
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

2010

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 2010.

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

(a) Sales and Marketing

2010 proved to be a fruitful year for our core Hong Kong business. We saw our customer base increase by 25,593 new customers to 1.72 million and we also experienced encouraging growth in the total volume of gas sales, with figures rising 1.1 per cent. This gain was due primarily to the rebound in the economy, which resulted in enhanced sales in the commercial sector. Benefitting from the booming property market, our appliance sales also enjoyed a record year with a growth of 6.1 per cent in units sold over 2009.

Residential and Commercial Activities

Buoyed by the rebound in the economy as well as our committed sales efforts, town gas sales in this sector rose an encouraging 2.8 per cent in 2010. Much of this growth was due to the boom in tourism and associated industries, such as restaurants, hotels and the catering trade. A number of hotels and hospitals have turned to town gas to meet their large-scale energy demands in the supply of steam and hot water; and meeting the needs of the catering industry, we have made every effort to develop a greener and cooler kitchen environment with modern and efficient gas appliances.

We extended our range of commercial kitchen appliances, introducing a new stockpot and wok range, which raise efficiencies by over 30 per cent. We also launched a range of appliances specially designed for elderly homes, and, consolidating our position in the commercial dishwasher market, we established partnerships with several top dishwasher suppliers in the catering trade.

In meeting the needs of our residential customers, we make every effort to offer a full range of attractive, energy-efficient and user friendly gas appliances that will make life easier for the users. This service philosophy has resulted in a number of award winning products as well as a strongly growing market.

Building on the success of our premium Elemento hob series, we introduced our Lotus Flame built-in hob in 2010. With its safety flame-failure device, digital timer and sealed ceramic surface offering easy cooking and cleaning, as well as its “double-deck” flame which provides a 20 per cent saving in energy usage, it is proving to be extremely popular.

Building on our years of experience in designing and building stylish yet functional kitchens for residential projects, we transferred this expertise into the retail market and, Mia Cucina, our kitchen consultancy and design service was born. Mia Cucina not only provides customers with eco-friendly and custom-designed high-end kitchens, customers can also choose from a range of the latest appliances to suit their own particular needs.

During the year, we introduced a flush louvre-type flue terminal design for water heaters, new temperature regulated water heaters as well as a series of more sophisticated cooker hoods. These modern and streamlined products, with their improved safety features and easier operations, provide a “win-win” situation all round. On the one hand, they improve the quality of life in Hong Kong, while on the other they are essential in helping us to grow our market and stay ahead of competition.

(b) Serving Our Customers

In creating a quality lifestyle for our customers, apart from providing safe and reliable energy services, we also seek to provide caring, competent and efficient services. This means that we must have the interests of our customers at heart in everything we do. This service commitment earned us the “Q-mark Service Scheme Accreditation” for the seventh year running.

Our eBilling initiative gained momentum during the year with special promotions to persuade customers to sign up for this green service. By the end of the year, there were a total of over 45,000 eBilling customers, more than double the figure in 2009. With each eBilling customer reducing carbon emissions by 316 grams a year in view of the paper and postage saved, this growing group of customers is making a significant contribution to the environment. Extending this green message, eBilling customers were also invited to our tree planting activity, under the Afforestation Scheme organised by Friends of the Earth (HK). This scheme is based on our donation of HK\$6 to Friends of the Earth (HK) for every customer who successfully applies for eBilling service.

Promoting our green products and services, we launched a Green Dollar programme during the year. Under this programme, customers earn leaf and tree stickers that can be redeemed for cash coupons, when they make purchases at our outlets. At the same time, helping our customers to maintain a green lifestyle, a Green Living Corner offers a series of low carbon products such as energy-saving and easy-to-clean cookwares, as well as environmentally-friendly cleaning products.

Bringing the benefits of flame cooking to Hong Kong’s young people, we held a year-round programme of student visits to more than 100 flame-cooking demonstrations. We also launched a number of initiatives using new and electronic media, and, riding the mobile data wave, we introduced our first smartphone application. This mobile application links users to over 1,000 recipes and allows them to report meter readings, play fun cookery games and use a practical low carbon diary.

We also reach out to our customers, visiting their homes with regular 18-month safety inspections, to check both the condition of gas systems and equipment within their premises. Making the most of this opportunity to deal directly with our customers and boost home safety, we also encourage customers with older appliances, to upgrade to newer and safer models. As a result of these measures, emergency reports have been falling steadily, decreasing a positive 23 per cent in 2010.

(c) *The Gas Infrastructure*

As we maintain our focus on providing clean and green energy services, we continue to increase the use of natural gas in our production. This use of natural gas, which has replaced around 60 per cent of naphtha as feedstock, provides a dual benefit – our customers enjoy both a cleaner source of energy as well as more economical services.

Further extending this use of natural gas, the 15 km natural gas pipeline to our Ma Tau Kok plant is making good progress. Our use of landfill gas (LFG) is also forging ahead with supplies coming both from the landfill at Shuen Wan as well as the site in the North Eastern New Territories. These LFG supplies, which account for about 2.3 per cent of our total production fuel, translated into the reduction of approximately 45,000 tonnes of carbon emissions, as well as saving around 14,000 tonnes of naphtha during the year. Building on this positive outlook, we are looking into the possibility of developing further LFG projects in the territory.

Our comprehensive pipeline network extends throughout the territory linking our customers directly to our gas supply. As this network has grown, our focus in recent years has not so much been on extending this network as on enhancing and reinforcing it, to improve both supply security and delivery. To this end, the laying of a 9 km ring-feed pipeline in Tuen Mun continues on schedule. Further enhancements include an extension project to serve the new South East Kowloon Development area, where Hong Kong's new Cruise Terminal is under construction. Network enhancements were also completed to meet the service needs of Ocean Park, where new expansion will include three hotels on site.

The safety and integrity of this network is monitored and enhanced by our network monitoring system, coupled with a comprehensive preventive maintenance programme. Aided by the most up-to-date technologies, this programme consists of proactive monitoring activities, site inspections and leakage surveys. During the year, we completed over 163,000 inspections on some 18,400 third-party excavation sites and surveyed over 7,000 km of pipelines.

Together with the use of improved quality materials over the years, both third party pipeline damage incidents and other public reported gas escapes have significantly dropped by over 75 per cent over the past decade. Maintaining this vigilance and enhancing safety and emergency procedures in our production plants and gas facilities, a number of joint fire-prevention and fire-fighting exercises with the Fire Services Department and tabletop exercises were conducted during the year.

Driving this culture of safety among our contractors, a Pay for Safety, Quality and Environmental Appraisal System was introduced in our pipelaying contracts as an added incentive to contractors and their frontline workers.

A recently introduced “Riser Inspection Robot”, which uses digital imaging and gas leakage detection equipment to carry out routine preventive maintenance, has greatly helped to enhance the quality of our riser network, the gas pipelines that lead into buildings and customers’ premises. This device, which has also helped to raise safety levels as employees no longer need to work at a height, won the “Safety Enhancement Programme Gold Award” as well as the “Best Presentation Award – Silver” under the “Hong Kong Occupational Safety and Health Award”, co-organised by the Occupational Safety and Health Council, the Labour Department and other professional organisations.

(d) Towards a Sustainable Future

Reflecting our role as a major energy supplier with a strong focus on the environment, we make every effort to use environmentally-friendly fuel in the gas production process. In Hong Kong, this process started in the early 1970s when we switched to naphtha, significantly reducing sulphur dioxide emissions in the production of town gas. The subsequent introduction of natural gas, one of the cleanest fossil fuels, as well as the use of landfill gas, together accounting for about 60 per cent of our total production fuel, also meant a substantial reduction in greenhouse gas emissions.

Within the community, we actively supported green group activities, including Friends of the Earth (HK)’s Tree Planting Challenge as well as Corporate Afforestation Project, the latter of which will plant 10,000 trees in three years. We also sponsored the No Air-con Night campaign organised by Hong Kong Green Sense urging people to turn off their air-conditioners for a night in September. Supporting WWF’s Earth Hour, our mainland companies also turned off their lights for an hour both at work and at home.

In seeking to promote a quality lifestyle, our efforts also extend to the less fortunate or the financially disadvantaged, where the lending of a helping hand can make a real difference.

In 2010, under our annual Rice Dumplings for the Community campaign, we prepared and delivered more than 210,000 rice dumplings to the needy. Our volunteers also organised a workshop for visually impaired members from the Hong Kong Society for the Blind, teaching them how to wrap rice dumplings during the Dragon Boat Festival.

Our Mooncakes for the Community initiative brought 520 Legislative Councillors and District Council members, 55 district organisations and Towngas volunteers together, to distribute a new record of 230,000 mooncakes to the elderly and the less fortunate in Hong Kong.

We also placed a strong focus on the development and support of corporate social enterprises (CSEs). In addition to our CookEasy programme, which won Next Magazine's "CSE Service Award", we employed a social enterprise cleaning service for our offices. Another initiative, Igniting Bright Future was launched to offer a one-year internship to marginal youth at our new restaurant, Flame in Tsim Sha Tsui, where they are given the opportunity to train as professional chefs in a working kitchen.

Working in conjunction with the Labour Department and the Vocational Training Council, we provide on-the-job programmes, grooming trainees and young graduates to enter the workplace with greater confidence and professional skills.

(e) Empowering Our People

In view of the rapid expansion of our business horizons in recent years, we have seen a corresponding leap in the need for experienced and qualified employees. Apart from offering a comprehensive remuneration package to attract the most suitable talents available, we provide the essential learning and career development to retain these talents.

Making sure that frontline service employees in Hong Kong maintain the delivery of superior customer services, a series of service refreshment training programmes were organised, racking up 2,556 learning hours in the process. These training programmes were also extended to cover our business partners.

Maintaining technical competencies within the gas industry, in addition to our Gas Fitter Apprentice Training and Trainee Network Fitter Training Schemes, we also organised Registered Gas Installer Training for contractors as well as refresher training programmes, completing more than 36,000 man-hours of training during the year. To cope with the rapid growth of downstream gas businesses on the mainland, we seek to raise the technical competency and safety mindset of our technicians there. To this end, we completed more than 74,000 man-hours of training for 2,607 technicians during the year.

Our efforts to ensure the well-being of our colleagues have not only led to our ranking among the top ten most preferred employers in Hong Kong and our 11th rank in a global consultant's survey on "The Top 100 Ideal Employers" in Hong Kong, we also placed first as the most Ideal Energy Employer in Hong Kong under a survey based on the views of 400,000 students and professionals worldwide. We were also cited as "The Best Company for Employee Development" on the mainland.

In recent years, we have launched a series of initiatives to improve the work-life balance of our employees. These include the introduction of a five-day work week, three-day paternity and marriage leave entitlements, together with healthy and de-stressing programmes such as yoga, kick-boxing, pilates, etc.

Seeking to raise employee engagement levels and making Towngas a better place to work in, we conducted an Employee Engagement Survey during the year under the theme "Your Voice, Our Drive". The response rate of the survey reached a highly satisfactory 97 per cent, reflecting the enthusiastic support of our workforce.

Occupational health and safety training has also been designed for employees working long hours on computers. The training helps office workers to maintain a good posture when sitting at a desk, to prevent back strain and other back problems.

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 2010, 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 1,110,000 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

Maintaining the highest standards of health and safety, we maintain an industrial safety performance record same as last year. During the year, there were 12 industrial accidents, resulting in an Accident Frequency Rate of 0.29.

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.

Taking this message to our suppliers, contractors and the local community, we organised the Health, Safety and Environment (HSE) Quiz for colleagues and contractors, over 300 participants from various departments, subsidiaries and contractors. HSE poster competition, HSE slogan competition and others activities for colleagues and contractors were organised for promotion. Those activities not only brought in highly positive responses, they also raised greater awareness of occupational safety and health. Also, series of HSE training were organised including Safe Use of Display Screen Equipment, Mass communication with contractors and others.

(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 99.993% in 2010.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 33 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 24 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. Therefore, neither plant has ever received a single prosecution from the authorities.

The Accident Frequency Rate of gas production plants has always 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 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.

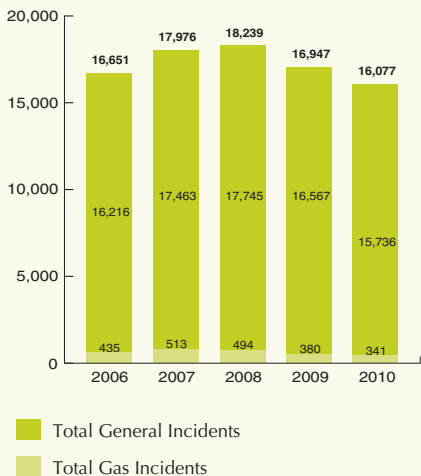
Emergency vehicles equipped with computers are now used in the handling of any gas emergency and the use of new laser methane detectors for leakage surveys, as well as advanced detectors which check the condition of the coating on steel pipes, were also introduced during the year.

Despite the fact that our activities and appliances meet stringent international standards, we continue to make every effort to enhance their safety even further. 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 2010, about 163,281 trench inspections covering 18,400 active sites were made.

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

(i) Number of Urgent Reports

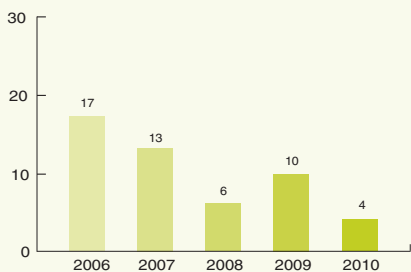


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 16,077 Urgent Reports received in 2010, only 341 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



Out of the 341 Gas Incidents in 2010, only 4 cases were Major Gas Emergencies.

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

(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.

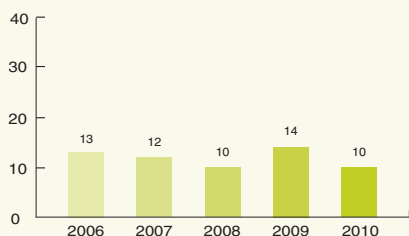
(iv) Number of Fatal Gas Accidents

Year	2006	2007	2008	2009	2010
No. of Accidents	1	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 significantly reduce the number of incidents involving third party damage over the past five years. Incident in 2010 was also kept in a relative low level.

(vi) Trench Inspection

Total number of active sites inspected in 2010

Island	Kowloon	New Territories	Total
5,453	5,556	7,391	18,400

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 2010, a total of 580 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 galvanized 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

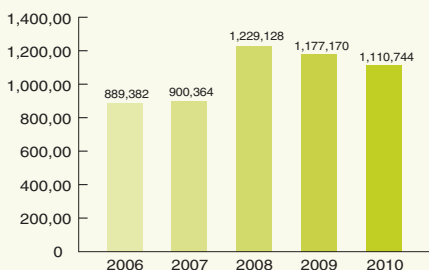
IPB – Intermediate Pressure B

PE – Polyethylene

Under the Company's rigorous leakage survey programme, our qualified technicians perform regular 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.

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 0.019 per km per year in 2010. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.103 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.

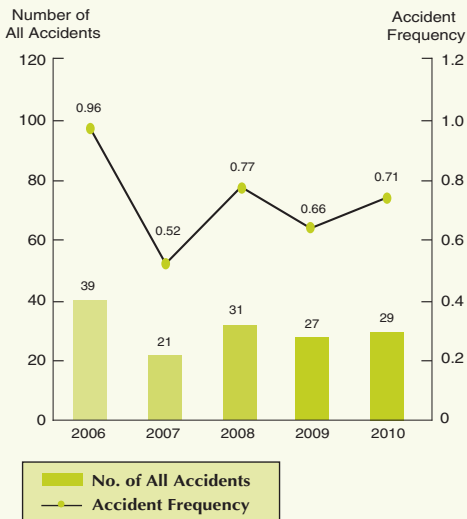
(ix) Number of Sub-standard Appliances Upgraded

Towngas 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 2010, 349 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 2010, we organised 12 safety exhibitions and 6 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



Towngas is committed to providing a safe and healthy environment for its employees. From 2006 to 2010, 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 16 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 2010

	<u>Results</u>
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.993%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	100%
Safety	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	96.67%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.07 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	95.20%
• 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	8.69
• Courteous and friendly attitude ²	8.69
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	100%

1. Average 19.72 minutes.

2. The result was based on monthly surveys conducted from January to December 2010 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2011

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 2011, and the annual reporting on performance results will be announced in January 2012.

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, residential customers are advised to inform us of their request for refunds at the time of making cap-off service appointment.

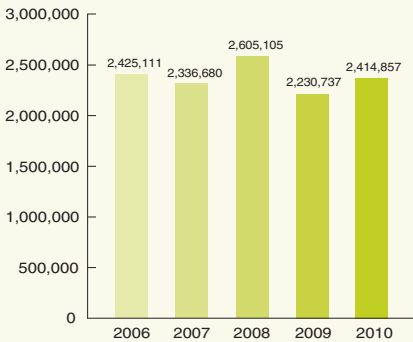
4. Customer Liaison

(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 2010, the Customer Focus Team made 24 visits to its customers.

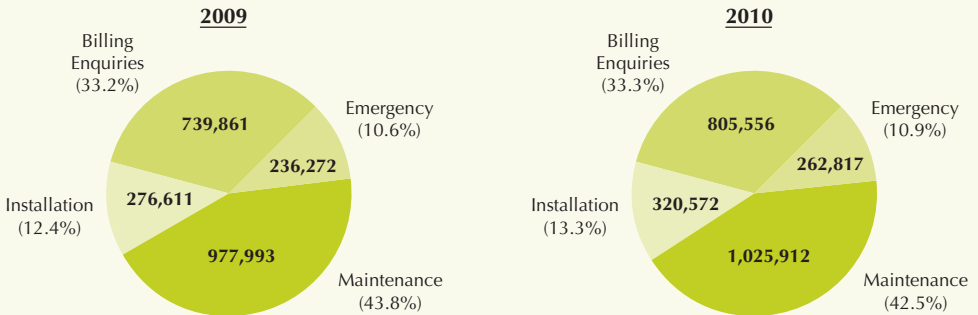
(b) Customer Service Hotline and Emergency Hotline

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 42.5% of total calls in 2010 while other categories include billing enquiries, 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 2010, a total of 23 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to Towngas services and products, appliance special offers, Towngas Avenue special offers, Towngas Cooking Centre special offers, Mia Cucina offers, gas safety and energy saving tips.

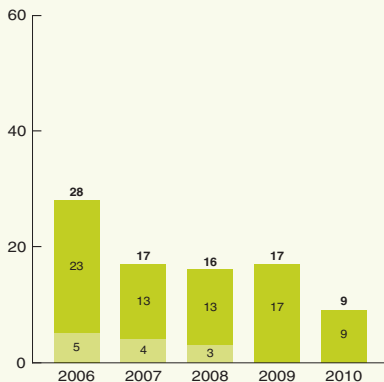
(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



■ Written Compliments
■ Verbal Compliments

Number of Customers' Complaints

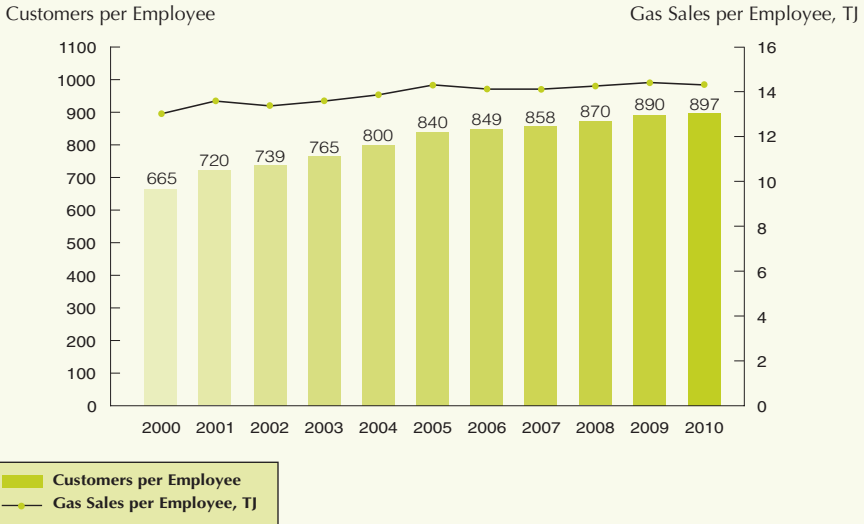


■ Written Complaints
■ Verbal Complaints

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 5,532 compliments about Towngas' service in 2010, which included 5,074 written compliments and 458 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 9 complaints in 2010 (9 written complaints and 0 verbal complaints). With 1,724,316 customers as at 31 December 2010, the ratio is 1 complaint per 191,590 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 2010, 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% increase in productivity in 2010, which is measured in terms of number of customers served by each employee. In 2010, each Towngas employee served 897 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 town gas appliance models and 30 Liquefied Petroleum Gas (LPG) appliance models in Hong Kong, Towngas continuously developed more green products with value added functions to preserve our environment and satisfy customer needs. In 2010, we introduced “Lotus Flame” built-in hob which had efficiency 15% high than that of conventional cooking appliance. Its first-in-town automatic flame cut-off timer function and easy-to-clean sealed burner also make cooking easier and simpler.

In commercial catering sector, Towngas continues to develop greener and energy saving cooking appliances. The double-feed tank design effectively recovers the waste steam and flue heat in steam cabinets and food steamers and hence have improved their efficiencies by 20%. Besides, we also introduced a low-cost ‘flue disc’ and ‘flue router’, the simple yet effective components, into our new Chinese wok range and stockpot, which raise efficiencies by over 30%. With these innovative patented features, the four treasures: steam cabinet, food steamer, Chinese wok range and stockpot forms an essential set of catering equipment for Restaurant trades, and provides them the ideal “Efficient-Cool” kitchens.

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 utilization project in 2007. Currently accounting for about 3 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, the planning and design of a connection pipeline is currently under review. The use of LFG not only cuts carbon emissions released into the atmosphere, our consumption of naphtha also fell by around 14,800 tonnes in 2010. These savings alone translate into the planting of some 2.0 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 650,000 on-demand maintenance works and more than 1,110,000 Regular Safety Inspections in customers' homes in 2010.

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 0.004 of a cent per megajoule.

Customers' total saving of \$1,425 million fuel cost adjustment in 2010 after using 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.

ENVIRONMENTAL PROTECTION

Our “2010 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. Our well-established waste management practices have been extended to include the collection and recycling of retired domestic appliances, commercial and industrial appliances, spare parts, gas meters and used CDs etc. We are now reduce, reuse and recycle more than 20 items since the programmes introduced in 2002.

1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2010, we again sponsored the “Tree-planting Challenge 2010” organised by Friends of the Earth (HK), and participated in “Earth Hour” – a worldwide Light off event and the environmental education tour to Mai Po Natural Reserve organised by WWF – Hong Kong, the “Walk for the Environment” organised by The Conservancy Association, the annual “Green Power Hike” organised by Green Power and the No-Air-con Night campaign by Hong Kong Green Sense. 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 our employees and contractors. Programmes conducted in 2010 included the Annual Outstanding Environmental Sub-committee Competition, Fuel Saving Competition, Green Office Purchase Competition and the publication of four issues of the Health, Safety & Environment Bulletin distributed to all employees and our contractors. 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 Achievements

In 2010, Towngas was conferred with the Grand Award and two category awards in the Hang Seng Pearl River Delta (PRD) Environmental Awards under the One Factory-One Year – One Environmental Project by the Federation Hong Kong Industries (FHKI) for its outstanding environmental practices. The Platinum Category of Green Purchasewi\$e Award under the Hong Kong Green Awards was also reflected the green practices of corporate purchase. For 3 consecutive years received the Prime Award for Eco Business in recognition of our environmental protection performance. The “Class of Excellence” Wastewi\$e Label 2010 which the Environmental Campaign Committee conferred upon us for the 9 consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2010, Towngas’ 12 functional environmental sub-committees achieved over 40 environmental objectives. For instance, our “Used Gas Appliance Recycling Programme” is now in its eighth year, and 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 “2010 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.
- By 2015, all existing building central air conditioning system will operate with HCFC-free refrigerants.

Air Quality

- Total NO_x output was 4.59 kg/TJ of town gas (Annual total of 125,534 kg, equivalent to a daily average of 344 kg).
- Total SO_x output was 0.03 kg/TJ of town gas (Annual total of 685 kg, equivalent to a daily average of 1.9 kg).
- Total CO₂ output was 11.96 MT/TJ of town gas (Annual total of 326,973 MT, equivalent to a daily average of 896 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 355,958 MT in terms of CO₂ equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 5.9 kg/TJ of town gas (Annual total of 161,683 kg, equivalent to a daily average of 443 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 4.68 m³/TJ of town gas (Equivalent to a daily average of 351 m³).

Chemical Waste

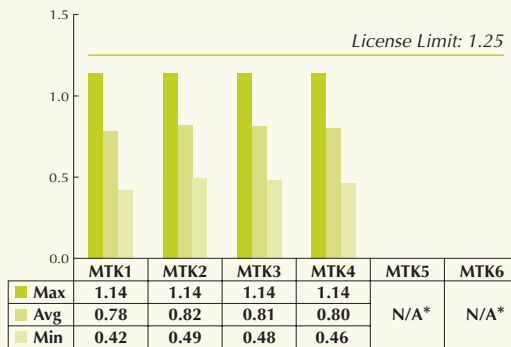
- Total chemical waste output was 2.37 kg/TJ of town gas (Equivalent to a daily average of 178 kg).

Noise

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

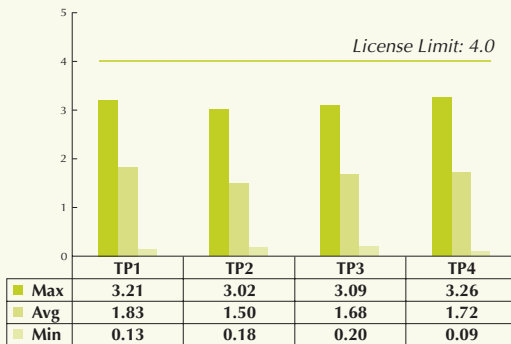
(b) Emission Level of Gas Production Plants for 2010

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

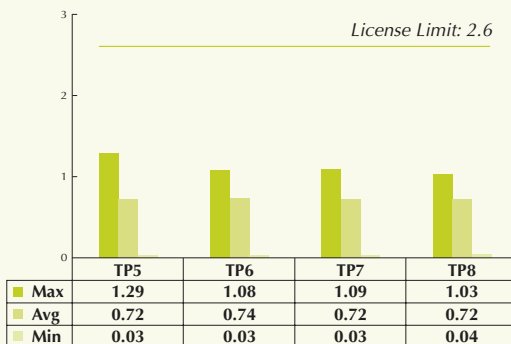


* MTK5 and MTK6 at cold standby in 2010

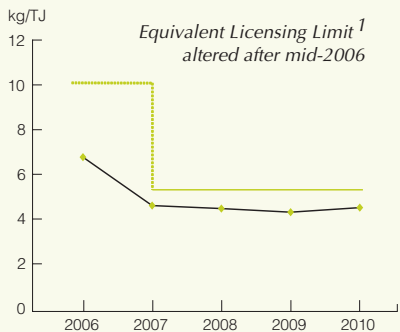
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



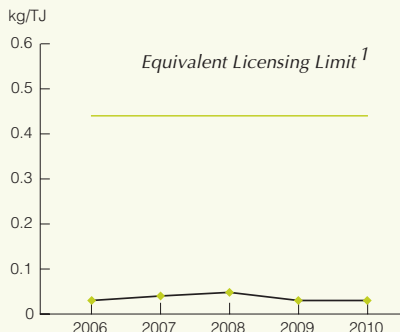
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



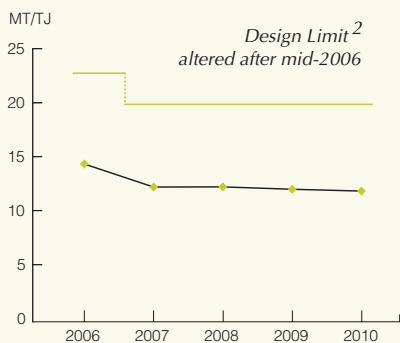
(iv) NOx emission level



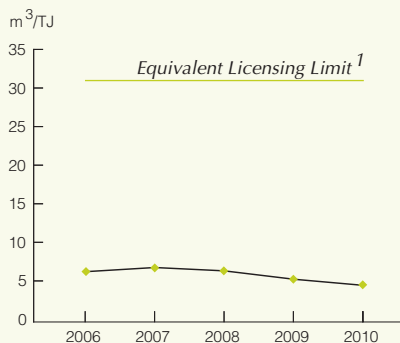
(v) SOx emission level



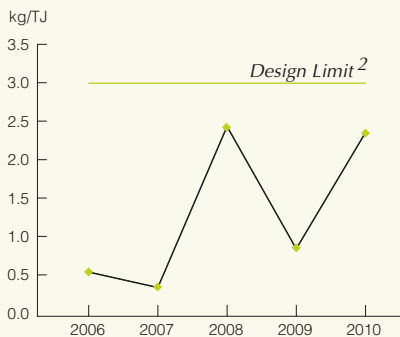
(vi) CO2 emission level



(vii) Waste water output



(viii) Chemical waste output³



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 2010 (TJ/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.
3. Chemical waste output increased in 2008 to 2010 was higher than usual due to special submarine pipeline coating work and oil interceptor cleaning operation. Chemical waste was disposal of by registered chemical waste treatment companies.

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2010

	HK\$'M
Revenue	19,375.4
Total operating expenses	(14,697.4)
	<u>4,678.0</u>
Other gains, net	702.3
Interest expense	(711.2)
Share of profits less losses of associated companies	1,528.1
Share of profits less losses of jointly controlled entities	889.5
Profit before taxation	<u>7,086.7</u>
Taxation	(1,038.8)
Profit for the year	<u>6,047.9</u>
Attributable to:	
Shareholders of the Company	5,584.8
Non-controlling interests	463.1
	<u>6,047.9</u>
Dividends	<u>2,513.8</u>
Earnings per share – basic and diluted, HK cents	<u>77.8</u>

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

for the year ended 31st December 2010

	HK\$'M
Residential maintenance revenue	186.0
Less expenses:	
Manpower costs	(112.4)
Other operating and administrative expenses	(89.1)
Net loss	<u>(15.5)</u>

2. Consolidated Balance Sheet

as at 31st December 2010

	HK\$'M
Assets	
Non-current assets	
Property, plant and equipment	26,890.1
Investment property	501.0
Leasehold land	935.7
Intangible asset	2,575.6
Associated companies	10,802.2
Jointly controlled entities	7,768.8
Available-for-sale financial assets	3,441.2
Derivative financial instruments	351.8
Retirement benefit assets	68.3
Other non-current assets	2,371.8
	<u>55,706.5</u>
Current assets	
Inventories	1,303.3
Trade and other receivables	3,312.5
Loans and other receivables from associated companies	70.7
Loans and other receivables from jointly controlled entities	338.5
Loans and other receivables from non-controlling shareholders	38.1
Housing loans to staff	27.5
Financial assets at fair value through profit or loss	528.7
Time deposits over three months	1,642.0
Time deposits up to three months, cash and bank balances	9,696.3
	<u>16,957.6</u>
Current liabilities	
Trade and other payables	(5,801.6)
Amounts due to jointly controlled entities	(5.0)
Loan and other payables to non-controlling shareholders	(26.2)
Provision for taxation	(708.2)
Borrowings	(9,982.4)
	<u>(16,523.4)</u>
Net current assets	<u>434.2</u>
Total assets less current liabilities	<u>56,140.7</u>

2. Consolidated Balance Sheet (Continued)

as at 31st December 2010

	HK\$'M
Non-current liabilities	
Customers' deposits	(1,133.9)
Deferred taxation	(2,017.5)
Borrowings	(11,745.7)
Loans payable to non-controlling shareholders	(35.0)
	<u>(14,932.1)</u>
Net assets	<u>41,208.6</u>
Capital and reserves	
Share capital	1,795.6
Share premium	3,455.3
Reserves	30,561.3
Proposed dividend	1,651.9
Shareholders' funds	<u>37,464.1</u>
Non-controlling interests	<u>3,744.5</u>
Total equity	<u>41,208.6</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2010 Page 69)

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 70 to 156, which comprise the consolidated and company balance sheets as at 31st December 2010, 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 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.

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 2010, 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, 15th March 2011

4. Directors' Emoluments

for the year ended 31st December 2010

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	2.2
Salary, Allowances and Benefits in Kind	8.5
Performance Bonus	30.9
Contributions to Retirement Scheme	6.4
	<hr/>
	48.0

Number of directors whose emoluments fell within:

<u><i>Emoluments Group (HK\$M)</i></u>	
0.0 - 0.5	7
13.5 - 14.0	1
32.0 - 32.5	1

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK\$41.6 million (2009: HK\$36.1 million) and post-employment benefits of HK\$6.4 million (2009: HK\$6.2 million) paid to the Group's key management during the year ended 31st December 2010. There were no other longterm benefits, termination benefits and share-based payment paid to the Group's key management during the year (2009: nil).



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