

Enhancing quality living
with natural gas



The introduction of natural gas as partial feedstock in the town gas production process has enabled us to reduce gas charges, benefiting both residential customers and commercial clients.



Hong Kong Core Business

The basis of mutual trust is communication. This has been the key to regaining the faith society places in the Company to deliver a safe and reliable supply of gas since an unfortunate town gas incident in April of 2006, following which we implemented additional public safety reassurance measures. Fortuitously, we have been able to return the community's support by offering savings to customers on gas bills since October due to harnessing cheaper natural gas as a dual feedstock.

Residential and Commercial Activities

The Company had over 1.6 million residential customers and approximately 15,000 commercial and industrial customers by the end of 2006, a combined growth of 1.6 per cent compared to 2005. However, a maturing domestic market, little new housing supply and an unusually warm year all impacted annual gas sales growth.

Nevertheless, Towngas ended 2006 in a better position within the energy market due to the introduction of natural gas as partial feedstock in the town gas production process. The Company signed a 25 year agreement in 2003 securing a natural gas price at a much lower level than today's naphtha price. This has facilitated reduction in consumers' bi-monthly gas bills by more than 10 per cent since October, and consequently has enabled us to become increasingly competitive as a source of domestic, commercial and industrial fuel.

High-end "Turbo Flame"
built-in hob



2006 corporate advertising campaign to promote vision and mission



Marketing made a strong effort during the year to raise community appreciation of Towngas appliances and services through trade shows and promotion campaigns, which should stand us in good stead now that the government's four-year suspension of sale of home ownership scheme flats is due to slacken in 2007. These mothballed apartments will almost certainly be renovated after purchase and are thus projected new opportunities, both for customer growth and gas appliance sales.

Stylish looks and good design are essential features of all our new products. A top-of-the-line built-in-hob, the "Turbo Flame", was unveiled in July, complementing our other high-performance "Super Flame" and "Inner Flame" appliances. Featuring a quality ceramic glass top, sales of the "Turbo Flame" have been encouraging since its launch. We also introduced a convection-type

built-in gas oven in 2006 with a state-of-the-art grill to make flame cooking even more enjoyable.

With a lowering of gas charges and more finely-tuned, tailored business proposals, commercial sales held their own against strong market competition during 2006. We were particularly successful in securing partnerships with several large hospitals and hotels to convert their boilers to run on cleaner town gas rather than diesel. Such collaborations are especially satisfying, as conversion not only ensures competitive energy costs for commercial customers but also, more importantly, reduces atmospheric pollution for the community as a whole. A number of new hotels also chose to use town gas for their water heating systems during the year.

Energy-efficient appliances and equipment are in very high demand in the commercial sector generally and the restaurant business is no

exception. With this in mind, given effective steaming is so crucial for Chinese cooking, Towngas launched a new high-efficient steamer in April 2006 that has since been very well received by the trade.

The annual Best of the Best Culinary Awards competition is co-organised by Towngas and the Hong Kong Tourism Board. Last October the public was encouraged to participate in this contest showcasing the creativity and talent of local chefs by voting for their favourite dish. Building on this publicity, Towngas Cooking Centre (TCC) then invited the winners of this prestigious catering award to conduct demonstration classes. These workshops proved very popular and ideally complimented TCC's "Great Chef - Famous Restaurant" programme, which was started in 2006 to generate greater interest in cooking local and international cuisine at the fine dining level in the home.

Hong Kong Core Business

Results of Towngas Service Pledge 2006

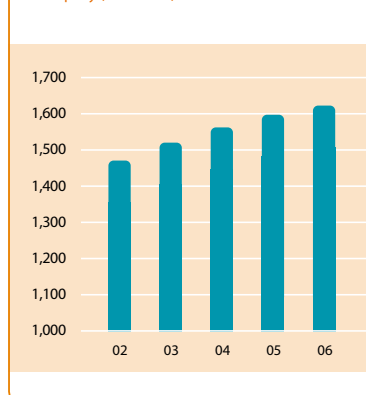
		Results
Reliability	Uninterrupted gas supply (over 99.99%)	99.994%
	In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
	Restoration of gas supply within 12 hours	100%
Safety	Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	93.66%
Appointments	Availability of maintenance and installation services within 2 working days	Average 1 day
Speed and Convenience	Customer Service Hotline (calls answered within 4 rings)	96.70%
	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)	99.92% (upon customer's request)
Service Quality	Efficiency ²	8.74
	Courteous and friendly attitude ²	8.77
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 19.91 minutes, taking into account all incidents which require Towngas personnel to arrive at the scene immediately, whether the incidents are gas related or not.

2. The result was based on monthly surveys conducted from January to December 2006 by an independent research company. Our target is to exceed a score of eight out of ten.

Number of Customers

Company (Thousand)



Service Initiatives

We devoted considerable resources during 2006 to enhancing our services over a range of functions and departments. Three further Customer Centres were renovated throughout the year and relocated to sites with higher traffic for the added convenience of customers. Each has a welcoming and contemporary design, including an innovative “spa corner”, and all are already generating more business and raising Towngas’ profile within their local neighbourhood.

Advancements in gas appliances generally, and our more proactive safety efforts to encourage replacement rather than mere repair of less energy- and environmentally-efficient models, helped to trim on-demand maintenance requests from customers by 10 per cent in 2006 as compared with 2005. This decrease was underpinned by self-initiated visits, on top of our rolling 18-month Regular Safety Inspection cycle, to homes known to have older-type appliances, such as flueless or open-flue water heaters.

Several Towngas employees were honoured for their professionalism in June with a Distinguished Salesperson Award from the Hong Kong Management Association. We also attribute the fall in the number of complaints by 15 per cent for 2006 as a testament to the caring attitude of our front-line staff, be they in sales outlets, working on busy hotlines, or visiting customers' homes and premises.

Furthermore, our regular customer feedback surveys for the year continued to record an upward movement in satisfaction for our installation and maintenance services. Our highly-trained technicians, who undertake this work, also played a vital role during 2006 in encouraging an increase in the disposal of old appliances in a sustainable way instead of users sending them to landfills.

Many initiatives we take are the result of listening to what our customers tell us and then working out schemes to meet their suggestions. For instance, we introduced a more reader-friendly bill invoice in 2006 following implementation of a high-speed digital printing process, and we made it easier to settle gas bills by offering a greater range of credit cards for autopay transactions and the possibility to pay at convenience stores.

Best of the Best competition chef demonstrating his skills

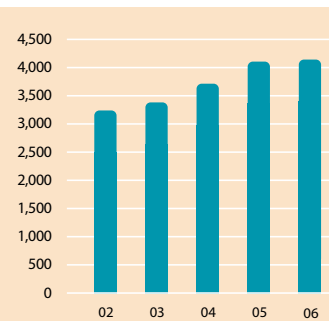


Gas Supply

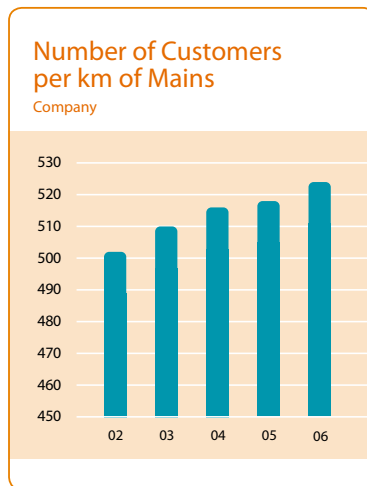
In October, we celebrated the momentous achievement of introducing natural gas into our feedstock mix, realising long-planned-for emission reductions and a cheaper gas price for customers. These successes underpinned on-going development of the gas network to enhance system integrity. In contrast, a serious gas incident in April led to one of the most challenging and testing periods we have ever experienced in terms of emergency-handling and crisis management.

Revenue per Employee

Company (HK\$ thousand)



Hong Kong Core Business



Natural gas feedstock

The introduction of natural gas as partial feedstock into our main Tai Po gas production plant has brought substantial benefits to customers since October 2006. Not only have we been able to achieve noticeable savings on gas bills but long-term gas supply is also now more reliable as we are no longer dependent on one type of fuel to make town gas.

Towngas uses LNG from Australia brought by ocean-going tankers to the Guangdong LNG terminal in Shenzhen, just north of the Hong Kong-mainland China border. There it undergoes gasification and is then transported through a pair of 34 km, 450mm-diameter high-pressure submarine pipelines to Tai Po receiving station, where all associated facilities were tested and commissioned in the third quarter of 2006.

Now that delivery of natural gas to our Tai Po plant is assured, it is the Company's intention to increase utilisation of this cleaner fuel in the production process as expeditiously as possible. Therefore, we have started to build a natural gas pipeline link from our main receiving station at Tai Po to our secondary plant in Kowloon so we can introduce this cleaner fuel into the feedstock mix there as well.

Network expansion

Piped town gas is integral to a quality lifestyle in Hong Kong and the Company recognises it has a public duty to ensure it meets the expectations of the community in this respect. In the last two decades there has been huge population growth in parts of the New Territories, creating an urgent need to enhance availability and reliability of supply.

In 2006, we upgraded the Company's grid control centre in our headquarters building by installing state-of-the-art monitoring equipment. Ensuring the most efficient management of gas supply possible for our customers is essential, given the total length of Hong Kong's town gas pipeline network stood at around 3,236 km by year's end.

The 24 km Eastern Transmission Pipeline (ETP) project is making good progress and is scheduled for completion in 2007. Once commissioned, the eastern part of the New Territories will have a ring-feed network system in place that will improve security of supply. Meanwhile, to ensure similar long-term benefits, work began in 2006 to loop the major pipeline system serving the western New Territories. Towngas is also closely coordinating with government departments and other organisations on network expansion required to cope with the proposed South East

Towngas Network in Hong Kong



Kowloon Development strategy, a regeneration project for Hong Kong's old airport site and surrounding areas.

Gas incident and subsequent initiatives

In April 2006, an explosion occurred inside an older Hong Kong residential apartment block due to an accumulation of gas in a void

beneath the lift lobby, resulting in two fatalities and a number of injuries.

Immediately following this unfortunate incident, Towngas made every effort, including practical assistance, to help residents of the building re-adjust to their changed circumstances. An emergency restoration fund was quickly established to top up

insurance compensation or other government relief and assist in renovation of the building.

The whole Company was mobilised to identify the causes of the accident, to ensure nothing like this ever happens again, and to rebuild the confidence of the public towards the gas utility. We do believe that we have a duty to learn as much as we can from the



Safe working practices for pipe replacement

occurrence, embed the lessons learnt, and turn experience into action to further improve gas safety.

The investigation is still under legal jurisdiction. Meanwhile, as a directly-related outcome, Towngas is now in the process of replacing all its medium pressure ductile iron pipes over 20 years old and has increased seepage detection on these kinds of pipes from three to six times annually. As a further precaution, we have also made a comprehensive underground void survey of residential buildings and a sample survey of commercial and

industrial complexes, and sealed all openings leading to voids so as to block possible gas entry passages.

Other initiatives include updating our electronic network mapping system with information on buildings where voids have been identified, passing this data on to the Fire Services Department (FSD) as part of a co-ordination strategy, and arranging to immediately inform FSD of the location of any building voids in proximity to any reported underground gas leaks.

Employees and change development

In the last few years the Company's graduate trainee programme has seen rapid changes. Six-monthly secondments to the mainland now immerse these young men and women into our rapidly growing China business sectors, as we focus not only on enhancing skills and technical proficiency but also on creating a more structured approach to talent management.

The Company is reinforcing a Towngas Leadership Competencies (TLC) project. Directed at very high-level staff, TLC will integrate tailored training and development solutions relating to leadership and entrepreneurial capabilities as a long-term project aimed at maximising potential both professionally and personally.

A leadership development and mobility programme was launched in 2006 to identify, assess and nurture managers and executives with a view to sustaining future business growth and generating competitive advantage throughout the Group. A main aspect of this scheme is to ensure we have a pool of quality staff ready to manage change and foster creativity at all levels of leadership, as and when needed.

Our Superior Quality Service (SQS) programme continued to flourish and produce remarkable results in 2006. More than 800 employees worked on 70 projects during the year, generating over HK\$20 million in tangible benefits. Innovative thinking helped to improve product

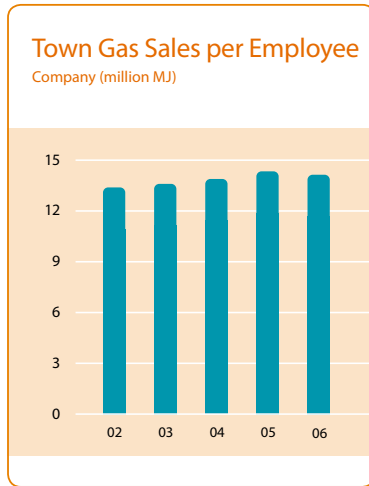
features, enhance procedural efficiency and create value-added customer services.

Several workshops were held over 2006 with other SQS teams from Hong Kong businesses and selected JVs. One of our SQS teams also shared their findings with participants at the 28th China National QC Convention held in Nanjing in September 2006. The project presented was chosen by the organising committee as members were impressed by the results of the SQS study which considered the potential of recycling old appliances rather than sending to landfills.

Employee volunteers teaching children English through new "Cooking for Fun" programme



Hong Kong Core Business



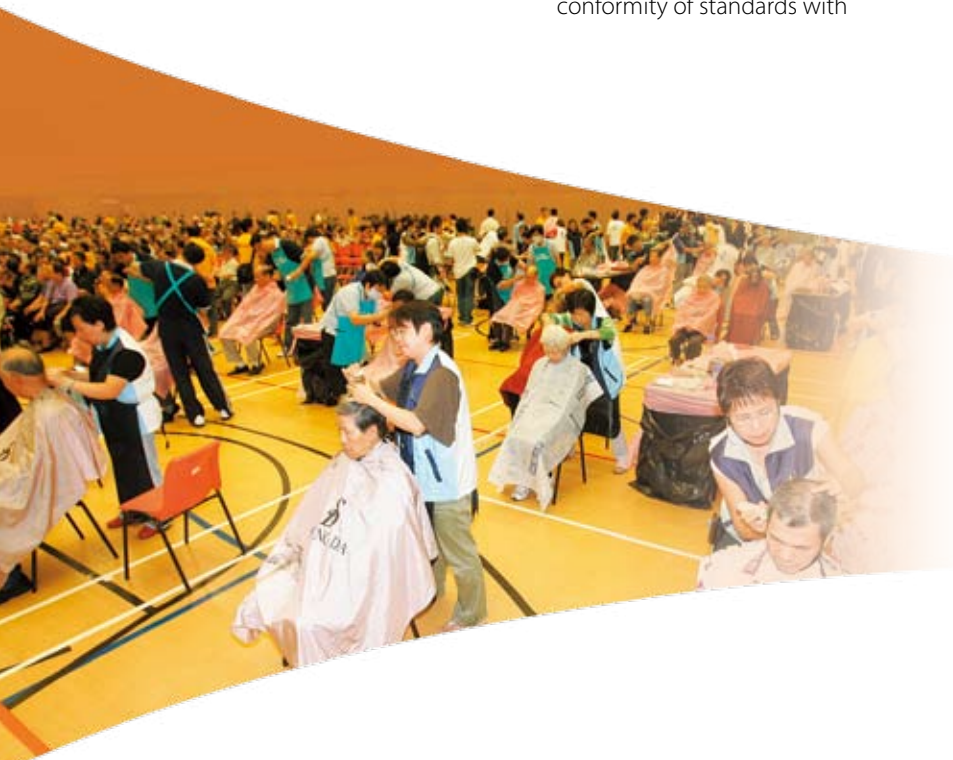
In November, the government presented our Technical Training Centre (TTC) with a certificate in appreciation of Towngas' training and employment of young people through our long-standing apprenticeship programme. Since then, one TTC apprentice has won the coveted "Outstanding Apprentice Awards 2006", organised by the Vocational Training Council, and the opportunity to go on a fact-finding study mission to Singapore.

Throughout 2006, TTC continued to provide training for all our JV General Managers and technical staff before they took up their posts on the mainland, offer network and utilisation training for JVs, and deliver train-the-trainer programmes to support the training centres in Guangdong and Shandong. A key way the Group maintains conformity of standards with

Hong Kong practices across all its China businesses is through dissemination of TTC-designed e-learning software, so JVs have access to the most up-to-date information on technical skills, knowledge and safety procedures.

Corporate Social Responsibility

Towngas held a charity campaign to mark the beginning of Dragon Boat festivities in May, including a competition to wrap rice dumplings to promote the value of family relationships with prizes for creativity, taste and parent-child teamwork. More than 120,000 dumplings were distributed to the elderly and needy, prepared during school campus promotions and by legislative and district council members and volunteers.



Supporting the needs of senior citizens through group activities

Another much-loved event, the Mid-Autumn festival, is always associated with mooncakes in Chinese society. Towngas' Mooncake for the Community programme has been running for over six years now with many volunteer staff, business associates, community partners and others working together to make these favourite delicacies for distribution to senior citizens throughout Hong Kong. In 2006, 68,000 mooncakes were delivered, including those made by over 20 children from our newly-launched English-learning cooking workshop.

Under the caring expertise of Towngas Cooking Centre tutors and employee volunteers, Cooking for Fun English classes started in May 2006, in collaboration with the Social Welfare Department (SWD). With the guidance of SWD, Towngas is now helping 1,200 underprivileged children, mainly new immigrants, to boost their self-confidence, widen their social circle and enhance their enthusiasm for learning English.

In December, we were also delighted to be able to sponsor, for the first time, the International Festival of Inclusive Arts, organised by the Health, Welfare and Food Bureau and the Arts with the Disabled Association Hong Kong. Through arts exhibitions, symposia, music



International Festival of Inclusive Arts, a multi-media event drawing together people from all walks of life

events and multi-media workshops, people with and without disabilities were brought together, creating a sense of harmony and inclusiveness that as a company we feel is very worthwhile promoting within the community.

In the second quarter of 2006, we established a dedicated office to synchronise the activities of our District Council Focus Teams, rather than work on an event-driven, ad hoc basis. This re-organisation has resulted in better-focused gatherings with District Councils (DCs) and District Offices (DOs), creating more timely awareness of Towngas' new initiatives and services and a more accountable

channel for passing on community matters regarding the gas utility. We have been much encouraged by the DCs' and DOs' response to these arrangements and fully intend to build on our growing relationship in a positive and supportive manner in the months and years to come.