
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

2009

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 2009.

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

While our customer base and the sale of our popular energy efficient appliances continued to grow during the year, owing to the stagnant economy in the first half of the year and the warm climate – 2009 was among the 10 hottest years on record in Hong Kong, gas sales slowed down in comparative terms, resulting in a slight decline in overall sales of 1.1 per cent. Our customer base stood at 1,698,723 customers at the end of December 2009, an increase of 26,639 over the previous year.

Residential and Commercial Activities

Confronting this challenging environment, rather than focusing on our role as a supplier of gas used solely for cooking and heating water, we see ourselves as an alternative supplier of energy, offering our customers a quality lifestyle with clean and green energy choices.

The availability and sale of well-designed and sophisticated gas appliances is fundamental to quality living. We therefore offer a full range of attractive, energy efficient and user-friendly gas appliances that promote the modern Towngas lifestyle. We were highly encouraged to see a growth of 6.1 per cent in appliance sales during the year, despite the slower economic conditions in the early part of 2009.

During the year, sales of Elemento, our premium built-in hob series, reached 2,000 units. This award winning series combines different cooking modules and burners, based on individual preferences, to create the perfect cooking companion.

Energy labelling for a full range of domestic water heaters commenced during the year. As all our water heaters meet established energy performance standards, this differentiates our water heaters from the competitors in the market even further. Riding on our outstanding expertise in product development, we were able to maximize business opportunities and expand our market share with the introduction of a clothes dryer and a super-slim water heater for the liquefied petroleum gas market. In addition, our new MEO product brand, providing a wider spectrum of products and serving a different target market, was successfully launched, through specialty stores, discount warehouses and direct sales outlets.

We also offer a wide range of “non-gas” lifestyle products in our customer stores and service centres. This move has been motivated by our efforts to provide “total solutions” and to promote a low carbon lifestyle to our customers, while at the same time supporting different social enterprises and fair trade products.

Despite the difficult commercial environment, we were able to counter the slowdown in sales with our committed sales efforts which resulted in growth both in the hospital and food and beverage sectors. At the same time, promoting town gas as an economic as well as a green fuel, we were able to convert a number of non-town gas users into customers.

A major accomplishment during the year was the 30-year gas supply agreement made with Ocean Park. In addition to providing green energy for all the catering and water heating facilities in the Park's HK\$5.5 billion refurbishment and expansion exercise, gas burners will also provide the special fire display effects at the Park's soon to be unveiled Aqua City-Lagoon exhibit.

Our high-efficiency commercial kitchen appliances, such as gas steamers also continue to offer efficient and cost-effective solutions to our customers. Designed and developed inhouse, they not only significantly reduce the flue-gas temperature, helping to keep kitchen environments cooler, users can also reduce energy consumption by up to 30 per cent. Confirming these savings, we are delighted to report that a typical Chinese restaurant, after upgrading its steamers, has achieved an overall 20 per cent saving in its gas bill.

(b) Serving Our Customers

As part of the Towngas experience, we put our customers first in everything that we do. We took a significant step forward during the year, upgrading and relaunching our eService Centre to offer greater online convenience. Customers registering for eBilling services, can now review their gas accounts, settle payments, track their gas consumption history, report meter readings, book maintenance appointments and even keep up with our latest news and special offers. In addition to these online benefits, eBilling makes a significant contribution to the environment. Every eBilling customer, using the service for a year, reduces carbon emissions by 316 grams annually in terms of the paper and energy saved. Contributing to these savings, Towngas is also donating HK\$6 towards Friends of the Earth (HK)'s tree-planting programme – to plant 10,000 trees in the next three years, for every customer who signs up for this service.

Our “From Good to Great” campaign fosters a service culture based on the five senses – see, hear, smell, touch and feel, to improve services and customer benefits. The relocation and refurbishment of our new shops and service centres provide a prime example of this concept at work. Firstly, all our outlets are centrally located making them easy to locate and access. Secondly, several of our more newly refurbished locations provide kitchen and bathroom settings with our appliances on display to represent real-life situations. Customers can thus not only “see, hear, smell, touch and feel” what we have to offer, in many instances they are also able to try the equipment out for themselves.

Towngas Avenue takes this “service trial” one step further. Visitors to the Avenue can take the opportunity to enjoy some flame cooking. Using our state-of-the-art and user-friendly appliances, they cook their own meal under the guidance of our master chefs. This “lifestyle” initiative serves a dual purpose, promoting both the quality and user-friendliness of our appliances as well as the benefits of flame cooking.

On the safety front, we maintain our regular 18-month customer safety inspection cycle, checking both pipes and equipment. During the year, we proactively visited customer premises where we have not been able to gain access for some time. In addition to boosting home safety, these visits provide direct contact with our customers, which helps promote our new services and products.

In 2009, we received 5,127 letters complimenting us on our services. Not only does this figure represent an increase of more than 38 per cent over 2008, it also translates into 14 letters or so for every day of the year. Additionally, on-demand maintenance orders fell 5 per cent during the year, reflecting better levels of service integrity. Regular customer surveys bring in constant ratings of high customer satisfaction and crowning these achievements, we continue to win a number of community and service awards. The jewel in this crown was our receipt of the “2009 Hong Kong Awards for Industries: Customer Service Grand Award” which recognises and encourages service excellence.

(c) *The Gas Infrastructure*

Excellent services require a complementing quality infrastructure. Consisting of two production plants in Tai Po and Ma Tau Kok as well as over 3,400 km of pipelines, our gas infrastructure has been honed through the years with a supply continuity rate of 99.99 per cent.

Making sure that we maintain this leadership role, we make ongoing improvements to enhance our network and systems. A primary focus is not only on green production techniques but also on the production of clean energy. With natural gas, a much cleaner source of energy, accounting for 50 per cent of our feedstock, we made efforts to increase this figure to nearly 60 per cent in 2009. Additionally, the construction of a 15 km pipeline bringing natural gas to our Ma Tau Kok plant is currently under way, together with the conversion of the plant to natural gas feedstock.

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 3 per cent of our gas production fuel, our aim is to grow this resource to 15 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 11,200 tonnes in 2009. These savings alone translate into the planting of some 1.5 million trees.

Our gas distribution network consists of over 3,400 km of pipeline, stretching throughout the territory. A nine km ring-feed pipeline, under construction in Tuen Mun, will improve gas security and delivery in the western New Territories, while the commissioning of our 24 km Eastern Transmission Pipeline Project in 2008

has greatly enhanced service capacities and supply in the eastern New Territories. Looking forward, we are planning a new three km submarine pipeline in Victoria Harbour, to replace the existing system, which needs to be relocated to facilitate the building of the Cruise Terminal and the strategic link for the Central Kowloon Route. In the meantime, network extension projects are underway to serve the South East Kowloon Redevelopment encompassing the Cruise Terminal Areas.

Safety plays as an important role in our infrastructure as it does in our customer services. Rigorous trench inspections and leakage surveys coupled with the introduction of the most up-to-date technologies, to trace the presence of problems in our pipelines, have helped to enhance the integrity of our gas transmission and distribution system and reduce the incidence of gas leakages, leading to a record low leakage rate.

An Emergency Logging System has greatly improved emergency communications with the intelligent tracking of emergency reports and follow up action; a new Riser Inspection Robotic System, with its gas leak detector and video camera, checks service pipes and risers on external building walls; and the implementation of a second generation Geographic Information System, means that with more detailed mapping information, network safety and operational efficiencies are greatly enhanced. Driving this culture of safety among our contractors, we are in the process of launching an incentive scheme to enhance safety, quality and environmental protection performance in our new pipelaying contracts.

(d) Towards a Sustainable Future

As a responsible supplier of energy, and in line with our vision to be a leading supplier of clean energy in the region, caring for our environment is a natural extension of our activities.

A major milestone was the completion of our first carbon audit in Hong Kong, which was verified under ISO14064-1 specifications. Under this programme, a carbon inventory accounting exercise will be carried out every year. Building on this initiative, we also launched our “Low Carbon Action!” Campaign. With the slogan call to cut carbon emissions by an impressive one million tonnes, the campaign aims to generate public awareness of environmental protection and promote low carbon living.

This large-scale promotional campaign makes use of diverse channels ranging from mass media publicity to online innovations such as social media, forums and websites. Our new websites provide information on how we can all reduce our carbon output and lead greener lives. Depicting these savings as trees, the website is cultivating a virtual Towngas Forest online. The message also received prominent

coverage at our Green Christmas Exhibition, which attracted over 56,000 visitors. The exhibition featured an outdoor billboard powered by solar energy and “human” energy, generated by pedaling the bicycles at the venue. We also sponsored the School Carbon Off Action contest organised by Green Power, and the Tree for Life environmental education programme organised by The Conservancy Association, to support this action.

Within the community we joined hands with leading green groups to sponsor a number of community awareness activities. These included WWF – Hong Kong’s Earth Hour, when lights were switched off for an hour throughout Hong Kong to call for action on climate change; as well as Friends of the Earth(HK)’s Dim it – 6.21 action to reduce energy waste and generate awareness of light pollution. In addition to turning off our lights during the period, we also launched low carbon menus at Towngas Avenue, promoting the benefits of a low carbon diet. These activities, together with our staff programmes, ongoing energy savings and waste management initiatives, earned us the “Class of Excellence” Wastewi\$e Label for the eighth year running. We also won various green awards presented by magazines including Prime Magazine, Three Weekly and Lisa Family Magazine for the commitment demonstrated towards environmental management.

(e) Empowering Our People

The pursuit of excellence is only possible with committed and talented people, who share not only our goals but also our passion for perfection. In building this quality workforce, learning and development play a core role. Not only will a thorough understanding of the job and its technical requirements ensure the highest levels of professionalism, staff development maximises potential and helps us build resourceful leaders hand-in-hand with a pool of talented people.

Professional Learning and Leadership Development

TLC+, our first talent acceleration programme, was launched in 2008 to build a leadership pipeline to meet our business needs. The programme identified suitable talent, fast-tracked their careers and exposed them to different situations and opportunities, over a structured and rigorous 18-month programme, which included finance management, political acumen, and positive influencing skills. Together with group projects and on-the-job exposure, 25 participants in Hong Kong have strengthened their leadership competencies. At the conclusion of the programme in October 2009, 60 per cent of participants had enlarged their role. The TLC+ concept is currently being extended to the mainland, where our focus is to build a talent pool to meet our ever expanding business, while also providing a promising career path for those with the required capabilities.

Set up to oversee gas engineering training and professional development within the Group, our Towngas Engineering Academy (TEA) was established in March 2009. Bringing our Technical Training, Professional Qualification and Superior Quality Service functions under one roof, its engineering, professional qualifications, corporate and people development training enhance gas safety, technical competence as well as the organisation development for Hong Kong and mainland projects. At the same time, ensuring sufficient and competent manpower within the gas industry, we continue to run our Gas Fitter Apprentice Training and Trainee Network Fitter Training Schemes in conjunction with Registered Gas Installer Training for contractors. Over 98,000 training man-hours were delivered to ensure the competence of our workforce.

Our Continuing Professional Development exercise equips, upgrades and refreshes the gas engineering knowledge and skills of our practicing engineers, through information sharing, technical visits and seminars. In 2009, TEA invited distinguished engineers, technical specialists and well-known academics to speak at these seminars. Through this initiative, we accumulated more than 1,300 training manhours and promoted a lifelong learning culture within the Group.

Our Graduate Trainee Scheme, first introduced in 1982, received encouraging recognition during the year, with two of our trainees taking both the first and second prizes in the "Hong Kong Institution of Engineers' Trainee of the Year Award 2009". Providing momentum to our training activities, one of our graduate apprentices also won the "Sir Edward Youde Memorial Fund Outstanding Apprentice Award", the first time we won this award.

Within the community, we actively participated in a number of training incentives organized by the Labour Department (LD) and institutions. Under the Graduate Assistance Programme, Youth Work Experience and Training Scheme and Cooperative Education Scheme, a number of trainees spent time with us in various internship and mentoring programmes.

We continue to improve staff welfare, seeking to create a better work-life balance for our people together with a safe, healthy and pleasant working environment. Therefore, we have earned the "preferred employer" status both in Hong Kong and mainland China.

A number of new "family-friendly" initiatives were rolled out to improve staff well-being. In 2009, phase two of five-day working week programme came into operation to include more employees in our customer service areas. As a result, around 61 per cent of our Hong Kong employees now enjoy this benefit. From 2009 onwards, male employees became entitled to three days' paternity leave on the birth of their children while from July 2009, all employees also benefit from three days of marriage leave.

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 2009, 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 1,170,000 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 attained the second best record in our industrial safety performance over the past 28 years. During the year, there were 12 industrial accidents, resulting in an Accident Frequency Rate of 0.29.

Driving a culture of safety and improving emergency procedures internally, we held a number of joint fire exercises with the Fire Services Department (FSD). 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 suppliers, contractors and the local community, we organized the Joint Utilities Safety & Occupational Health Policy Group Safety Forum 2009, where over 300 participants from various organisations in Hong Kong shared their experiences on crisis management. Two Occupational Safety & Health (OSH) seminars were also held for contractors with speakers from the FSD, the Labour Department and Construction Industry Council Training Academy. The Health, Safety and Environmental (HSE) Photo Competition and HSE Quiz for contractors not only brought in highly positive responses, they also raised greater awareness of OSH.

(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 99.992% in 2009.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 32 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 23 years. Both sites implemented 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. 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 about 0.5 case per 100,000 man hours worked and the accidents were usually minor cases. 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. The replacement of some 150 km of medium-pressure ductile iron pipes, some of which have been in use since the mid 1980s, was completed during the year. 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.

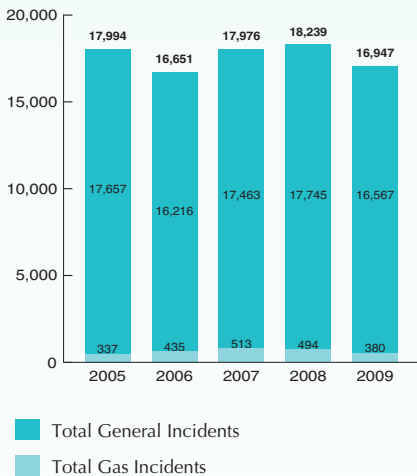
Emergency vehicles equipped with computers are now used in the handling of any gas emergencies and the use of new infra-red methane detectors for leakage surveys, as well as advanced detectors which check the condition of the coating on steel pipes, were also introduced during the year.

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 2009, about 158,929 trench inspections covering 17,496 active sites were made.

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

(i) Number of Urgent Reports

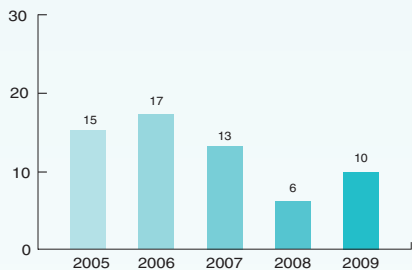


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 16,947 Urgent Reports received in 2009, only 380 cases 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

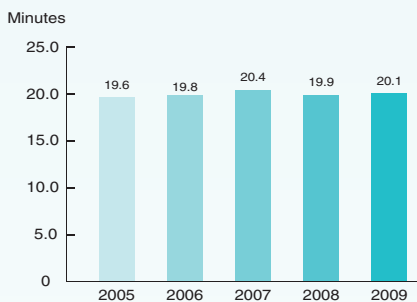
(ii) Number of Major Gas Emergencies



Out of the 380 Gas Incidents in 2009, only 10 cases were Major Gas Emergencies.

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

(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.

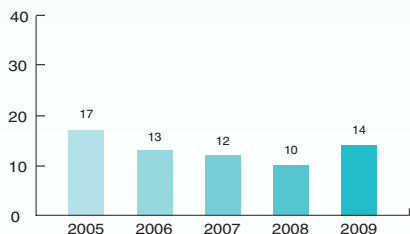
(iv) Number of Fatal Gas Accidents

Year	2005	2006	2007	2008	2009
No. of Accidents	0	1	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 significantly reduce the number of incidents involving third party damage over the past five years. Incident in 2009 was also kept in a relative low level.

(vi) Trench Inspection

Total number of active sites inspected in 2009

Island	Kowloon	New Territories	Total
5,581	5,524	6,391	17,496

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 2009, a total of 459 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	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

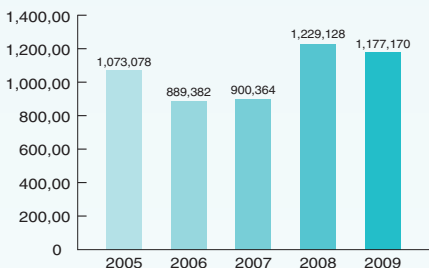
IPB – Intermediate Pressure B

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.

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 0.023 per km per year in 2009. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.121 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.

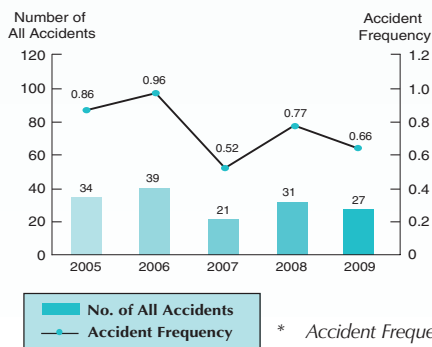
(ix) Number of Sub-standard Appliances Upgraded

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 2009, 698 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 2009, we organised 12 safety exhibitions and 11 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 2005 to 2009, 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 15 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 2009

	Results
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.992%
• 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 90% of the times) ¹	93.91%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.04 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	96.96%
• 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 ²	8.67
• Courteous and friendly attitude ²	8.67
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	100%

1. Average 20.49 minutes.

2. The result was based on monthly surveys conducted from January to December 2009 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2010

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 2010, and the annual reporting on performance results will be announced in January 2011.

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

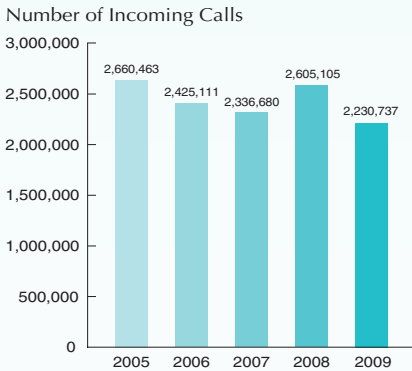
* To enjoy this service, residential customers are advised to inform us of their request for refunds at the time of making cap-off service appointment.

4. Customer Liaison

(a) Customer Focus Team

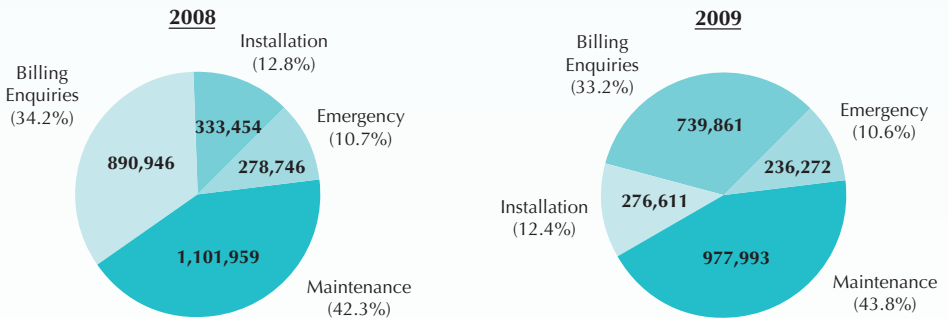
Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer related departments, visits two public or private 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 2009, the Customer Focus Team made 24 visits to its customers.

(b) Customer Service Hotline and Emergency Hotline



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:



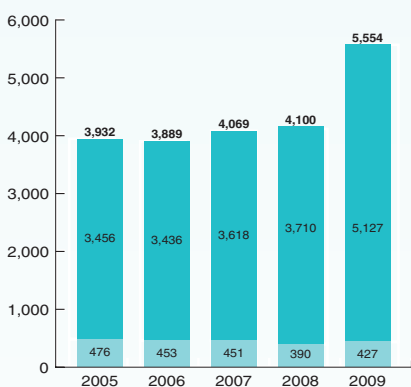
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 43.8% of total calls in 2009 while other categories include billing enquiries, installation and emergency.

(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 2009, a total of 18 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to Towngas services and products, appliance special offers, Towngas Avenue special offers, Towngas Cooking Centre special offers, gas safety and energy saving tips.

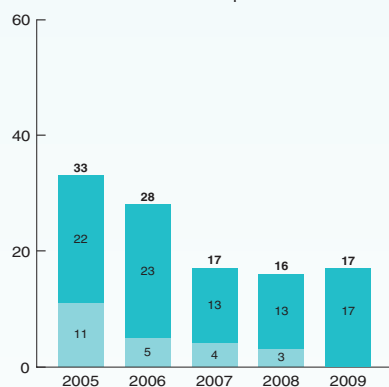
(d) Number of Customers' Compliments and Complaints

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 5,554 compliments about Towngas' service in 2009, which included 5,127 written compliments and 427 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 17 complaints in 2009 (17 written complaints and 0 verbal complaints). With 1,698,723 customers as at 31 December 2009, the ratio is 1 complaint per 99,925 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 2009, 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 2% increase in productivity in 2009, which is measured in terms of number of customers served by each employee. In 2009, each Towngas employee served 890 customers, and town gas sales averaged 14.3 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 30 Liquefied Petroleum Gas (LPG) appliance models in Hong Kong, Towngas has strived to develop more environmental friendly products with high efficiency which would help to reduce carbon footprint. In 2009, all our residential water heaters, both town gas and LPG models, have acquired Energy Efficiency Label.

For commercial products, Towngas continued to improve the efficiency of catering appliances. Have adopted air blast burner together with a special designed flue router to maximize the heat transfer, we successfully increased the efficiency of the stockpot by 40%. Besides, high efficiency food steamer was also introduced to commercial market. The double-feed tank design can effectively recover the flue heat and improve the efficiency by 20%. The above high efficiency catering appliances not only help the restaurant operator trim down the energy cost, but also reduce the heat dispersed from appliances to surroundings inside kitchen and hence provide a pretty cool working environment as well.

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 utilization project in 2007. Currently accounting for about 3 per cent of our production fuel, our aim is to grow this resource to 15 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 11,200 tonnes in 2009. These savings alone translate into the planting of some 1.5 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 610,000 on-demand maintenance works and more than 1,170,000 Regular Safety Inspections in customers' homes in 2009.

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 0.004 of a cent per megajoule.

Customers' total saving of \$771.9 million fuel cost adjustment in 2009 after using 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.

ENVIRONMENTAL PROTECTION

Our “2009 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. A major milestone was the completion of our first carbon audit in Hong Kong, which was verified under ISO 14064-1 specifications. Under this programme, a carbon inventory accounting exercise will be carried out every year. Building on this initiative, we also launched our “Low Carbon Action!” Campaign. With the slogan call to cut carbon emissions by an impressive one million tones, the campaign aims to generate public awareness of environmental protection and promote low carbon living. 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 are now reduce, reuse and recycle more than 20 items since the program introduced in 2002.

1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2009, we again sponsored the “Tree-planting Challenge 2009” organised by Friends of the Earth (HK), and participated in the environmental education tour to the Hoi Ha Wan Marine Life Centre and the Mai Po Natural Reserve organized by WWF – Hong Kong, the “Tree for Life” environmental education programme organized by The Conservancy Association, and the annual “Green Power Hike” organized by Green Power. We also participated in a number of environmental activities organized by the Environmental Protection Department and the Environmental Campaign Committee.

2. Environmental Training and Education Programmes

In recent years Towngas has organized a large number of environmental training and educational activities to promote environmental awareness among our employees and contractors. Programmes conducted in 2009 included the Annual Outstanding Environmental Sub-committee Competition, Fuel Saving Competition, Green Office Purchase 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 2009, Towngas for 2 consecutive year received the Prime Award for Eco Business 2009 in recognition of our environmental protection performance. The “Class of Excellence” Wastewi\$e Label 2009 which the Environmental Campaign Committee conferred upon us for the eighth consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2009, Towngas’ 12 functional environmental sub-committees achieved over 40 environmental objectives. For instance, our “Used Gas Appliance Recycling Programme” is now in its seventh 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 “2009 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.
- In 2011, 25% of existing building central air conditioning system will operate with HCFC-free refrigerants.

Air Quality

- Total NO_x output was 4.39 kg/TJ of town gas (Annual total of 118,386 kg, equivalent to a daily average of 324 kg).
- Total SO_x output was 0.03 kg/TJ of town gas (Annual total of 901 kg, equivalent to a daily average of 2.5 kg).
- Total CO₂ output was 12.13 MT/TJ of town gas (Annual total of 327,019 MT, equivalent to a daily average of 896 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 357,043 MT in terms of CO₂ equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 6.8 kg/TJ of town gas (Annual total of 183,357 kg, equivalent to a daily average of 502 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 735kg).*

Water Quality

- Total waste water output was 5.47 m³/TJ of town gas (Equivalent to a daily average of 404 m³).

Chemical Waste

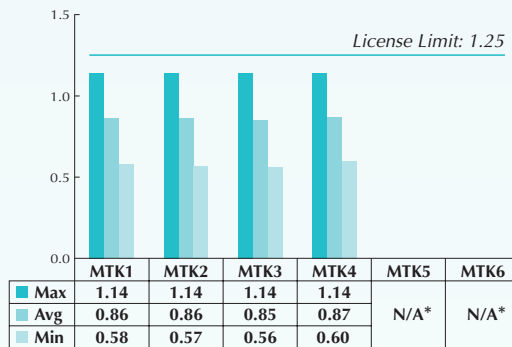
- Total chemical waste output was 0.87 kg/TJ of town gas (Equivalent to a daily average of 64 kg).

Noise

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

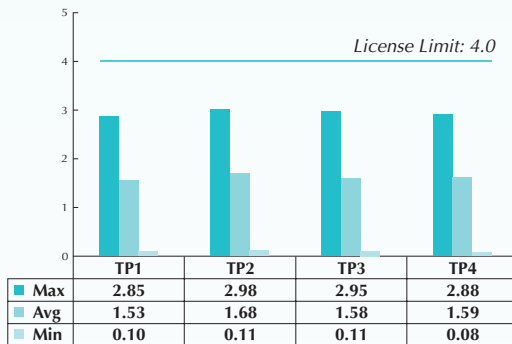
(b) Emission Level of Gas Production Plants for 2009

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

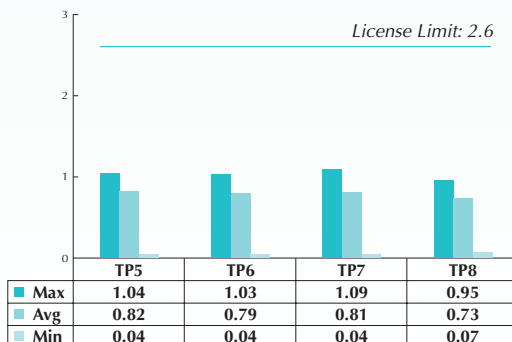


* MTK5 and MTK6 at cold standby in 2009

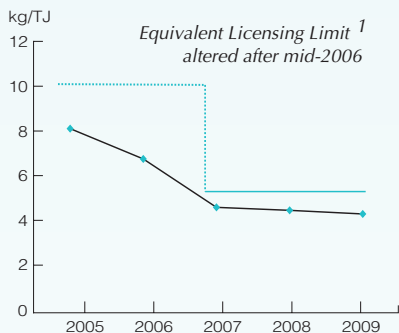
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



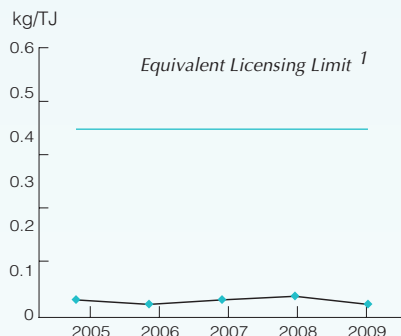
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



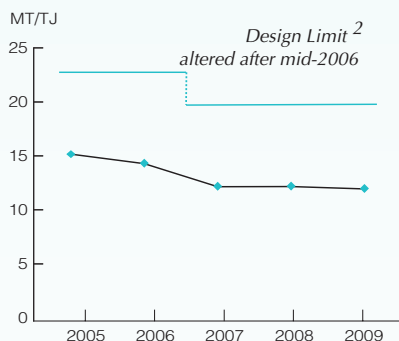
(iv) NO_x emission level



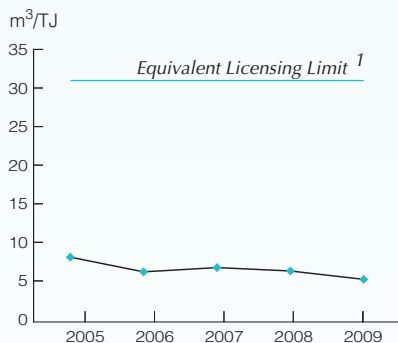
(v) SO_x emission level



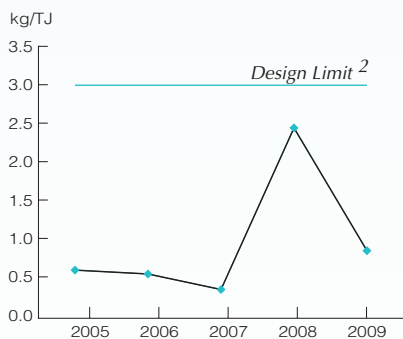
(vi) CO₂ emission level



(vii) Waste water output



(viii) Chemical waste output³



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 2009 (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.
3. Chemical waste output increased in 2008 and 2009 was higher than usual due to special submarine pipeline coating work. Chemical waste was disposal of by registered chemical waste treatment companies.

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2009

	HK\$'M
Revenue	12,351.8
Total operating expenses	(8,490.4)
	<u>3,861.4</u>
Other gains, net	827.2
Interest expense	(567.8)
Share of profits less losses of associated companies	1,164.4
Share of profits less losses of jointly controlled entities	771.0
Profit before taxation	<u>6,056.2</u>
Taxation	(747.0)
Profit for the year	<u>5,309.2</u>
Attributable to:	
Shareholders of the Company	5,175.0
Minority interests	134.2
	<u>5,309.2</u>
Dividends	<u>2,285.3</u>
Earnings per share – basic and diluted, HK cents	<u>78.7</u>

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

for the year ended 31st December 2009

	HK\$'M
Residential maintenance revenue	183.6
Less expenses:	
Manpower costs	(108.4)
Other operating and administrative expenses	(93.2)
Net loss	<u>(18.0)</u>

2. Consolidated Balance Sheet

as at 31st December 2009

	HK\$'M
Assets	
Non-current assets	
Property, plant and equipment	23,573.3
Investment property	501.0
Leasehold land	879.3
Intangible asset	2,461.7
Associated companies	8,338.0
Jointly controlled entities	7,011.2
Available-for-sale financial assets	2,996.0
Derivative financial instruments	186.4
Retirement benefit assets	59.3
Other non-current assets	477.0
	<u>46,483.2</u>
Current assets	
Completed property for sale	29.0
Inventories	2,588.0
Trade and other receivables	3,164.7
Loans and other receivables from associated companies	41.2
Loans and other receivables from jointly controlled entities	83.2
Loans and other receivables from minority interests	106.7
Housing loans to staff	35.0
Financial assets at fair value through profit or loss	405.2
Time deposits over three months	351.9
Time deposits up to three months, cash and bank balances	12,817.4
	<u>19,622.3</u>
Current liabilities	
Trade and other payables	(5,190.7)
Amounts due to jointly controlled entities	(22.2)
Loan and other payables to minority interests	(111.4)
Provision for taxation	(556.9)
Borrowings	(4,747.6)
	<u>(10,628.8)</u>
Net current assets	<u>8,993.5</u>
Total assets less current liabilities	<u>55,476.7</u>

2. Consolidated Balance Sheet

as at 31st December 2009

	HK\$'M
Non-current liabilities	
Customers' deposits	(1,114.4)
Deferred taxation	(1,890.0)
Borrowings	(15,672.0)
Loans payable to minority interests	(12.2)
	<u>(18,688.6)</u>
Net assets	<u>36,788.1</u>
Capital and reserves	
Share capital	1,632.3
Share premium	3,618.6
Reserves	26,093.1
Proposed dividend	1,501.8
Shareholders' funds	<u>32,845.8</u>
Minority interests	<u>3,942.3</u>
Total equity	<u>36,788.1</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2009 Page 69)

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 70 to 144, which comprise the consolidated and company balance sheets as at 31st December 2009, 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 notes.

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 2009 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, 16th March 2010

4. Directors' Emoluments

for the year ended 31st December 2009

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

	HK\$M
Fees	1.5
Salary, Allowances and Benefits in Kind	8.2
Performance Bonus	26.4
Contributions to Retirement Scheme	6.2
	<hr/> <u>42.3</u>

Number of directors whose emoluments fell within:

<u><i>Emoluments Group (HK\$M)</i></u>	
0.0 - 0.5	8
12.5 - 13.0	1
28.0 - 28.5	1

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK\$36.1 million (2008: HK\$40.4 million) and post-employment benefits of HK\$6.2 million (2008: HK\$7.4 million) paid to the Group's key management during the year ended 31st December 2009. There were no other longterm benefits, termination benefits and share-based payment paid to the Group's key management during the year (2008: nil).



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