

**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**

**2005**

**ENVIRONMENTAL  
SAFETY & HEALTH  
OPERATIONAL & FINANCIAL INFORMATION**



**Towngas**

The Hong Kong and China Gas Company Limited

# FOREWORD

**The Hong Kong and China Gas Company Limited (Towngas), in its endeavour to enhance the transparency of its operations and services, publishes this Corporate Information Booklet 2005.**

**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.**

# CONTENTS

## **PART I OPERATIONAL INFORMATION**

- |   |              |
|---|--------------|
| <b>1. Annual Business Review</b>  | <b>5-9</b>   |
| <i>(a) Sales and Marketing</i>  |              |
| <i>(b) Service Initiatives</i>  |              |
| <i>(c) Property Developments</i>  |              |
| <i>(d) Gas Supply</i>   |              |
| <i>(e) Employees and Managing Change</i>                                  |              |
| <b>2. Safety</b>  | <b>10-15</b> |
| <i>(a) Customer Safety</i>  |              |
| <i>(b) Occupational Safety and Health</i>                                 |              |
| <i>(c) Gas Production Plants Safety</i>                                   |              |
| <i>(d) Network Safety</i>   |              |
| <i>(e) Charts on Emergencies, Safety Inspections and Safety Promotion</i> |              |
| <b>3. Service Pledge</b>  | <b>16-17</b> |
| <i>(a) Results of 2005</i>  |              |
| <i>(b) Service Pledge for 2006</i>  |              |
| <b>4. Customer Liaison</b>  | <b>18-19</b> |
| <i>(a) Customer Focus Team</i>  |              |
| <i>(b) Customer Service Hotline and Emergency Hotline</i>                 |              |
| <i>(c) Bill Inserts to Customers</i>                                      |              |
| <i>(d) Number of Customers' Compliments and Complaints</i>                |              |
| <b>5. Efficiency (Products and Productivity)</b>                          | <b>20</b>    |
| <b>6. Charges</b>   | <b>21</b>    |
| <i>(a) Monthly Maintenance Charge</i>                                     |              |
| <i>(b) Fuel Cost Variation Charge</i>                                     |              |

# CONTENTS

## **PART II ENVIRONMENTAL PROTECTION**

- |   |              |
|---|--------------|
| <b>1. Environmental Promotional Programmes</b>              | <b>22</b>    |
| <b>2. Environmental Training and Education Programmes</b>   | <b>22</b>    |
| <b>3. Environmental Publications</b>                        | <b>23</b>    |
| <b>4. Environmental Achievements</b>                        | <b>23</b>    |
| <b>5. Environmental Performance</b>                         | <b>23-26</b> |
| <i>(a) Environmental Performance Table</i>                  |              |
| <i>(b) Emission Level of Gas Production Plants for 2005</i> |              |

## **PART III FINANCIAL INFORMATION**

- |   |              |
|---|--------------|
| <b>1. Consolidated Income Statement</b> | <b>27</b>    |
| <b>2. Consolidated Balance Sheet</b>    | <b>28-29</b> |
| <b>3. Auditors' Report</b>              | <b>30</b>    |
| <b>4. Directors' Emoluments</b>         | <b>31</b>    |

## OPERATIONAL INFORMATION

### 1. Annual Business Review

#### (a) Sales and Marketing

Gas production and supply is our core business; it always has been and it always will be. We entered 2005 with cautious optimism. A rebound in the economy looked on the horizon, tourism was set to pick up with the opening of the much-anticipated theme park on Lantau Island, and our large natural gas infrastructure investment seemed not merely prudent but also prescient given surging crude oil prices in the last two years.

#### ***Residential and Commercial Activities***

Despite new housing supply remaining relatively low, active residential accounts grew to 1.58 million, with an increase of about 34,000 customers throughout the year under review. Although higher naphtha prices dampened our competitiveness, we still nevertheless saw a modest rise in total gas sale figures for 2005, up 0.5 per cent as compared to 2004.

To off-set a drop in industrial gas use, we concentrated on cost improvements and seeking new consumption potential, especially in the commercial sector. These tactics paid off. Marketing's hard work to encourage more restaurants and hotels to use gas for hot water supply was well-rewarded in 2005. In addition, continuous promotion of our highly efficient and environmentally-friendly condensing boiler generated gratifying results.

The hotel trade in general is looking good with several establishments opening throughout the year, or due to open in 2006. Given a year-on-year uplift in tourism ever since the end of SARS in 2003, we are optimistic gas sales will grow in 2006, especially if visitors stay longer and are also tempted, alongside local residents, into fashionable new eateries and up-market, contemporary hotel dining rooms.

With a pleasing drop in unemployment and the feel-good factor coming back due to a turn around in economic prosperity, appliance sales in the retail market rose significantly in 2005. Our carefully-planned strategy, introduced in 2004, to renovate customer centres and move these to busier locations, also had a positive impact. Matched with innovative marketing practices and more sophisticated products, we were able to increase the penetration and reputation for choice, reliability and quality of Towngas signature brands, such as TGC and SIMPA. Towngas clothes dryers, together with a number of stylish built-in hobs launched during the year with revolutionary new safety features and improved flame control – important for Chinese wok stir-frying, were sold extremely well in 2005.

In celebration of our efforts to make our customers' lives safer and more comfortable, TGC won the Best Kitchen Equipment section in the eLife Awards organised by ESDLife in 2005, whilst our high quality and innovative Super Flame gas burner gained the Consumer Product Design award in the 2005 Hong Kong Awards for Industries. In October one of our managers was also honoured with an individual prize in the 2005 HKMA/TVB Awards for Marketing Excellence.

## **(b) Service Initiatives**

We feel it is important to connect with our customers at a personal level by putting them at the heart of our business. Our hotlines link callers directly to knowledgeable staff rather than just recorded voices, whilst our customer centres provide a full range of sophisticated services, constantly up-dated to ensure one-stop quality shopping is integral to the total customer experience.

Additionally, allied to our high standard of retail products, we also offer a check-up service for home appliances for a reasonable monthly maintenance charge. During 2005, we made over 1.7 million residential visits, including both regular safety inspection calls scheduled on a rolling 18-month cycle and on-demand maintenance appointments initiated through our 24-hour 7 days-a-week hotline. By such means, we ensure the safety of our customers and retain their trust in the enjoyment of using gas as a dependable energy source.

Cooking for pleasure is steadily becoming more popular in Hong Kong as people seek a relaxing antidote to their busy lives. Capitalising on its position at the heart of Hong Kong's culinary education, Towngas Cooking Centre (TCC) turned a new page in its history in 2005, by relaunching itself with a fresh perspective. In melding professional tuition with the concept of cooking as a leisure pursuit, TCC successfully created a resurgence of interest in its cookery classes and corporate team-building workshops during the year. A series of TV advertisements, begun in July, is underpinning this new-found momentum to promote the delights and inspiration of flame cooking. In the same month, we also expanded our Towngas Cooking Ambassador Programme by partnering with the very popular Girl Guide movement in Hong Kong. Our hope is that members will develop an appreciation of good nutrition and extend their community service through charity cooking activities.

Towngas' heritage of respect for traditional values sits happily with our aspirations to enhance society's standard of living through better products and services. Our official commitment to maintaining satisfaction of our customers is enshrined in the Towngas Service Pledge. In 2005, we continued to exceed our service targets and deliver a high level of service excellence.

We know however, that the kernel of our successful reputation lies with our dedicated and enthusiastic frontline staff whose professionalism ensured we retained the government's coveted Q-Mark certification for the second year running in 2005. Employees, such as Towngas technicians offering a free emergency-link check-up service to senior citizens during regular safety inspections, or colleagues winning the Hong Kong Retail Management Association's 2005 Service and Courtesy (Furniture and Home Accessories) award and being recognised by the Hong Kong Management Association's Distinguished Salesperson Programme for outstanding performance play a very large part in helping Towngas retain its quality image within the community.

### ***(c) Property Developments***

Towngas' investments in several residential and commercial properties appreciably boosted company earnings in 2005, following revaluations and excellent unit sales in the wake of a strengthening economy. We expect this strong contribution from properties to continue in the coming year.

A six-star hotel and a serviced suite hotel complex at International Finance Centre (IFC) and a residential development, Grand Promenade, came on stream in 2005; a third project, Grand Waterfront, at the redesignated Ma Tau Kok south plant site, is scheduled for completion by the end of 2006.

The Group has approximately a 15.8 per cent interest in IFC, which has become an iconic landmark in Hong Kong setting new standards of excellence for business, retail, hotel and serviced accommodation that helped underpin a revaluation surplus in 2005. Occupancy ratios are close to 100 per cent for offices and the shopping mall. The hotel has commercial gas appliances installed by the Company, such as dehumidifiers and boilers.

Property sales were strong at Grand Promenade with about 70 per cent of units sold by the end of 2005, yielding good returns. The Group has a 50 per cent interest in this high-end residential project where apartments are fitted with quality Towngas water heating and cooking appliances and Towngas Telecom home automation technology facilities, such as tone dial control for air-conditioners and lighting, a child surveillance system and internet connections to management services and for personal computers. Luxury features will likewise be an integral part of the 1,800-unit development at Grand Waterfront which, with its prime location facing Hong Kong Island, is already generating good pre-sale interest. Transactions at another project at King's Park Hill also benefited from the rising property market in 2005.

Total net earnings from property sales and revaluations in 2005 had a significant positive impact on the Company's overall profit margins for the year under review. We anticipate property sales will continue to be a key driver of profit growth for our Hong Kong business during 2006.

### ***(d) Gas Supply***

It took us 140 years to produce and supply the first 450,000 million MJ of gas. We are set to achieve the next 450,000 million milestone in 14 years! Town gas is a way of life for Hong Kong households, industrial and commercial businesses. So we are eagerly looking forward to the introduction of more economical and cleaner natural gas into the territory in 2006 which will bring even greater benefits to consumers and the Company alike.

Guangdong LNG terminal should be supplying our main Tai Po gas production plant by the end of 2006 through a pair of 34 km, 450 mm-diameter submarine pipelines. By partially replacing naphtha with natural gas, we anticipate fuel cost savings and better feedstock price stability. These should enable us to reduce our tariff from its current level and at the same time keep future variations within a narrower range as we will be less exposed to fluctuations in crude oil prices.

In anticipation of this new intake source, work continued throughout 2005 to modify Tai Po plant for dual fuel gas production with six reformer units is now ready and the final two nearing completion. We plan to take 0.33 million tonnes of natural gas per annum, equivalent to about 60 per cent of feedstock on a 25-year supply contract term. The construction of a landing station to receive the piped natural gas has been completed in mid 2006.

An international theme park officially opened in September 2005 by which time a 15 km town gas pipeline extension and an offtake station were complete. The popularity of the park is contributing to a growth in momentum of visitor arrivals to the territory that started early in the year and which is expected to continue into 2006. This will have a knock-on effect in terms of lifting gas consumption through new hotel start-ups, an increase in occupancy rates and overnight stays, and a rise in the restaurant trade business.

Our 24 km Eastern Transmission Pipeline (ETP) is making good progress with an anticipated completion date in 2007. The ETP will reinforce supply and enhance system integrity, placing us in an excellent position to meet any rise in gas demand due to urban growth and renewal in the eastern New Territories and Kowloon generally. By enlarging our peak gas supply capacity through the ETP, we will successfully augment network configuration and boost supply security for many years to come.

In 2005, with the support of many utility operators, many cable ducts leading into manholes were sealed to mitigate the seepage, accumulation and potential combustion of gas. We are pleased that the sealing of telecommunication ducts leading into buildings has become a standard practice in the telecom code, and will also be incorporated into the building code. More concerted efforts are needed from relevant parties to further mitigate against such risk.

#### ***(e) Employees and Managing Change***

Thriving businesses seek to excel at everything they do and be the best in their field. This last year, Towngas people showed a spirit to win, a will to succeed, a drive to learn, and the courage to stir beyond their comfort zone and face new challenges. Their creativity and motivation are two key success factors for development of our corporate environment.



Our Superior Quality Service programme, which promotes better work efficiency and service quality, saw 800 SQS team members complete 65 projects in 2005, generating HK\$23 million in tangible benefits for both our core and diversified businesses. One SQS team also won the My Favourite Quality Circle award in the Quality Improvement and Experience Sharing Convention 2005, and an award at the 11th Hong Kong Quality Management and First Six Sigma Convention, both superb achievements given they were competing against several other renowned local organisations for these coveted prizes.

Towngas' Technical Training Centre (TTC) and Learning and Development (L&D) section also play a vital role in enhancing knowledge and ensuring staff keep pace with the demands of a growing and transforming organisation. Relocated, redesigned and reequipped in 2005, TTC is now at the cutting-edge for delivery of technical competency whilst L&D's encouraging efforts during the year to upgrade performance of our frontline sales and service staff underlined their position in helping employees develop their potential.

Our 2005 graduate trainee intake was the first to benefit from a new comprehensive scheme aimed at providing a strong, across-the-board foundation covering all aspects of the gas industry. The scheme additionally has the big advantage of enabling pick-and-mix components to be used for recent recruits and for technical staff refresher training. TTC is also now preparing a series of complementary e-learning modules so material is easily accessible by joint venture colleagues.

Indeed, we expect out-reach initiatives generally to become an increasingly important aspect of our home-based training strategy so as to better facilitate transfer of Hong Kong best practices and consistency of engineering quality across the Group. TTC will have a pivotal function in the coming year in helping to develop staff to meet expansion of our new diversified water business. L&D's training input for JV colleagues, up by 71 per cent in 2005 compared to the previous year, is equally expected to intensify in 2006, particularly as we increase exposure of our mainland staff to modern management practices and related skills.

Towngas' service-pro campaign, which has brought a high standard of consistency to all our Hong Kong customer centres in the last few years, gained the bronze prize in 2005, under the Hong Kong Management Association's Award for Excellence in Training. We were also very pleased that two of our apprentices were amongst the ten winners chosen by the Vocational Training Council for their 2005 Outstanding Apprentice/Trainee Awards.

In addition, four of our graduate trainees successfully represented Towngas in the prestigious Hong Kong Management Game in 2005, coming in a second runner-up against strong competition. In-house, our Outstanding Employee roll of honour list was extended to our diversified businesses in recognition of their growing role within the Company. We also stepped up support for middle management colleagues during 2005 to encourage them to widen their professional and personal experience and sense of adventure by working in the mainland.

## 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 2005, we held 22 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 nearly 1,080,000 Regular Safety Inspections of gas facilities in customers' homes. This safety driven programme has proved extremely popular with our customers, and continues to grow.

### *(b) Occupational Safety and Health*

We revised our Corporate Health and Safety Policy in 2005 to ensure that we conduct our operations in a manner which poses no risk to the health, well-being and safety of our employees, contractors, customers and the public at large. Our management ensures that this Policy is fully explained to and then observed by subordinates and by all contractors under their supervision. And we ask that all employees actively support this Corporate Health and Safety Policy and do all they can to fulfill its objectives.

In 2005, we conducted Job Safety Analyses on all high-risk work procedures, and continued to organise various safety training courses, as well as the annual Safety & Environmental Day and the Inter-departmental Safety & Environmental Quiz. By raising safety awareness, we are trying not only to ensure a safer work environment but also striving to inculcate a culture of personal responsibility among our colleagues to ensure their own safety and the safety of all those with whom they work.

Last year, we redefined our Accident Frequency Rate (AFR) by establishing a separate Injury Traffic Accident Rate (ITAR). The AFR for 2005 was 0.43 for every 100,000 person-hours worked and the ITAR was 3.82 for every 100 vehicles. Our safety initiatives for contractors contributed to a 40 per cent drop in third party damage in 2005. In addition, a total of 11 fire drills were held in conjunction with the Hong Kong Fire Services Department and the Hong Kong Police Force, including drills at our Tai Po Gas Production Plant, Ma Tau Kok North Works, ECO LPG filling stations, North Point Building and other premises in order to raise the safety awareness of our staff.

Last year we received certification for incorporating the internationally recognised 18001 Occupational Health and Safety Assessment Series into all of our gas operations and our safety and risk management system. In acknowledgment of our commitment to enhancing workplace safety, our entry for the 2005 Hong Kong Occupational Safety and Health Award – Trenchless Technology for a Pipeline Installation or Rehabilitation – won the Safety Technological Achievement Award and Best Presentation Award in June.

### **(c) Gas Production Plants Safety**

Towngas has strong confidence in the safety, reliability and management systems of our Tai Po Plant and Ma Tau Kok North Works. 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 99.994% in 2005.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas works. Ma Tau Kok North Works has over 28 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 19 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 HK and overseas.

Towngas abides by all legal requirements and cooperates fully with the various government departments responsible for enforcing stringent surveillance to the plants. Therefore, neither plant has ever received a single prosecution from the authorities.

The Accident Frequency Rate of gas production plants has been maintained at a low level, with about 0.5 case per 100,000 man hours worked and the accidents were usually minor cases. Nonetheless, in pursuit of the target of zero accidents, the plant management always 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.

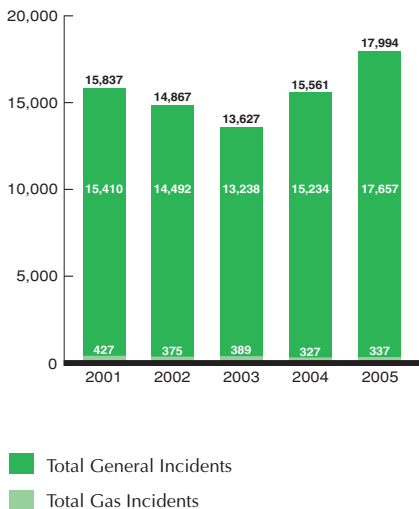
### **(d) Network Safety**

As we expanded our network, preventive control measures to avoid gas leakages became ever-more extensive. Comprehensive inspection and maintenance programmes, leakage surveys, and pipeline patrol systems are the lifeblood of the safety process and were all increased during the year under review.

We also augmented the number of trench inspections of third party excavation sites to circumvent damage to nearby Towngas pipelines. In 2005, over 16,800 trench inspections were made, helping reduce third party damage by nearly 39% compared to 2004.

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

**(i) Number of Urgent Reports**

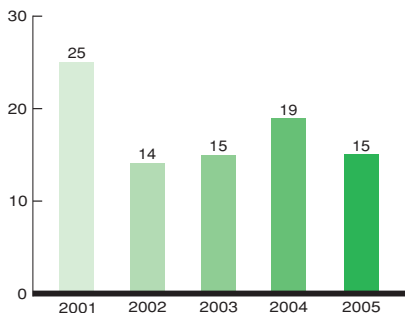


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 17,994 Urgent Reports received in 2005, only 337 cases were Gas Incidents. Gas Incidents are town gas-related and are classified according to the following situations:

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

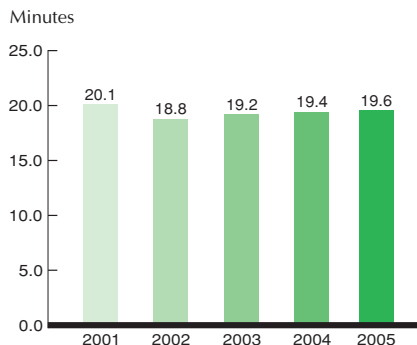
**(ii) Number of Major Gas Emergencies**



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

Out of the 337 Gas Incidents in 2005, only 15 cases were Major Gas Emergencies.

**(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.

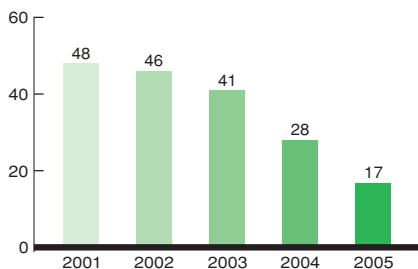
#### (iv) Number of Fatal Gas Accidents

Year	2001	2002	2003	2004	2005
No. of Accidents	0	2	0	0	0

\* Suicide cases are not included.

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

#### (v) Number of Incidents Involving Third Party Damage



Towngas has been able to significantly reduce the number of incidents involving third party damage over the past five years. Incidents in 2005 dropped by 39% compared to 2004.

13

#### (vi) Trench Inspection

##### Total number of active sites inspected in 2005

Island	Kowloon	New Territories	Total
6,059	3,678	7,066	16,803

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 construction workers. In 2005, a total of 519 contractors 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 security.

### (vii) Number of Leakage and Pipeline Surveys

Type of pipelines	Frequency of leakage surveys
<b>Transmission pipelines:</b> - All HP & IPB mains	At least once a year
<b>Distribution pipelines:</b> - Ductile iron - PE or cathodically protected steel pipes - Others	At least three times a year At least once every two years At least once a year

HP - High Pressure

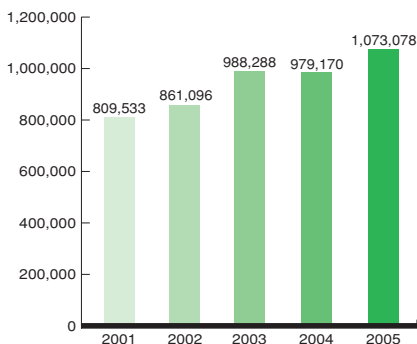
IPB - Intermediate Pressure B

PE - Polyethylene

Under the Company's rigorous leakage survey programme, our qualified technicians perform regular inspections on our different types of gas pipes with the help of advanced instruments – including Flame Ionization Detectors (FID) and Combustible Gas Indicators (CGI). With these sensitive instruments, very low level traces of gas seepage can be detected and rectified before they develop into reported gas escapes. Considering these surveys as effective precautions against major gas escapes, we conduct more leakage and pipeline surveys than our foreign counterparts every year.

Thanks to the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in the network has dropped to 0.05 per km per year, decreased 11% as compared with 2004. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.18 per km per year only, much lower than the figures in many other similar metropolitan cities.

### (viii) Number of Regular Safety Inspections



Towngas has taken proactive measures to maintain gas safety at customers' homes by initiating on-site safety inspections of their gas installations and external service risers at regular intervals of 18 months.

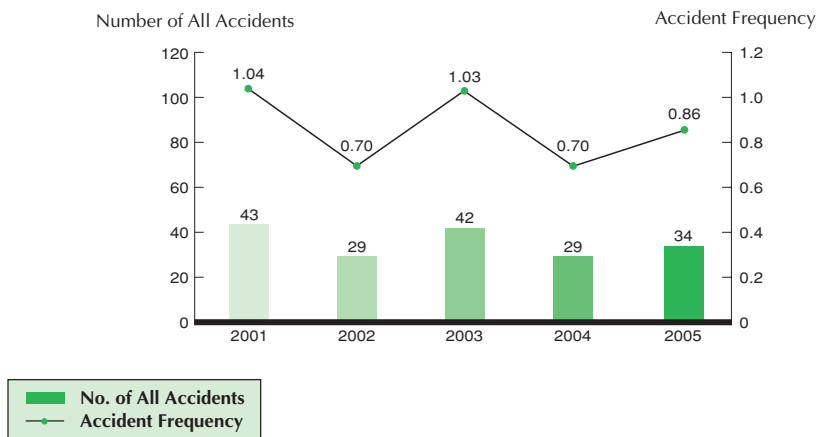
### (ix) Number of Sub-standard Appliances Upgraded

Towngas also 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. In 2005, 638 Flueless (Sink) and Open-flued water heaters were upgraded.

### (x) Number of Safety Exhibitions and Safety Talks

Towngas has been widely recognised for its continuing efforts in promoting home safety. Safety talks and safety exhibitions are major channels through which Towngas enhances the public's awareness and improves their knowledge of gas safety. In 2005, we organised 22 safety exhibitions and 9 safety talks in housing estates and elderly centres. Information panels were exhibited and information booklets on gas safety were delivered.

### (xi) Industrial Safety Performance of Employees



\* Accident Frequency Rate = No. of Injury Accidents per 100,000 Working Hours

Towngas is committed to providing a safe and healthy environment for its employees. For eleven years since 1995, there have been less than 2 injury accidents 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 eleven 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 2005

	<u>Results</u>
<b>Reliability</b>	
• Uninterrupted gas supply (over 99.99%)	99.994%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	99.998%
<b>Safety</b>	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) <sup>1</sup>	93.01%
<b>Appointments</b>	
• Availability of maintenance and installation services within 2 working days	Average 1.1 days
<b>Speed and Convenience</b>	
• Customer Service Hotline (calls answered within 4 rings)	95.63%
• Connect or disconnect gas supply within 1 working day	100% (upon customer's request)
• Deposit refunded at Customer Centres (2 hours after disconnection of gas supply)	100% (upon customer's request)
<b>Service Quality</b>	
• Efficiency <sup>2</sup>	8.68
• Courteous and friendly attitude <sup>2</sup>	8.73
<b>Handling Suggestions</b>	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	100%

1 Average 19.77 minutes, taking into account all incidents which require Towngas personnel to arrive at the scene immediately, whether the incidents are gas related or not.

2 The result was based on monthly surveys conducted from January to December 2005 by an independent research company. Our target is to exceed a score of eight out of ten.



## **(b) Service Pledge for 2006**

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 2006, and the annual reporting on performance results will be announced in January 2007.

### **Pledges**

### **Target**

#### **Reliability**

- Uninterrupted gas supply - Over 99.99%
- In case of supply interruption (on account of maintenance or engineering work) - 3 days prior notification
- Restoration of gas supply - Within 12 hours

#### **Safety**

- Emergency Teams - Arrive on site within 30 minutes, at 90% of the times

#### **Appointments**

- Availability of maintenance and installation services - Within 2 working days

#### **Speed and Convenience**

- Customer Service Hotline - Calls answered within 4 rings
- Connect or disconnect gas supply - Within 1 working day
- Deposit refunded at Customer Centres - 2 hours after disconnection of gas supply\*

#### **Service Quality**

- Efficiency - 8 out of a total score of 10
- Courteous and friendly attitude - 8 out of a total score of 10

#### **Handling Suggestions**

- Written comments or suggestions - Reply within 3 working days
- Resolution, or a statement of when the matter will be resolved, within 2 weeks

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

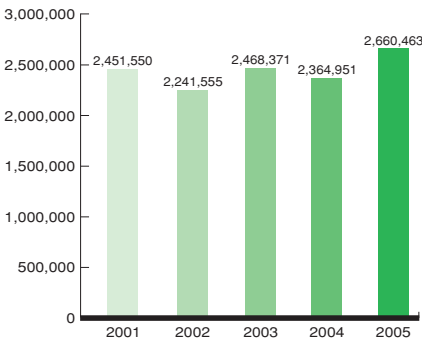
## 4. Customer Liaison

### (a) Customer Focus Team

Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer related departments, visits two public or private housing estates every month. Issues related to Towngas service, gas safety, bill payment and gas appliances are discussed at the meetings. Comments from customers contribute greatly to the improvement of Towngas products and services. In 2005, the Customer Focus Team made 24 visits to its customers.

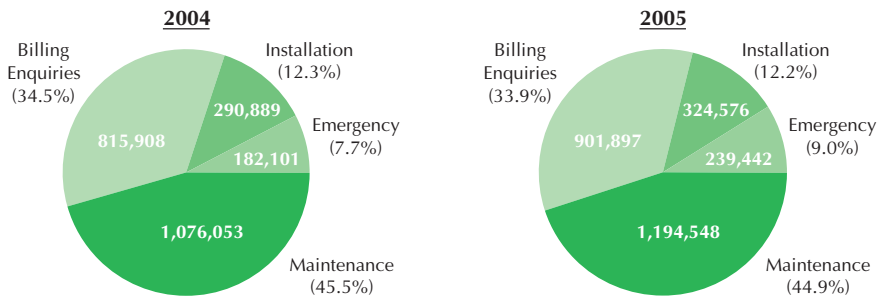
### (b) Customer Service Hotline and Emergency Hotline

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

### Number of Incoming Calls by Categories



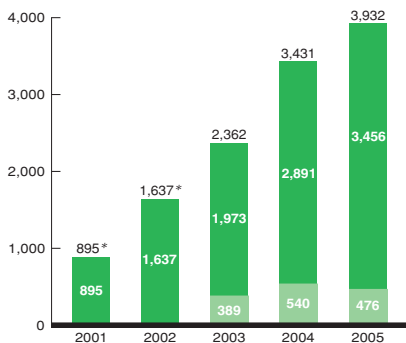
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 44.9% of total calls in 2005 while other categories include billing enquiries, installation and emergency.

### (c) Bill Inserts to Customers

A bill insert, which comes with the bimonthly gas bill, is an effective means to keep our customers informed. In 2005, a total of 18 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to new Towngas services and products, gas safety and advice on using gas appliances, as well as energy saving.

### (d) Number of Customers' Compliments and Complaints

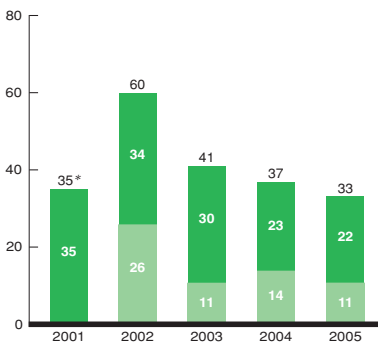
Number of Customers' Compliments



■ Written Compliments  
 ■ Verbal Compliments

\* Number of verbal compliments for 2001 and 2002 are not available.

Number of Customers' Complaints



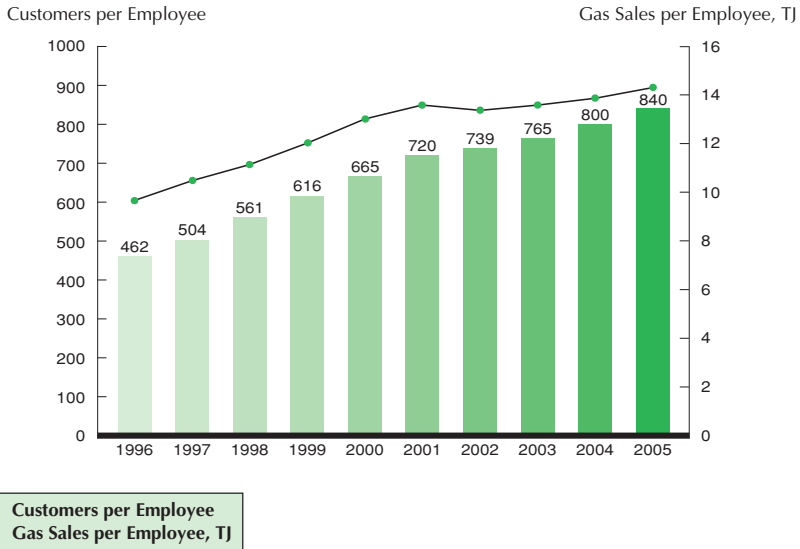
■ Written Complaints  
 ■ Verbal Complaints

\* Number of verbal complaints for 2001 is not available.

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 3,932 compliments about Towngas' service in 2005, which included 3,456 written compliments and 476 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 33 complaints in 2005 (22 written complaints and 11 verbal complaints). With 1,597,273 customers as at 31 December 2005, the ratio is 1 complaint per 48,402 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 2005, Towngas continued to devise and implement measures to maintain high cost-efficiency without compromising the quality of our services to customers. In addition to bringing 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 5.0% increase in productivity in 2005, which is measured in terms of number of customers served by each employee. In 2005, each Towngas employee served 840 customers, and town gas sales averaged 14.3 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Supplying more than 200 gas appliance models in Hong Kong, Towngas continues to work with our suppliers to develop more energy efficient gas appliances. Build on the success of inner flame burners (IFB) in 2003, we further developed and launched two more energy efficient super flame burner (SFB) built-in-hobs in 2005.

In addition, we are on course to complete a treatment plant and a connecting 19 km pipeline from the huge NENT landfill site in the northeast New Territories to our main gas production plant at Tai Po by the end of 2006. The treated landfill gas will be used for gas production with the aim of further enhancing energy efficiency.

## 6. Charges

In addition to the Standard 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 home gas appliances and installations. Towngas also adjusts the gas charge through a Fuel Cost Variation Charge 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, unlimited on-demand appliance inspections, and the regular safety inspection programme whereby customers' home gas appliances, internal piping and external gas pipes (service risers) are inspected by our fully-qualified, registered gas technicians at regular intervals of 18 months. Towngas conducted more than 650,000 on-demand maintenance works and nearly 1,080,000 Regular Safety Inspections in customers' homes last year.

However, MMC does not include the costs of replacing spare parts, rubber hose or stainless-steel braided flexible hose for cooking appliances, nor the costs of repair or replacement of internal piping and 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 Variation Charge**

The Fuel Cost Variation Charge (FCVC) serves to reconcile the difference between our standard and actual fuel costs. For every complete multiple of HK\$1 by which the cost of naphtha rises above (or falls below) HK\$1,420 per kilolitre, the charge for gas will be increased (or reduced) at the rate of 0.004 of a cent per megajoule.

## ENVIRONMENTAL PROTECTION

---

Our “2004 Health, Safety and Environmental 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. We have made enormous strides in paper reduction, the purchase of environmentally-friendly products and recycling or reuse of materials in the last few years. Our well-established waste management practices have been extended to include the recovery of spare parts and recyclable metal from domestic appliances, and the collection and recycling of old commercial and industrial appliances and gas meters.

We completed our reverse osmosis filtration water treatment system in the Tai Po Gas Production Plant in 2005 as scheduled, further reducing the amount of water consumed in the production process. We also started a project to retrofit 20-year old plant units with the deNOx system, which will further mitigate emissions producing acid rain and smog.

### 1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2005 we again sponsored the “Tree-planting Challenge 2005” and the “Solar Cart Race” organised by Friends of the Earth, and participated in the environmental education tour to the Hoi Ha Wan Marine Life Centre organised by WWF Hong Kong, and the “Green Power Hike” organised by Green Power. We also participated in a number of environmental activities organised by the Environmental Protection Department and the Environmental Campaign Committee.

### 2. Environmental Training and Education Programmes

In recent years Towngas has organised a large number of environmental training and educational activities to promote environmental awareness among both our employees and the public as a whole. Programmes conducted in 2005 included the Annual Safety and Environmental Protection Day, the Annual Departmental Safety and Environmental Quiz Competition, Safety and Environmental Quizzes, the Annual Outstanding Environmental Sub-committee Competition and the publication of three issues of the Safety and Environmental Bulletin distributed to all employees. Green promotional messages were displayed on desktop screen savers on a rotating monthly basis in order to encourage and remind employees to work in line with our environmental policies.

### 3. Environmental Publications

Towngas continued to deliver the environmental protection message to employees, contractors, suppliers and the public by means of various media. We published our “Environmental Protection Handbook” in December, which aimed at further promoting the culture of environmental protection among our employees. The handbook introduced a series of possible environmental protection measures to be taken in our offices and work places, and shared some practical environmental protection tips that encourage staff to protect the environment and save energy, both at work and at home with their family. It also listed some useful websites related to environmental protection issues.

### 4. Environmental Achievements

In 2005, Towngas received a number of awards from the government and commercial sectors in recognition of our environmental protection performance. Our “Used Gas Appliance Recycling Programme” won us the 2005 Quality Circles Award at the 11th Hong Kong Quality Management and the First Six Sigma Convention. In addition, we received the title of Energy Champion of ECO-PAGES presented by the Hong Kong Sustainable Communications Association for the second consecutive year. The three awards we won in the Fifth Solar Cart Race organised by Friends of the Earth and the Gold Wastewi\$e logo which the Environmental Protection Department conferred upon us for the fourth consecutive year were testimony to our strong commitment to waste reduction.

### 5. Environmental Performance

In 2005, Towngas’ 12 functional environmental sub-committees achieved several environmental objectives. For instance, we commissioned our reverse osmosis filtration water treatment system at the Tai Po Gas Production Plant, saving up to 91,491 m<sup>3</sup> of water. Our “Used Gas Appliance Recycling Programme” is now its third year, and has enabled us to divert around 1,700 tonnes of scrap metal 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 “Health, Safety and Environmental Report”.

## **(a) Environmental Performance Table**

*(All legal requirements relating to environmental protection were fully complied with)*

### **Ozone Layer Protection**

- 99.6% of our vehicle air conditioning systems now operate with refrigerant R134A.
- 80% of BCF fire extinguishers have been replaced by dry powder ones.

*(Note: based on number of BCF fire extinguishers in 1995)*

### **Air Quality**

- Total NO<sub>x</sub> output was 8.16 kg/TJ of town gas (Annual total of 222,608 kg, equivalent to a daily average of 610 kg).
- Total SO<sub>x</sub> output was 0.04 kg/TJ of town gas (Annual total of 997 kg, equivalent to a daily average of 2.7 kg).
- Total CO<sub>2</sub> output was 15.31 MT/TJ of town gas (Annual total of 417,645 MT, equivalent to a daily average of 1,144 MT).

### **Greenhouse Gas Emission**

- Annual total greenhouse gas emissions of 418,983 MT in terms of CO<sub>2</sub> equivalent.

### **Water Quality**

- Total waste water output was 8.32 m<sup>3</sup>/TJ of town gas (Equivalent to a daily average of 622 m<sup>3</sup>).

### **Chemical Waste**

- Total chemical waste output was 0.62 kg/TJ of town gas (Equivalent to a daily average of 47 kg).

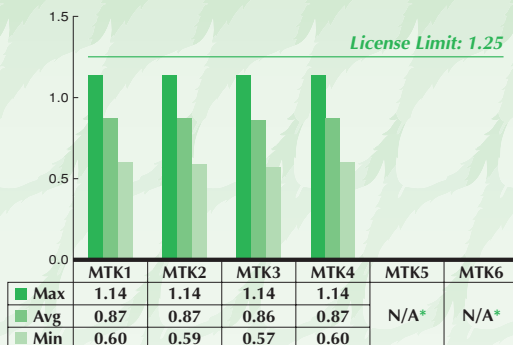
### **Noise**

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



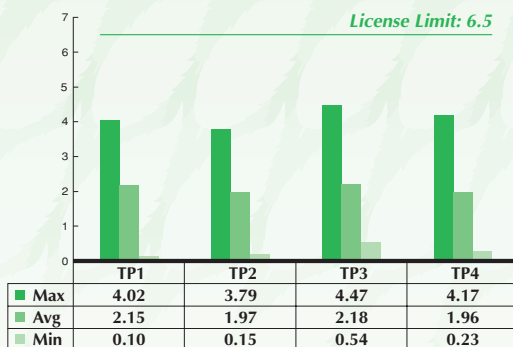
**(b) Emission Level of Gas Production Plants for 2005**

**(i) NO<sub>x</sub> emission level of Ma Tau Kok (MTK) gas making units (Kg/hour)**

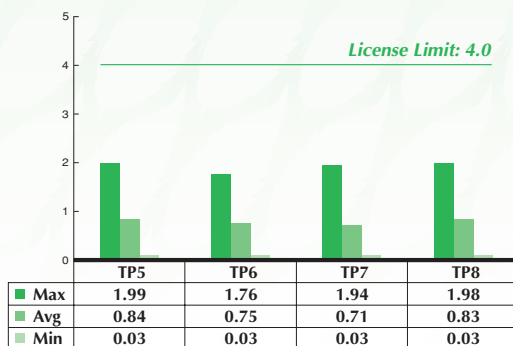


\* MTK5 & MTK6 at cold standby since 1 June 2003

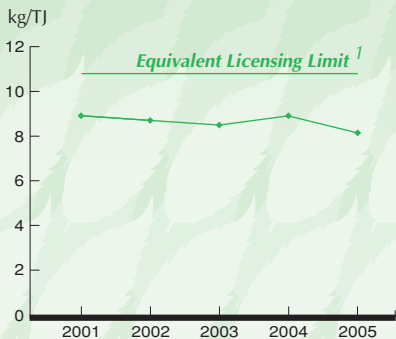
**(ii) NO<sub>x</sub> emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)**



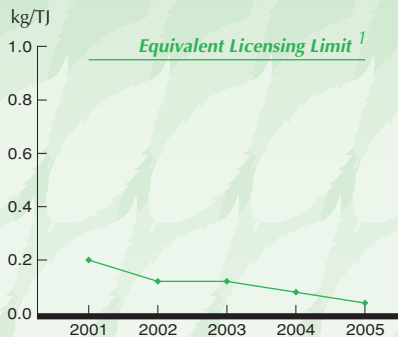
**(iii) NO<sub>x</sub> emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)**



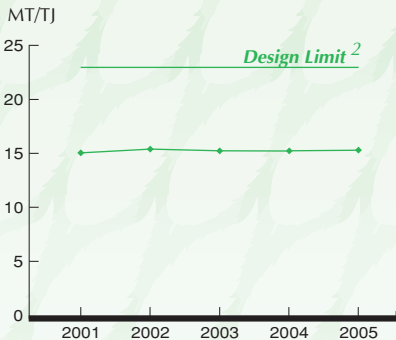
#### (iv) NO<sub>x</sub> emission level



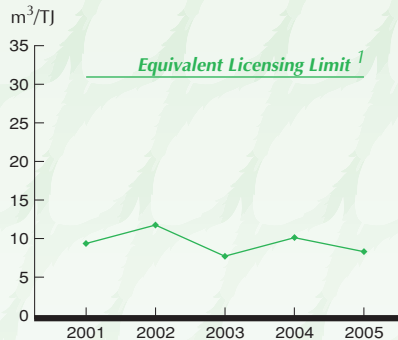
#### (v) SO<sub>x</sub> emission level



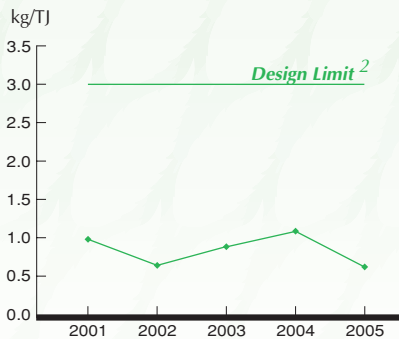
#### (vi) CO<sub>2</sub> emission level



#### (vii) Waste water output



#### (viii) Chemical waste output



1 "Equivalent Licensing Limit" (kg/T) or m<sup>3</sup>/T)

= "Weighted average of actual licensing limit" (kg/hr or m<sup>3</sup>/hr) ÷ production rate of the plants for the year 2005 (T)/hr

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

## FINANCIAL INFORMATION

### 1. Consolidated Income Statement

for the year ended 31st December 2005

	<b>HK\$M</b>
Turnover	9,350.9
Operating Profit before Returns on Investments	3,314.8
Investment Income	338.2
Operating Profit	3,653.0
Interest Expense	(114.6)
Share of Profits less Losses of Associated Companies	699.0
Share of Profits less Losses of Jointly Controlled Entities	1,683.0
Profit before Taxation	5,920.4
Taxation	(628.6)
Profit for the year	5,291.8
Attributable to:	
Shareholders of the Company	5,281.4
Minority Interests	10.4
	5,291.8
Dividends	1,935.7
Earnings per Share – Basic and Diluted, HK cents	94.9

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

for the year ended 31st December 2005

	<b>HK\$M</b>
Residential Maintenance Revenue	173.0
Less Expenses:	
Salaries and Wages	(92.4)
Other Operating and Administrative Expenses	(82.9)
Net Loss	(2.3)

## 2. Consolidated Balance Sheet

as at 31st December 2005

	HK\$M
<b>Assets</b>	
<b>Non-Current Assets</b>	
Property, Plant and Equipment	10,604.5
Leasehold Land	462.5
Intangible Asset	45.8
Associated Companies	2,060.9
Jointly Controlled Entities	5,197.5
Available-for-Sale Financial Assets	768.0
Investment Securities	–
	<u>19,139.2</u>
<b>Current Assets</b>	
Property under Development for Sale	579.8
Inventories	921.3
Trade and Other Receivables	2,104.2
Loans to Associated Companies	2,221.0
Loans to Jointly Controlled Entities	1,154.2
Housing Loans to Staff	102.8
Financial Assets at Fair Value through Profit or Loss	1,891.0
Trading Securities	–
Time Deposits over three months	8.7
Time Deposits up to three months, Cash and Bank Balances	1,474.7
	<u>10,457.7</u>
<b>Current Liabilities</b>	
Trade and Other Payables	(1,747.5)
Provision for Taxation	(577.8)
Borrowings	(5,857.2)
	<u>(8,182.5)</u>
<b>Net Current Assets</b>	<u>2,275.2</u>
<b>Total Assets less Current Liabilities</b>	<u>21,414.4</u>
<b>Non-Current Liabilities</b>	
Customers' Deposits	(982.3)
Deferred Taxation	(1,072.7)
Retirement Benefit Liabilities	(16.1)
Borrowings	(2,424.8)
Loans from Minority Interests	(74.2)
	<u>(4,570.1)</u>
<b>Net Assets</b>	<u>16,844.3</u>

## 2. Consolidated Balance Sheet (continued)

as at 31st December 2005

	HK\$M
<b>Capital and Reserves</b>	
Share Capital	1,377.2
Share Premium	3,907.8
Reserves	9,863.9
Proposed Dividend	1,267.0
Shareholders' Funds	<u>16,415.9</u>
<b>Minority Interests</b>	428.4
<b>Total Equity</b>	<u>16,844.3</u>

### 3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2005 Page 61)

TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED  
(Incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 62 to 120 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### ***Respective responsibilities of directors and auditors***

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### ***Basis of opinion***

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

#### ***Opinion***

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 20th March 2006

#### 4. Directors' Emoluments

for the year ended 31st December 2005

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

	<b>HK\$M</b>
Fees	1.2
Salaries, Allowances and Benefits in Kind	11.1
Performance Bonus	17.8
Contributions to Retirement Scheme	6.5
	<u>36.6</u>

Number of directors whose emoluments fell within:

<u><i>Emoluments Band (HK\$M)</i></u>	
0.0 - 0.5	7
9.5 - 10.0	2
16.0 - 16.5	1

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK\$30.1 million (2004: HK\$28.5 million) and post-employment benefits of HK\$6.5 million (2004: HK\$6.5 million) paid to the Group's key management during the year ended 31st December 2005. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2004: nil).