

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

2007

**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 2007.

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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OPERATIONAL INFORMATION

1. Annual Business Review

(a) Sales and Marketing

Despite the maturing of our market in Hong Kong, our operations in the territory continue to form the mainstay of our business, apart from also providing the springboard for the diversification of our activities, and the broadening of our horizons, into the region. Our aim is to provide a wealth of economic and energy efficient services that will create a quality lifestyle for our customers.

Residential and Commercial Activities

At the end of 2007, we were serving a total of over 1.6 million customers in Hong Kong. Whilst this figure represents an increase of 23,844 customers compared to the end of 2006, there is no doubt that today's lifestyle and the warmer climate in recent years are taking their toll, and we are seeing a slight decrease of gas sales in the residential sector. However, commercial and industrial gas sales posted a healthy rise of 2.1 per cent.

In the commercial sector, we consolidated our market position, further developing the commercial and industrial use of gas in the competitive energy market. These efforts, which have been particularly effective in the restaurant, hotel and hospital trades, are based on our close relationships with customers. Understanding their needs, we are able to use our industry knowledge and expertise to offer innovative and cost-effective solutions. During the year for example, we introduced a range of European-style equipment – including commercial gas ranges with ovens, fryers and griddles – manufactured in mainland China, which provide customers with a lower-cost alternative for their cooking needs. Regular newsletters and active public relations involvement in the market also keep our business customers up-to-date on new service initiatives as well as the latest product information. Coupled with the rebound in the economy as well as the upturn in tourism, we are seeing healthy growth in this sector.

In view of the challenges experienced on the domestic front, we are taking the opportunity to broaden our horizons, furthering our commitment to not only improve the quality of our service to our customers but also to create a “quality living” environment with the introduction of innovative services and products that will improve the quality of life for the people of Hong Kong.

To create this “quality living” environment, gas must first expand its role, moving from its traditional perception as a simple cooking or heating fuel into a modern, eco-friendly and dynamic source of energy. Therefore, in addition to our safe and reliable gas supplies, we provide a range of innovative and sophisticated gas appliances for residential, industrial and commercial use. Apart from providing convenient and comprehensive one-stop services to our customers, our selection of appliances and equipment ensures that customers have access to alternative options, which may offer more economical as well as more environmentally friendly operations.

During the year, not only did the Housing Authority resume its sale of Home Ownership Scheme flats, completing phase one with the sale of some 4,000 flats, both the property

and stock markets soared to new highs. This improving economic situation thus stimulated appliance sales. Boosted by new and innovative products that cater to public market needs, plus the turnaround after the sharp slow down in production of new housing units both public and private in recent years, together with a series of effective promotional campaigns, sales during the year improved substantially over 2006.

New Appliances

New products launched during the year included hotplates with a timer function as well as new, high-end water heaters from Japan. To capture more customers, a range of Liquefied Petroleum Gas (LPG) cooking and water heating appliances also helped to stimulate sales. The most successful product however was our clothes dryer – a promotion campaign celebrating the sale of our 100,000th dryer since the product's launch in 1995, resulted in 30 per cent more unit sales compared to the previous year.

Flame Cooking

The star of the year was the Towngas Cooking Centre which celebrated its 30th Anniversary. This milestone birthday was celebrated with a number of activities marking the many benefits of “flame cooking”. Local celebrities, for example, were invited to take part in cooking events, demonstrating both the benefits of cooking with gas as well as their passion for cooking and their culinary abilities.

A “Flame Cooking Campaign” featuring a new TV commercial together with several print advertisements supported these activities. “Flame Cooking” also made its way into the corporate world with our Team Building Cookery Workshops, which use group cookery sessions to help build cooperation and team work in the workplace. Response to this initiative has been overwhelming.

(b) Customer Service

Our 16 customer centres continue to reach out to our customers as they promote the convenience and benefits of town gas in the home. Towngas Avenue, our unique “lifestyle” centre continues to be well patronised as customers come to see and try out our full range of appliances for themselves, while at the same time enjoying the cooking demonstrations by our distinguished chefs in our open kitchen environment.

During the year, a service ambassador campaign encouraged customers to vote for their “most caring service ambassador”. This initiative not only improves interaction between employees and the public, it provides positive customer feedback on the performance of our frontline staff and makes sure that good service and positive performances are suitably rewarded.

We are delighted to report that these efforts have received recognition from both our customers and our peers in the local business community. Through close and ongoing communication with both customers and employees, we have registered greater customer satisfaction for both our installation and maintenance services. At the same time, we received the prestigious Best Brand Enterprise Award from the Hong Kong Productivity

Council in 2007. Such recognition reveals valuable feedback from the market on our performance, reaffirming that overall our business is on the right track and that our services do indeed add value to the community and to Hong Kong.

(c) Gas Infrastructure

Hong Kong enjoys one of the safest and most reliable supplies of gas in the world with a continuity rate of more than 99.99 per cent. Despite this positive achievement, we continue to work towards safer, more reliable as well as more environmentally friendly gas services.

Attesting to the quality management of our infrastructure assets, including our gas transportation network, we received PAS 55-1:2004 certification during the year, the first gas company in the region to receive this honour. In addition to ensuring that we manage our assets more effectively, the accreditation also affirms that the value and sustainability of our plant and network assets are fully maximised.

Ensuring more reliable services and enhancing supply security, we continue to expand our supply network with a number of new pipeline projects. The first of these, our Eastern Transmission Pipeline project, which consists of 24 km of high pressure pipeline from Ma On Shan via Sai Kung to East Kowloon has completed. Testing will take place in 2008 and upon commissioning it will greatly enhance supply capacities and service reliability to urban areas in the territory.

Construction of a nine-km ring-feed network in the Western New Territories is also proceeding apace. Scheduled for completion in 2010, it will greatly improve network security in the region. The laying of a third pipeline, to carry natural gas from Tai Po to the Ma Tau Kok gas production plant as feedstock, also commenced during the year. In view of the widespread development due to take place in South East Kowloon, we are also working closely with the government to coordinate gas requirements and ensure necessary supplies when the development is up and running.

We are also speeding up the replacement of some 150 km of medium-pressure ductile iron pipes which have been in use for over 20 years. This effort to rejuvenate our gas network is continuing on schedule.

Ensuring Clean and Green Energy

2007 also saw our first full year of natural gas usage in the town gas production process. First introduced in October 2006, natural gas not only gives us a clean feedstock in the production of town gas, it is also providing a more economical and reliable energy source for Hong Kong. With a 25-year supply of natural gas secured in 2003 at a much lower price than current oil prices, customers were able to enjoy a reduction of as much as 12 per cent in their gas bills during the year.

The second major milestone in the gas production process was the commissioning of our North East New Territories (NENT) landfill gas utilisation project, which literally

turns organic rubbish into energy. In 1999, we made history with our pilot project, Hong Kong's first commercial landfill gas utilisation project at Shuen Wan which converts landfill gas into a methane-based heating fuel. In May 2007, NENT came on stream. In addition to becoming one of the largest landfill gas export systems in the world, the project will not only reduce carbon dioxide emissions by up to 135,000 tonnes a year, it will also reduce our consumption of naphtha by up to 43,000 tonnes annually for the next 25 years.

(d) Property Development

Our property interests continue to flourish. Reflecting the strength of the property market in Hong Kong, take-up at our Grand Waterfront development, at our original Ma Tau Kok southern plant site, has been positive. Consisting of 1,782 units in five apartment towers with a gross floor area of around 1.2 million square feet, pre-sales of the residential units commenced in August 2006. Occupancy began in May 2007 and by the end of the year, approximately 1.17 million square feet had been sold. The Group is entitled to 73 per cent of the net proceeds of these sales. Rental of the 150,000-square foot commercial areas began in the second half of 2007, and by the end of the year over 70 per cent of the space had been leased by retail tenants supplying daily necessities to the neighbourhood. The Group also owns approximately 300 parking spaces at Grand Waterfront, with take-up being extremely satisfactory so far.

We also hold a 50 per cent interest in Grand Promenade, a residential development in Sai Wan Ho. Consisting of 2,020 individual units with a total floor area of some 1.7 million square feet, 1.67 million square feet of space had been sold by the end of the year.

The Group holds approximately 15.8 per cent interest in the successful and highly prestigious International Finance Centre in the Central business district. In addition to the shopping mall and office towers, which are fully let, the complex also includes the Four Seasons Hotel and its serviced apartments, Four Seasons Place. Both continue to enjoy high occupancy levels.

(e) Empowering Our People

A business is only as good as its people. Our aim is therefore to develop a quality work environment that will attract, encourage and retain quality people within the organisation. We also need to ensure that they match our commitment to provide safe and reliable gas services as efficiently and caringly as possible and that they continue to work towards the preservation and conservation of the environment in every aspect of their activities.

Our business is growing rapidly in scale and in diversity on the mainland. We will therefore need many more capable leaders within the Group, able to cope with the increasingly complex and competitive environment into the future. Training, management development and succession planning thus play a key role in our activities as we seek to create a talent pool that will serve our needs both in Hong Kong and mainland China. To this end, we implemented our Towngas Leadership Competency (TLC) model to define

and crystallise our human capital requirements for the future. Identifying any performance gaps in the Group, TLC provides a development plan for individual executives so as to improve our organisational capabilities and build a leadership pipeline for future growth.

Our Talent Acceleration Programmes – Leadership Mobility Programme accelerates identified young talent, grooming them to take on higher managerial responsibilities in mainland China while TLC+ accelerates identified young talent to build a ready pool of talent for leadership requirements. Employees with high potential move into a fast track career lane with mentorship, more learning opportunities through project work and job rotation to prepare them for higher management responsibilities and more rapid opportunities to move up the corporate ladder. As a start, some 30 young executives have been selected for the acceleration programme and we are looking at a further 300 talented individuals to complete the programme in the five years to come.

In our general training activities, we marked a number of milestones in 2007. Our Graduate Trainee Programme celebrated its 25th Anniversary while our Gas Fitter Apprentice Training Scheme, run by our Technical Training Centre, passed its 40th birthday. Since its inception in 1982, around 100 Graduate Trainees have completed the programme and some 40 per cent of our current executives are graduates of this initiative. Similarly, over 1,000 gas professionals have been trained through our various technical training schemes in the past 40 years.

Our long term partnership with the Vocational Training Council (VTC) for the training of apprentices in the gas industry also passed a milestone – in 2007 we received a 25th Anniversary Strategic Partner Award from the VTC. At the same time, attesting to the effectiveness of the programme, one of our gas apprentices won the VTC's outstanding apprentice accolade.

In view of the success of our Superior Quality Service (SQS) programme, our quality circle equivalent which focuses on measurable targets for improved service delivery, work procedures and reduced costs, it is also expanding rapidly into our operations on the mainland. During the year, a total of 3,104 mainland employees participated in SQS activities, completing 299 projects with tangible and intangible benefits worth RMB 8.3 million. The fourth Quality Day for mainland JVs was also held successfully in Wuhan with 700 participants from various JVs, local government officials, customer representatives and the media. Building on this momentum, the quality message is spreading rapidly on the mainland. Our JVs also enjoy this first-hand opportunity to learn from global practices and to gain a view of what other successful companies are doing in their quality activities around the world.

Our training activities have been particularly satisfying on the mainland, with management and employees showing keen enthusiasm to learn from international best practices and the latest industry developments. We currently run two Technical Training Centres – in Guangdong and Shandong – to ensure that employees in mainland China are not only professionally qualified but also to ensure that their practical skills do indeed meet international standards.

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 2007, 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 900,000 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

We revised our Corporate Health, Safety and Environment Policy in 2008 to ensure that we conduct our operations in a manner which poses no risk to the health, well-being and safety of our employees, contractors, customers and the public at large. Our management ensures that this Policy is fully explained to and then observed by subordinates and by all contractors under their supervision. And we ask that all employees actively support this Corporate Health, Safety and Environment Policy and do all they can to fulfill its objectives.

In 2007, we conducted Job Safety Analyses on all high-risk work procedures, and continued to organise various safety training courses, as well as the annual Safety & Environmental Day and the Inter-departmental Safety & Environmental Quiz. By raising safety awareness, we are trying not only to ensure a safer work environment but also striving to inculcate a culture of personal responsibility among our colleagues to ensure their own safety and the safety of all those with whom they work.

Our Accident Frequency Rate (AFR) – counted by every 100,000 person-hours worked was 0.59 (2006) and 0.30 (2007) and the Injury Traffic Accident Rate (ITAR) – counted by every 100 vehicles was 3.39 (2006) and 2.03 (2007) respectively. Our safety initiatives for contractors contributed to a 8 per cent drop in third party damage in 2007. In addition, a total of 8 fire drills were held in conjunction with the Hong Kong Fire Services Department, including drills at our Tai Po gas production plant, Ma Tau Kok gas production plant, ECO LPG filling stations, North Point headquarters and other premises in order to raise the safety awareness of our staff.

Having received certification for incorporating the internationally recognised 18001 Occupational Health and Safety Assessment Series (OHSAS) into all of our gas operations and our safety and risk management system in 2005, our safety and risk management system complied well with the 18001 OHSAS last year.

(c) Gas Production Plants Safety

Towngas has 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 99.994% in 2007.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 30 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 21 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 HK and overseas.

Towngas abides by all legal requirements and cooperates fully with the various government departments responsible for enforcing stringent surveillance to the plants. Therefore, neither plant has ever received a single prosecution from the authorities.

The Accident Frequency Rate of gas production plants has always been maintained at a low level, with no accident to employee in 2007 at all. Even for near-misses and minor incidents, 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

We continue to implement a number of measures to enhance safety even further. The first of these is the strengthening of our communications and contingency management in the event of an emergency. Ensuring that the on-site emergency team will have access to first hand information, they will receive a recording of the actual dialogue between the caller and Emergency Hotline staff.

To avoid the accumulation of any escaped gas in voids below buildings, a comprehensive survey has been carried out to identify any such situations. Openings found have been sealed to stop the entry or exit of gases of any kind and the resulting data has been entered into our electronic network mapping system for future reference.

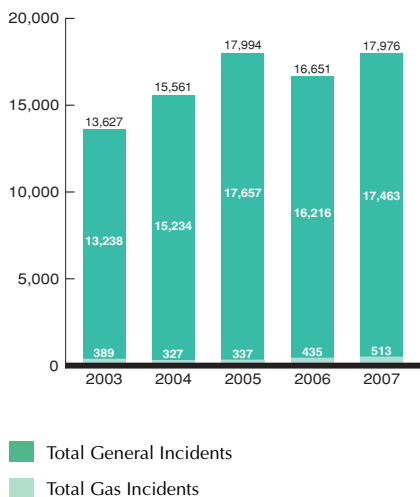
We also introduced a Laser Methane Gas Detector which enables the remote detection of gas leakages. This means that leakages can now be detected in more remote or previously inaccessible locations; and manholes surveys on Hong Kong's carriageways can also be conducted safely.

Despite the fact that our activities and appliances meet stringent international standards, we continue to make every effort to enhance their safety even further. Our pipes are checked rigorously from anywhere between six times a year to once a year to determine their condition and check for leakages.

We also augmented the number of trench inspections of third party excavation sites to circumvent damage to nearby Towngas pipelines. In 2007, over 14,665 trench inspections were made, helping reduce third party damage by nearly 8% compared to 2006.

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

(i) Number of Urgent Reports

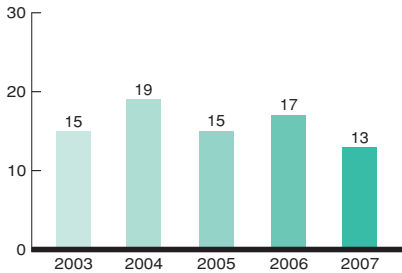


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 17,976 Urgent Reports received in 2007, only 513 were Gas Incidents. Gas Incidents are town gas-related and are classified according to 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

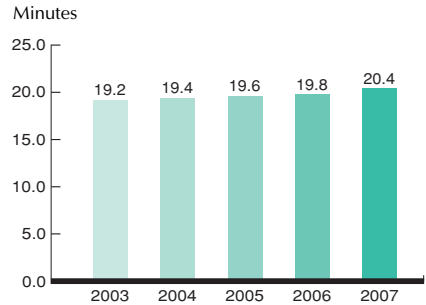
(ii) Number of Major Gas Emergencies



* Nature of "major gas emergency" is defined in the Gas Safety Regulations.

Out of the 513 Gas Incidents in 2007, only 13 cases were Major Gas Emergencies.

(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.

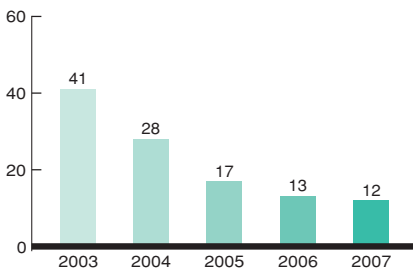
(iv) Number of Fatal Gas Accidents

Year	2003	2004	2005	2006	2007
No. of Accidents	0	0	0	1	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 significantly reduce the number of incidents involving third party damage over the past five years. Incidents in 2007 dropped by 8% compared to 2006.

(vi) Trench Inspection

Total number of active sites inspected in 2007

Island	Kowloon	New Territories	Total
6,514	3,393	4,758	14,665

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 2007, a total of 342 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 security.

(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	At least twice a year
- Medium pressure ductile iron pipes or all galvanized iron pipes	At least six times a year
- Low pressure ductile iron pipes	At least three times a year
- Others	At least once a year

HP - High Pressure

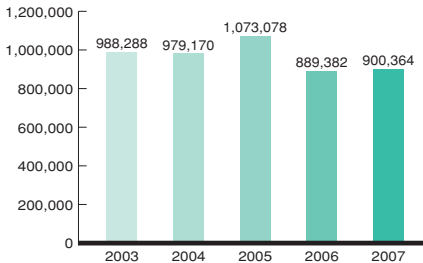
IPB - Intermediate Pressure B

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.

Thanks to the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in the network was only 0.041 per km per year in 2007. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.185 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.

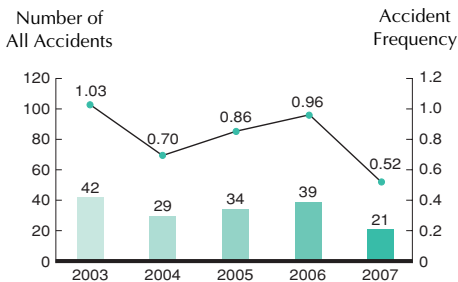
(ix) Number of Sub-standard Appliances Upgraded

Towngas also 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. In 2007, 625 Flueless (Sink) and Open-flued water heaters were upgraded.

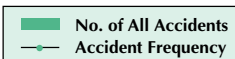
(x) Number of Safety Exhibitions and Safety Talks

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 2007, we organised 12 safety exhibitions and 16 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 2003 to 2007, 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.



* Accident Frequency Rate = No. of Injury Accidents per 100,000 Working Hours

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 13 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 2007

	<u>Results</u>
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.994%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	99.98%
Safety	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	93.22%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 0.99 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	96.35%
• Connect or disconnect gas supply within 1 working day	100% (upon customer's request)
• Deposit refunded at Customer Centres (2 hours after disconnection of gas supply)	99.91% (upon customer's request)
Service Quality	
• Efficiency ²	8.71
• Courteous and friendly attitude ²	8.71
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	97.92%

¹ Average 20.78 minutes.

² The result was based on monthly surveys conducted from January to December 2007 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2008

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 2008, and the annual reporting on performance results will be announced in January 2009.

Pledges

Target

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, at 90% of the times

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 out of a total score of 10
- Courteous and friendly attitude - 8 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.

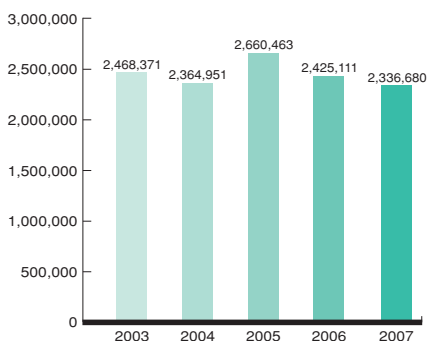
4. Customer Liaison

(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 2007, the Customer Focus Team made 24 visits to its customers.

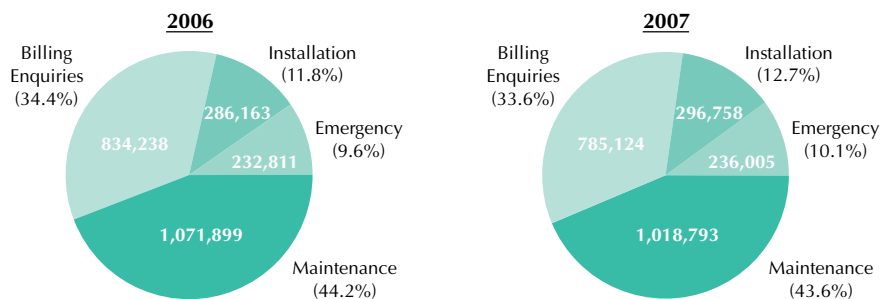
(b) Customer Service Hotline and Emergency Hotline

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 – operating around the clock, responds to emergency calls immediately.

Number of Incoming Calls by Categories



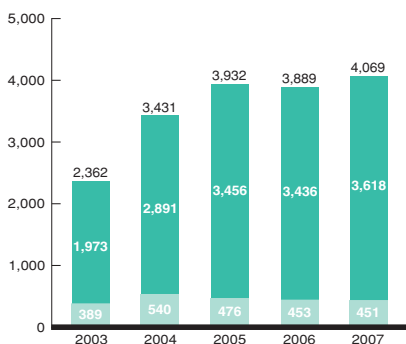
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 43.6% of total calls in 2007 while other categories include billing enquiries, installation and emergency.

(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 2007, a total of 15 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to new Towngas services and products, appliance special offers, gas safety and advice on using gas appliances, as well as energy saving.

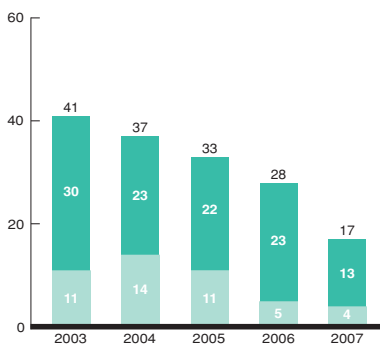
(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



Written Compliments
Verbal Compliments

Number of Customers' Complaints

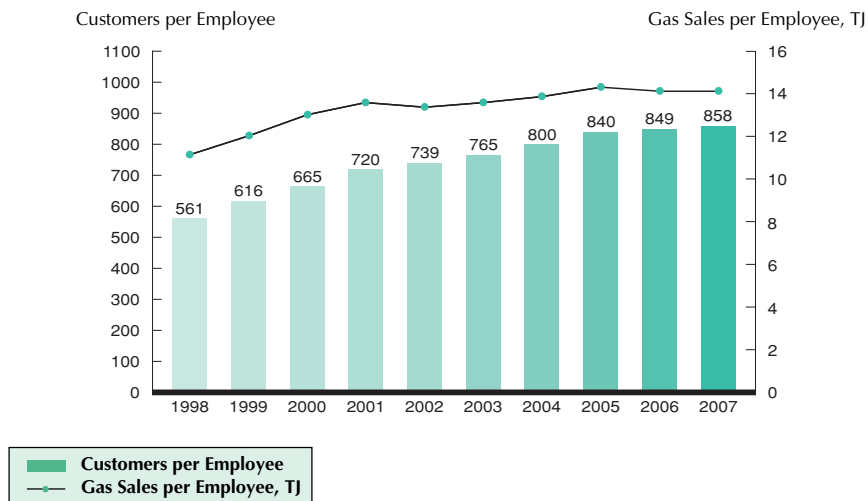


Written Complaints
Verbal Complaints

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 4,069 compliments about Towngas' service in 2007, which included 3,618 written compliments and 451 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 17 complaints in 2007 (13 written complaints and 4 verbal complaints). With 1,646,492 customers as at 31 December 2007, the ratio is 1 complaint per 96,852 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 2007, Towngas continued to devise and implement measures to maintain high cost-efficiency without compromising the quality of our services to customers. In addition to bringing 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 1.1% increase in productivity in 2007, which is measured in terms of number of customers served by each employee. In 2007, each Towngas employee served 858 customers, and town gas sales averaged 14.1 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Supplying more than 200 town gas appliance models and 15 Liquefied Petroleum Gas (LPG) appliance models in Hong Kong, Towngas has strived to develop more environmentally friendly products with high efficiency which would help reduce green house gases. Towngas has developed highly efficient commercial steaming cabinets which would recover heat energy from steam discharged during the food steaming process. This environmentally friendly design was applied to three Blueflame steaming cabinet models produced in 2007. With regard to the residential market, a new Ceran glass built-in-hob model with high efficiency super flame burner was also introduced in mid-2007.

In addition, the construction work of a treatment plant and a connecting 19 km pipeline from the NENT landfill site in the northeast New Territories to our main gas production plant at Tai Po has been completed in late 2006. The NENT landfill gas project was taken into effect in 2007. The treated landfill gas is now using as fuel for gas production with the aim of further reducing carbon dioxide emissions.

6. Charges

In addition to the Standard 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 Variation Charge (FCVC) 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 nearly 610,000 on-demand maintenance works and more than 900,000 Regular Safety Inspections in customers' homes in 2007.

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 Variation Charge

The FCVC serves to reconcile the difference between our standard and actual 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 0.004 of a cent per megajoule.

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

ENVIRONMENTAL PROTECTION

Our “2007 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. We have made enormous strides in paper reduction, the purchase of environmentally-friendly products and recycling or reuse of materials in the last few years. 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.

In 2007, we completed our first full year of natural gas usage as feedstock in our production process and were able to reduce the already minor emissions of CO₂, NO_x and SO_x. In addition to the use of natural gas, our two landfill gas projects, Shuen Wan and the much larger NENT projects, in Hong Kong are now contributing to the use of cleaner energy by utilising the landfill gas.

1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2007, we again sponsored the “Tree-planting Challenge 2007” organised by Friends of the Earth, and participated in the environmental education tour to the Mai Po Natural Reserve organised by WWF Hong Kong, the environmental education tour to Long Valley Wetland organised by the Conservancy Association, and the “Green Power Hike” organised by Green Power. We also participated in a number of environmental activities organised by the Environmental Protection Department and the Environmental Campaign Committee.

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 both our employees and the public as a whole. Programmes conducted in 2007 included the Annual Health, Safety and Environment Day, the Health, Safety & Environment and Asset Management Quiz, the Transport Safety Quiz, the Annual Outstanding Environmental Sub-committee Competition and the publication of three issues of the Health, Safety & Environment Bulletin distributed to all employees. 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

In 2007, Towngas received a number of awards from the government and commercial sectors in recognition of our environmental protection performance. Towngas became a Green Medalist of the Federation of Hong Kong Industries 1-1-1 Programme (One Factory-One Year-One Environmental Project) with the target of lessening pollution in Hong Kong and the Pearl River Delta region. In addition, we received the 2007 Hong Kong Awards for Industries: Environmental Performance Grand Award, 2007 Hong Kong Eco-Products Award: Bronze Award, ACCA Hong Kong Awards for Sustainability Reporting 2007: Commendation and 2007 Eco-Service Enterprise Award by Next Magazine.

The Gold Wastewi\$e logo which the Environmental Protection Department conferred upon us for the sixth consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2007, Towngas' 12 functional environmental sub-committees achieved a total of 40 environmental objectives. For instance, our "Used Gas Appliance Recycling Programme" is now in its fifth year, and has enabled us to divert around 4,300 tonnes of scrap metal from landfill sites (up to the end of 2007). 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 "2007 Sustainability Report".

(a) Environmental Performance Table

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

Ozone Layer Protection

- 100% of our vehicle air conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.

Air Quality

- Total NO_x output was 4.68 kg/TJ of town gas (Annual total of 126,012 kg, equivalent to a daily average of 345 kg).
- Total SO_x output was 0.04 kg/TJ of town gas (Annual total of 1,136 kg, equivalent to a daily average of 3.1 kg).
- Total CO₂ output was 12.33 MT/TJ of town gas (Annual total of 331,786 MT, equivalent to a daily average of 909 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 333,161 MT in terms of CO₂ equivalent.

Water Quality

- Total waste water output was 6.98 m³/TJ of town gas (Equivalent to a daily average of 515 m³).

Chemical Waste

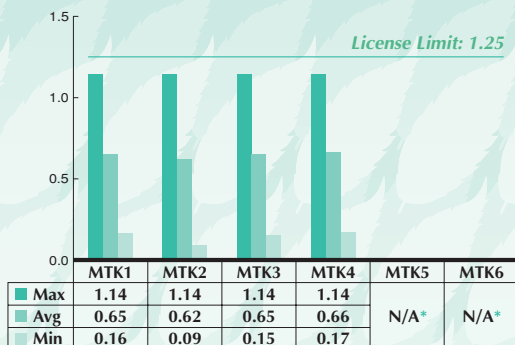
- Total chemical waste output was 0.37 kg/TJ of town gas (Equivalent to a daily average of 27 kg).

Noise

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

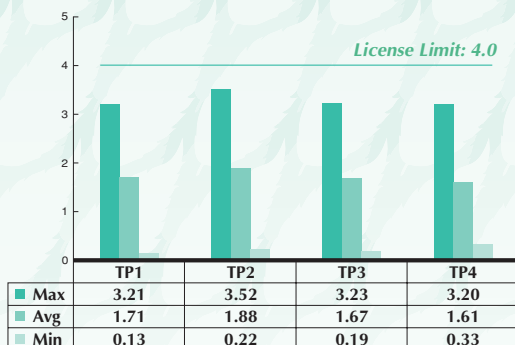
(b) Emission Level of Gas Production Plants for 2007

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

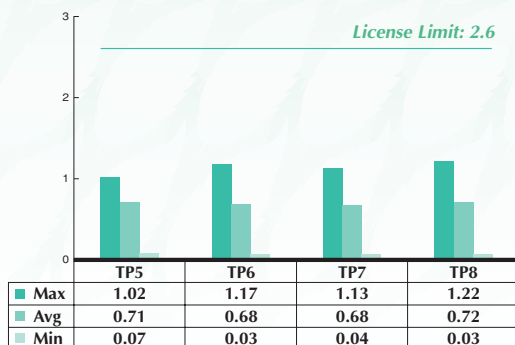


* MTK5 and MTK6 at cold standby in 2007

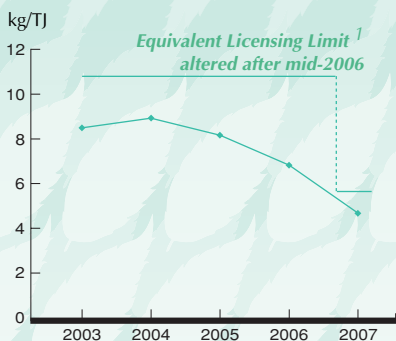
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



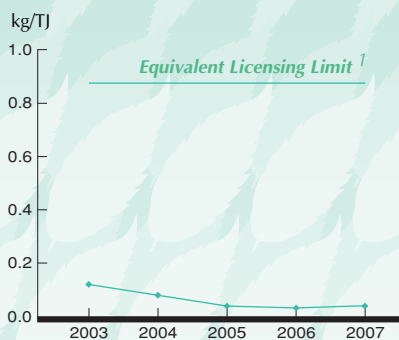
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



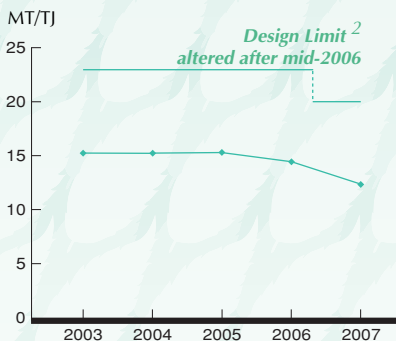
(iv) NO_x emission level



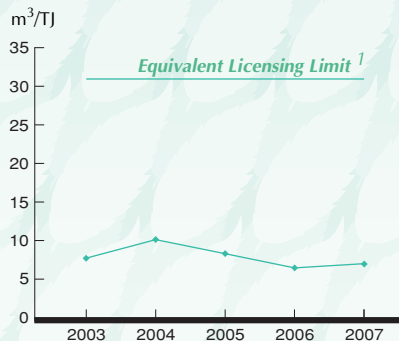
(v) SO_x emission level



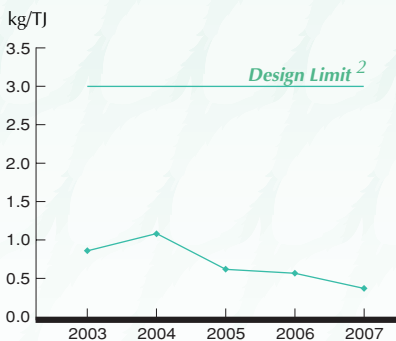
(vi) CO₂ emission level



(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 2007 (TJ/hr)

2 As there is no Licensing Limit for the emission level of the substance, 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 2007

	HK\$M
Revenue	14,225.5
Total Operating Expenses	<u>(8,922.5)</u>
	5,303.0
Investment Income	364.3
Other Gains, Net	2,258.4
Interest Expense	(364.0)
Share of Profits less Losses of Associated Companies	1,616.3
Share of Profits less Losses of Jointly Controlled Entities	1,130.0
Profit before Taxation	<u>10,308.0</u>
Taxation	(974.3)
Profit for the year	<u>9,333.7</u>
Attributable to:	
Shareholders of the Company	9,269.6
Minority Interests	<u>64.1</u>
	<u>9,333.7</u>
Dividends	<u>2,120.9</u>
Earnings per Share – Basic and Diluted, HK cents	<u>153.0</u>

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

for the year ended 31st December 2007

	HK\$M
Residential Maintenance Revenue	178.2
Less Expenses:	
Manpower Costs	(100.4)
Other Operating and Administrative Expenses	(92.1)
Net Loss	<u>(14.3)</u>

2. Consolidated Balance Sheet

as at 31st December 2007

HK\$M

Assets

Non-Current Assets

Property, Plant and Equipment	13,051.6
Investment Property	410.0
Leasehold Land	534.1
Intangible Asset	185.1
Associated Companies	8,386.5
Jointly Controlled Entities	6,501.7
Available-for-Sale Financial Assets	1,066.9
Retirement Benefit Assets	42.2
Other Non-Current Assets	105.8
	<u>30,283.9</u>

Current Assets

Completed Property for Sale	99.4
Inventories	987.8
Trade and Other Receivables	4,791.9
Loans to Associated Companies	175.0
Loans to Jointly Controlled Entities	63.0
Loans to Minority Interests	36.1
Housing Loans to Staff	62.5
Financial Assets at Fair Value through Profit or Loss	1,906.8
Time Deposits over three months	19.9
Time Deposits up to three months, Cash and Bank Balances	4,818.8
	<u>12,961.2</u>

Current Liabilities

Trade and Other Payables	(3,140.7)
Amounts Due to Jointly Controlled Entities	(43.9)
Provision for Taxation	(498.9)
Borrowings	(3,504.8)
	<u>(7,188.3)</u>

Net Current Assets

5,772.9

Total Assets less Current Liabilities

36,056.8

2. Consolidated Balance Sheet (continued)

as at 31st December 2007

	HK\$M
Non-Current Liabilities	
Customers' Deposits	(1,046.3)
Deferred Taxation	(1,228.2)
Borrowings	(4,273.4)
Loans from Minority Interests	(9.6)
	<u>(6,557.5)</u>
Net Assets	<u>29,499.3</u>
Capital and Reserves	
Share Capital	1,514.9
Share Premium	3,770.1
Reserves	22,098.5
Proposed Dividend	1,393.7
Shareholders' Funds	<u>28,777.2</u>
Minority Interests	722.1
Total Equity	<u>29,499.3</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2007 Page 65)

TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 66 to 127 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts 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 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 2007 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, 26th March 2008

4. Directors' Emoluments

for the year ended 31st December 2007

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	HK\$M
Fees	1.5
Salaries, Allowances and Benefits in Kind	12.0
Performance Bonus	27.1
Contributions to Retirement Scheme	7.3
	<u>47.9</u>

Number of directors whose emoluments fell within:

<i>Emoluments Band (HK\$M)</i>	
0.0 - 0.5	7
10.0 - 10.5	1
11.5 - 12.0	1
24.0 - 24.5	1

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK\$40.6 million (2006: HK\$34.3 million) and post-employment benefits of HK\$7.3 million (2006: HK\$7.2 million) paid to the Group's key management during the year ended 31st December 2007. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2006: nil).