
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

2019

ENVIRONMENTAL
SAFETY & HEALTH
OPERATIONAL & FINANCIAL
INFORMATION



煤氣
Towngas

FOREWORD

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

Supported by visuals, the Booklet presents an update of the Company's latest developments, ranging from its business and operational review to financial status.

Prominent in the Booklet is information on the Company's safety measures and practices. This reflects the heavy emphasis placed by the Company on these aspects, which 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. Hence, complementary with the 24-hour Customer Service Hotline, the Customer Focus Team continues to serve as an effective direct communication channel between the Company and its customers.

Furthermore, the Company has continued to strictly adhere to its green policy to ensure an environmentally friendly operation.

Going forward, Towngas will continue to seek ways to further improve its operations and provide the people of Hong Kong and beyond with more efficient and high-quality service.

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

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OPERATIONAL INFORMATION

1. Annual Business Review

The overall global economic environment and uncertainties over trade tariffs between mainland China and the US led to a downturn in Hong Kong's import and export sectors and logistics businesses in 2019. Coupled with a drastic fall in the number of inbound tourists resulting from social conflict incidents during the second half of 2019, local spending declined; restaurant, retail and hotel sectors were severely impacted, thus adversely affecting commercial and industrial gas sales. Additionally, as the average temperature in Hong Kong during 2019 was higher than 2018, residential gas sales also declined. Overall, total volume of gas sales in Hong Kong for 2019 was 28,712 million MJ, a decrease of 2.8 per cent.

During the year under review, the Company invested HK\$1,195 million in production facilities, pipelines, plants and other fixed assets for the further development of its gas and gas-related businesses in Hong Kong.

(a) Hong Kong Gas Business Profit

The volume of gas sales decreased by 2.8 per cent in 2019, while our customer base further expanded to a total of 1,933,727 accounts, an increase of 25,216 over the previous year. In terms of total gas sales volume, residential customers accounted for 52 per cent while commercial and industrial customers accounted for 48 per cent. To meet increasing operation and manpower costs, we adjusted the standard gas tariff upward by HK1.1 cents per MJ which, including the standard tariff and fuel cost adjustment, amounted to an actual increase equivalent to 3.8 per cent. We also pledged to keep the basic tariff unchanged for the next two years. Net profit after tax from sales of town gas in Hong Kong for the year 2019 decreased by 3.9% to HK\$2,880.6 million.

(b) Sales and Marketing

In this adverse business environment, Towngas made a strong effort to keep our costs at a low but acceptable level while continuing to deliver efficient and courteous service to our customers. Internally, we developed mobility solutions to streamline work processes and lower service operating costs. We also made use of multi-channel purchasing and low-cost substitutes to minimise our material expenses.

Our appliances continued to enjoy widespread acceptance among customers for their quality, innovative features and the expert backing of our service professionals. In 2019, sales of appliances increased by 2.4 per cent, with a total of over 290,000 appliances sold. Our premium line of Mia Cucina kitchen cabinets also continued to grow in popularity with customers, including property developers. In 2019, we sold a total of about 4,400 kitchen cabinets for new property development projects.

In order to provide greater convenience and safety for our customers, we have put considerable resources into our smart kitchen concept. For customers who might leave a cooking appliance unattended, we have designed a model equipped with an add-on device that enables users to turn off the appliance with a mobile app if they forget to do so, even after leaving home. Another model automatically shuts off if it reaches a high pre-set temperature. In future, we plan to develop more smart appliance models and launch them in the market.

In addition, we looked at opportunities to acquire new customers and increase gas consumption in the commercial and industrial sector. To that end, we not only promoted the conversion of non-gas applications but continued to diversify beyond the conventional use of gas for cooking and heating water into gas applications such as absorption chillers and desiccant dehumidifiers.

While developing the market for gas applications in hospitals, clinics, hotels and other commercial buildings, we have discovered that humidity control is an important factor in improving indoor air quality. Accordingly, our gas desiccant dehumidification system is an attractive solution for eliminating the damp air prevalent in Hong Kong throughout most of the year.

In Hong Kong, we are utilising landfill gas as a renewable source of clean energy. The Alice Ho Miu Ling Nethersole Hospital was our first project based on this technology, with a combined heat and power (CHP) project utilising gas from the North East New Territories Landfill site. We have been working with the Hospital Authority to include CHP arrangements in the blueprint stage of their new hospital developments.

(c) *Serving Our Customers*

At Towngas, we have developed a strong reputation for our ability to provide a safe, reliable supply of gas as well as efficient and caring services.

During the year, we continued to focus on innovation as a means of improving productivity and service delivery. In particular, we are looking at new developments in the Internet of Things and artificial intelligence for our operational equipment and devices.

One example is a smart meter equipped with Bluetooth, which has been adopted in over 87,600 homes since its launch in May 2018. Customers can simply download a mobile app and link it to the smart meter for their gas reading to be read and transmitted to our system via the Internet.

Our frontline staff offer efficient and comprehensive services that have earned high praise from customers, as demonstrated by the more than 5,900 complimentary

letters we received in 2019. In recognition of our outstanding service quality, we received the 2019 Service Retailers of the Year – Quality Living Category Award from the Hong Kong Retail Management Association. We also won the Gold Award in the Mystery Caller Assessment Award – Commerce and Utilities for our Mia Cucina 24-hour Customer Service Hotline from the Hong Kong Call Centre Association.

(d) *The Gas Infrastructure*

Towngas takes the safety of customers seriously and has put in place a proactive maintenance and inspection regime that makes certain our gas network and infrastructure are safe and reliable.

To ensure a reliable gas supply and network integrity, we undertake gas leakage surveys, closely monitor third-party construction activities and carry out timely pipe replacements. In 2019, the number of publicly reported leaks in the network reached a record low for the second consecutive year, while third-party damage and the gas leakage rate were kept at a low level.

In 2019, we continued to develop innovative tools that improve our operational efficiency. A mini-tunnelling machine was utilised for trenchless pipeline construction in congested areas where open-cut excavation is difficult. Together with our existing Little Swan remote-controlled excavator that reduces construction noise, these tools are helping to improve safety, efficiency and productivity, bring down costs and minimise nuisance to the public.

We have also introduced innovations that help to ensure the safety of our customers' homes as well as improve our service quality. These included a Drone Riser Inspector and a Long Range Camera with Laser Methane Gun, which allow our frontline technicians to remotely inspect gas service pipes with a high degree of accuracy. To improve the traceability of our records, our staff can now use a tablet or mobile phone to capture worksite details or record inspection results.

In 2019, we achieved another breakthrough for the quality and safety of our infrastructure with the first-time use of photogrammetry for pipelaying. The new technique can produce a 3D image record that forms part of the as-built drawing of our network. With the photos that are taken, much more information on the pipeline installation can be captured, which is vital to determining network quality.

(e) *Towards a Sustainable Future*

An Environmental, Social and Governance (ESG) Committee (formerly named as Sustainability Committee), headed by the Managing Director and appointed by the Towngas Board of Directors, has been set up to oversee the Company's strategies, policies and practices on sustainability matters. During the year, the ESG Committee

acknowledged the new proposed ESG Framework which articulates five key areas for ESG development: Creating Business Opportunities; Ensuring Health and Safety; Protecting the Environment; Contributing to Stakeholders; and Strengthening Corporate Governance. This framework centres on our philosophy of “Growth = innovation x implementation”.

During the year, our businesses continued to support four prioritised Sustainable Development Goals (SDGs) of the United Nations, as endorsed by our ESG Committee in 2018. The SDGs we have selected include SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 11: Sustainable Cities and Communities; and SDG 13: Climate Action.

Consistent with the SDG on climate action, Towngas conducted a holistic Corporate Climate Change Risk Assessment on its operations in Hong Kong and mainland China to guard against potential business interruptions arising from major climate change risks. The assessment was carried out through an in-depth evaluation of potential climate change impacts such as extreme temperature, flooding, sea level rise and storm surge to Towngas gas facilities, operations, resources availability etc. We have also begun to look into the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and undertaken a study on transitional risks and opportunities across our portfolio under various climate change scenarios. What we learn about these risks and opportunities will be integrated into how we address climate change in our strategic planning which, in turn, will allow us to develop businesses that are resilient to climate-related issues and any uncertainties we may face.

Our unwavering commitment to environmental protection is reflected in the way we conduct our businesses. As an energy supplier, we strive to minimise our carbon footprint while developing clean energy for homes, businesses and vehicles, with the ultimate goal of creating a more sustainable future.

The feedstock we use in Hong Kong, which includes a mix of natural gas, naphtha and landfill gas, is clean and has thus enabled us to reduce the carbon emissions per unit of town gas produced by 22 per cent compared with 2005. We have set a reduction target of 30% in the carbon intensity of our Hong Kong gas production for 2020, as compared with the 2005 baseline.

Towngas is one of the pioneers in the development of renewable energy in Hong Kong and currently uses landfill gas from three sites. We also support Hong Kong's Feed-in Tariff (FiT) Scheme, which encourages the adoption of renewable energies

such as solar and wind. In 2019, we continued to work on phase I of the installation of photovoltaic (PV) systems at our Tai Po Production Plant, headquarters in North Point and offtakes and pigging stations. Upon completion in 2020, this project is expected to generate approximately 250,000 kWh of clean energy every year.

Our efforts to achieve greater sustainability in our operations have been widely recognised. In 2019, we received the Hong Kong Sustainability Award 2018/19 organised by The Hong Kong Management Association. Moreover, the Business School of The Chinese University of Hong Kong released its fourth Hong Kong Business Sustainability Index, in which Towngas was ranked first among the 50 constituent companies. We were also the first company to achieve a score of 90 or above and reached the top level of “Exemplar”.

We will continue to focus on the five key areas in the ESG framework as well as innovation in order to drive our ESG performance and the development of our business. By setting clear targets, we shall monitor our performance and achieve long-term sustainability.

(f) Empowering Our People

At Towngas, we understand that our continuing success as a sustainable business depends heavily on the value we place on our people and the investments we make in their professional skills, health, safety and wellbeing.

In return, we have been recognised as a leading employer not only in Hong Kong and mainland China, but globally. This was affirmed by *Forbes* magazine, which gave Towngas a 199 ranking out of 2,000 top global employers on its World’s Best Employers 2019 list, putting us in the top three of all Hong Kong companies. We were also the first runner-up in the category of Hong Kong’s Most Attractive Employer of the 2019 Randstad Employer Brand Awards. These recognitions highlight our exceptional performance in promoting family-friendly employment policies and our focus on staff development.

To identify new talent, we have been expanding our sourcing channels, through means such as earlier engagement with current university students and secondary school students. We are also addressing the challenge of convincing secondary school graduates that technical jobs can be rewarding career choices by stepping up our recruitment efforts through school talks and visits as well as job experience opportunities.

To familiarise potential recruits with our businesses, our Towngas Engineering Academy (TEA) launched the Career in a Nutshell programme for secondary

school students, which offers them training and job shadowing opportunities. The programme has seen increasing popularity, with 90 students already registered for the 2019/2020 academic year.

Every year, we hire students as interns so they can learn more about our businesses and corporate culture. To provide work experience opportunities in mainland China, we joined the Scheme on Corporate Summer Internship on the Mainland and Overseas 2019, championed by the HKSAR Government, and Operation Zhang Qian by the Maritime Silk Road Society. In this eight-week internship programme, students were posted to various locations where we operate, namely Shenzhen, Zhongshan, Suzhou, Jinan, Zhangjiagang and Ordos. We also recruited student interns from the 2018 Scheme after their graduation to support our businesses in Hong Kong and mainland China.

In addition to recruiting new staff, it is equally important to retain and develop our existing younger colleagues. This includes understanding what motivates them and, in some cases, making their jobs more diversified and interesting. For example, we involve younger staff in projects that are not necessarily related to their primary roles, and give them more leadership responsibilities as part of a clearly defined career path.

In order to develop future leaders, we continued the 18-month Towngas Leadership Competencies Acceleration Programme (TLC+), targeted at middle management staff. The focus of this programme is on business strategy and leadership. In 2019, a new batch of participants embarked on another round of this programme in their career development journey with us. A similar programme, the Young TLC+, was established in 2017 for younger staff across different businesses. It graduated its first cohort during the year.

To build a talent pipeline for our Network Operation teams, we launched our first Network Supervisor Trainee Programme in 2017. After two years of training in technical, communication and supervisory skills, the first batch of employees graduated in September 2019.

To attract young people to the gas industry, TEA participates in a wide range of career expos and other promotional activities. It is also one of the founding members of the Hong Kong Electrical and Mechanical Trade Promotion Working Group, as well as the new Corporate Tech Academy Network, which promotes Vocational and Professional Education and Training for the development of a skilled and professional workforce. The promotional activities we carry out are in addition

to our apprenticeship programme, whose graduates are trained into well-qualified technicians who play an instrumental role in ensuring gas safety. Moreover, we have partnered with the Hong Kong Vocational Training Council to offer a professional diploma in Gas Engineering, which graduated its first batch of students in July 2019.

In response to employee feedback, we made plans to introduce flexible hours for office staff in 2020, including flexible lunch-time arrangements, as part of our commitment to promote work-life balance. We also introduced Community Service Leave so that employees who support our volunteer services can enjoy an extra day-off. Moreover, we enhanced our paid annual leave provisions and gas allowance scheme.

For longer-term retirement planning, we introduced an additional Mandatory Provident Fund (MPF) scheme option by providing more fund choices for our current MPF scheme members.

Physical fitness under the theme “Fit for Life” was a primary focus of our staff activities in 2019. In order to promote a balanced and healthy lifestyle, we organised talks and workshops with doctors, physiotherapists and other medical practitioners on health awareness and stress management. On-site health checks and consultations were also held in our workplaces. To keep our staff healthy ahead of the flu season, we launched the Flu Prevention Campaign and offered staff members and their family subsidised flu shots.

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 2019, we held 17 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 1,160,000 Regular Safety Inspections of gas facilities in customers’ homes. This safety-driven programme has proven extremely popular with our customers.

(b) Occupational Safety and Health

Employee safety and health is our priority. That is why we have implemented the Total Safety Management System to avoid accidents and improve safety and health performance continuously. We endeavour to ensure the implementation of health

and safety policy and promote safety culture through organising training, seminars, promotion activities and more. In 2019, the industrial safety performance was satisfactory. There were 11 industrial accidents, with an accident frequency rate of 0.21.

In 2019, we successfully upgraded the OHSAS 18001 to ISO 45001 to become one of the first city-gas companies in Asia to be accredited with this certification. During the migration, we not only arranged trainings for stakeholders, but also organised conferences and campaigns for colleagues to familiarise themselves with the requirements of new standard.

To encourage colleagues to pay attention to the relevant aspects of their work environment, we put in place the Health, Safety and Environment (HSE) Suggestion Scheme, Near-Miss Reporting Scheme and Instant Messaging HSE Reporting Channel for safety- and health-related reporting. Colleagues are invited to report both good practices and malpractices through the schemes to improve safety standard, thus promulgating our safety culture.

Our promotion of Occupational Safety and Health (OSH) principles have also enhanced our safety culture. In 2019, we organised seasonal promotion programmes for our colleagues and contractors on topics such as Ergonomics and Human Factors, Work Stress Management, Adverse Weather Preparedness, and Infectious Disease. Activities such as mini-games, seminars and training were included, in addition to the distribution of information leaflets. As the chairman of the Joint Utilities Safety and Occupational Health Policy Group in 2018/19, we communicated OSH issues to the Government, Occupational Safety and Health Council, and fellow utility companies. We also organised a forum on the future of OSH for the industry, during which participants shared their experiences and views on improving OSH performance.

Effective and efficient emergency preparedness allows the Company to respond in a timely and effective manner. In 2019, we organised numerous joint fire exercises with Fire Services Department, which provided opportunities for our emergency response team to work closely with Fire Services personnel in relevant operations.

“Growth = innovation x implementation” is one of our business strategies. We successfully developed the Towngas Smart Warehouse to enhance the health and safety of our staff. The Towngas Smart Warehouse has three innovative designs, including vacuum tube lifters, goods lifting platforms and automated guided vehicles (AGV). Through advanced technology and equipment, our store has grown from

labour intensive into intelligent, which helps address OSH problems commonly seen at traditional warehouses, such as musculoskeletal disorders. In addition, the workload of employees and accidents caused by human error is also reduced.

With the active participation of staff at all levels and outstanding performance in advocating innovation and safety culture, we received numerous safety and health awards from the industry. We won five awards at The 18th Hong Kong Occupational Safety and Health Award event, including OSH Enhancement Program Award – Silver Award, Safety Performance Awards, and more. In addition, we won four awards, namely Joyful@Healthy Workplace Best Practices Award – Grand Award, Innovative Award, Hearing Conservation Best Practices Award – Excellence Award and Innovative Improvement Award at the 14th Occupational Health Award event.

(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.

Our Company invested great efforts in safeguarding the condition and availability of the two gas plants. Our Ma Tau Kok gas production plant has over 42 years' history of safe and reliable production, while our Tai Po plant is equipped with modern computer control systems and sophisticated instruments, having run stably for 33 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 through 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 on the plants. The accident frequency rate of our gas production plants has always remained low, with about 0.46 cases per 100,000 man hours. Nonetheless, in pursuit of the target of zero accidents, our plant management team proactively review the root causes of each incident and implement every practicable preventive measure. There have been no major gas emergency at 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.

(d) Network Safety

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

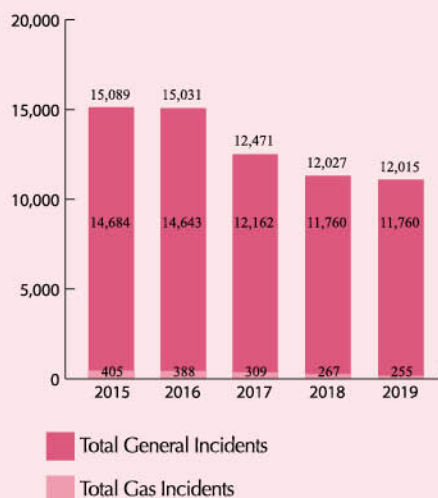
Emergency vehicles equipped with new tablets are now used in the handling of gas emergencies, while sensitive laser methane detectors are used for leakage surveys. Advanced technology were also introduced in recent years to monitor the condition of the coating on steel pipes.

In addition, we continue to check our pipes rigorously by conducting sophisticated leakage survey between six times a year and 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 2019, about 149,630 trench inspections were made at 8,601 active sites.

(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 to immediately, whether the incident is gas-related or not.

Out of the 12,015 urgent reports received in 2019, only 255 cases were gas-related incidents. Town gas-related incidents are classified according to the following criteria:

- Reported by Police or Fire Services Communication Centre
- Uncontrolled gas escape (which cannot 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 255 gas incidents in 2019, six were major gas emergencies.

* *Nature of "major gas emergencies" is defined in the Gas Safety Ordinance. Suicide cases are not included.*

(iii) Average Response Time for Gas Incidents



The promptness of Towngas' response to emergencies has achieved a world class standard. We shall strive to continue improving our relevant performance in the upcoming year.

(iv) Number of Fatal Gas Accidents

Year	2015	2016	2017	2018	2019
No. of Fatal Gas Accidents	0	0	0	0	0

* Suicide cases are not included.

Thanks to Towngas' efforts to promote gas safety and respond promptly to emergencies, there were no fatal accidents from gas emergency incidents throughout the past five years.

(v) Number of Incidents Involving Third-Party Damage



Towngas has been able to keep the third party damage in a relative low level, with only 10 cases in 2019.

(vi) Trench Inspection

Total number of active sites inspected in 2019

Hong Kong Island	Kowloon	New Territories	Total
2,828	2,914	2,859	8,601

To minimise third-party damage to its network facilities, Towngas emphasises close coordination with road work companies. In addition to the provision of alignment drawings and safety advice to the relevant parties, the Company also organises safety talks for the construction industry. In 2019, a total of 492 members of the construction industry attended our safety talks. The Company also proactively sends its technicians to work at sites to ascertain the alignment of its facilities for maximum safety.

(vii) Number of Leakage and Pipeline Surveys

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

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

Under the Company's rigorous leakage survey programme, our qualified technicians perform regular leakage detection on our different types of gas pipes with the help of advanced instruments, including Flame Ionisation Detectors (FID) and Combustible Gas Indicators (CGI). With these sensitive instruments, even gas seepage at very low concentration 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 incidents in networks totalled just 0.012 per km per year in 2019. Even if minor seepages located by the sensitive leakage survey were also included, the number came to no more than 0.084 per km per year, which is much lower than the figures in many other similar metropolitan cities.

(viii) Major Emergency Drills with Government Authorities in 2019

Type of Drill	Joint Fire Exercise				Emergency
Venue	Tai Po Plant	Ma Tau Kok Plant	Aberdeen Depot	Braemar Hill Tunnel	Tai Po Plant
No. of Exercises	2	2	1	1	1

(Government authorities include Fire Services Department, Electrical and Mechanical Services Department and Police Force)

(ix) 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 service risers at intervals of 18 months.

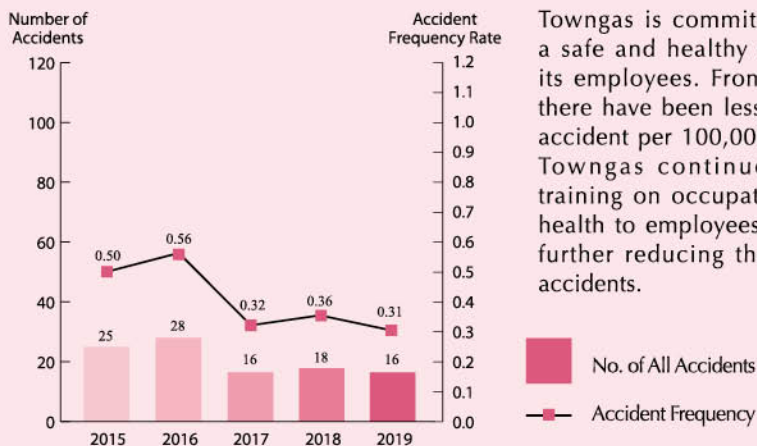
(x) Number of Sub-standard Appliances Upgraded

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 2019, 81 flueless (sink) and open-flued water heaters, and 343 cooking appliances without flame failure device were removed or upgraded.

(xi) 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 2019, we organised 17 safety exhibitions and 15 safety talks in the community. Information panels were exhibited and information booklets on gas safety were delivered.

(xii) Industrial Safety Performance of Employees



Towngas is committed to providing a safe and healthy environment for its employees. From 2015 to 2019, there have been less than one injury accident per 100,000 working hours. Towngas continuously provides training on occupational safety and health to employees with the aim of further reducing the occurrence of accidents.

* Safety inspections may be conducted earlier or later than planned depending on respective situations. Thus, the number of inspections conducted may differ from year to year.

3. Service Pledge

Initiated in 1994, the Towngas Service Pledge has set high targets for 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 25 years and pledges to continue improving its service and to set higher targets to ensure customers get the best possible level of service.

(a) Results of 2019

	Results
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.988%*
• In case of supply interruption on account of maintenance or engineering work: customer notification 3 days in advance	100%
• Restoration of gas supply within 12 hours	99.98%
Safety	
• Emergency Team average arrival time (within 25 minutes)	Average 21.52 minutes
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.15 days
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	96.66%
• 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)	99.75%
Service Quality	
• Efficiency #	8.95
• Courteous and friendly attitude #	8.93
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of how and when the matter will be resolved, within 2 weeks	100%

* In 2019, gas supply to a large number of customers in wide areas was impacted by a few incidents of water ingress and third-party damage to gas pipes.

The result was based on monthly surveys conducted by an independent research company. Our target was to exceed a score of 8 out of 10.

(b) Service Pledge for 2020

Towngas pledges to continue improving our service and to set higher targets, with the aim of providing our customers with the best possible service. The new Pledge has taken effect from January 2020, and the annual reporting of performance results will be announced in January 2021.

<u>Pledges</u>	<u>Target</u>
Reliability	
<ul style="list-style-type: none">• Uninterrupted gas supply	- Over 99.99%
<ul style="list-style-type: none">• In case of supply interruption (on account of maintenance or engineering work)	- Customer notification 3 days in advance
<ul style="list-style-type: none">• Restoration of gas supply	- Within 12 hours
Safety	
<ul style="list-style-type: none">• Emergency teams	- Arrive on site within 25 minutes
Appointments	
<ul style="list-style-type: none">• Availability of maintenance and installation services	- Within 2 working days
Speed and Convenience	
<ul style="list-style-type: none">• Customer Service Hotline	- Calls answered within 4 rings
<ul style="list-style-type: none">• Connect or disconnect gas supply	- Within 1 working day
<ul style="list-style-type: none">• Deposit refunded at Customer Centres	- 2 hours after disconnection of gas supply*
Service Quality	
<ul style="list-style-type: none">• Efficiency	- 8.5 out of a total score of 10
<ul style="list-style-type: none">• Courteous and friendly attitude	- 8.5 out of a total score of 10
Handling Suggestions	
<ul style="list-style-type: none">• Written comments or suggestions	<ul style="list-style-type: none">- Reply within 3 working days- Resolution, or a statement of how and 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 their cap-off service appointment. The maximum refund amount is HK\$2,000.

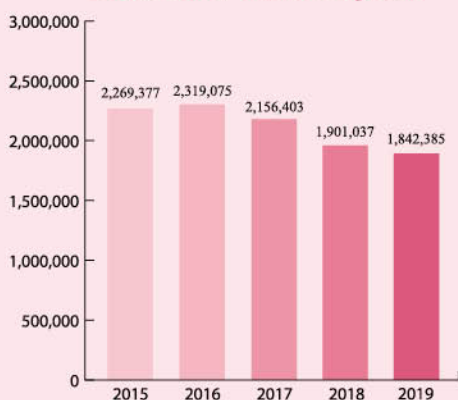
4. Customer Liaison

(a) Customer Focus Team

Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer-related departments, visits two public or private housing estates every month. Issues related to Towngas service, gas safety, bill payment and gas appliances are discussed at the meetings. Comments from customers contribute greatly to the improvement of Towngas products and services. In 2019, the Customer Focus Team made 24 visits to its customers.

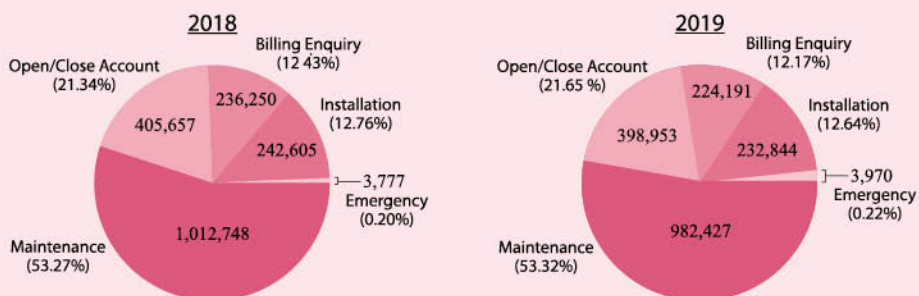
(b) Customer Service Hotline and Emergency Hotline

Total 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 for the full range of Towngas services. The Emergency Hotline – 2880 6999 – operates around the clock, and responds to emergency calls immediately.

Number of Incoming Calls by Categories:

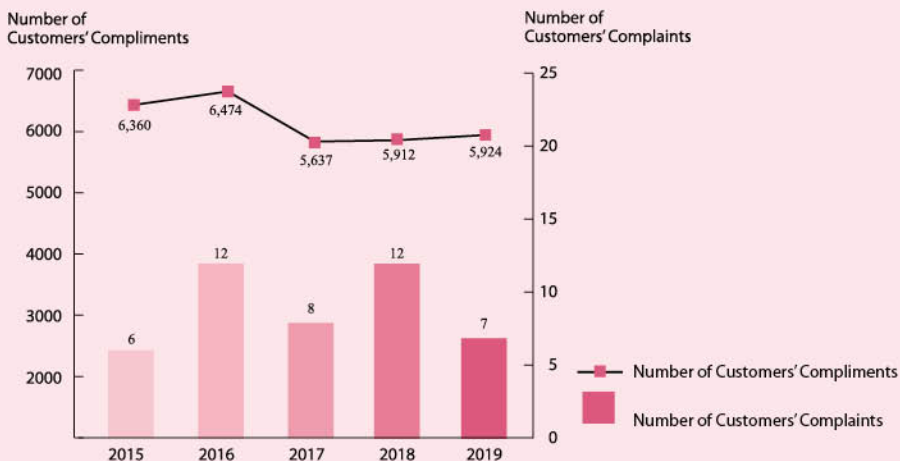


The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 53.32% of total calls in 2019 while other categories include opening and closing accounts, billing enquiry, installation and emergency.

(c) Bill Inserts to Customers

Our bill inserts, which come enclosed with the bi-monthly gas bill, is an effective means to keep our customers informed. In 2019, a total of 26 information leaflets were sent to customers. The topics of these inserts were mostly related to Towngas services and products, including special offers on appliance, Towngas Avenue, Towngas Cooking Centre, Mia Cucina, green and health products, as well as gas safety and energy saving tips. Also, we have sent leaflets for seven non-governmental organisations without charges.

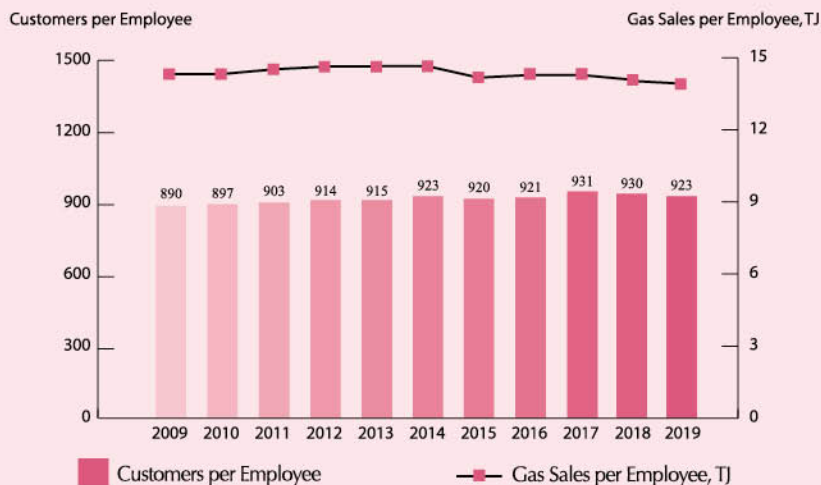
(d) Number of Customers' Compliments and Complaints



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 service. As a result, a total of 5,924 compliments on Towngas' service were received in 2019.

Towngas also received a total of seven complaints in 2019. With 1,933,727 customer accounts as at 31 December 2019, the ratio is one complaint to every 276,247 customer accounts. Towngas is committed to taking proactive measures to improve product quality and the service of its frontline staff.

5. Efficiency (Products and Productivity)



In 2019, Towngas continued to devise and implement measures to enhance its cost effectiveness, without compromising the quality of our products and services to customers. These included introduction of appliances, meters and materials with improved performance and lower cost, application of new tools and work procedures to streamline processes, and more extensive use of information communication technology (ICT) in metering and customer services operations.

The productivity of Towngas is measured in terms of the number of customers served by each employee. As at the end of 2019, the number of employees engaged in town gas business was 2,096. In 2019, each employee served the equivalent of 923 customer accounts, and town gas sales averaged 13.7 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Towngas also strives to provide more efficient cooking equipment for our industrial and commercial clients. Guangdong stir-fries call for “the taste of wok”, which is a result of both the chef’s cooking skills and the indispensable gas range. In a small and congested commercial kitchen, space is so limited that sometimes there is no room for the rear pot of the wok range. Yet this rear pot is useful for absorbing the waste heat of the wok range to heat up the water used in cooking, thereby contributing to energy saving. Therefore, we have revamped the wok range to include an internal heat exchanger and high-efficiency premix burner, while keeping it compact enough for the kitchens of small- and medium-sized fast food shops. The overall thermal efficiency of this revamped wok range is even higher than that of traditional wok ranges with rear pots.

In addition, our innovative use of landfill gas has also been gaining momentum. From our first landfill gas utilisation project at Shuen Wan Landfill to the commissioning of our North East New Territories project in 2007, the application of this renewable energy has grown exponentially. In 2019, landfill gas accounted for about 1 per cent of our production fuel. In addition to treatment facilities in the North East New Territories, which has been in operation for several years, another landfill gas utilisation project in the South East New Territories is helping to further raise the proportion of landfill gas used by the Group, thus increasing our contribution to energy conservation and emission reduction in Hong Kong. The use of landfill gas has not only helped to cut carbon emissions released into the atmosphere, but also reduced our consumption of naphtha by around 3,780 tonnes in 2019. These savings are equivalent to the annual carbon dioxide absorption of 0.5 million trees.

With the improvement in the efficiency of gas appliances, the average monthly household gas consumption has reduced over the years.

Average Monthly Household Gas Consumption



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 repair, on-demand appliance check-ups, Regular Safety Inspection whereby customers' gas appliances, gas installation pipes and service risers are inspected by our fully-qualified, registered gas technicians at intervals of 18 months, and the 24-hour Customer Service Hotline. Towngas conducted more than 520,000 on-demand maintenance works and more than 1,160,000 Regular Safety Inspections in customers' homes in 2019.

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 monthly fuel costs. For every complete multiple of HK\$1 by which the effective feedstock cost* rises above (or falls below) the equivalent of HK\$1,420 per kilolitre of naphtha, the charge for gas will be increased (or reduced) at the rate of HK0.004 cents per MJ.

In 2019, our customers saved a total of HK\$808 million in fuel cost adjustments due to our introduction of natural gas to the production of town gas.

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

7. Fuel Mix Percentage

In 2019, our fuel mix in terms of percentage of naphtha, natural gas and landfill gas used for gas production is as follows:

Feedstock	Percentage
Naphtha	38%
Natural Gas	61%
Landfill Gas	1%

8. Towngas Concession Schemes

Seeking to make a difference for some of our society's disadvantaged groups, we have launched four concession schemes to offer quality gas service at a discount to eligible applicants. Under the concession schemes, beneficiaries enjoy a 50% discount on basic gas tariff for the first 500 MJ (around 10.4 units) of town gas consumed, waiver of monthly maintenance charge, initial charge and security deposit, as well as free appliance maintenance and spare parts.

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

* All applicants should be registered Towngas account holders.

In 2019, the overall average amount of annual savings per beneficiary customer under the Towngas Concession Schemes was about HK\$565. Over 46,000 households from Towngas Concession Schemes benefited from concessions totalling HK\$26 million.

ENVIRONMENTAL PROTECTION

Our ESG Report clearly elaborates our ESG strategies and sets out the targets and standards that we encourage all employees, contractors and suppliers to work towards. As a responsible public utility, our responsibility is not limited to our own operation. We also promote environmental awareness amongst our stakeholders in support of sustainable development.

1. Environmental Promotional Programmes

We continue to offer our support to green groups and government-led environmental protection programmes such as Energy Saving Charter and 4Ts Charter Schemes. In 2019, we supported and sponsored The Green Earth's five-year Plantation Enrichment Project to build native tree woodland, as well as the No Straw Day organised by the Ocean Park Conservation Foundation, Hong Kong. We also sponsored and participated in the annual Eco Rangers by the Conservancy Association, Mooncake Recycling Programme by Food Grace, Green Cooking Competition by the Green Council, Green Power Hike by Green Power, No Air Con Night by Green Sense, Let Our Children Breathe by the Clean Air Network, and Earth Hour by WWF.

2. Environmental Training and Education Programmes

Towngas has provided a great variety of environmental training and educational activities to nurture a culture of environmental awareness among our stakeholders. Programmes conducted in 2019 included the annual Outstanding Environmental Sub-committee Award, a seminar on air quality, biodiversity and food waste, a tour to Fung Yuen Butterfly Reserve, and more. Four issues of our Health, Safety, Environment & Security Bulletin were also published and distributed to our employees and contractors. Green promotional messages were conveyed to employees via email and intranet on a regular basis. Since we consider public engagement to be essential, we organised the Green Flame Project – Upcycling for a Greener Home in 2019, during which participating students upcycled waste and created items such as wooden shelves and wall units to improve the living conditions of underprivileged families.

3. Environmental Achievements

Towngas was conferred with the Gold Award in the Manufacturing Sector and Guangdong-Hong Kong-Macao Bay Area Environmental Leadership Recognition Award of the BOCHK Corporate Environmental Leadership Award competition organised by the Federation of Hong Kong Industries, and the 2018 Hong Kong Awards for Environmental Excellence (Restaurants – Gold Award and Public and Community Services – Silver Award) by Environmental Campaign Committee. The Excellence Level Wastewi\$e Certificate which the Environmental Campaign Committee conferred upon us for the 18 consecutive years was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2019, Towngas' 12 functional environmental sub-committees achieved around 40 environmental objectives, one of which was to complete the ISO 20400 Sustainable Procurement assessment, which led Towngas to become the first public utility in Hong Kong to be verified by the British Standards Institution. To reduce waste in landfill sites, we developed a solar powered hydroponics system by upcycling our scrap polyethylene pipes and fittings. We donated this system to schools for the Towngas Inter-School Environmental Scientific Investigation Competition 2019. In addition, we also held the Used Gas Appliance Recycling Programme for over ten years to recover metal from unwanted appliances. In 2019, more than 1,600 tonnes of metal was recovered under this programme. For more details about our environmental performance and targets, please access our corporate website to view or download our ESG 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.
- The central chiller plant system in our North Point headquarters and Ma Tau Kok building operate with HCFC-free refrigerants.

Air Quality

- Total NO_x output was 4.0 kg/TJ of town gas (Annual total of 112,385 kg, equivalent to a daily average of 308 kg).
- Total SO_x output was 0.01 kg/TJ of town gas (Annual total of 349 kg, equivalent to a daily average of 1.0 kg).
- Total CO₂ output was 11.9 MT/TJ of town gas (Annual total of 332,746 MT, equivalent to a daily average of 912 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emission was 357,060 MT in terms of CO₂ equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 6.0 kg/TJ of town gas (Annual total of 168,670 kg, equivalent to a daily average of 462 kg).
* *Before introduction of natural gas feedstock, estimated annual total VOC emission was 9.83 kg/TJ of town gas (Annual total of 268,242 kg, equivalent to a daily average of 735 kg).*

Water Quality

- Total waste water output was 3.9 m³/TJ of town gas (Equivalent to a daily average of 306 m³).

Chemical Waste

- Total chemical waste output was 3.1 kg/TJ of town gas (Equivalent to a daily average of 238 kg).

Noise

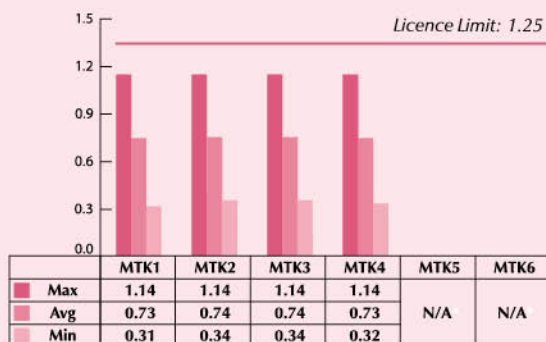
- All installations and operations complied with the statutory requirements. No noise abatement notice has ever been received.

(b) Operation of Gas Production Plant for 2019

As one of the leading energy suppliers in Hong Kong, Towngas provides a safe and reliable gas supply to its customers every day. During the year, the availability of Tai Po plant was 83.7%, while its thermal efficiency reached 88.2%. The installed capacity of the two plants in Tai Po and Ma Tau Kok totalled 12.596 million standard m³/day and the peak daily demand was about 6.058 million standard m³/day.

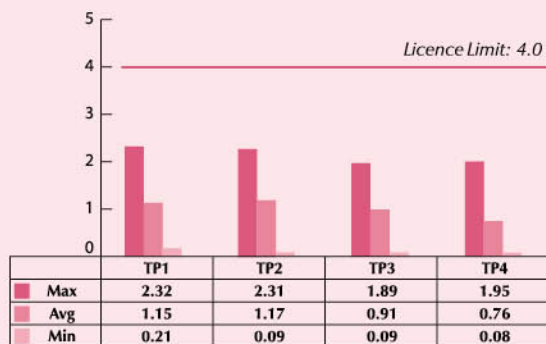
(c) Emission Levels of Gas Production Plants for 2019

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

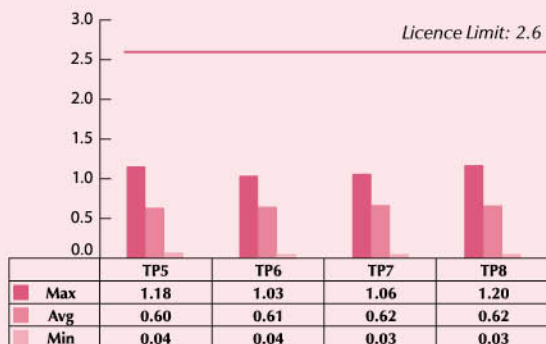


MTK5 and MTK6 at cold standby in 2019

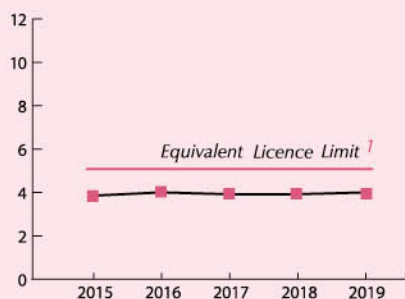
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (kg/hour)



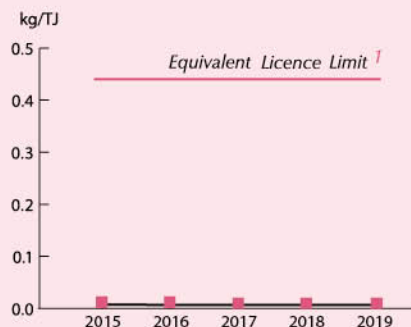
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (kg/hour)



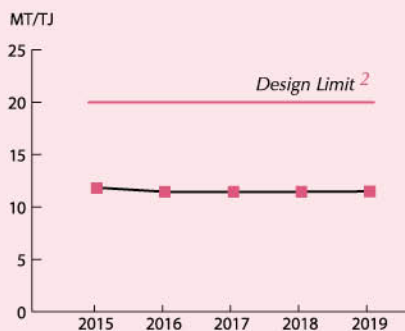
(iv) NOx emission level



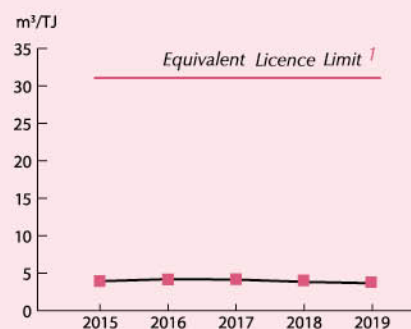
(v) SOx emission level



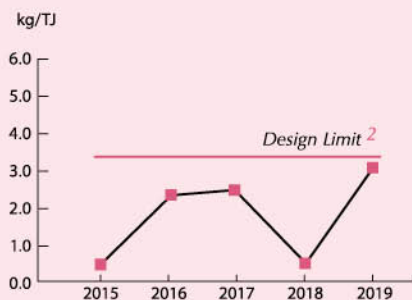
(vi) CO2 emission level



(vii) Waste water output



(viii) Chemical waste output



- 1 "Equivalent Licence Limit" (kg/TJ OR m³/TJ) = "Weighted average of actual licence limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2019 (TJ/hr).
- 2 As there is no Licence Limit for the discharge level, we applied the design limit of our production plants as a reference point for the emission level.

FINANCIAL INFORMATION

The figures and financial information shown in this section do not constitute the statutory annual consolidated financial statements of The Hong Kong and China Gas Company Limited (the “Company”) for the year ended 31st December 2019, but are derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “Companies Ordinance”) is as follows:

The Company will deliver the consolidated financial statements for the year ended 31st December 2019 in due course to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedules 6 to the Companies Ordinance.

The Company’s auditor has reported on these consolidated financial statements. The auditor’s report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

1. Consolidated Income Statement

for the year ended 31st December 2019	2019 HK\$’M	2018 HK\$’M
Revenue	40,628.1	39,073.0
Total operating expenses	<u>(32,604.4)</u>	<u>(30,689.8)</u>
	8,023.7	8,383.2
Other gains, net	1,048.7	20.0
Interest expense	(1,230.4)	(1,176.6)
Share of results of associates	1,820.4	3,589.5
Share of results of joint ventures	741.5	1,523.4
Profit before taxation	<u>10,403.9</u>	<u>12,339.5</u>
Taxation	<u>(2,289.6)</u>	<u>(1,907.6)</u>
Profit for the year	<u>8,114.3</u>	<u>10,431.9</u>
Attributable to:		
Shareholders of the Company	6,965.7	9,312.8
Holder of perpetual capital securities	98.6	107.4
Non-controlling interests	<u>1,050.0</u>	<u>1,011.7</u>
	<u>8,114.3</u>	<u>10,431.9</u>
Earnings per share – basic and diluted, HK cents	<u>41.2</u>	<u>55.0*</u>

* Adjusted for the bonus share issue in 2019

2. Consolidated Statement of Financial Position

as at 31st December 2019

	2019	2018
	HK\$'M	HK\$'M
Assets		
Non-current assets		
Property, plant and equipment	61,082.7	57,978.8
Investment property	830.0	778.0
Right-of-use assets	2,725.2	–
Leasehold land	–	2,214.5
Intangible assets	5,291.1	5,682.1
Associates	27,475.5	26,314.1
Joint ventures	10,613.5	10,950.3
Financial assets at fair value through other comprehensive income	3,141.9	1,127.0
Financial assets at fair value through profit or loss	5,030.6	3,506.7
Derivative financial instruments	354.1	55.4
Retirement benefit assets	66.3	–
Other non-current assets	3,729.8	3,474.0
	<u>120,340.7</u>	<u>112,080.9</u>
Current assets		
Inventories	2,363.7	2,480.7
Trade and other receivables	8,001.2	7,615.9
Loan and other receivables from associates	526.7	356.9
Loan and other receivables from joint ventures	800.4	822.6
Loan and other receivables from non-controlling shareholders	240.0	155.0
Financial assets at fair value through profit or loss	188.5	303.5
Derivative financial instruments	1.4	38.2
Time deposits over three months	158.6	338.6
Time deposits up to three months, cash and bank balances	7,848.9	8,500.8
	<u>20,129.4</u>	<u>20,612.2</u>

2. Consolidated Statement of Financial Position (Continued)

as at 31st December 2019

	2019	2018
	HK\$'M	HK\$'M
Current liabilities		
Trade payables and other liabilities	(14,718.0)	(13,929.4)
Amounts due to joint ventures	(943.2)	(1,049.5)
Loan and other payables due to non-controlling shareholders	(100.4)	(148.0)
Provision for taxation	(1,165.3)	(496.8)
Borrowings	(9,240.6)	(8,062.7)
Redeemable perpetual securities	–	(2,349.6)
Derivative financial instruments	–	(114.9)
	<u>(26,167.5)</u>	<u>(26,150.9)</u>
Total assets less current liabilities	<u>114,302.6</u>	<u>106,542.2</u>
Non-current liabilities		
Deferred taxation	(7,180.5)	(6,099.1)
Borrowings	(28,695.6)	(27,609.3)
Asset retirement obligations	(78.1)	(48.6)
Derivative financial instruments	(571.0)	(558.9)
Retirement benefit liabilities	–	(23.8)
Other non-current liabilities	(2,380.7)	(2,009.2)
	<u>(38,905.9)</u>	<u>(36,348.9)</u>
Net assets	<u>75,396.7</u>	<u>70,193.3</u>
Capital and reserves		
Share capital	5,474.7	5,474.7
Reserves	<u>58,734.7</u>	<u>56,926.0</u>
Shareholders' funds	64,209.4	62,400.7
Perpetual capital securities	2,384.2	–
Non-controlling interests	<u>8,803.1</u>	<u>7,792.6</u>
Total equity	<u>75,396.7</u>	<u>70,193.3</u>

3. Directors' Emoluments

The aggregate amounts of emoluments payable to directors of the Company for their service on the Board of the Company and its subsidiaries undertaking for the year ended 31st December 2019 are as follows:

	HK\$'M
Fees	5.3
Salaries, allowances and benefits in kind	11.6
Performance bonus	30.7
Contributions to retirement scheme	8.4
	<hr/>
	56.0
	<hr/>

Number of directors whose emoluments fell within:

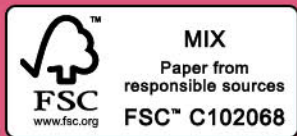
<i>Emoluments band (HK\$'M)</i>	
0.0 - 1.0	7
17.0 - 17.5	1
33.5 - 34.0	1

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK\$47.6 million and post-employment benefits of HK\$8.4 million paid to the Group's senior management during the year ended 31st December 2019. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's senior management during the year.

4. Analysis of Residential Maintenance

Net loss on residential maintenance of the Company under the Fixed Monthly Maintenance Charge for the year ended 31st December 2019 is as follows:

	HK\$'M
Residential maintenance revenue	213.3
Less expenses:	
Manpower costs	(162.5)
Other operating and administrative expenses	(120.5)
	<hr/>
Net loss	(69.7)
	<hr/>



香港中華煤氣有限公司
The Hong Kong and China Gas Company Limited
June 2020 www.towngas.com