

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

2004

**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 2004.

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 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 3499.

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OPERATIONAL INFORMATION

1. Annual Business Review

(a) Sales and Marketing

Hong Kong's economy was much more buoyant during the year under review, compared to 2003, partly bolstered by a rise in tourism. A further influx of visitors and extensions of stay are expected when the Hong Kong international theme park opens at Penny's Bay on Lantau Island in 2005. As a result, Towngas gave a large amount of attention in 2004 to preparing for an anticipated increase in gas consumption in the coming year.

Residential and Commercial Activities

Towngas has excellent credentials and competes successfully against other forms of fuel such as electricity, diesel and liquefied petroleum gas (LPG) in Hong Kong. Our knowledge and experience have enabled us to apply increasing sophistication to developing competitive services and products in the last year. The Company saw a modest rise in gas growth during 2004 as property market sentiment picked up, employment improved and deflation disappeared in the second half of the year.

Gas Consumption

Although gain in residential customers was up by 2.8 per cent in 2004 to 1.548 million, this did not easily translate into increased gas consumption. Cool weather snaps at the beginning and end of the year only served to highlight one of the driest and warmest periods on record for the months in between; government and private developers' housing policies continued to ensure restrictions on the supply of new flats; and as if to make up for limited travel during the SARS crisis, Hong Kong people enthusiastically took the skies.

However, whilst domestic gas sales were lower than expected, this was off-set by commercial consumption which increased 3.8 per cent year-on-year as restaurants and hotels benefited from a surge in visitor arrivals. We are optimistic this knock-on effect will gain even more momentum in 2005 with the inauguration of the Hong Kong international theme park in September.

New Products

Towngas' residential customers are very discerning. They expect value for money as well as state-of-the-art features that help to make their lives easier. In March 2004, we therefore launched a new generation gas dryer with larger capacity, faster drying performance and a more stylish appearance. Consumers have welcomed this model upgrade, creating good sales follow-through. We also developed and put to market during the year, an innovative, touch-sensitive, safety-glass built-in hob featuring a higher heat intensity inner-flame. Together with a modular version, this product series is proving popular with the more high-end luxury market. Furthermore, we expanded our LPG products for mid-range customers by designing a temperature-controlled water heater; this complements existing LPG cooking appliances.

Commercial gas appliance sales were well-supported by the introduction of a new, low-noise wok range and noodle cooker during the year, which encouraged greater gas use especially in popular open-kitchen restaurants. The growth in three-star, four group

accommodation also gave a boost to the Blueflame water heating system which is especially suitable for providing small hotels with hot water.

Promotion of Products and Services

Our objective is always to match our quality products with quality services. At the same time, we recognise that we must not become complacent. There is a need to win over younger generations with very different expectations from those of our more mature, loyal and long-standing customers. We believe in starting early. Towngas Cooking Centre organised cooking demonstrations for over 3,000 students and visited nearly 100 schools in the 2003-04 academic year. A very successful series of cooking activities was also arranged for the Girl Guides in 2004, strengthening our image and arousing the culinary awareness of this popular youth group.

In addition, two promotional competitions were held during the year aimed at stimulating student interest in home-based cuisine. Towngas sponsored the 6th Secondary Schools Flame-Cooking Contest to nurture a cooking culture among young people, and launched a public competition in June, challenging contestants to think creatively by designing a kitchen using state-of-the-art Company products.

These contests were complemented by the findings of a survey in September commissioned by SIMPA, a gas appliance brand marketed by Towngas, which suggested many Hong Kong people rate quality of home life as central to their overall well-being. Cooking and family dining are becoming more important, as is renovating or installing new kitchens and bathrooms. We therefore continued a trend started in 2003, and opened two further contemporary customer service outlets during 2004. Our new-look Towngas Customer Centres are located in prime positions with high population densities to attract maximum usage. They offer a full range of services including real-life settings for appliances and innovative interior modification assistance for minor building works, the latter generally not available from product retailers. This value-added service is not only encouraging purchases by saving customers the bother of finding plumbers and installers willing to do small job alterations, but is also enhancing Towngas' standing as a proactive, caring utility business.

(b) Service Initiatives

Towngas Avenue, our combined up-market retailing and lifestyle outlet, continued to successfully promote its open-kitchen restaurant and self-cooking dining areas during the year, two concepts that have since been widely copied throughout the city.

We also gave particular focus in 2004 to enhancing the public's sense of gas safety, and especially leveraged our good relations with District Councils to foster this objective. Council members visited our main gas plant to gain a better understanding of gas security and attended more informal gatherings to discuss town gas services within the community. This past year, we became increasingly engaged in district-related work on the ground as well. For example, we helped to devise both district development and annual strategic business plans which enabled us to offer a more timely input of our utility expertise.

In other efforts to reach out to our customers, we sought to boost the basics of service provision in 2004. Customer service and selling skills of frontline staff were raised through "Service Pro", a training and performance measuring programme; we stepped up customer surveys; and we energetically promoted the use of comment cards to solicit on-the-spot opinions on customer centre services. Combined with a major up-grade of our Customer Relationship Management System that took place in August, appliance sales, installation orders and maintenance requests are now being handled more quickly and effectively.

These strategies have all contributed to enhancing our reputation in terms of retailing, installation and customer service quality over the year. We were therefore delighted to be the first utility company in Hong Kong to be granted Q-Mark Certification from the Federation of Hong Kong Industries in May, for our excellent products and services. The results of our Service Pledge for 2004, as in preceding years, stand testimony to this award recognition.

(c) Gas Supply

Our emphasis in 2004 was three-fold. We focused on forward planning in anticipation of importing natural gas to the territory by 2006; we continued to develop the gas supply system to cope with future demand; and not least, we concentrated on enhancing public safety.

Natural Gas Impact

In October 2004, the Legislative Council was briefed on the forthcoming introduction of natural gas into the territory. Natural gas will be delivered from the Liquefied Natural Gas (LNG) terminal in Shenzhen to Towngas' Tai Po plant via a pair of 34 km, 450 mm-diameter submarine pipelines, starting in 2006. Four town gas production units have already been modified and another four will be completed in the coming two years to accommodate the natural gas intake, which will replace about 60 per cent of the current annual consumption of naphtha feedstock.

Towngas has long looked for ways to enhance cost-effectiveness, sustain supply reliability and preserve our environment. Natural gas will reduce our reliance on oil products and hence, exposure to crude oil price fluctuations. Natural gas is also a very clean, environmentally-friendly fuel that will contribute to improving Hong Kong's air quality.

Network Infrastructure and Extensions

In 2004, we successfully migrated to a third generation Supervisory Control and Data Acquisition system and also updated our computer mapping system, both of which allowed us to augment monitoring and control of our gas transmission and distribution network. This is extremely important as we seek to expand and further secure our lines of supply to meet Hong Kong's escalating infrastructure growth. In the eastern New Territories, Towngas is now constructing a 24 km, 750 mm-diameter Eastern Transmission Pipeline (ETP), due for completion in 2006. The ETP will not only boost the existing network but equally enlarge our peak gas storage capacity.

During the year, we also focused on extending our gas network to the Hong Kong international theme park where a 13 km trunk main was completed in April 2004. We are now laying service gas supply pipes in the park and working on installations for a special flame effect display at one of the park's adventure water rides.

(d) Employees and Change Development

We seek to create a workforce who are experts in their discipline yet also have breadth of vision to initiate new ideas and talent to put these into practice. As we accelerate our expansion into the mainland, we are training more staff to take on future opportunities and build business growth. As at 31 December 2004, the total number of employees of the Group and its affiliates was 9,715 (5,635 in 2003), of which 1,954 were engaged in the town gas business (1,986 in 2003).

Skills Development

In 2004, we began training to establish consistent and professional performance across a range of frontline activities, such as service centres, outdoor sales, Towngas Avenue outlets and hotline contacts. Senior staff are being coached to act as role models and mentors.

Encouraging employees to be creative in their thinking is key to their own self-development and the innovative progress of the Company. In 2004, 800 Superior Quality Service (SQS) team members concluded 71 projects, generating over HK\$20 million in tangible benefits. SQS teams are also now very active within JVs and our first JV Quality Day in September, attended by government officials, quality associations and business partners, was both tribute and testimony to the emerging importance of quality services in our mainland businesses.

Other China initiatives in 2004 aimed to further strengthen development of quality principles, instill greater individual accountability and promote ability and know-how. For example, the Guangzhou Technical Training Centre ran courses in customer service, marketing and sales, leadership development and time management; middle managers were redeployed across JVs to widen their experience; and top JV managers attended a management training workshop tailored exclusively to public utilities, jointly organised by Towngas and The Chinese University of Hong Kong.

Cultural Appreciation

To ensure Towngas staff are capable of fully engaging in the Group's mainland business strategy, and conversely that JV personnel fully appreciate the Company's safety, ethical and quality service values, assimilation and awareness training took place in both Hong Kong and the mainland during 2004.

Seminars for Hong Kong staff covered conducting commercial transactions and management of personnel on the mainland. A number of look-and-see tours were also arranged to enable prospective secondees to get a better feel for our China operations.

To familiarise mainland staff with Towngas' ways of working, corporate induction programmes, workshops for senior JV service staff and western social skills' practicals were held throughout 2004 in Hong Kong.

All our training divisions also worked together to set up a train-the-trainer scheme in 2004, to create a pool of local mainland trainers able to act as support for essential skills coaching within JVs.

Technical Competence

Constantly evolving technology and faster rates of product development mean Towngas requires engineers whose skills are completely up to date. We address this challenge through a basket of work-based learning opportunities.

With interactive e-learning packages an essential corollary to classroom technical training, several new modules were introduced in 2004 covering newly-launched appliances. We also re-activated a trainee fitter scheme during the year to secure sufficient manpower coverage for future pipeline construction and maintenance of our underground gas network.

On the mainland, the Guangzhou Technical Training Centre launched a technical certification programme in 2004 to ensure technicians offer a standard of safety equivalent to that in Hong Kong. A second training centre in Jinan, Shandong Province, is due to come on stream in early 2005 to build up local talent at a faster pace.

Cultivating business on the mainland depends to some extent on getting across our name, reputation, mission and products to consumers and key potential stakeholders. The Guangzhou Technical Training Centre played its part in 2004 by participating in national gas and training conferences and helping to draft training plans for the gas industry in Guangdong Province.

Next Generation

Our blueprint for training the next generation lies in professional post-degree accreditation and mainland exposure. The aim is to consolidate and enrich graduate trainees' (GTs) engineering knowledge and cultural awareness as we prepare these young people to become future leaders within the Group.

One of our GTs came first in the UK's Institute of Gas Engineers and Managers Young Persons Paper Competition in 2004, while a GT team won the Hong Kong Management Game in July, an exercise in group co-operation to outbid competitors. We were also delighted that two Towngas GTs took first and second place in the coveted Hong Kong Institution of Engineers Trainee of the Year Award 2004.

The Guangzhou Technical Training Centre started its own GT programme in 2004, with an intake of eight university graduates. In time, these GTs will form a pool of competent local gas practitioners who will work more closely with Hong Kong staff to take our business technically forward on 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 2004, we held 21 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 980,000 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

2004 was a very successful year for the company in terms of safety. Our Accident Frequency Rate (the number of accidents with injuries for every 100,000 man hours worked) fell by 32 per cent from 1.03 to 0.7, returning to the record-low level of 2002. The Company again complied with all occupational safety and health legislation during the year. On site, third party damage was down by nearly 32 per cent in 2004, due to continuous safety training for contractors and the stepping up of our own site safety checks. We conducted over 19,000 of such inspections during the year. In addition, a total of 11 fire drills were held at our Tai Po Plant, Ma Tau Kok North Works, ECO LPG filling stations, North Point Building and other premises in conjunction with the Hong Kong Fire Services Department and Hong Kong Police Force, to raise the safety awareness of our staff.

(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 99.997% in 2004.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas works. Ma Tau Kok North Works has over 27 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 18 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 1.8 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.

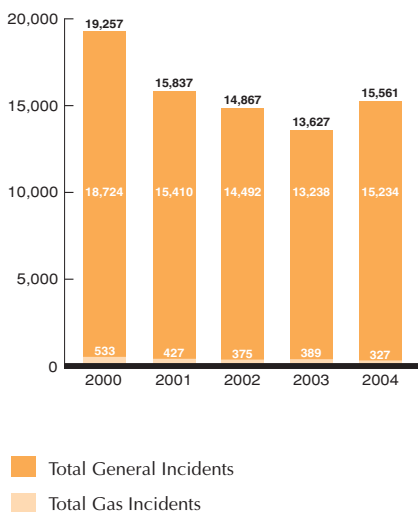
As a long term strategy, Towngas will continue to develop various hazard controls and risk mitigation measures to maximize the safety of its employees, the plants' neighbourhood and the plants themselves, guaranteeing 100% reliability in the whole lifetime of the plants.

(d) Network Safety

In the past two years, cast iron pipes have been associated with some telecom manhole blast incidents that have undermined public confidence in the gas pipeline. As a result, Towngas decided to replace its remaining 30 km of cast iron pipes to allay community unease, subsequently completing this work in December 2004, well within our two-year scheduled framework. At the same time, we took the initiative to design a manhole duct-sealing technique that we hope will be recommended by the government and soon used by all telecom companies to secure their manholes adequately.

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

(i) Number of Urgent Reports

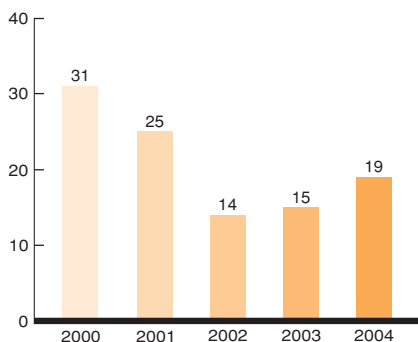


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 15,561 Urgent Reports received in 2004, only 327 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

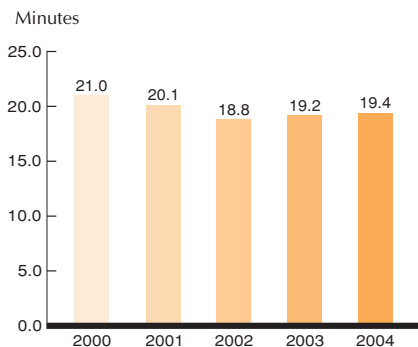
(ii) Number of Major Gas Emergencies



Out of the 327 Gas Incidents in 2004, only 19 cases were Major Gas Emergencies.

N.B. 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.

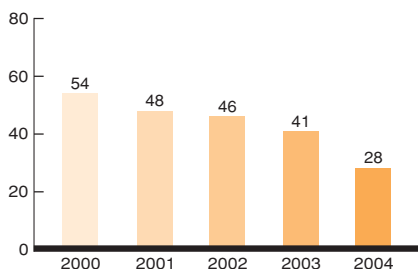
(iv) Number of Fatal Gas Accidents

Year	2000	2001	2002	2003	2004
No. of Accidents	0	0	2	0	0

Note: 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 2004 dropped by 32% compared to 2003.

(vi) Trench Inspection

Total number of active sites inspected in 2004

Island	Kowloon	New Territories	Total
6,259	3,391	6,380	16,030

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 2004, a total of 664 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
Transmission pipelines: - All HP & IPB mains	At least once a year
Distribution pipelines: - Ductile iron and galvanized iron pipes - PE or cathodically protected steel pipes - Others	At least three times a year At least once every two years At least once a year

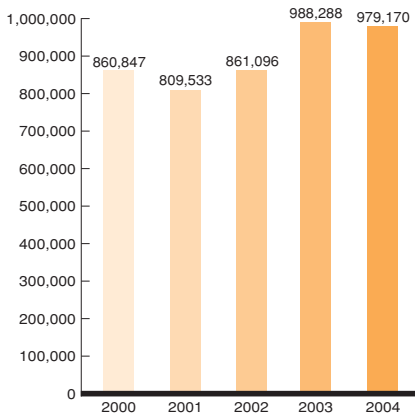
HP - High Pressure

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.

(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.

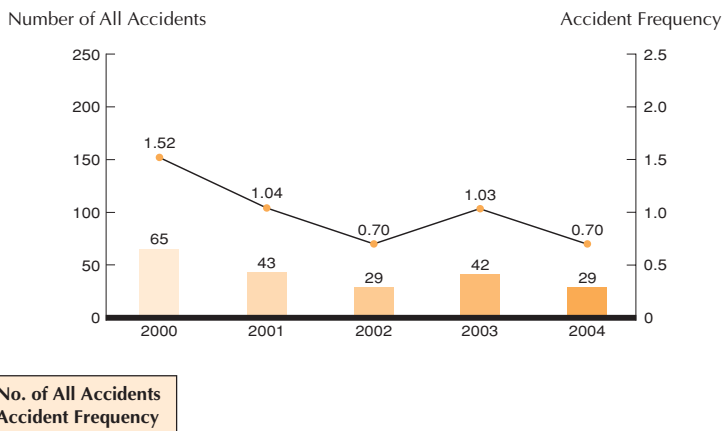
(ix) Number of Sub-standard Appliances Upgraded

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 2004, 439 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 2004, we organised 21 safety exhibitions and 18 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 ten 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 ten 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 2004

	<u>Results</u>
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.997%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	99.95%
Safety	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	94.24%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.08 days
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	96.55%
• 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)	99.96% (upon customer's request)
Service Quality	
• Efficiency ²	8.69
• Courteous and friendly attitude ²	8.80
Handling Suggestions	
• Reply within 3 working days	95.29%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	95.23%

1 Average 19.67 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 2004 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2005

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 2005, and the annual reporting on performance results will be announced in January 2006.

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.

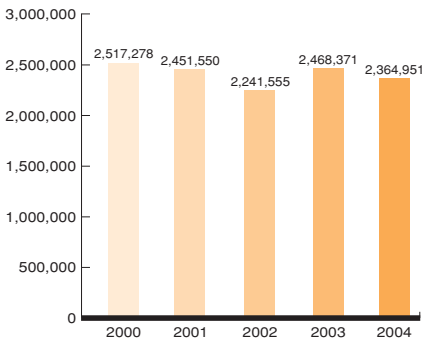
4. Customer Liaison

(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 2004, the Customer Focus Team made 24 visits to its customers.

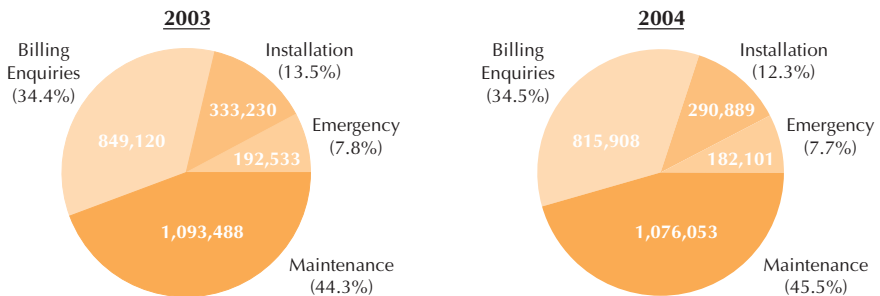
(b) Customer Service Hotline and Emergency Hotline

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

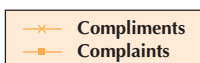
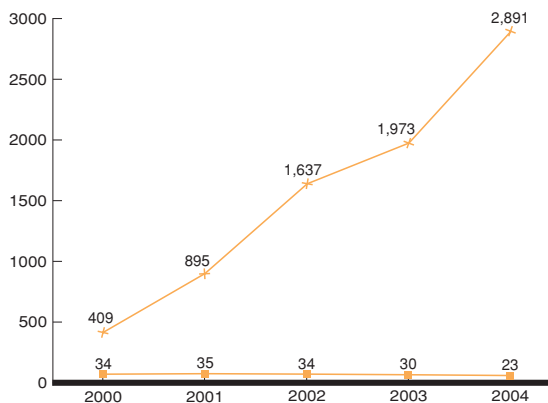


The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 45.5% of total calls in 2004 while other categories include billing enquiries, installation and emergencies.

(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 2004, 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.

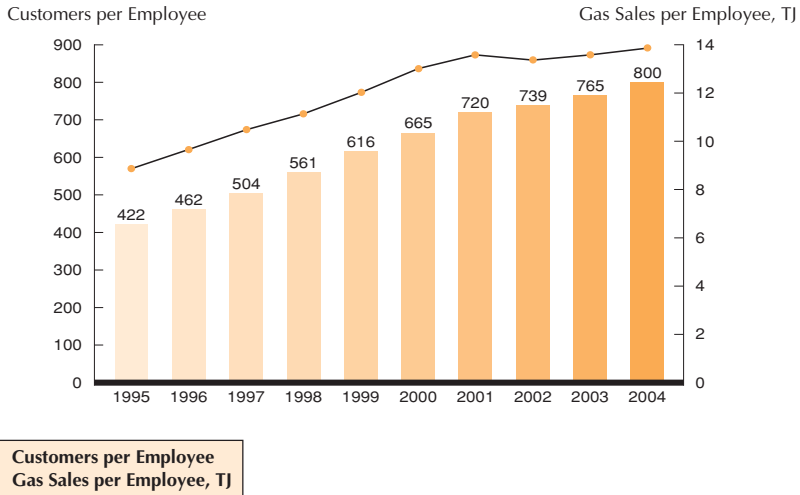
(d) Number of Customers' Compliments and Complaints



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 3,431 compliments – 2,891 written compliments and 540 verbal compliments about Towngas' service in 2004.

Regarding the number of customer complaints, Towngas received a total of 37 complaints – 23 written complaints and 14 verbal complaints in 2004. With 1,562,278 customers as at 31 December 2004, the ratio is 1 complaint per 42,224 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 2004, 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 4.58% increase in productivity in 2004, which is measured in terms of number of customers served by each employee. In 2004, each Towngas employee served 800 customers, and town gas sales averaged 13.9 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 launched in 2004 two more energy efficient built-in hobs with highly efficient IFB.

In addition, with the aim of further enhancing energy efficiency, Towngas has signed an agreement for utilising landfill gas from one more major landfill site for gas production in 2004.

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.

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

During 2004, we achieved all twelve of the Environmental Objectives set out in our 2003 Health, Safety and Environmental (HSE) Report. Objectives included the application of reverse osmosis water treatment technology in our Tai Po Plant to reduce usage of water and chemicals, the publication of a comprehensive Towngas Environmental Manual for our joint venture companies in mainland China, etc.

As part of our commitment to implementing green management practices, we continued to encourage our main suppliers to adopt environmentally-friendly products, packaging and services throughout the year. At the end of 2004, the packaging materials of 90 per cent of the appliances imported from Asia were free of polyfoam. We have also created a mechanism to recognise the achievement of suppliers with outstanding environmental performance.

1. Environmental Promotional Programmes

In 2004, Towngas continued its support for environmental protection agencies and government-led environmental protection programmes. Towngas efforts included organising the “Environmental Photo Competition” with The Conservatory Association, “A Moon Cake Container Recycling Programme” and “Expanded Polystyrene Waste Recycling Programme” with Friends of the Earth, “Environmental Charity Walks” with the World Wide Fund for Nature Hong Kong, and the “Green Power Hike” with Green Power, etc. We also participated in the environmental activities organised by the Environmental Protection Department and Environmental Campaign Committee. In December, we delivered a presentation on the “Towngas Proactive Environmental Management System” at the experience-sharing seminar organised by Trade and Industry Department’s Support and Consultation Centre for SMEs. The presentation was well received, and the audience showed great interest in our waste reduction and energy saving programmes.

2. Environmental Training and Education Programmes

In 2004, Towngas organised a great number of environmental training and educational activities to promote awareness of our environment among employees and the public. These programmes included the Annual Safety and Environmental Protection Day, the Annual Departmental Safety and Environmental Quiz Competition, three Safety and Environmental Quizzes, a Green Office Purchase Competition, the Annual Outstanding Environmental Sub-committee Competition and the publication of three issues of the Safety and Environmental Bulletin distributed to all employees. Furthermore, the Company conducted more than 200 green office audits and displayed monthly green promotional messages on desktop screen savers, ensuring that all environmental policies were applied throughout its operations.

3. Environmental Publications

Towngas promoted environmental information to employees and the public by using various media. We published our "Towngas 2003 Health, Safety and Environmental (HSE) Report" in October, copies of which were sent to concerned government departments, our green partners, safety and health organisations and interested parties, providing them with an open and balanced account of Towngas' HSE performance. The public can also view or download the Report from our website. In December, we compiled a handy environmental site practice handbook for our network contractors. This handbook set out guidelines for protecting the environment while carrying out gas mains repairing and construction works.

4. Environmental Achievements

In 2004, Towngas won many prizes in environmental protection, indicating that the Company's dedication to protecting the environment has received acknowledgement from the government and commercial sectors. Towngas won the 2004 Hong Kong Awards for Industry – Environmental Performance Grand Award organised by the Business Environment Council, appointed as the first Energy Champion of the ECO-PAGES by the Hong Kong Sustainable Communications Association, and also won three awards in the 5th Solar Cart Race organised by Friends of the Earth. Our North Point Building gained registration as an Energy Efficient Building in compliance with the Performance-based Building Energy Code of the EMSD and also obtained the highest rating of platinum in accordance with the revised HK-BEAM Assessment Scheme, confirming Towngas' achievement in property management and energy utilisation. For four successive years, Towngas has been awarded the "Gold Wastewi\$e Logo" by the Environmental Protection Department, showing our success in waste reduction.

5. Environmental Performance

In 2004, Towngas' 12 functional environmental sub-committees achieved more than 50 environmental objectives. For example, we recycled more than 250 pieces of safety helmet and 1,930 kg of expanded polystyrene (EPS) waste.

The Retired Gas Appliances Recycling Programme first launched in 2003 was very successful. In 2004, we collected a total of 824 metric tonnes of metal waste for recycling. Part of the revenue from this Programme was used for the Company's Green Creativity Fund and the promotion of environmental activities in the community.

Ozone Layer Protection

- 99% of our vehicle air conditioning systems now operate with refrigerant R134A.
- 75% 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_x output was 8.92 kg/TJ of town gas (Annual total of 241,208 kg, equivalent to a daily average of 659 kg).
- Total SO_x output was 0.08 kg/TJ of town gas (Annual total of 2,159 kg, equivalent to a daily average of 5.9 kg).
- Total CO₂ output was 15.22 MT/TJ of town gas (Annual total of 411,650 MT, equivalent to a daily average of 1,125 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 413,297 MT in terms of CO₂ equivalent.

Water Quality

- Total waste water output was 10.13 m³/TJ of town gas (Equivalent to a daily average of 749 m³).

Chemical Waste

- Total chemical waste output was 1.08 kg/TJ of town gas (Equivalent to a daily average of 80 kg).

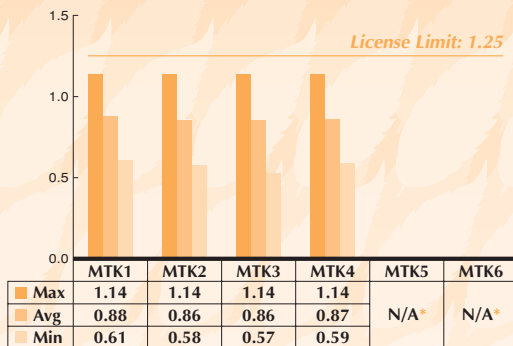
Noise

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

All legal requirements relating to environmental protection were fully complied with.

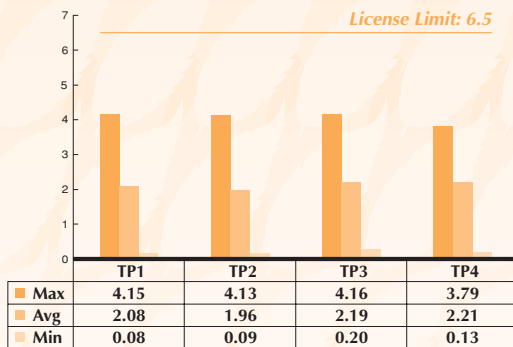
NO_x emission level of each gas making unit in 2004 (Kg/hour)

- NO_x emission level of Ma Tau Kok (MTK) gas making units in 2004 (Kg/hour)

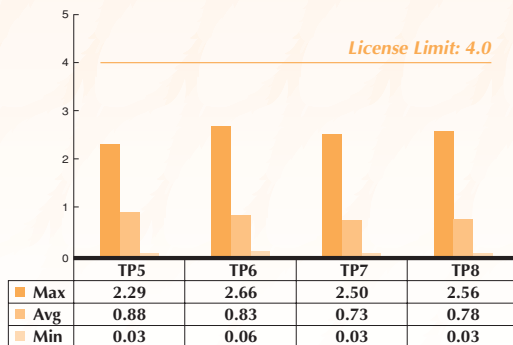


* MTK5 & MTK6 at cold standby since 1 June 2003

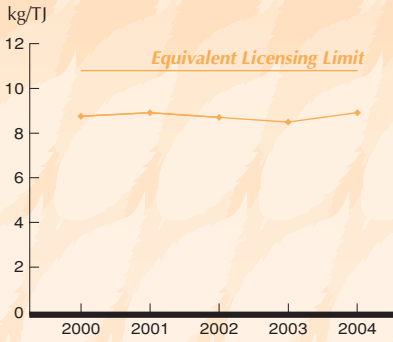
- NO_x emission level of Tai Po (TP) gas making units Phase 1 in 2004 (Kg/hour)



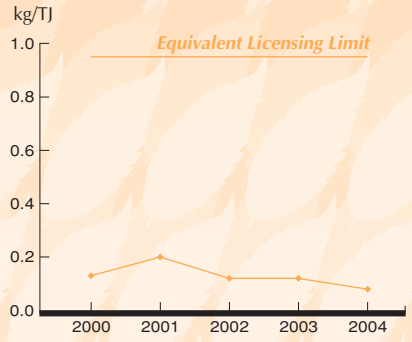
- NO_x emission level of Tai Po (TP) gas making units Phase 2 in 2004 (Kg/hour)



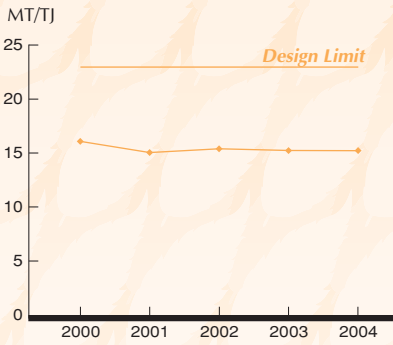
(i) NO_x emission level



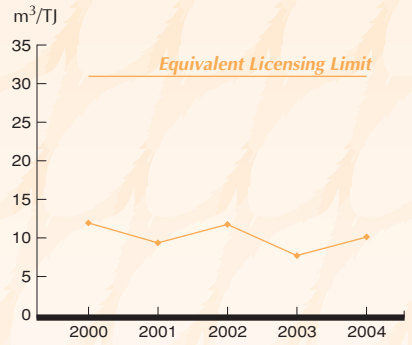
(ii) SO_x emission level



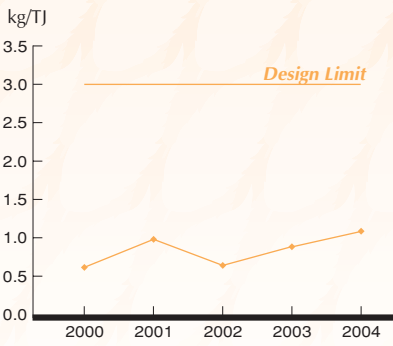
(iii) CO₂ emission level



(iv) Waste water output



(v) Chemical waste output



Note: "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 2004 (TJ/hr)

FINANCIAL INFORMATION

1. Consolidated Profit and Loss Account

for the year ended 31st December 2004

	HK\$M
Turnover	8,154.0
Operating Profit before Returns on Investments	3,356.7
Investment Income	113.8
Interest Income	95.8
Interest Expense	(8.4)
Share of Profit less Losses of Associated Companies	108.5
Share of Profits less Losses of Jointly Controlled Entities	51.5
Profit before Taxation	3,717.9
Taxation	(653.3)
Profit after Taxation	3,064.6
Minority Interests	(12.9)
Profit Attributable to Shareholders	3,051.7
Dividends	1,966.7
Earnings per Share, HK cents	54.2

Profit and Loss Account of Maintenance Service provided under the Fixed Monthly Maintenance Charge

for the year ended 31st December 2004

	HK\$M
Residential Maintenance Revenue	169.5
Less Expenses:	
Salaries and Wages	(88.9)
Other Operating and Administrative Expenses	(81.3)
Net Loss	(0.7)

2. Consolidated Balance Sheet

as at 31st December 2004

Assets

Non-Current Assets

	HK\$M
Fixed Assets	10,308.4
Associated Companies	3,385.1
Jointly Controlled Entities	2,597.6
Investment Securities	624.3
	<u>16,915.4</u>

Current Assets

Properties under Development for Sale	1,262.3
Inventories	732.7
Debtors and Payment in Advance	1,451.7
Housing Loans to Staff	127.1
Trading Securities	812.2
Time Deposits, Cash and Bank Balances	2,202.7
	<u>6,588.7</u>

Current Liabilities

Trade and Other Payables	(878.9)
Provision for Taxation	(180.8)
Bank Loans and Overdrafts	(2,742.4)
	<u>(3,802.1)</u>

Net Current Assets

2,786.6

Total Assets less Current Liabilities

19,702.0

Non-Current Liabilities

Customers' Deposits	(937.0)
Deferred Taxation	(985.3)
Deferred Liabilities	(46.4)
	<u>(1,968.7)</u>

Minority Interests

(339.2)

Net Assets

17,394.1

Capital and Reserves

Share Capital	1,403.7
Share Premium	3,907.8
Reserves	10,791.2
Proposed Dividend	1,291.4
	<u>17,394.1</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2004 Page 53)

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 54 to 92 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 Statements of Auditing Standards 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 2004 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, 11th March 2005

4. Directors' Emoluments

for the year ended 31st December 2004

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

	HK\$M
Fees	1.6
Salaries, Allowances and Benefits in Kind	10.2
Performance Bonus	16.7
Contributions to Retirement Scheme	6.5
	<u>35.0</u>

Number of directors whose emoluments fell within:

<u><i>Emoluments Band (HK\$M)</i></u>		
0.0 - 1.0		8
9.0 - 9.5		2
15.0 - 15.5		1

During the year, the independent non-executive directors of the Company received directors' fees of HK\$0.5 million (2003: HK\$0.4 million) and gas allowances of HK\$0.2 million (2003: HK\$0.2 million).