wenxin” warmth and care initiative. Kicking off in 2011, the programme continued into 2012 with a Wenxin story-writing competition to highlight Wenxin-related stories throughout the Group. A photo competition was also held on the Wenxin theme with the submissions being displayed at our North Point Headquarters.

A number of talks were also held to improve the quality of life for our people – extending the Wenxin culture into employees’ families and personal lives. These included a series of talks on behaviour and body language to improve communication and relationships with family members, and teenagers in particular, while presentations were also held for pre-retirees on how to prepare themselves for this new chapter in their lives.

On a more general note, we also won the Grand Award in the Hong Kong Smoke-free Leading Companies event organised by the Hong Kong Council on Smoking and Health (COSH) for our efforts in promoting a smoke-free culture in the workplace. Driving this positive message forward, representatives from COSH also gave a number of talks on the benefits of not smoking and of living and working in a smoke-free environment.

2. Safety

(a) Customer Safety

Our concern for safety underpins everything we do. We understand the need to educate and inform the public on the safe and responsible use of gas products and services. In 2012, we held 12 safety exhibitions, maintaining our long-standing and well-proven methods of taking our safety message direct to consumers. As always, appliance safety was a high priority: We conducted more than 1,110,000 Regular Safety Inspections of gas facilities in customers' homes. This safety driven programme has proved extremely popular with our customers.

(b) Occupational Safety and Health

Maintaining the highest standards of health and safety, we arranged safety trainings and safety and health measures for our staff and contractors. During the year, there were 7 industrial accidents, resulting in an Accident Frequency Rate of 0.16.

Driving a culture of safety and improving emergency procedures internally, we held a number of joint fire exercises with the Fire Services Department. These exercises helped ensure that our emergency response team would work closely with the Fire Services Personnel in the operations.

Taking this message to our employees and contractors, we organised the Health, Safety and Environment (HSE) month for more than 2,500 staff and contractors. Activities such as HSE Quiz, HSE Visits, HSE Forum, HSE Display Board Exhibition were organised. Contractor Safety Programmes such as Site Safety Competition & Cross-word Puzzle Game, Quiz for colleagues and contractors were organised. These activities not only brought in highly positive responses, they also raised greater awareness of occupational safety and health. Also, a number of HSE trainings were organised including "HSE forum" and mass communications with contractors to further improve their HSE awareness.

During the year, we won Safety Culture Award - Gold Award, OSH Annual Report - Gold Award, and Safety Performance Award in the 11th Hong Kong Occupational Safety & Health Award Competition organised by the Occupational Safety & Health Council.

(c) Gas Production Plants Safety

We have strong confidence in the safety, reliability and management systems of our Tai Po and Ma Tau Kok gas production plants. Both plants were designed and built by reputable international project contractors, based on proven engineering and chemical processes. Manned by competent and experienced operation and maintenance crews, the two gas works did not have even one interruption to the gas supply since the first day they were commissioned. On this basis, our Company's supply reliability continues to be one of the best in the utilities and reached a level of 99.991% in 2012.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 35 years' safe and reliable production history, while Tai Po plant is equipped with modern computer control systems and sophisticated instruments, and the plant has been running stably for 26 years. Both sites implement strict work rules and procedures to control various

high risk operations, with robust backup from automatic alarms and safety interlocks. A high degree of emergency response preparedness is achieved by a wide range of fire-fighting facilities, well trained response teams and frequent emergency drills. Our standards of safety control compare most favourably with other major utilities in Hong Kong and overseas.

Towngas abides by all legal requirements and cooperates fully with the various government departments responsible for enforcing stringent surveillance to the plants.

The Accident Frequency Rate of gas production plants has always been maintained at a low level. We even achieved zero accident in 2012. Nonetheless, in pursuit of the target of zero accidents, the plant management proactively reviewed the root causes of each incident and implemented every practicable preventive measure. No major gas emergency has happened in the plants for many years.

As a long term strategy, Towngas will continue to develop various hazard controls and risk mitigation measures to maximise the safety of its employees, the plants' neighbourhood and the plants themselves, guaranteeing 100% reliability in the whole lifetime of the plants.

(d) Network Safety

Ensuring network safety, we continue to monitor and enhance our pipeline infrastructure with an active maintenance and rehabilitation programme. Rigorous trench inspections and leakage surveys continue and the introduction of better equipment and technology also provide invaluable support in the maintenance of safety standards.

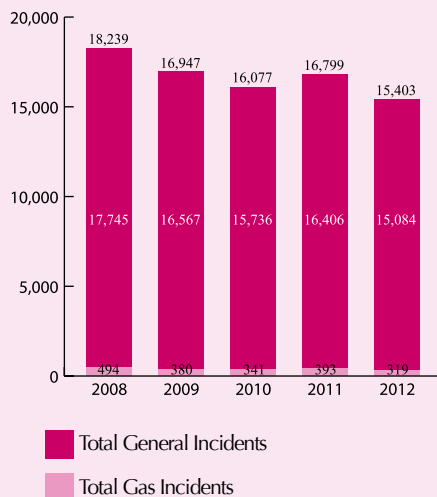
Emergency vehicles equipped with computers are now used in the handling of any gas emergency and the use of new laser methane detectors for leakage surveys, as well as advanced detectors which check the condition of the coating on steel pipes, were also introduced during the year.

Despite the fact that our activities and appliances meet stringent international standards, we continue to make every effort to enhance their safety even further. We continue to check our pipes rigorously by sophisticated leakage survey from anywhere between six times a year to once a year to ensure their integrity.

We also augmented the number of trench inspections of third party excavation sites to circumvent damage to nearby Towngas pipelines. In 2012, about 176,688 trench inspections covering 17,599 active sites were made.

(e) Charts on Emergencies, Safety Inspections and Safety Promotion

(i) Number of Urgent Reports

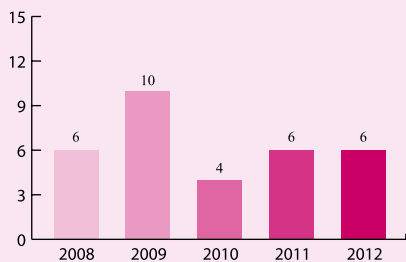


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 15,403 Urgent Reports received in 2012, only 319 were Gas Incidents. Gas Incidents are town gas-related and are classified according to any of the following situations:

- Reported by Police or Fire Services Communication Centre
- Uncontrolled gas escape (which cannot be ascertained that it can be stopped by turning off the meter control cock)
- Incidents involving injury to a person, whether fatal or non-fatal
- Incidents involving explosion or fire damage to property
- Supply defects

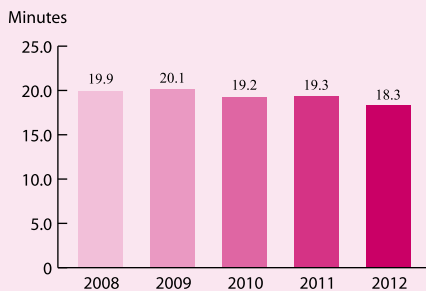
(ii) Number of Major Gas Emergencies



Out of the 319 Gas Incidents in 2012, only 6 cases were Major Gas Emergencies.

* Nature of "Major Gas Emergency" is defined in the Gas Safety Ordinance.

(iii) Average Response Time for Gas Incidents



The promptness of Towngas' response to emergencies has achieved a world class standard and we will strive to continue improving the level of promptness in the coming year.

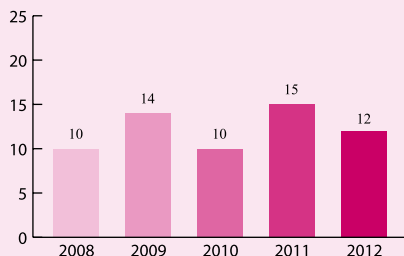
(iv) Number of Fatal Gas Accidents

| Year | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------|------|------|------|------|------|
| No. of Accidents | 0 | 0 | 0 | 0 | 0 |

* Suicide cases are not included.

With Towngas' efforts to promote gas safety and respond promptly to emergencies, the number of fatal accidents from gas emergency incidents has remained at an exceptionally low level throughout the past five years.

(v) Number of Incidents Involving Third Party Damage



Towngas has been able to keep the third party damage in a relative low level, comparing with 15 cases in 2011, the number of third party damage was reduced to 12 in 2012.

(vi) Trench Inspection

Total number of active sites inspected in 2012

| Island | Kowloon | New Territories | Total |
|--------|---------|-----------------|--------|
| 5,374 | 6,742 | 5,483 | 17,599 |

To minimise third party damage to its network facilities, Towngas emphasises close coordination with concerned parties in any excavation work that may subject its pipelines to possible damage. Apart from provision of alignment drawings and safety advice for the third parties, the Company organises safety talks for the construction industry. In 2012, a total of 635 contractor personnel attended our safety talk sessions. Besides, the Company is possibly the only local utility to proactively send its technicians to work at sites to ascertain the alignment of its facilities for maximum safety.

(vii) Number of Leakage and Pipeline Surveys

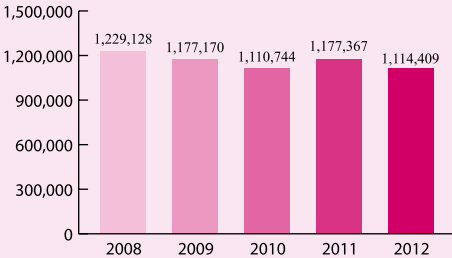
| Type of pipelines | Frequency of leakage surveys |
|---|---|
| Transmission pipelines: - All HP & IPB mains | At least once a year |
| Distribution pipelines: - PE or steel pipes over or enclosed within structures - Medium pressure ductile iron pipes or all galvanized iron pipes - Low pressure ductile iron pipes - Others | At least twice a year At least six times a year At least three times a year At least once a year |

HP – High Pressure IPB – Intermediate Pressure B PE – Polyethylene

Under the Company’s rigorous leakage survey programme, our qualified technicians perform regular inspections on our different types of gas pipes with the help of advanced instruments – including Flame Ionization Detectors (FID) and Combustible Gas Indicators (CGI). With these sensitive instruments, very low level traces of gas seepage can be detected and rectified before they develop into reported gas escapes. Considering these surveys as effective precautions against major gas escapes, we conduct more leakage and pipeline surveys than our foreign counterparts every year.

As a result of the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in network was only 0.018 per km per year in 2012. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.11 per km per year only, much lower than the figures in many other similar metropolitan cities.

(viii) Number of Regular Safety Inspections



Towngas has taken proactive measures to maintain gas safety at customers’ homes by initiating on-site safety inspections of their gas installations and external service risers at regular intervals of 18 months.

(ix) Number of Sub-standard Appliances Upgraded

Towngas encourages customers to upgrade their sub-standard appliances through various educational and promotional programmes. In 1999, we introduced a discount scheme to encourage customers to upgrade their water heaters and cooking appliances. In 2012, 161 Flueless (Sink) and Open-flued water heaters were upgraded.

(x) Number of Safety Exhibitions and Safety Talks

Towngas has been widely recognised for its continuing efforts in promoting home safety. Safety talks and safety exhibitions are major channels through which Towngas enhances the public's awareness and improves their knowledge of gas safety. In 2012, we organised 12 safety exhibitions and 6 safety talks in housing estates and elderly centres. Information panels were exhibited and information booklets on gas safety were delivered.

(xi) Industrial Safety Performance of Employees



Towngas is committed to providing a safe and healthy environment for its employees. From 2008 to 2012, there have been less than 1 injury accident per 100,000 working hours. Towngas continuously provides training on occupational safety to employees with the aim of further reducing the occurrence of accidents.

3. Service Pledge

Initiated in 1994, the Towngas Service Pledge has set high targets in major customer service areas: reliability of gas supply, safety, service attitude, the speed and convenience of service, appointments and complaint handling. Towngas has performed well in the past 18 years and pledges to continue improving its service and to set higher targets to ensure customers get the best possible levels of service.

(a) Results of 2012

| | Results |
|--|------------------|
| Reliability | |
| • Uninterrupted gas supply (over 99.99%) | 99.991% |
| • In case of supply interruption on account of maintenance or engineering work (3 days prior notification) | 100% |
| • Restoration of gas supply within 12 hours | 100% |
| Safety | |
| • Emergency Team arrived on site within 30 minutes (at 95% of the times) | 95.60% |
| Appointments | |
| • Availability of maintenance and installation services within 2 working days | Average 1.05 day |
| Speed and Convenience | |
| • Customer Service Hotline (calls answered within 4 rings) | 94.53% |
| • Connect or disconnect gas supply within 1 working day (upon customer's request) | 100% |
| • Deposit refunded at Customer Centres (2 hours after disconnection of gas supply) (upon customer's request) | 100% |
| Service Quality | |
| • Efficiency ¹ | 8.79 |
| • Courteous and friendly attitude ¹ | 8.80 |
| Handling Suggestions | |
| • Reply within 3 working days | 100% |
| • Resolution, or a statement of when the matter will be resolved, within 2 weeks | 100% |

¹ The result was based on monthly surveys conducted from January to December 2012 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2013

Towngas pledges to continue improving our service and to set higher targets, aiming at providing our customers with best possible service. The new Pledge has become effective from January 2013, and the annual reporting on performance results will be announced in January 2014.

| <u>Pledges</u> | <u>Target</u> |
|--|--|
| Reliability | |
| • Uninterrupted gas supply | - Over 99.99% |
| • In case of supply interruption (on account of maintenance or engineering work) | - 3 days prior notification |
| • Restoration of gas supply | - Within 12 hours |
| Safety | |
| • Emergency Teams | - Arrive on site within 30 minutes |
| Appointments | |
| • Availability of maintenance and installation services | - Within 2 working days |
| Speed and Convenience | |
| • Customer Service Hotline | - Calls answered within 4 rings |
| • Connect or disconnect gas supply | - Within 1 working day |
| • Deposit refunded at Customer Centres | - 2 hours after disconnection of gas supply* |
| Service Quality | |
| • Efficiency | - 8 or above out of a total score of 10 |
| • Courteous and friendly attitude | - 8 or above out of a total score of 10 |
| Handling Suggestions | |
| • Written comments or suggestions | - Reply within 3 working days |
| | - Resolution, or a statement of when the matter will be resolved, within 2 weeks |

* To enjoy this service, residential customers are advised to inform us of their request for refunds at the time of making cap-off service appointment. The maximum refund amount is HK\$2,000.

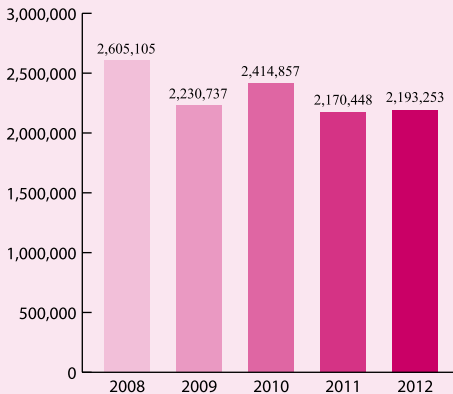
4. Customer Liaison

(a) Customer Focus Team

Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer related departments, visits two public or private housing estates every month. Issues related to Towngas service, gas safety, bill payment and gas appliances are discussed at the meetings. Comments from customers contribute greatly to the improvement of Towngas products and services. In 2012, the Customer Focus Team made 24 visits to its customers.

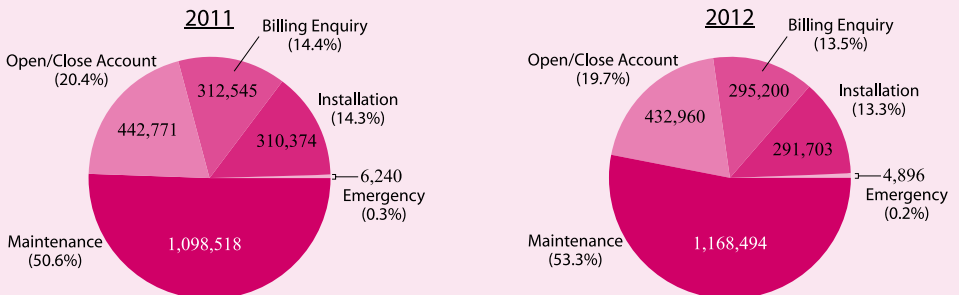
(b) Customer Service Hotline and Emergency Hotline

Number of Incoming Calls



The public can always keep in touch with Towngas through its Customer Service Hotline (CSH) and Emergency Hotline. The CSH – 2880 6988 – provides a convenient one-stop service for customers to enquire about and arrange the full range of Towngas services. The Emergency Hotline – 2880 6999 – operates around the clock, and responds to emergency calls immediately.

Number of Incoming Calls by Categories:



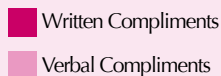
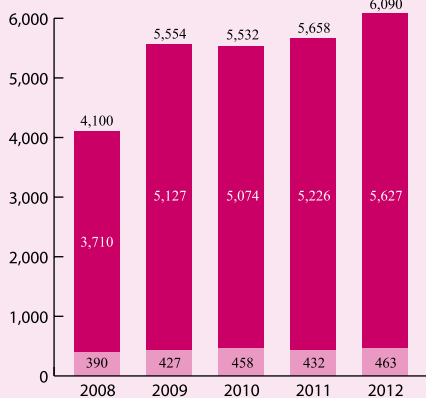
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 53.3% of total calls in 2012 while other categories include open/close account, billing enquiry, installation and emergency.

(c) Bill Inserts to Customers

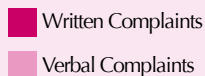
A bill insert, which comes with the bi-monthly gas bill, is an effective means to keep our customers informed. In 2012, a total of 19 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to Towngas services and products, including special offers on appliance, Towngas Avenue, Towngas Cooking Centre, Mia Cucina, green and health products, etc as well as gas safety and energy saving tips.

(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



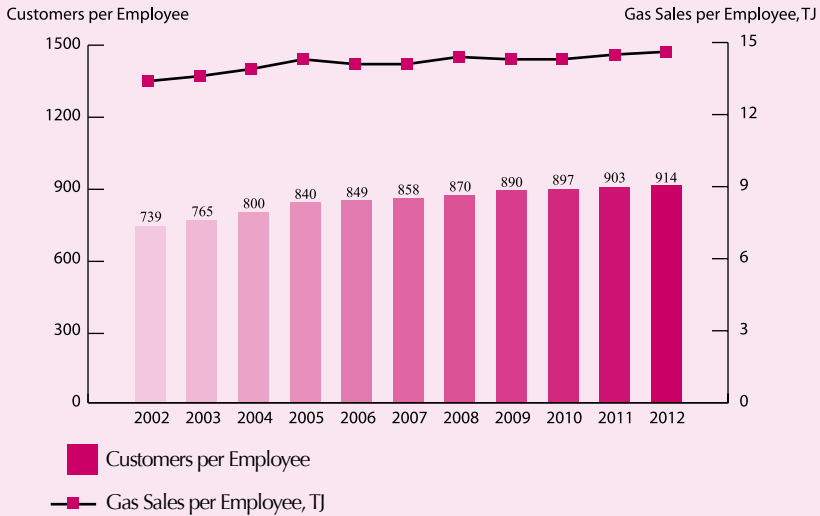
Number of Customers' Complaints



Delivering high quality customer service has always been a Towngas priority. We are more focused than ever on the continuous enhancement of customer satisfaction by providing superior quality service. As a result, there were a total of 6,090 compliments about Towngas' service in 2012, which included 5,627 written compliments and 463 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 7 complaints in 2012 (7 written complaints and 0 verbal complaints). With 1,776,360 customers as at 31 December 2012, the ratio is 1 complaint per 253,766 customers. Towngas is committed to taking proactive measures to improve product quality and the service attitude of its frontline staff.

5. Efficiency (Products and Productivity)



In 2012, Towngas continued to devise and implement measures to maintain high cost-efficiency without compromising the quality of our services to customers. In addition to bring down the costs of spare parts of gas appliances through vigorous research and development efforts, we have further promoted the use of information technology to attain a higher level of automation throughout our operations.

These measures, together with a range of other initiatives, resulted in a 1% increase in productivity in 2012, which is measured in terms of number of customers served by each employee. In 2012, each Towngas employee served 914 customers, and town gas sales averaged 14.6 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Serving Hong Kong's commercial kitchens, our "Four Treasure" Cool kitchen series continue its ongoing success. In addition to the design award won in the Hong Kong Awards for Industries in 2011, it won a Hang Seng Pearl River Delta Environmental Award for its energy saving properties in 2012. Equipped with a waste energy recycle system, these appliances can save up to 30 per cent in gas usage. Expanding this range, we introduced a heat recovery device that can be fitted to a stockpot, recovering flue heat to heat water elsewhere in the kitchen.

For residential appliances, we introduced our 150th Anniversary Special Edition – TGC Perfecto Series, which include unique Vortex Built-in Hob and Infinity Water Heater. The unique design and high efficiency performance of Vortex Hob won the 2012 Hong Kong Awards for Industries – Consumer Product Design.

In addition, our pioneering activities in the use of landfill gas (LFG) have also been gaining momentum. First diversifying into this area at the Shuen Wan Landfill, the use of

this renewable energy grew exponentially with the commissioning of our North Eastern New Territories LFG utilisation project in 2007. Currently accounting for about 2 per cent of our production fuel, our aim is to grow this resource to 10 per cent. Extending these activities to the South Eastern New Territories landfill site, the planning and design of a connection pipeline is currently under review. The use of LFG not only cuts carbon emissions released into the atmosphere, our consumption of naphtha also fell by around 13,400 tonnes in 2012. These savings alone translate into the planting of some 1.8 million trees.

6. Charges

In addition to the gas charge, which is calculated based on customers' gas consumption, Towngas levies a fixed Monthly Maintenance Charge on residential customers which entitles them to reliable, efficient and comprehensive repair and maintenance services for all their gas appliances and installations. Towngas also adjusts the gas charge through a Fuel Cost Adjustment mechanism to reflect fluctuations in fuel prices.

(a) Monthly Maintenance Charge

The Monthly Maintenance Charge (MMC), which has been frozen at HK\$9.5 since 1998, covers the labour charges for appliance maintenance and repairs, on-demand appliance check-ups, regular safety inspection whereby customers' gas appliances, gas installation pipes and external service risers are inspected by our fully-qualified, registered gas technicians at regular intervals of 18 months, and the 24-hour Customer Service Hotline. Towngas conducted more than 580,000 on-demand maintenance works and more than 1,110,000 Regular Safety Inspections in customers' homes in 2012.

However, MMC does not include the costs of replacing spare parts, rubber hose, stainless-steel braided flexible hose or corrugated stainless steel tube for appliances, nor the costs of repair or replacement of gas installation pipes and external service risers, appliance disconnection and reconnection, or gas meter accuracy testing. To provide our customers with maximum protection, 24-hour emergency services are rendered free-of-charge.

(b) Fuel Cost Adjustment

The fuel cost adjustment calculation is based on gas consumption and each month's fuel costs. For every complete multiple of HK\$1 by which the effective feedstock cost* rises above (or falls below) the equivalent of HK\$1,420 per kilolitre of naphtha, the charge for gas will be increased (or reduced) at the rate of HK0.004 cents per MJ.

Customer saved a total of \$2,258 million fuel cost adjustment in 2012 with the using of natural gas in producing town gas.

* Effective feedstock cost is the weighted average cost (based on energy content) of different feedstock used for production of town gas.

7. Fuel Mix Percentage

In 2012, fuel mix in terms of percentage of naphtha, natural gas and landfill gas used as feedstock is as follows:

| Feedstock | Percentage |
|--------------|------------|
| Naphtha | 43% |
| Natural Gas | 55% |
| Landfill Gas | 2% |

8. Towngas Concession Schemes

Seeking to make a difference for some of the disadvantaged groups in society, we have launched four concession schemes to provide these groups in Hong Kong with additional service benefits. Under the concession schemes, beneficiaries may enjoy a 50% discount off basic gas tariff on the first 500 megajoule (around 10.4 units) of town gas consumed, waiver of monthly maintenance charge, initial charge and security deposit, as well as free appliance maintenance and spare parts.

| Towngas Concession Schemes | Qualified Applicants * |
|--|--|
| Concession Scheme for the Elderly | Applicants should be aged over 60 years, living alone or with other qualified senior citizens and living in self-care quarters within public housing estates, or qualified for the Comprehensive Social Security Assistance Scheme (CSSA). |
| Concession Scheme for People with Disabilities | Applicants should be receiving, or living with a direct family member who is receiving CSSA, and is classified as "100% Disabled" or "Requiring Constant Attendance" under CSSA. |
| Concession Scheme for Single-parent Families | Applicants should be single-parent family households receiving CSSA under the single-parent category. |
| Concession Scheme for Low Income Families | Applicants or his/her family member has a regular job income which is taken into account in the assessment of CSSA entitlement. (The "Notification of Successful Application" or "Notification of Revision of Assistance" bears the item of "LESS NET EARNINGS" indicated in two consecutive months of the CSSA payment period.) |

* All applicants should be registered Towngas account holders.

In 2012, the overall average amount of annual savings per beneficiary customer under the Towngas Concession Schemes was \$524.

ENVIRONMENTAL PROTECTION

Our “2012 Sustainability Report” has already clearly elaborated our sustainability strategies and set out the targets and standards that we encourage all employees, contractors and suppliers to work towards. Being a responsible public utility, we persistently put efforts to protect the environment and ensure sustainable development. Our well-established waste management practices have been extended to include the collection and recycling of retired domestic appliances, commercial and industrial appliances, spare parts, gas meters and used CDs etc. We reduce, reuse and recycle more than 20 items since the programmes introduced in 2002.

1. Environmental Promotional Programmes

We continue to offer our proactive support to green groups and government-led environmental protection programmes. In 2012, we sponsored and participated the annual “Green Power Hike” and “General Studies on Landfill and Energy Facility” Study Programme organised by Green Power, “No Air-con Night” and “Green Sense Walkathon” organised by Green Sense, the “Walk for the Environment” and “Green Leaders Bloc” organised by the Conservancy Association, the “Tree Planting Challenge” and “River Walk” organised by Friends of the Earth (HK), the “Earth Hour” – a worldwide Light off event and the “Walk for Nature at Mai Po” organised by World Wide Fund for Nature – Hong Kong.

2. Environmental Training and Education Programmes

In recent years Towngas has organised a large number of environmental training and educational activities to promote environmental awareness among our employees and contractors. Programmes conducted in 2012 included the Annual Outstanding Environmental Sub-committee Award, technical visits to Printing Company’s Environmental Technical Centre by green ambassadors and Organic Farm by Dealers and Contractors green ambassadors. Publication of four issues of the Health, Safety & Environment Bulletin distributed to all employees and our contractors. Green promotional messages were displayed on desktop screen savers on a rotating monthly basis in order to encourage and remind employees to work in line with our environmental policies.

3. Environmental Achievements

Towngas was conferred with the “Corporate Green Governance Award - Grand and Corporate Leadership” and the “Green Management Award (Corporate) – Gold Award” in the Hong Kong Green Awards 2012. Towngas also received the “Distinguished Innovative Green Concepts Awards” and “Distinguished Environmental Green Enterprises Awards” in the Green China Awards and the “Eco Excellence Award 2012 – Energy supplier (Natural gas)”. The “Class of Excellence” Wastewi\$e Label 2012 which the Environmental Campaign Committee conferred upon us for the 11 consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2012, Towngas’ 12 functional environmental sub-committees achieved over 40 environmental objectives. For instance, our “Used Gas Appliance Recycling Programme” is now in its tenth year, and has enabled us to divert around 1,000 tonnes of scrap metal annually from landfill sites. The revenue generated has been added to our green creativity fund, which is used to foster environmental awareness in the community.

For more details about our environmental performance and targets, the public can access our website to view or download our “2012 Sustainability Report”.

(a) **Environmental Performance Table**

(All legal requirements relating to environmental protection were fully complied with)

Ozone Layer Protection

- All of our vehicle air conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.
- By 2014, all existing building central air conditioning system will operate with HCFC-free refrigerants.

Air Quality

- Total NO_x output was 4.2 kg/TJ of town gas (Annual total of 116,449 kg, equivalent to a daily average of 318 kg).
- Total SO_x output was 0.02 kg/TJ of town gas (Annual total of 564 kg, equivalent to a daily average of 1.54 kg).
- Total CO₂ output was 11.92 MT/TJ of town gas (Annual total of 330,832 MT, equivalent to a daily average of 904 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 360,634 MT in terms of CO₂ equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 5.8 kg/TJ of town gas (Annual total of 162,032 kg, equivalent to a daily average of 443 kg).

** Before introduction of natural gas feedstock, estimated annual total VOC emissions was 9.83 kg/TJ of town gas (Annual total of 268,242 kg, equivalent to a daily average of 735 kg).*

Water Quality

- Total waste water output was 5.74 m³/TJ of town gas (Equivalent to a daily average of 435 m³).

Chemical Waste

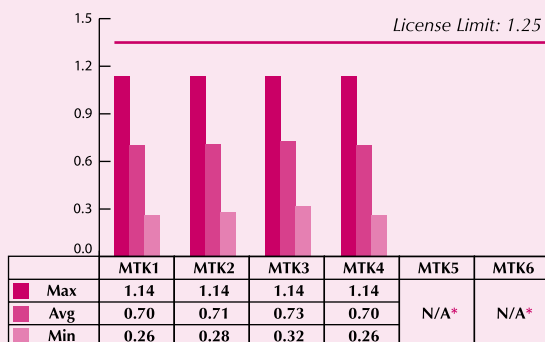
- Total chemical waste output was 1.23 kg/TJ of town gas (Equivalent to a daily average of 93 kg).

Noise

- All installations and operations complied with the statutory requirements. No noise abatement notice has ever been received.

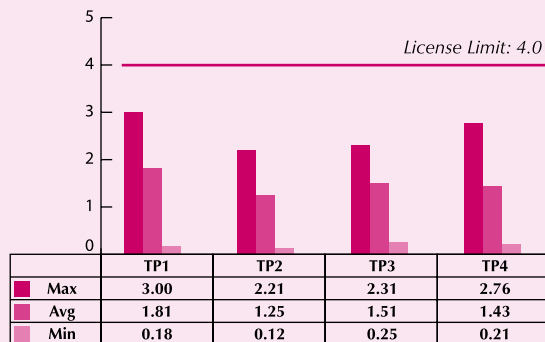
(b) Emission Level of Gas Production Plants for 2012

(i) NOx emission level of Ma Tau Kok (MTK) gas making units (Kg/hour)

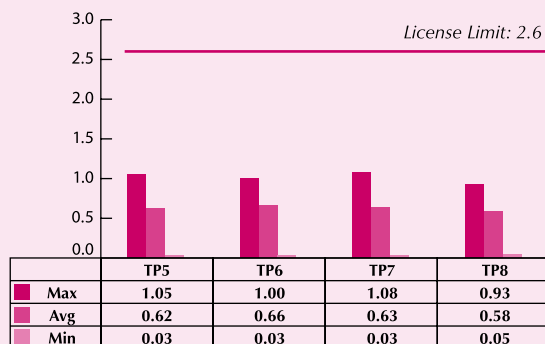


* MTK5 and MTK6 at cold standby in 2012

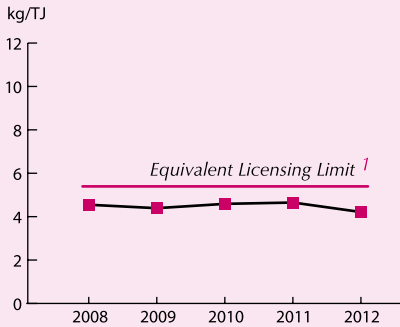
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



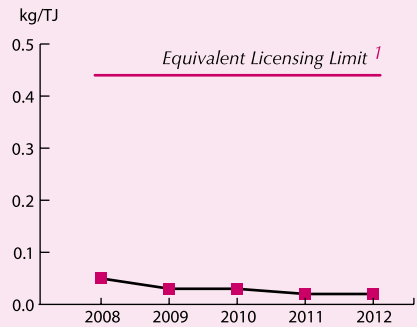
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



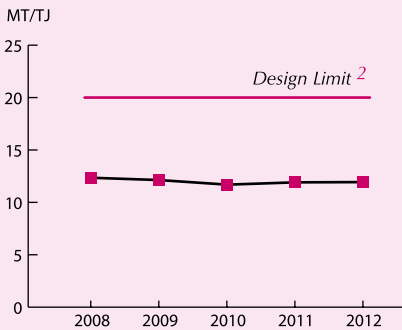
(iv) NOx emission level



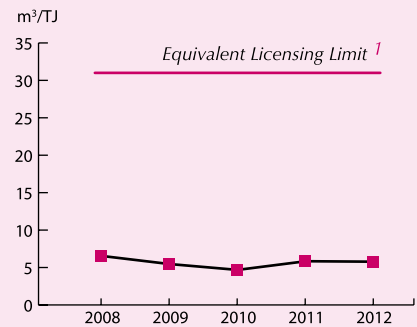
(v) SOx emission level



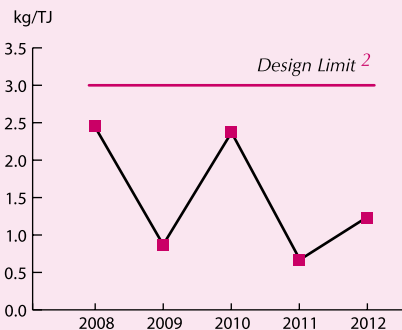
(vi) CO2 emission level



(vii) Waste water output



(viii) Chemical waste output



1 "Equivalent Licensing Limit" (kg/TJ) OR m³/TJ) = "Weighted average of actual licensing limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2012 (TJ/hr).

2 As there is no Licensing Limit for the discharge level, we apply the design limit of our production plants as a reference point for the emission level.

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2012

| | HK\$'M |
|--|-------------------|
| Revenue | 24,922.5 |
| Total operating expenses | <u>(18,818.7)</u> |
| | 6,103.8 |
| Other gains, net | 1,006.6 |
| Interest expense | (863.8) |
| Share of results of associated companies | 2,455.4 |
| Share of results of jointly controlled entities | <u>1,199.4</u> |
| Profit before taxation | 9,901.4 |
| Taxation | <u>(1,484.6)</u> |
| Profit for the year | <u>8,416.8</u> |
| Attributable to: | |
| Shareholders of the Company | 7,727.9 |
| Non-controlling interests | <u>688.9</u> |
| | <u>8,416.8</u> |
| Dividends | <u>3,041.7</u> |
| Earnings per share – basic and diluted, HK cents | <u>88.9</u> |

Analysis of Net Loss on Residential Maintenance under the Fixed Monthly Maintenance Charge

for the year ended 31st December 2012

| | HK\$'M |
|---|---------------|
| Residential maintenance revenue | 191.8 |
| Less expenses: | |
| Manpower costs | (112.2) |
| Other operating and administrative expenses | <u>(93.0)</u> |
| Net loss | <u>(13.4)</u> |

2. Consolidated Balance Sheet

as at 31st December 2012

| | HK\$'M |
|--|-------------------|
| Assets | |
| Non-current assets | |
| Property, plant and equipment | 40,550.0 |
| Investment property | 540.0 |
| Leasehold land | 1,364.1 |
| Intangible assets | 3,845.4 |
| Associated companies | 16,307.1 |
| Jointly controlled entities | 9,103.6 |
| Available-for-sale financial assets | 3,078.6 |
| Derivative financial instruments | 381.0 |
| Retirement benefit assets | 86.5 |
| Other non-current assets | 2,329.6 |
| | <u>77,585.9</u> |
| Current assets | |
| Inventories | 1,831.8 |
| Trade and other receivables | 5,722.2 |
| Loan and other receivables from associated companies | 73.0 |
| Loan and other receivables from jointly controlled entities | 861.3 |
| Loan and other receivables from non-controlling shareholders | 154.7 |
| Financial assets at fair value through profit or loss | 347.1 |
| Time deposits over three months | 261.3 |
| Time deposits up to three months, cash and bank balances | 12,186.4 |
| | <u>21,437.8</u> |
| Current liabilities | |
| Trade and other payables | (9,329.4) |
| Amounts due to jointly controlled entities | (392.4) |
| Loan and other payables to non-controlling shareholders | (211.5) |
| Provision for taxation | (828.8) |
| Borrowings | (6,490.8) |
| | <u>(17,252.9)</u> |
| Net current assets | <u>4,184.9</u> |
| Total assets less current liabilities | <u>81,770.8</u> |

2. Consolidated Balance Sheet (Continued)

as at 31st December 2012

| | HK\$'M |
|---|-------------------|
| Non-current liabilities | |
| Customers' deposits | (1,205.1) |
| Deferred taxation | (4,446.2) |
| Borrowings | (25,230.2) |
| Loan payables to non-controlling shareholders | (39.3) |
| Asset retirement obligations | (78.0) |
| Derivative financial instruments | (305.1) |
| | <u>(31,303.9)</u> |
| Net assets | <u>50,466.9</u> |
| Capital and reserves | |
| Share capital | 2,172.6 |
| Share premium | 3,078.3 |
| Reserves | 38,068.8 |
| Proposed dividend | 1,998.8 |
| Shareholders' funds | <u>45,318.5</u> |
| Non-controlling interests | <u>5,148.4</u> |
| Total equity | <u>50,466.9</u> |

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2012 Page 77)
TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 78 to 171, which comprise the consolidated and company balance sheets as at 31st December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of the affairs of the Company and of the Group as at 31st December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18th March 2013

4. Directors' Emoluments

for the year ended 31st December 2012

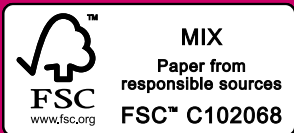
The aggregate amounts of emoluments payable to directors for their service on the Board of the Company during the year are as follows:

| | HK\$'M |
|---|---------------|
| Fees | 2.2 |
| Salary, Allowances and Benefits in Kind | 9.0 |
| Performance Bonus | 33.6 |
| Contributions to Retirement Scheme | 8.1 |
| | <hr/> |
| | 52.9 |

Number of directors whose emoluments fell within:

| <u>Emoluments Group (HK\$'M)</u> | |
|---|---|
| 0.0 - 0.5 | 7 |
| 15.0 - 15.5 | 1 |
| 35.0 - 35.5 | 1 |

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK\$44.8 million (2011: HK\$43.5 million) and post-employment benefits of HK\$8.1 million (2011: HK\$7.1 million) paid to the Group's key management during the year ended 31st December 2012. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2011: nil).



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