
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

2014

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 this Corporate Information Booklet 2014.

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

Since 1862, we have continually set the benchmark in Hong Kong in terms of service, operational excellence, engineering and safety. We are devoted to providing our customers with safe and reliable energy, and to broadening the scope of our activities through ongoing innovation. As we look to retain our leading position in our home market and expand our horizons, we will continue to be guided by our core corporate values of integrity and total quality management.

The local economy sustained moderate growth in 2014 with favourable overall local employment conditions. Despite a slowdown in local consumer spending, restaurant and hotel sectors, benefiting from continuous growth in the number of inbound tourists, continued to progress well during the year. As a result, commercial and industrial gas sales increased in 2014. However, growth was partly offset due to a slightly higher annual average temperature in 2014 than 2013. Overall, total volume of gas sales in Hong Kong for the year increased slightly by 1 per cent to 28,835 million MJ whereas appliance sales revenue increased by 6.1 per cent with a total of 252,135 sets sold, both compared to 2013.

During the year under review, the Company invested HK\$1,027 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 rose by 1 per cent in 2014, while our customer base further expanded to a total of 1,819,935 accounts, an increase of 21,204 over the previous year. Although the Company has been implementing cost saving measures, operating expenses and manpower costs have been rising as influenced by the business environment. Net profit after tax from sales of town gas in Hong Kong for the year 2014 amounted to HK\$2,699.2 million.

(b) Sales and Marketing

Despite a slowdown in local consumer spending, the restaurant and hotel sectors – benefiting from continuous growth in the number of inbound tourists – continued to progress well during the year. As a result, commercial and industrial gas sales increased in 2014. Our efforts to support businesses in the switch from diesel to town gas for both economical and environmental reasons also continued to reap rewards. The hospital sector enjoyed growth of 5.7 per cent, mainly due to a diesel-to-gas boiler conversion project at Yan Chai Hospital and North Lantau Hospital being operational for its first full year.

The government and industrial sectors showed outstanding performance, with volume growth of more than 6 per cent and 4 per cent respectively. This was mainly due to gains from newly commissioned heated public swimming pools, gas absorption chillers and gas desiccant dehumidifiers being introduced to theme parks, newly acquired laundry clients, and the expansion of a food factory.

Two major contracts were secured in 2014. A new facility due to open in 2016 at the

Yuen Long Industrial Estate will see business from an existing laundry client double. The phase two absorption chiller at a theme park in Lantau will be operational in 2015, and a new on-site hotel will open in 2017, representing a significant uplift in gas sales.

We also played an important role in the food and beverage market. In view of manpower shortages, a growing problem in the restaurant trade, we introduced a series of state-of-the-art, labour-saving automated applications, ranging from an auto-tossing gas wok range to a smart meat roaster, an auto gas deep fryer and a smart claypot rice cooker. In addition, we sponsored the Taste of Hong Kong Awards, in which the assessment board invited mystery diners to appraise high quality restaurants around the city.

With the reputation for superior quality, Towngas' high-end kitchen solutions brands, Mia Cucina (kitchen cabinets) and Scholtès (kitchen equipment) are targeted at high-end retail customers and property developers for bulk installation. In 2014, we introduced CURVA, a new range of stylishly-designed, curved-lined cabinets well-suited to spatially-restricted Hong Kong homes on account of their smooth angles.

We put a great deal of effort into promoting flame cooking. During the year, a marketing campaign themed "Cook for Love" was launched to encourage cooking and dining at home. This included a TV commercial and various online promotions, both of which received enthusiastic feedback from the public across different age groups. In December, we also sponsored a cookery TV programme featuring celebrities and renowned chefs preparing food by using Mia Cucina and Scholtès products. Looking forward, we will continue to promote our brand offering under the "Cook for Love" umbrella theme, whilst further exploring social media channels and enhancing our product range at retail level to create more customer touch-points and nurture all-round engagement.

Our Flame restaurant at Towngas Avenue in Tsim Sha Tsui began offering wedding with celebrant service in 2014. The venue's romantic setting, overlooking Victoria Harbour, and its flexible catering set-up make it perfect for parties and banquets. Moreover, our Cooking Centre in partnership with Disciples Escoffier Asia, one of the world's premier gastronomic societies, organised the Escoffier Diploma in Culinary Arts programme for cooking lovers.

(c) *Serving Our Customers*

Technology has afforded us a number of exciting and innovative ways to enhance our service. Our Customer Service Hotline Centre is now powered by a state-of-the-art call management system with enhanced functionality that embraces a wide range of voice and digital channels.

Improving the productivity of our inspection services is another way to ensure gas system integrity. In 2014 we rolled out our new 360-degree Total Riser Solution for inspections of gas risers attached to high-rise buildings. This involves a quadcopter that enables inspections to be carried out efficiently without the need for erecting scaffolds, as well as a gondola equipped with stabilisers to scale premises. These

systems greatly reduce waiting time and costs as well as improve overall safety by eliminating hazards from working at heights, and their value was recognised as Towngas proudly gained the Safety Enhancement Programme Silver Award at the 13th Hong Kong Occupational Safety & Health Award.

In addition, we delivered refresher courtesy training for more than 1,100 frontline technicians, contractors and also sales and customer service hotline staff. We accumulated a total of 3,075 learning hours through the programme, a major commitment in our ongoing efforts to enhance our service culture across key areas.

(d) *The Gas Infrastructure*

In 2014, we continued to expand and upgrade our piped-gas network and infrastructure in Hong Kong to serve new and existing customers and enhance supply reliability.

The existing twin 400 mm diameter pipelines from Ma Tau Kok to North Point are being replaced by 450 mm ones. The submarine section of the project, from To Kwa Wan to North Point, is completed and the pipelines are expected to be commissioned by mid-2015.

The pipeline to bring natural gas from Sha Tin, via Beacon Hill Tunnel to Ma Tau Kok is now completed. Moreover, modifications to our Ma Tau Kok plant are also expected to be finished by mid-2015, after which natural gas will replace naphtha as the major feedstock for the production of town gas at that plant. This change is expected to yield both economical and environmental benefits.

To enhance supply security in the North West New Territories, a 9 km long pipeline is being constructed along Tuen Mun Castle Peak Road to Tai Lam. Targeted to be finished in 2016, work is about two-thirds completed.

Planning is in progress to cope with the government's future new town developments, and for infrastructure to support MTR Corporation's major railway projects serving new residential areas.

In 2014, Towngas successfully gained ISO 55001 certification, the new ISO standard for asset management. New software was also developed that uses scientific methods to prioritise replacement work on ageing pipelines, based on information regarding their service age, location and operating conditions. Utilising our Geographic Information System, it enhances the asset management of the Company's pipeline network.

(e) *Towards a Sustainable Future*

As a responsible company committed to sustainable business practices and a greener future, we aim to provide our customers with quality products and services while minimising our environmental footprint. As such, we put great emphasis on developing and nurturing a culture of caring for the environment both in our day-to-day operations and in our community initiatives.

A major milestone in the Company's green endeavours came in December 2014, when we signed an agreement with the operator of the landfill site at Tseung Kwan

O, for work to begin on the South East New Territories (SENT) landfill gas utilisation project. We will build a landfill gas treatment facility to turn landfill gas into synthetic natural gas, which will be integrated into the gas supply network. The project will reduce the emission of carbon dioxide by 56,000 tonnes a year, equivalent to the planting of 2.4 million tree seedlings. Construction work will begin in the second quarter of 2015 and the project is expected to be operational by the third quarter of 2016.

We also continued to support green groups' activities locally, including the WWF's annual "lights out" Earth Hour initiative, Conservancy Association's Green Leaders Bloc training programme, Friends of the Earth's Tree Planting Challenge and Green Sense's No Air-Con Night. In addition, we sponsored Greeners Action's Zero Food Waste at Campus programme through which primary school students are taught about food waste reduction and food recycling.

(f) Empowering Our People

We believe the key to retaining talents and driving success is to care for the overall health and happiness of staff. By building a pleasant and harmonious corporate culture, we are rewarded with a motivated workforce.

In 2014, our Fun Living Series campaign was launched, with the theme of encouraging employees to cultivate a positive mindset and spirit as regards their health, work and family lives. Activities organised included: workshops on positive psychology, yoga at work, organic farming, rowing competition, health talks, and seminars about harmonious working relationships and children's emotional intelligence.

The Towngas Buddy Club, established in 2012 to provide opportunities for our retirees to get together and have fun with former colleagues, organised a number of activities in 2014, including day trips, buffet lunches, dinners and seminars.

In our continued efforts to ensure we are equipped with a sustainable and skilled workforce to meet the challenges of an ever-developing and expanding business, we allocate significant resources towards ongoing management, leadership and technical training. To support "Expanding New Horizons", our management theme since 2013, last year we continued to invest in our people to enhance their capabilities and provide opportunities for career development.

Having started in 2008, last year saw the launch of the third round of TLC+, our Corporate Leadership Development programme. A total of 20 good performing and high potential middle management level employees from different business units were selected by a panel of senior executives to join this intensive 18-month fast-track development programme, which allows us to develop talents from within the group. The programme helps create a solid management foundation for the future, with management succession across all group ventures a key strategic priority.

Our Leading Others series was launched in 2012 with the aim of enhancing the people management and leadership competencies of our supervisory and managerial employees. In 2014, the programme offered a total 12,000 training hours, representing another huge commitment to nurturing leaders within our ranks.

Our Graduate Trainee programme was accredited by the Institution of Gas Engineers and Managers, a UK-based professional engineering institution, as suitable for Initial Professional Development for Chartered Engineers. In 2014, Towngas hired 13 Graduate Trainees in Hong Kong who are now attached to various streams and departments in order to strengthen their technical knowledge and skills.

The Towngas Engineering Academy (TEA) – which strives to develop a competent workforce that drives the Group to excel in delivering safe operations, serve our customers and grow our business – is now implementing an internationally recognised engineering training system of its own for engineers both in Hong Kong and mainland China. TEA completed a total of 168,480 training hours in 2014.

Rigorous yet efficient recruitment processes are essential to ensure that we hire talented people with the skill sets required to continue to develop our business in the right direction, and in 2014 we piloted a workshop on Competency-based Interviewing Skills for our senior executives. Additional programmes will be launched in 2015 to enhance the expertise of managers in this area.

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 2014, 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 1,240,000 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

Safety and Health is our priority. Maintaining the highest standard of health and safety, we organised safety trainings and implemented safety measures in our company. During the year, there were 13 industrial accidents, resulting in an Accident Frequency Rate of 0.27.

Driving a culture of safety and improving emergency procedures internally, we held a number of joint fire exercises with the Fire Services Department. These exercises helped ensure that our emergency response team would work closely with the Fire Services Personnel in the operations. Besides, we organised Corporate Emergency Table-Top Exercise to enhance emergency management.

In 2014, we organised "Health, Safety and Environment Climate Index Survey" for continual improvement. Taking this message to our employees and contractors, we organised the Health, Safety and Environment (HSE) month for more than 2,500 staff and contractors. Activities such as HSE Quiz and HSE Forum were organised. In order to further enhance contractor safety standard, Contractor Safety Programmes including Safe Foreman Award and Contractor HSE Forum were organised. These activities not only brought in highly positive responses, they also raised greater awareness of occupational safety and health. Also, "HSE forum" and Mass Communications with contractors were organised to further improve their HSE awareness.

Achieving outstanding safety performance, Towngas won 10 awards in the "13th Hong Kong Occupational Safety & Health Award" organised by Occupational Safety and Health Council, including "OSH Annual Report Award – Gold Ward" for 5 consecutive years, "Safety Culture Award – Gold Award", "Safety Performance Award" and numbers of drama performance award.

(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 2014.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 37 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 28 years. Both sites implement strict work rules and procedures to control various high risk operations, with robust backup from automatic alarms and safety interlocks. A high degree of emergency response preparedness is achieved by a wide range of fire-fighting facilities, well trained response teams and frequent emergency drills. Our standards of safety control compare most favourably with other major utilities in Hong Kong and overseas.

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

The Accident Frequency Rate of gas production plants has always been maintained at a low level, with about 0.48 case per 100,000 man hours. Nonetheless, in pursuit of the target of zero accidents, the plant management proactively reviewed the root causes of each incident and implemented every practicable preventive measure. No major gas emergency has happened in the plants for many years.

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

(d) Network Safety

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

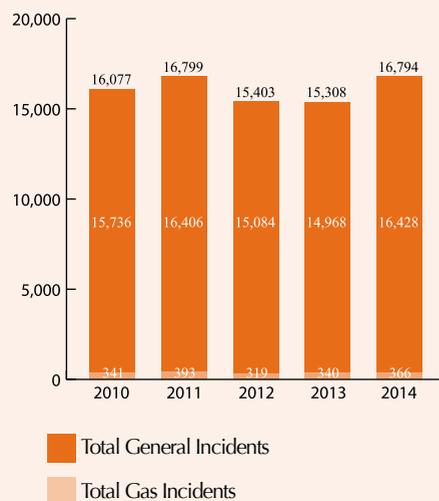
Emergency vehicles equipped with new tablets are now used in the handling of any gas emergency and the use of sensitive laser methane detectors for leakage surveys, as well as advanced technology which check the condition of the coating on steel pipes, were also introduced these years.

In addition, 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 2014, about 168,523 trench inspections covering 16,390 active sites were made.

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

(i) Number of Urgent Reports

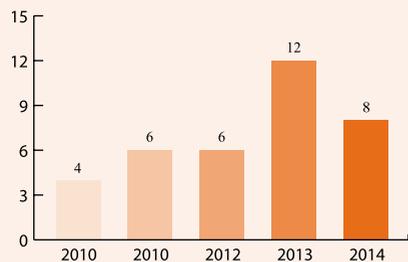


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 16,794 Urgent Reports received in 2014, only 366 cases were Gas Incidents. Gas Incidents are town gas-related and are classified according to any of the following situations:

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

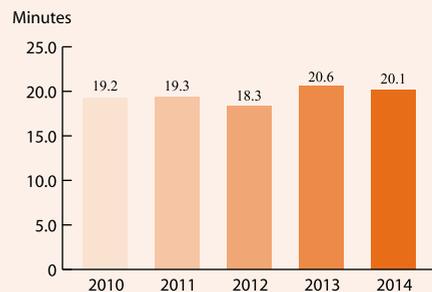
(ii) Number of Major Gas Emergencies



Out of the 366 Gas Incidents in 2014, 8 cases were Major Gas Emergencies.

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

(iii) Average Response Time for Gas Incidents



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

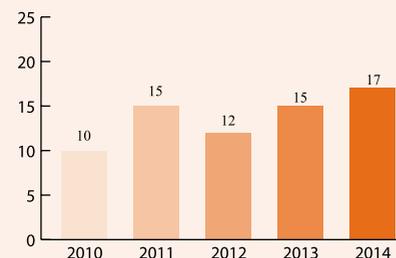
(iv) Number of Fatal Gas Accidents

Year	2010	2011	2012	2013	2014
No. of Accidents	0	0	0	0	0

* Suicide cases are not included.

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

(v) Number of Incidents Involving Third Party Damage



Towngas has been able to keep the third party damage in a relative low level. The number of third party damage was 17 in 2014.

(vi) Trench Inspection

Total number of active sites inspected in 2014

Island	Kowloon	New Territories	Total
4,695	5,884	5,811	16,390

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 2014, a total of 396 contractor personnel attended our safety talk sessions. Besides, the Company is possibly the only local utility to proactively send its technicians to work at sites to ascertain the alignment of its facilities for maximum safety.

(vii) Number of Leakage and Pipeline Surveys

Type of pipelines	Frequency of leakage surveys
Transmission pipelines: - All HP & IPB mains	At least once a year
Distribution pipelines: - PE or steel pipes over or enclosed within structures - Medium pressure ductile iron pipes or all 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, 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.

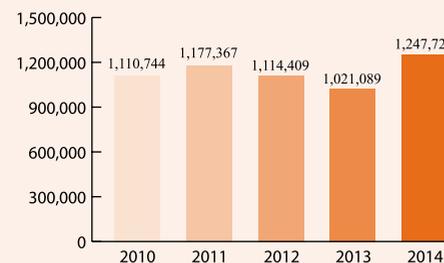
As a result of the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in network was only 0.023 per km per year in 2014. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.11 per km per year only, much lower than the figures in many other similar metropolitan cities.

(viii) Statistics of Major Emergency Drills with Government Authorities in 2014

Type of Drill	Joint Fire Exercise					Bomb Threat Drill	
	Tai Po Plant	Ma Tau Kok Plant	Aberdeen Depot	Network (Tai Po)	Braemar Hill Tunnel	Tai Po Plant	Ma Tau Kok Plant
No. of Exercises	2	2	1	1	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 external service risers at regular intervals of 18 months.

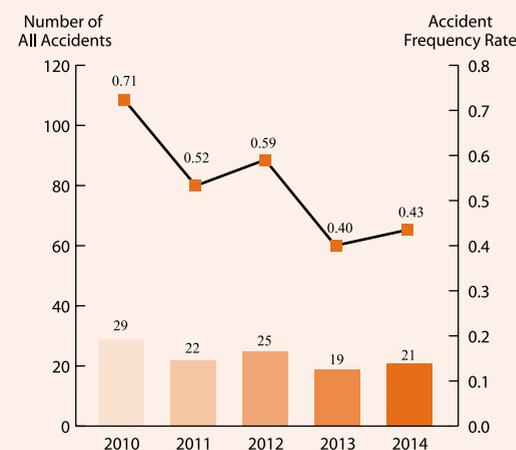
(x) Number of Sub-standard Appliances Upgraded

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 2014, 73 Flueless (Sink) and Open-flued water heaters were 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 2014, we organised 12 safety exhibitions and 10 safety talks in housing estates and elderly centres. 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 2010 to 2014, there have been less than 1 injury accident per 100,000 working hours. Towngas continuously provides training on occupational safety to employees with the aim of further reducing the occurrence of accidents.

3. Service Pledge

Initiated in 1994, the Towngas Service Pledge has set high targets in major customer service areas: reliability of gas supply, safety, service attitude, the speed and convenience of service, appointments and complaint handling. Towngas has performed well in the past 20 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 2014

	<u>Results</u>
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 average arrival time (within 25 minutes) ¹	average 21.18 minutes
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.11 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	92.99%
• 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	8.81
• Courteous and friendly attitude ²	8.78
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	100%

¹ Results of Emergency Team's arrival time has been released in form of average arrival time since 2014.

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

(b) Service Pledge for 2015

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 2015, and the annual reporting on performance results will be announced in January 2016.

<u>Pledges</u>	<u>Target</u>
Reliability	
• Uninterrupted gas supply	- Over 99.99%
• In case of supply interruption (on account of maintenance or engineering work)	- 3 days prior notification
• Restoration of gas supply	- Within 12 hours
Safety	
• Emergency Teams	- Arrive on site within 25 minutes
Appointments	
• Availability of maintenance and installation services	- Within 2 working days
Speed and Convenience	
• Customer Service Hotline	- Calls answered within 4 rings
• Connect or disconnect gas supply	- Within 1 working day
• Deposit refunded at Customer Centres supply*	- 2 hours after disconnection of gas
Service Quality	
• Efficiency	- 8 or above out of a total score of 10
• Courteous and friendly attitude	- 8 or above out of a total score of 10
Handling Suggestions	
• Written comments or suggestions	- Reply within 3 working days
	- Resolution, or a statement of when the matter will be resolved, within 2 weeks

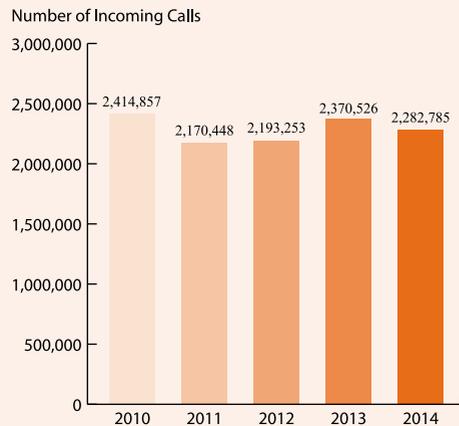
* To enjoy this service, residential customers are advised to inform us of their request for refunds at the time of making cap-off service appointment. The maximum refund amount is HK\$2,000.

4. Customer Liaison

(a) Customer Focus Team

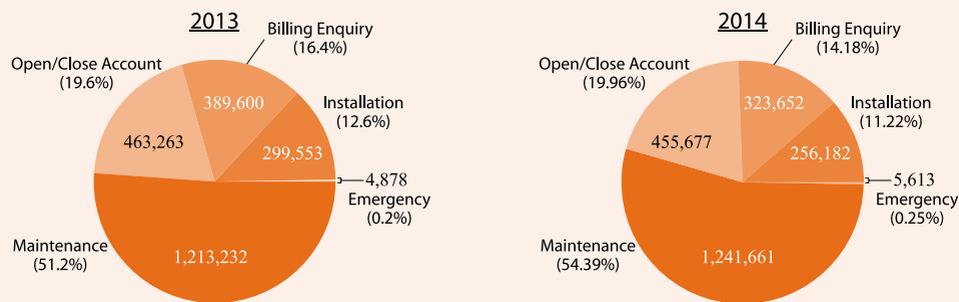
Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer related departments, visits two public or private housing estates every month. Issues related to Towngas service, gas safety, bill payment and gas appliances are discussed at the meetings. Comments from customers contribute greatly to the improvement of Towngas products and services. In 2014, 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 – operates around the clock, and responds to emergency calls immediately.

Number of Incoming Calls by Categories:



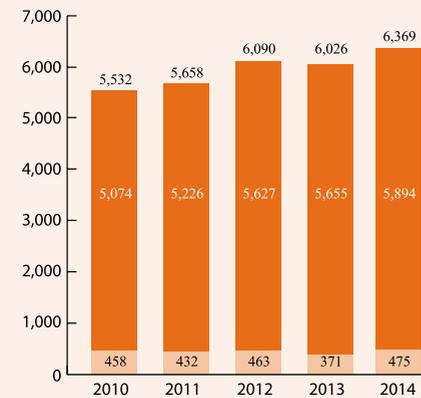
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 54.39% of total calls in 2014 while other categories include open/close account, billing enquiry, installation and emergency.

(c) Bill Inserts to Customers

A bill insert, which comes with the bi-monthly gas bill, is an effective means to keep our customers informed. In 2014, a total of 14 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to Towngas services and products, including special offers on appliance, Towngas Avenue, Towngas Cooking Centre, Mia Cucina, green and health products, etc as well as gas safety and energy saving tips.

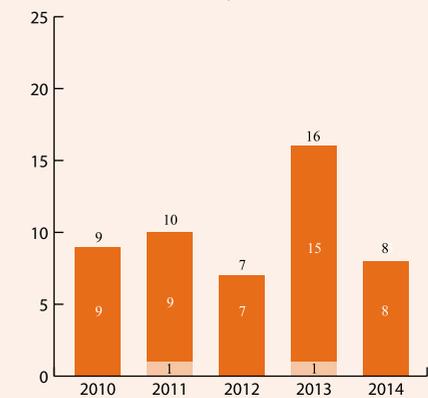
(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



Written Compliments
Verbal Compliments

Number of Customers' Complaints

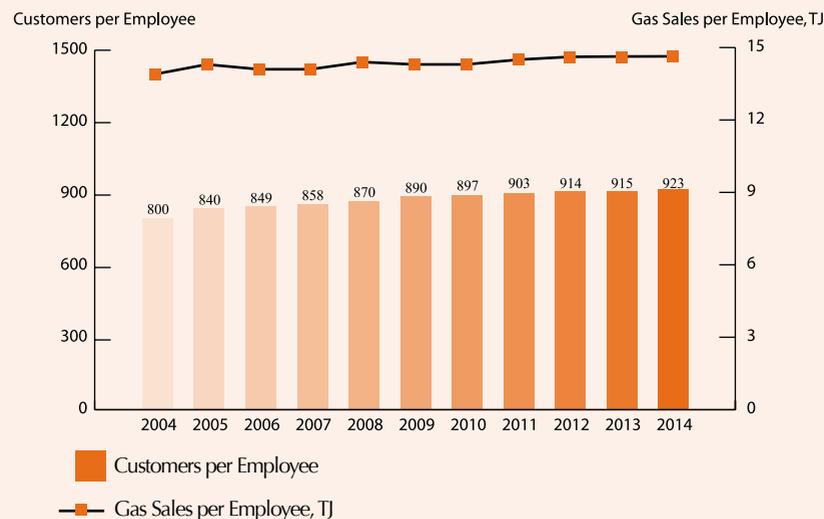


Written Complaints
Verbal Complaints

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 6,369 compliments about Towngas' service in 2014, which included 5,894 written compliments and 475 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 8 complaints in 2014 (8 written complaints and 0 verbal complaints). With 1,819,935 customers as at 31 December 2014, the ratio is 1 complaint per 227,492 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 2014, Towngas continued to devise and implement measures to maintain high cost-efficiency without compromising the quality of our services to customers. In addition to bring down the costs of spare parts of gas appliances through vigorous research and development efforts, we have further promoted the use of information technology to attain a higher level of automation throughout our operations.

These measures, together with a range of other initiatives, resulted in a 1 per cent increase in productivity in 2014, which is measured in terms of number of customers served by each employee. In 2014, each Towngas employee served 923 customers, and town gas sales averaged 14.6 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

A series of automated gas appliances for the restaurant trade have been developed to improve their productivity as well. The auto-tossing gas wok range helps the chefs to reduce their hundreds of repetitive wok-tossing actions a day. Noodle cooker with auto-lifting baskets has built-in energy saving heat recovery feature. The smart meat roaster and stockpot with auto-dipping arm are all equipped with thermostatic control device to ensure the energy for food cooking is used effectively.

For domestic appliances, we have completed the registration of energy efficiency labels in the scope the Voluntary Energy Efficiency Labeling Scheme for Gas Cookers launched by EMSD in November 2013. All our domestic gas water heaters and gas cooking appliances covered under the energy efficiency labelling scheme meet the thermal efficiency requirements set by the Government.

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

this renewable energy grew exponentially with the commissioning of our North Eastern New Territories LFG utilisation project in 2007. In 2014, accounting for about 2 per cent of our production fuel, our aim is to grow this resource to 10 per cent. Extending these activities to the South Eastern New Territories landfill site, agreement was signed with landfill operator in December 2014. Detailed design work is in progress and expect Plant is operational in the third quarter of 2016. The use of LFG not only cuts carbon emissions released into the atmosphere, our consumption of naphtha also fell by around 10,000 tonnes in 2014. These savings alone translate into the planting of some 1.3 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 590,000 on-demand maintenance works and more than 1,240,000 Regular Safety Inspections in customers' homes in 2014.

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

(b) Fuel Cost Adjustment

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

Customer saved a total of \$2,078 million fuel cost adjustment in 2014 with the using of natural gas in producing town gas.

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

7. Fuel Mix Percentage

In 2014, fuel mix in terms of percentage of naphtha, natural gas and landfill gas used as feedstock is as follows:

Feedstock	Percentage
Naphtha	35%
Natural Gas	63%
Landfill Gas	2%

8. Towngas Concession Schemes

Seeking to make a difference for some of the disadvantaged groups in society, we have launched four concession schemes to provide these groups in Hong Kong with additional service benefits. Under the concession schemes, beneficiaries may enjoy a 50% discount off basic gas tariff on the first 500 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 and living in self-care quarters within public housing estates, or qualified for the Comprehensive Social Security Assistance Scheme (CSSA).
Concession Scheme for People with Disabilities	Applicants should be receiving, or living with a direct family member who is receiving CSSA, and is classified as "100% Disabled" or "Requiring Constant Attendance" under CSSA.
Concession Scheme for Single-parent Families	Applicants should be single-parent family households receiving CSSA under the single-parent category.
Concession Scheme for Low Income Families	Applicants or his/her family member has a regular job income which is taken into account in the assessment of CSSA entitlement. (The "Notification of Successful Application" or "Notification of Revision of Assistance" bears the item of "LESS NET EARNINGS" indicated in two consecutive months of the CSSA payment period.)

* All applicants should be registered Towngas account holders.

In 2014, the overall average amount of annual savings per beneficiary customer under the Towngas Concession Schemes was \$542.

ENVIRONMENTAL PROTECTION

Our "Sustainability Report" has already clearly elaborated our sustainability strategies and set out the targets and standards that we encourage all employees, contractors and suppliers to work towards. Being a responsible public utility, we persistently put efforts to protect the environment and ensure sustainable development. We conserve resources and reduce waste through the adoption of "5R" principle. Since 2002, we have reduced, reused and recycled more than 20 items, including retired domestic appliances, commercial and industrial appliances, spare parts, gas meters and used rechargeable batteries etc.

1. Environmental Promotional Programmes

We continue to offer our proactive support to various green groups and government-led environmental protection programmes. 2014 marked the first year that we sponsored the Greeners Action's "Zero Food Waste @ Campus", "The Airmazing Race" organised by Clean Air Network, and we also collaborated with Friends of the Earth (HK) to produce "Waste No food" cooking videos. We continue to sponsor and participate in the annual "Green Power Hike" organised by Green Power, "No Air-con Night" and "Green Sense Walkathon" organised by Green Sense, "Lai See Packet Reuse and Recycle Programme" organised by Greeners Action, the "Green Riders" and "Green Leaders Bloc" organised by the Conservancy Association, "Tree Planting Challenge" organised by Friends of the Earth (HK), "Earth Hour" – a worldwide lights off event and "Walk for Nature at Mai Po" organised by WWF and the "Hong Kong Green Day" organised by the Green Council.

2. Environmental Training and Education Programmes

In recent years Towngas has provided a great variety of environmental trainings and educational activities to enhance environmental awareness among our employees and contractors. Programmes conducted in 2014 included the Annual Outstanding Environmental Sub-committee Award, Green Ambassador training, Chinese White Dolphin watch, seminars on climate change and terrarium DIY workshop etc. Publication of four issues of the Health, Safety & Environment Bulletin distributed to all employees and our contractors. Green promotional messages were conveyed to employees via email and intranet on regular basis in order to encourage and remind employees to work in line with our environmental policies.

3. Environmental Achievements

Towngas was conferred with the Hong Kong Green Award 2014 "Environment, Health and Safety (EHS) Award Platinum" presented by the Green Council, "U Green Awards (Excellence)" presented by U Magazine and Prime Awards for Eco Business 2014 presented by MetroBox. Towngas continues to attain the CarbonCare® Label, join the World Green Organisation's GOALS Programme and support Energy Saving Charter. The "Class of Excellence" Wastewi\$e Label which the Environmental Campaign Committee conferred upon us for the 13 consecutive years was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2014, Towngas' 12 functional environmental sub-committees achieved over 40 environmental objectives. For instance, we installed a rainwater collecting system at the Tai Po gas production plant to reduce the use of raw water. "Used Gas Appliance Recycling Programme" has been held over ten years, which 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 "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 2014, all existing building central air conditioning system operated with HCFC-free refrigerants.

Air Quality

- Total NOx output was 4.02 kg/TJ of town gas (Annual total of 113,211 kg, equivalent to a daily average of 310 kg).
- Total SOx output was 0.02 kg/TJ of town gas (Annual total of 502 kg, equivalent to a daily average of 1.38 kg).
- Total CO2 output was 11.70 MT/TJ of town gas (Annual total of 329,902 MT, equivalent to a daily average of 904 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 358,582 MT in terms of CO2 equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 6.06 kg/TJ of town gas (Annual total of 170,935 kg, equivalent to a daily average of 468 kg).

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

Water Quality

- Total waste water output was 3.97 m³/TJ of town gas (Equivalent to a daily average of 307 m³).

Chemical Waste

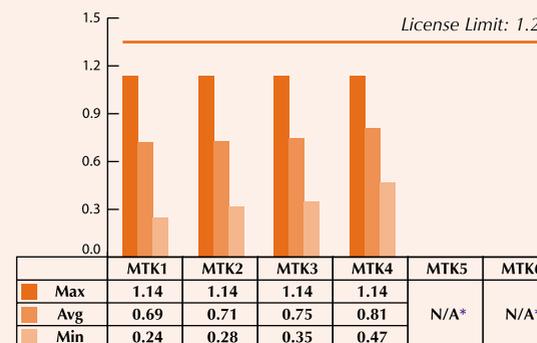
- Total chemical waste output was 1.07 kg/TJ of town gas (Equivalent to a daily average of 83 kg).

Noise

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

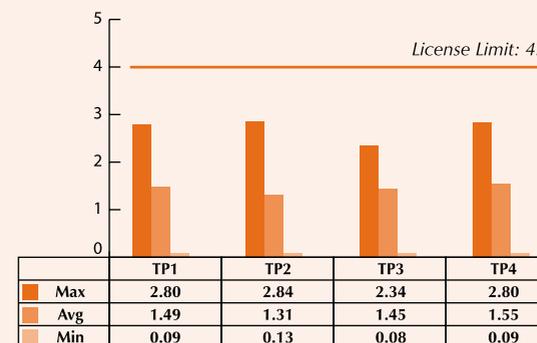
(b) Emission Level of Gas Production Plants for 2014

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

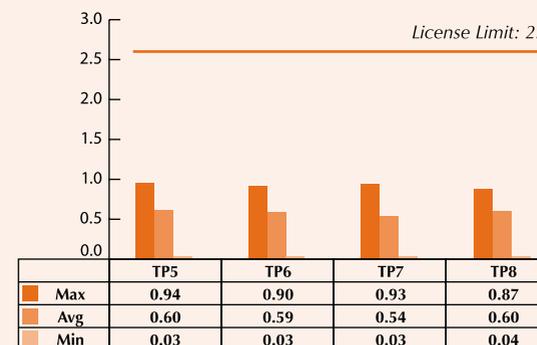


* MTK5 and MTK6 at cold standby in 2014

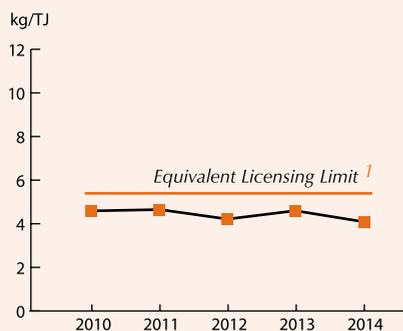
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



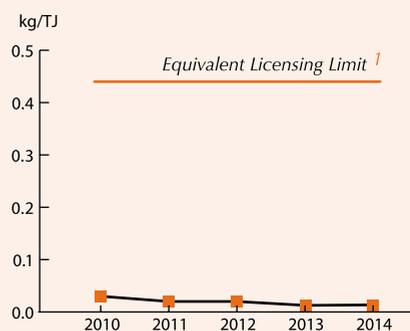
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



(iv) NOx emission level



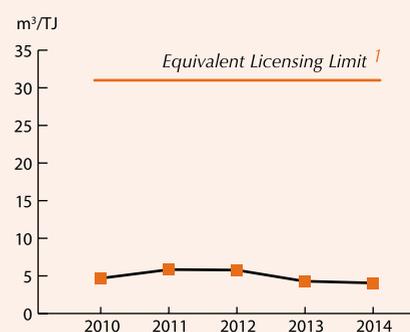
(v) SOx emission level



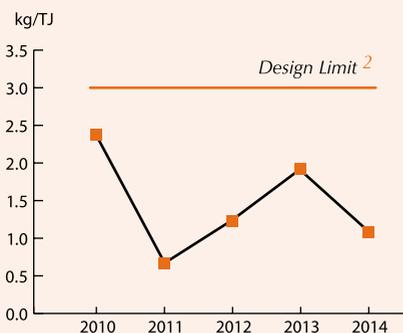
(vi) CO2 emission level



(vii) Waste water output



(viii) Chemical waste output



1 "Equivalent Licensing Limit" (kg/TJ) OR m³/TJ) = "Weighted average of actual licensing limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2014 (TJ/hr).

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

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2014

	HK\$'M
Revenue	31,614.7
Total operating expenses	(24,353.7)
	<u>7,261.0</u>
Other gains, net	411.9
Interest expense	(1,012.9)
Share of results of associates	1,725.1
Share of results of joint ventures	1,489.5
Profit before taxation	<u>9,874.6</u>
Taxation	(1,771.4)
Profit for the year	<u>8,103.2</u>
Attributable to:	
Shareholders of the Company	7,109.2
Holders of the perpetual capital securities	102.2
Non-controlling interests	891.8
	<u>8,103.2</u>
Dividends	<u>3,679.7</u>
Earnings per share – basic and diluted, HK cents	<u>67.6</u>

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

for the year ended 31st December 2014

	HK\$'M
Residential maintenance revenue	196.9
Less expenses:	
Manpower costs	(128.9)
Other operating and administrative expenses	(104.5)
Net loss	<u>(36.5)</u>

2. Consolidated Balance Sheet

as at 31st December 2014

	HK\$'M
Assets	
Non-current assets	
Property, plant and equipment	49,695.0
Investment property	683.0
Leasehold land	1,658.6
Intangible assets	5,858.5
Associates	17,572.5
Joint ventures	9,033.8
Available-for-sale financial assets	2,599.7
Derivative financial instruments	266.6
Other non-current assets	2,401.7
	<u>89,769.4</u>
Current assets	
Inventories	2,283.2
Trade and other receivables	6,975.7
Loan and other receivables from associates	115.1
Loan and other receivables from joint ventures	1,239.2
Loan and other receivables from non-controlling shareholders	153.9
Financial assets at fair value through profit or loss	718.8
Time deposits over three months	550.1
Time deposits up to three months, cash and bank balances	12,605.5
	<u>24,641.5</u>
Current liabilities	
Trade and other payables	(11,942.6)
Amounts due to joint ventures	(677.7)
Loan and other payables to non-controlling shareholders	(213.9)
Provision for taxation	(805.7)
Borrowings	(7,049.7)
	<u>(20,689.6)</u>
Net current assets	<u>3,951.9</u>
Total assets less current liabilities	<u>93,721.3</u>

2. Consolidated Balance Sheet (Continued)

as at 31st December 2014

	HK\$'M
Non-current liabilities	
Customers' deposits	(1,256.4)
Deferred taxation	(5,169.2)
Borrowings	(24,484.3)
Loan payables to non-controlling shareholders	(22.3)
Asset retirement obligations	(31.9)
Derivative financial instruments	(527.6)
Retirement benefit liabilities	(5.9)
	<u>(31,497.6)</u>
Net assets	<u>62,223.7</u>
Capital and reserves	
Share capital	5,474.7
Reserves	44,735.7
Proposed dividend	2,417.8
	<u>52,628.2</u>
Shareholders' funds	52,628.2
Perpetual capital securities	2,353.8
Non-controlling interests	<u>7,241.7</u>
Total equity	<u>62,223.7</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2014 Page 77)
TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 78 to 172, which comprise the consolidated and company balance sheets as at 31st December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the accounts

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of the affairs of the Company and of the Group as at 31st December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18th March 2015

4. Directors' Emoluments

for the year ended 31st December 2014

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

	HK\$'M
Fees	3.3
Salary, Allowances and Benefits in Kind	8.9
Performance Bonus	29.2
Contributions to Retirement Scheme	8.2
	<hr/> 49.6 <hr/>

Number of directors whose emoluments fell within:

Emoluments Group (HK\$'M)

0.0 - 1.0	7
8.5 - 9.0	1
37.5 - 38.0	1

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK\$41.4 million (2013: HK\$40.5 million) and post-employment benefits of HK\$8.2 million (2013: HK\$8.3 million) paid to the Group's senior management during the year ended 31st December 2014. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's senior management during the year (2013: nil).



香港中華煤氣有限公司
The Hong Kong and China Gas Company Limited
June 2015 www.towngas.com