



The Hong Kong and China Gas Company Limited

(Stock Code: 0003)

Annual Report 2006



“Go for launch” is gaining speed . . .




Moving Ahead With Our Vision

In Hong Kong, the long-planned-for introduction of cleaner natural gas into our feedstock mix occurred in October 2006. On the mainland, a strategic partnership agreement with one of the country's main piped city-gas companies in December has given us the ability to more rapidly extend our reach.

Upholding Our Commitment

In mainland China, our natural gas activities continued to be underpinned by our growing reputation for supplying a safe and reliable fuel to an ever-expanding piped city-gas network. Back in Hong Kong, a town gas incident in April 2006 led to our further strengthening pipeline integrity and increasing regular inspections as additional public safety reassurance measures. We strongly believe we have now regained the community's trust and confidence.



Fine-tuning Our Strategy

We gained momentum in 2006 and moved closer to securing a foremost position within the mainland's key utility sectors. We also reached a commercial agreement to establish our first liquefied natural gas plant to boost downstream security of supply to our joint ventures and made headway with efficiency optimisation of our water business projects.

Shaping Our Future

We are now well-placed to benefit from the mainland's clean energy and water policies and fast economic progress. The introduction of natural gas has facilitated gas bill savings for customers in Hong Kong, and this has enhanced our competitiveness at a time when mothballed home ownership scheme apartments are due to be put up for sale in phases during 2007.

Strengthening Our Performance

Towngas is on track to create sustainable shareholder value through growth, operational excellence and synergies of business expansion within the coming year. Solid fundamentals, including a strong balance sheet, management expertise, customer focus and a trustworthy and ethical reputation, are bolstering our goal to become a premier piped city-gas operator and a leading multi-utility group in Asia.

Contents

Business Highlights	02	
Five-Year Summary	03	
Chairman's Statement	04	
Highlights of the Year	10	
Board of Directors	12	
Biographical Details of Directors	13	
Executive Committee	15	
Mainland China Gas Business	16	
Hong Kong Core Business	24	
Diversified Businesses	36	
Health, Safety and the Environment	42	
	49	Financial Resources Review
	50	Five-Year Financial Statistics
	51	2006 Financial Analysis
	52	Comparison of Ten-Year Results
	54	Report of the Directors
	60	Corporate Governance Report
	65	Independent Auditor's Report
	66	Consolidated Income Statement
	67	Consolidated Balance Sheet
	68	Balance Sheet
	69	Consolidated Cash Flow Statement
	70	Consolidated Statement of Changes in Equity
	71	Notes to the Accounts
	121	Corporate Information and Financial Calendar