

T O W N G A S
CORPORATE
INFORMATION

2006

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 2006.

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

The basis of mutual trust is communication. This has been the key to regaining the faith society places in the Company to deliver a safe and reliable supply of gas since an unfortunate town gas incident in April of 2006, following which we implemented additional public safety reassurance measures. Fortuitously, we have been able to return the community's support by offering savings to customers on gas bills since October due to harnessing cheaper natural gas as a dual feedstock.

Residential and Commercial Activities

The Company had over 1.6 million residential customers and approximately 15,000 commercial and industrial customers by the end of 2006, a combined growth of 1.6 per cent compared to 2005. However, a maturing domestic market, little new housing supply and an unusually warm year all impacted annual gas sales growth.

Nevertheless, Towngas ended 2006 in a better position within the energy market due to the introduction of natural gas as partial feedstock in the town gas production process. The Company signed a 25-year agreement in 2003 securing a natural gas price at a much lower level than today's naphtha price. This has facilitated reduction in consumers' bi-monthly gas bills by more than 10 per cent since October, and consequently has enabled us to become increasingly competitive as a source of domestic, commercial and industrial fuel.

Marketing made a strong effort during the year to raise community appreciation of Towngas appliances and services through trade shows and promotion campaigns, which should stand us in good stead now that the government's four-year suspension of sale of home ownership scheme flats is due to slacken in 2007. These mothballed apartments will almost certainly be renovated after purchase and are thus projected new opportunities, both for customer growth and gas appliance sales.

Stylish looks and good design are essential features of all our new products. A top-of-the-line built-in-hob, the "Turbo Flame", was unveiled in July, complementing our other high-performance "Super Flame" and "Inner Flame" appliances. Featuring a quality ceramic glass top, sales of the "Turbo Flame" have been encouraging since its launch. We also introduced a convection-type built-in gas oven in 2006 with a state-of-the-art grill to make flame cooking even more enjoyable.

With a lowering of gas charges and more finely-tuned, tailored business proposals, commercial sales held their own against strong market competition during 2006. We were particularly successful in securing partnerships with several large hospitals and hotels to convert their boilers to run on cleaner town gas rather than diesel. Such collaborations are especially satisfying, as conversion not only ensures competitive energy costs for commercial customers but also, more importantly, reduces atmospheric pollution for the community as a whole. A number of new hotels also chose to use town gas for their water heating systems during the year.

Energy-efficient appliances and equipment are in very high demand in the commercial sector generally and the restaurant business is no exception. With this in mind, given effective steaming is so crucial for Chinese cooking, Towngas launched a new high-efficient steamer in April 2006 that has since been very well received by the trade.

The annual Best of the Best Culinary Awards competition is co-organised by Towngas and the Hong Kong Tourism Board. Last October the public was encouraged to participate in this contest showcasing the creativity and talent of local chefs by voting for their favourite dish. Building on this publicity, Towngas Cooking Centre (TCC) then invited the winners of this prestigious catering award to conduct demonstration classes. These workshops proved very popular and ideally complimented TCC's "Great Chef – Famous Restaurant" programme, which was started in 2006 to generate greater interest in cooking local and international cuisine at the fine dining level in the home.

(b) Service Initiatives

We devoted considerable resources during 2006 to enhancing our services over a range of functions and departments. Three further Customer Centres were renovated throughout the year and relocated to sites with higher traffic for the added convenience of customers. Each has a welcoming and contemporary design, including an innovative "spa corner", and all are already generating more business and raising Towngas' profile within their local neighbourhood.

Advancements in gas appliances generally, and our more proactive safety efforts to encourage replacement rather than mere repair of less energy- and environmentally-efficient models, helped to trim on-demand maintenance requests from customers by 10 per cent in 2006 as compared with 2005. This decrease was underpinned by self-initiated visits, on top of our rolling 18-month Regular Safety Inspection cycle, to homes known to have older-type appliances, such as flueless or open-flue water heaters.

Several Towngas employees were honoured for their professionalism in June with a Distinguished Salesperson Award from the Hong Kong Management Association. We also attribute the fall in the number of complaints by 15 per cent for 2006 as a testament to the caring attitude of our front-line staff, be they in sales outlets, working on busy hotlines, or visiting customers' homes and premises.

Furthermore, our regular customer feedback surveys for the year continued to record an upward movement in satisfaction for our installation and maintenance services. Our highly-trained technicians, who undertake this work, also played a vital role during 2006 in encouraging an increase in the disposal of old appliances in a sustainable way instead of users sending them to landfills.

Many initiatives we take are the result of listening to what our customers tell us and then working out schemes to meet their suggestions. For instance, we introduced a more reader-friendly bill invoice in 2006 following implementation of a high-speed digital printing process, and we made it easier to settle gas bills by offering a greater range of credit cards for autopay transactions and the possibility to pay at convenience stores.

(c) Gas Supply

In October, we celebrated the momentous achievement of introducing natural gas into our feedstock mix, realising long-planned-for emission reductions and a cheaper gas price for customers. These successes underpinned on-going development of the gas network to enhance system integrity. In contrast, a serious gas incident in April led to one of the most challenging and testing periods we have ever experienced in terms of emergency-handling and crisis management.

Natural Gas Feedstock

The introduction of natural gas as partial feedstock into our main Tai Po gas production plant has brought substantial benefits to customers since October 2006. Not only have we been able to achieve noticeable savings on gas bills but long-term gas supply is also now more reliable as we are no longer dependent on one type of fuel to make town gas.

Towngas uses LNG from Australia brought by ocean-going tankers to the Guangdong LNG terminal in Shenzhen, just north of the Hong Kong-mainland China border. There it undergoes gasification and is then transported through a pair of 34 km, 450mm-diameter high-pressure submarine pipelines to Tai Po receiving station, where all associated facilities were tested and commissioned in the third quarter of 2006.

Now that delivery of natural gas to our Tai Po plant is assured, it is the Company's intention to increase utilisation of this cleaner fuel in the production process as expeditiously as possible. Therefore, we have started to build a natural gas pipeline link from our main receiving station at Tai Po to our secondary plant in Kowloon so we can introduce this cleaner fuel into the feedstock mix there as well.

Network Expansion

Piped town gas is integral to a quality lifestyle in Hong Kong and the Company recognises it has a public duty to ensure it meets the expectations of the community in this respect. In the last two decades there has been huge population growth in parts of the New Territories, creating an urgent need to enhance availability and reliability of supply.

In 2006, we upgraded the Company's grid control centre in our headquarters building by installing state-of-the-art monitoring equipment. Ensuring the most efficient management of gas supply possible for our customers is essential, given the total length of Hong Kong's town gas pipeline network stood at around 3,236 km by year's end.

The 24 km Eastern Transmission Pipeline (ETP) project is making good progress and is scheduled for completion in 2007. Once commissioned, the eastern part of the New Territories will have a ring-feed network system in place that will improve security of supply. Meanwhile, to ensure similar long-term benefits, work began in 2006 to loop the major pipeline system serving the western New Territories. Towngas is also closely coordinating with government departments and other organisations on network expansion required to cope with the proposed South East Kowloon Development strategy, a regeneration project for Hong Kong's old airport site and surrounding areas.

Gas Incident and Subsequent Initiatives

In April 2006, an explosion occurred inside an older Hong Kong residential apartment block due to an accumulation of gas in a void beneath the lift lobby, resulting in two fatalities and a number of injuries.

Immediately following this unfortunate incident, Towngas made every effort, including practical assistance, to help residents of the building re-adjust to their changed circumstances. An emergency restoration fund was quickly established to top up insurance compensation or other government relief and assist in renovation of the building.

The whole Company was mobilised to identify the causes of the accident, to ensure nothing like this ever happens again, and to rebuild the confidence of the public towards the gas utility. We do believe that we have a duty to learn as much as we can from the occurrence, embed the lessons learnt, and turn experience into action to further improve gas safety.

The investigation was still under legal jurisdiction by the end of 2006*. Meanwhile, as a directly-related outcome, Towngas is now in the process of replacing all its medium pressure ductile iron pipes over 20 years old and has increased seepage detection on these kinds of pipes from three to six times annually. As a further precaution, we have also made a comprehensive underground void survey of residential buildings and a sample survey of commercial and industrial complexes, and sealed all openings leading to voids so as to block possible gas entry passages.

Other initiatives include updating our electronic network mapping system with information on buildings where voids have been identified, passing this data on to the Fire Services Department (FSD) as part of a co-ordination strategy, and arranging to immediately inform FSD of the location of any building voids in proximity to any reported underground gas leaks.

** The coroner's inquest conducted by the Coroner's Court concluded on 28 June 2007 with a verdict that the two victims died of accident.*

(d) Property Developments

Pre-sale of the Grand Waterfront property development, located at Ma Tau Kok south plant site, commenced in late August 2006. An occupancy permit was issued in November and by the end of December, 630,000 square feet, from a total residential floor area of around 1.2 million square feet, had been sold. The project consists of five apartment buildings providing 1,782 units, each with high-quality fixtures and fittings and linked to Towngas Telecom's fibre optic system. The Group is entitled to 73 per cent of the net sales proceeds of the residential portion of the project. Approximately 150,000 square feet have been allocated for commercial purposes.

The Group also has a 50 per cent interest in the Grand Promenade property development at Sai Wan Ho. This complex provides 2,020 units covering a total floor area of about 1.7 million square feet, of which 1.3 million square feet had been sold by the end of 2006. The apartments are fully fitted out with Towngas appliances and the project has gained an award for its compliance with environmental protection standards in engineering, construction and finishing. Residential occupancy started in early 2006, and the property is now yielding substantial returns.

The two office towers and the shopping mall of the International Finance Centre (IFC) are fully let. The related hotel complex, comprising the Four Seasons Hotel which has 400 six-star guestrooms and Four Seasons Place which provides 520 serviced suites, is very popular and business is strong. The Group has an approximately 15.8 per cent interest in IFC.

(e) Employees and Change Development

In the last few years the Company's graduate trainee programme has seen rapid changes. Six-monthly secondments to the mainland now immerse these young men and women into our rapidly growing China business sectors, as we focus not only on enhancing skills and technical proficiency but also on creating a more structured approach to talent management.

The Company is reinforcing a Towngas Leadership Competencies (TLC) project. Directed at very high-level staff, TLC will integrate tailored training and development solutions relating to leadership and entrepreneurial capabilities as a long-term project aimed at maximising potential both professionally and personally.

A leadership development and mobility programme was launched in 2006 to identify, assess and nurture managers and executives with a view to sustaining future business growth and generating competitive advantage throughout the Group. A main aspect of this scheme is to ensure we have a pool of quality staff ready to manage change and foster creativity at all levels of leadership, as and when needed.

Our Superior Quality Service (SQS) programme continued to flourish and produce remarkable results in 2006. More than 800 employees worked on 70 projects during the year, generating over HK\$20 million in tangible benefits. Innovative thinking helped to improve product features, enhance procedural efficiency and create value-added customer services.

Several workshops were held over 2006 with other SQS teams from Hong Kong businesses and selected JVs. One of our SQS teams also shared their findings with participants at the 28th China National QC Convention held in Nanjing in September 2006. The project presented was chosen by the organising committee as members were impressed by the results of the SQS study which considered the potential of recycling old appliances rather than sending to landfills.

In November, the government presented our Technical Training Centre (TTC) with a certificate in appreciation of Towngas' training and employment of young people through our long-standing apprenticeship programme. Since then, one TTC apprentice has won the coveted "Outstanding Apprentice Awards 2006", organised by the Vocational Training Council, and the opportunity to go on a fact-finding study mission to Singapore.

Throughout 2006, TTC continued to provide training for all our JV General Managers and technical staff before they took up their posts on the mainland, offer network and utilisation training for JVs, and deliver train-the-trainer programmes to support the training centres in Guangdong and Shandong. A key way the Group maintains conformity of standards with Hong Kong practices across all its China businesses is through dissemination of TTC-designed e-learning software, so JVs have access to the most up-to-date information on technical skills, knowledge and safety procedures.

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 2006, we held 48 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 890,000 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

We revised our Corporate Health and Safety Policy in 2006 to ensure that we conduct our operations in a manner which poses no risk to the health, well-being and safety of our employees, contractors, customers and the public at large. Our management ensures that this Policy is fully explained to and then observed by subordinates and by all contractors under their supervision. And we ask that all employees actively support this Corporate Health and Safety Policy and do all they can to fulfill its objectives.

In 2006, we conducted Job Safety Analyses on all high-risk work procedures, and continued to organise various safety training courses, as well as the annual Safety & Environmental Day and the Inter-departmental Safety & Environmental Quiz. By raising safety awareness, we are trying not only to ensure a safer work environment but also striving to inculcate a culture of personal responsibility among our colleagues to ensure their own safety and the safety of all those with whom they work.

Our Accident Frequency Rate (AFR) – counted by every 100,000 person-hours worked was 0.43 (2005) and 0.59 (2006) and the Injury Traffic Accident Rate (ITAR) – counted by every 100 vehicles was 3.82 (2005) and 3.39 (2006) respectively. Our safety initiatives for contractors contributed to a 24 per cent drop in third party damage in 2006. In addition, a total of 9 fire drills were held in conjunction with the Hong Kong Fire Services Department and the Hong Kong Police Force, including drills at our Tai Po Gas Production Plant, Ma Tau Kok North Works, ECO LPG filling stations, North Point Building and other premises in order to raise the safety awareness of our staff.

Having received certification for incorporating the internationally recognised 18001 Occupational Health and Safety Assessment Series (OHSAS) into all of our gas operations and our safety and risk management system in 2005, our safety and risk management system complied well with the 18001 OHSAS last year.

(c) Gas Production Plants Safety

Towngas has strong confidence in the safety, reliability and management systems of our Tai Po Plant and Ma Tau Kok North Works. Both plants were designed and built by reputable international project contractors, based on proven engineering and chemical processes. Manned by competent and experienced operation and maintenance crews, the two gas works did not have even one interruption to the gas supply since the first day they were commissioned. On this basis, our Company's supply reliability continues to be one of the best in the utilities and reached a level of 99.994% in 2006.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas works. Ma Tau Kok North Works has over 29 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 20 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 1.0 case per 100,000 man hours worked and the accidents were usually minor cases. Nonetheless, in pursuit of the target of zero accidents, the plant management always reviewed the root causes of each incident and implemented every practicable preventive measure. No major gas emergency has happened in the plants for many years.

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

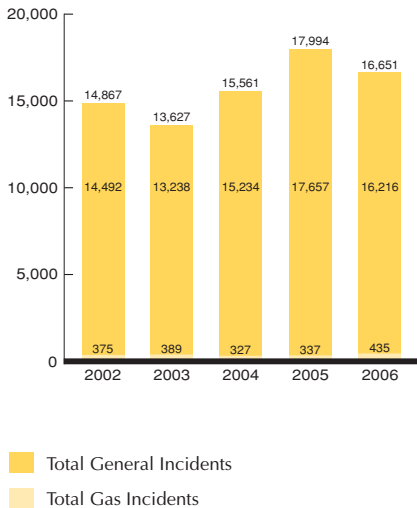
(d) Network Safety

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

We also augmented the number of trench inspections of third party excavation sites to circumvent damage to nearby Towngas pipelines. In 2006, over 16,200 trench inspections were made, helping reduce third party damage by nearly 24% compared to 2005.

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

(i) Number of Urgent Reports

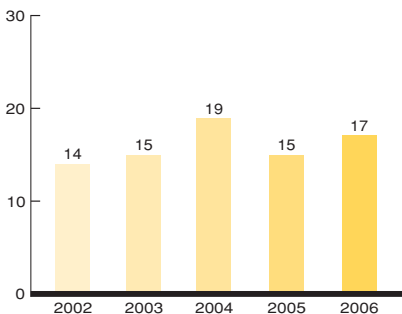


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 16,651 Urgent Reports received in 2006, only 435 cases were Gas Incidents. Gas Incidents are town gas-related and are classified according to the following situations:

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

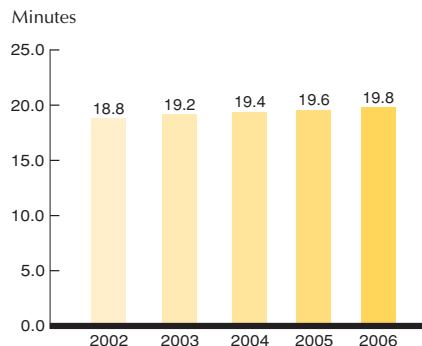
(ii) Number of Major Gas Emergencies



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

Out of the 435 Gas Incidents in 2006, only 17 cases were Major Gas Emergencies.

(iii) Average Response Time for Gas Incidents



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

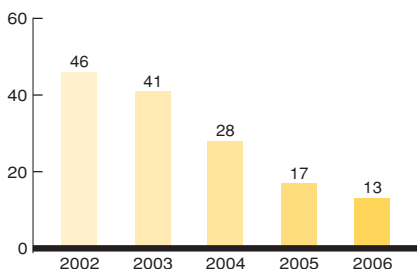
(iv) Number of Fatal Gas Accidents

Year	2002	2003	2004	2005	2006
No. of Accidents	2	0	0	0	1

* 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 2006 dropped by 24% compared to 2005.

(vi) Trench Inspection

Total number of active sites inspected in 2006

Island	Kowloon	New Territories	Total
6,288	3,729	6,184	16,201

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 industry. In 2006, a total of 1,180 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 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: - PE or steel pipes over or enclosed within structures - Medium pressure ductile iron pipes or all galvanized iron pipes - Low pressure ductile iron pipes - PE or cathodically protected steel pipes - Others	At least twice a year At least six times a year At least three times a year At least once every two years At least once a year

HP - High Pressure

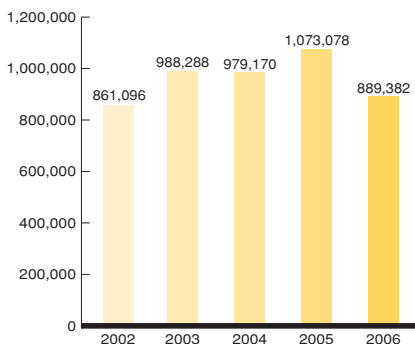
IPB - Intermediate Pressure B

PE - Polyethylene

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

Thanks to the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in the network has dropped to 0.034 per km per year, decreased 32% as compared with 2005. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.228 per km per year only, much lower than the figures in many other similar metropolitan cities.

(viii) Number of Regular Safety Inspections



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

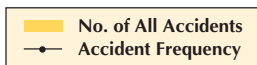
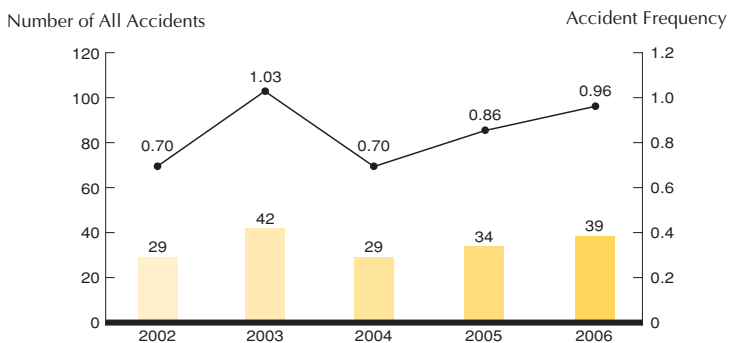
(ix) Number of Sub-standard Appliances Upgraded

Towngas also encourages customers to upgrade their sub-standard appliances through various educational and promotional programmes. In 1999, we introduced a discount scheme to encourage customers to upgrade their water heaters. In 2006, 753 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 2006, we organised 48 safety exhibitions and 46 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 twelve 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 twelve 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 2006

	<u>Results</u>
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.994%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	100%
Safety	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	93.66%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	96.70%
• 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)	99.92% (upon customer's request)
Service Quality	
• Efficiency ²	8.74
• Courteous and friendly attitude ²	8.77
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 19.91 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 2006 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2007

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 2007, and the annual reporting on performance results will be announced in January 2008.

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.

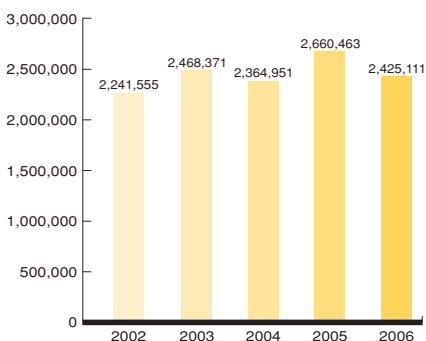
4. Customer Liaison

(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 2006, the Customer Focus Team made 27 visits to its customers.

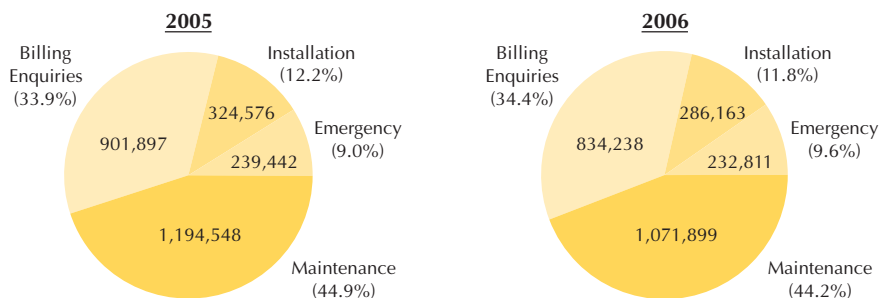
(b) Customer Service Hotline and Emergency Hotline

Number of Incoming Calls



The public can always keep in touch with Towngas through its Customer Service Hotline (CSH) and Emergency Hotline. The CSH – 2880 6988 – provides a convenient one-stop service for customers to enquire about and arrange the full range of Towngas services. The Emergency Hotline – 2880 6999 – operating around the clock, responds to emergency calls immediately.

Number of Incoming Calls by Categories



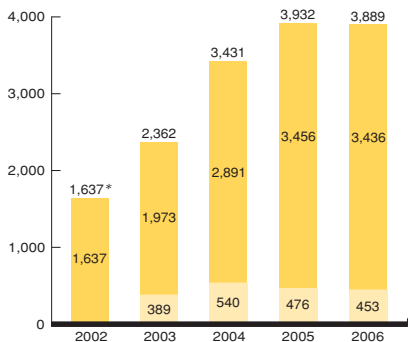
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 44.2% of total calls in 2006 while other categories include billing enquiries, installation and emergency.

(c) Bill Inserts to Customers

A bill insert, which comes with the bimonthly gas bill, is an effective means to keep our customers informed. In 2006, a total of 18 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to new Towngas services and products, gas safety and advice on using gas appliances, as well as energy saving.

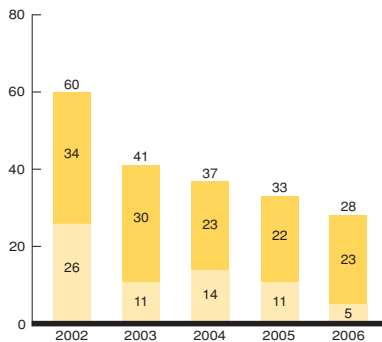
(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



- Written Compliments
- Verbal Compliments

Number of Customers' Complaints



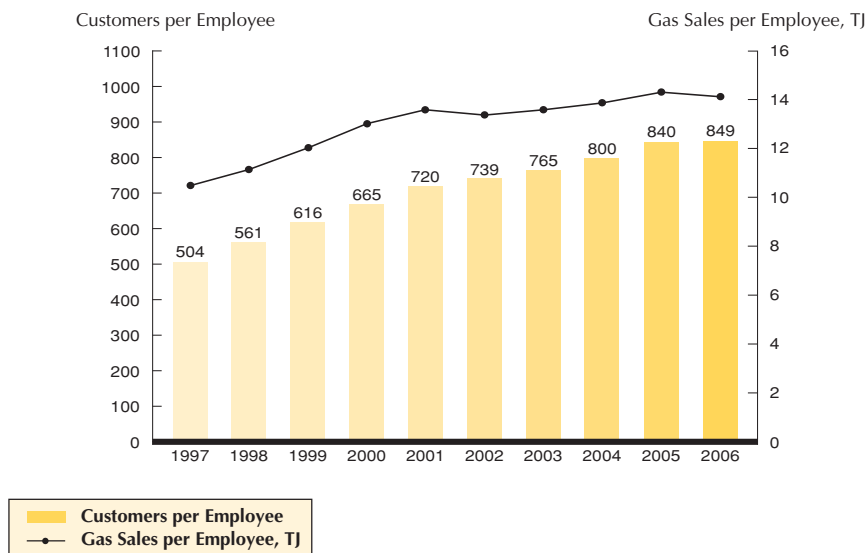
- Written Complaints
- Verbal Complaints

* Number of verbal compliments for 2002 are not available.

Delivering high quality customer service has always been a Towngas priority. We are more focused than ever on the continuous enhancement of customer satisfaction by providing superior quality service. As a result, there were a total of 3,889 compliments about Towngas' service in 2006, which included 3,436 written compliments and 453 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 28 complaints in 2006 (23 written complaints and 5 verbal complaints). With 1,622,648 customers as at 31 December 2006, the ratio is 1 complaint per 57,952 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 2006, 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 1.0% increase in productivity in 2006, which is measured in terms of number of customers served by each employee. In 2006, each Towngas employee served 849 customers, and town gas sales averaged 14.1 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Supplying more than 200 gas appliance models in Hong Kong, Towngas continues to work with our suppliers to develop more energy efficient gas appliances. Build on the success of inner flame burners (IFB) in 2003, we further developed and launched three more energy efficient super flame burner (SFB) built-in-hobs in 2006.

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

6. Charges

In addition to the Standard Gas Charge, which is calculated based on customers' gas consumption, Towngas levies a fixed Monthly Maintenance Charge on residential customers which entitles them to reliable, efficient and comprehensive repair and maintenance services for all their 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 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 nearly 620,000 on-demand maintenance works and nearly 890,000 Regular Safety Inspections in customers' homes last year.

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.

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(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 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.

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

ENVIRONMENTAL PROTECTION

Our “2005/2006 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. We have made enormous strides in paper reduction, the purchase of environmentally-friendly products and recycling or reuse of materials in the last few years. Our well-established waste management practices have been extended to include the recovery of spare parts and recyclable metal from domestic appliances, and the collection and recycling of old commercial and industrial appliances and gas meters.

We introduced natural gas as feedstock for producing town gas in the Tai Po Gas Production Plant in 2006 as scheduled, further reducing the already minor emissions of CO₂, NO_x and SO_x in the gas production process. We also completed a project to retrofit 20-year old plant units with the deNO_x system, which will further mitigate emissions producing acid rain and smog.

1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2006, we again sponsored the “Tree-planting Challenge 2006” organised by Friends of the Earth, and participated in the environmental education tour to the Mai Po Natural Reserve organised by WWF Hong Kong, the environmental education tour to Long Valley Wetland organised by the Conservancy Association, and the “Green Power Hike” organised by Green Power. We also participated in a number of environmental activities organised by the Environmental Protection Department and the Environmental Campaign Committee.

2. Environmental Training and Education Programmes

In recent years Towngas has organised a large number of environmental training and educational activities to promote environmental awareness among both our employees and the public as a whole. Programmes conducted in 2006 included the Annual Safety and Environmental Protection Day, the Annual Departmental Safety and Environmental Quiz Competition, the Annual Outstanding Environmental Sub-committee Competition and the publication of three issues of the Safety and Environmental Bulletin distributed to all employees. Green promotional messages were displayed on desktop screen savers on a rotating monthly basis in order to encourage and remind employees to work in line with our environmental policies.

3. Environmental Achievements

In 2006, Towngas received a number of awards from the government and commercial sectors in recognition of our environmental protection performance. Towngas became a Green Participant of the Federation of Hong Kong Industries 1-1-1 Programme (One Factory-One Year-One Environmental Project) in December with the target of lessening pollution in Hong Kong and the Pearl River Delta region. In addition, we received the title of Energy Champion of ECO-PAGES presented by the Hong Kong Sustainable Communications Association for the third consecutive year. The Gold Wastewi\$e logo which the Environmental Protection Department conferred upon us for the fifth consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2006, Towngas' 12 functional environmental sub-committees achieved several environmental objectives. For instance, our "Used Gas Appliance Recycling Programme" is now in its fourth year, and has enabled us to divert around 2,890 tonnes of scrap metal from landfill sites (up to the end of 2006). 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 "2005/2006 Sustainability Report".

(a) Environmental Performance Table

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

Ozone Layer Protection

- 99.8% of our vehicle air conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.

Air Quality

- Total NO_x output was 6.82 kg/TJ of town gas (Annual total of 183,389 kg, equivalent to a daily average of 502 kg).
- Total SO_x output was 0.03 kg/TJ of town gas (Annual total of 880 kg, equivalent to a daily average of 2.41 kg).
- Total CO₂ output was 14.44 MT/TJ of town gas (Annual total of 388,396 MT, equivalent to a daily average of 1,064 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions of 391,062 MT in terms of CO₂ equivalent.

Water Quality

- Total waste water output was 6.44 m³/TJ of town gas (Equivalent to a daily average of 474 m³).

Chemical Waste

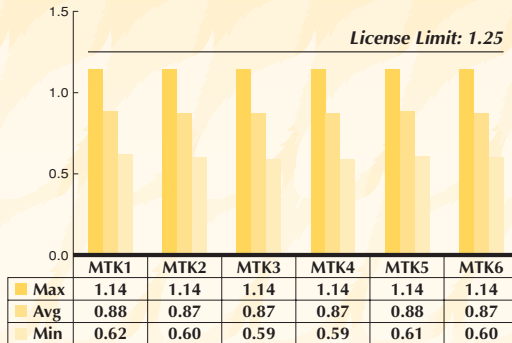
- Total chemical waste output was 0.57 kg/TJ of town gas (Equivalent to a daily average of 42 kg).

Noise

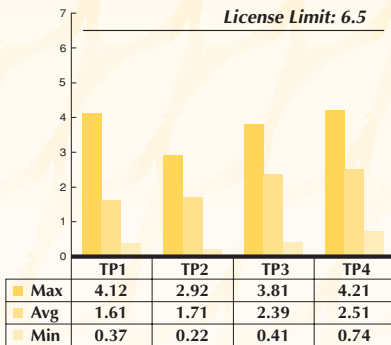
- All installations and operations complied with the statutory requirements. No noise abatement notice has ever been received.

(b) Emission Level of Gas Production Plants for 2006

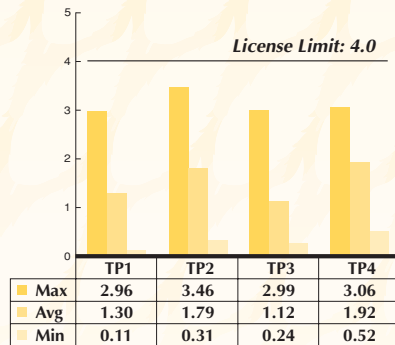
(i) NO_x emission level of Ma Tau Kok (MTK) gas making units (Kg/hour)



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

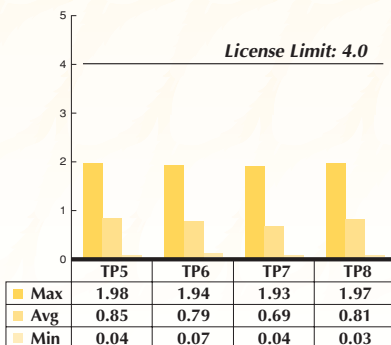


First half of 2006

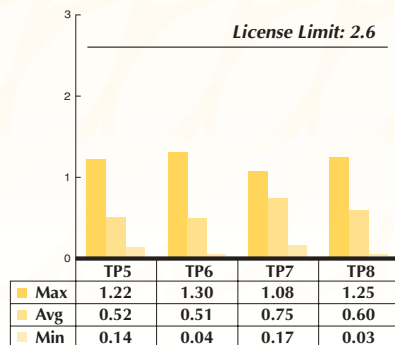


Second half of 2006

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

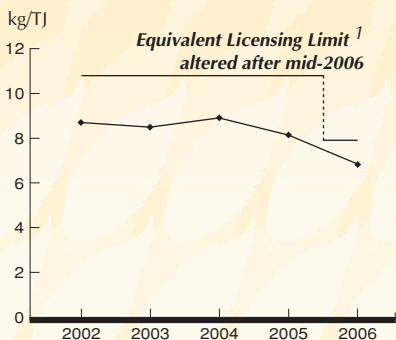


First half of 2006

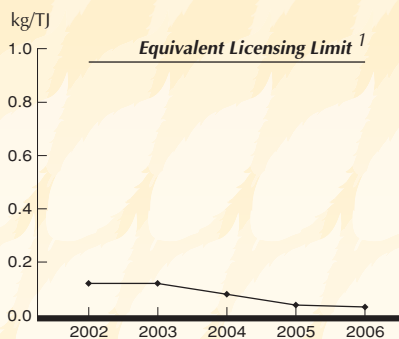


Second half of 2006

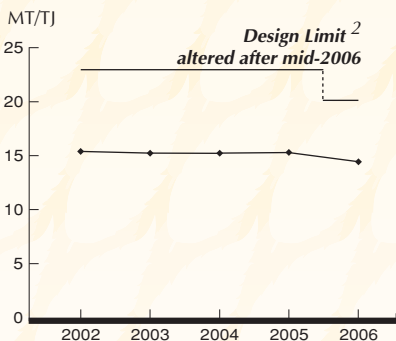
(iv) NO_x emission level



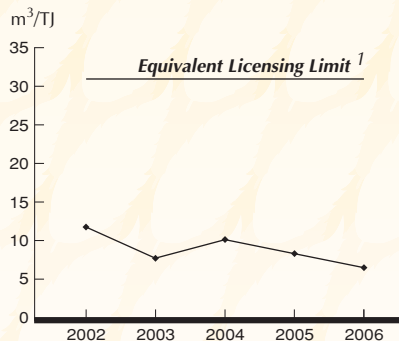
(v) SO_x emission level



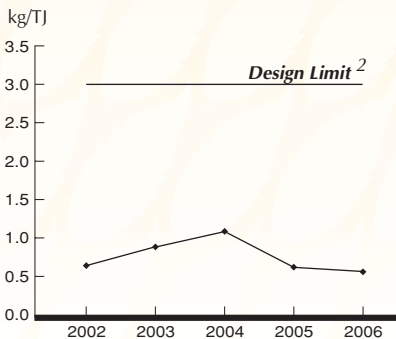
(vi) CO₂ emission level



(vii) Waste water output



(viii) Chemical waste output



1 "Equivalent Licensing Limit" (kg/T) or m³/T)

= "Weighted average of actual licensing limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2006 (T/hr)

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

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2006

	HK\$M
Revenue	13,465.3
Operating Profit before Returns on Investments	5,169.1
Investment Income	527.2
Operating Profit	5,696.3
Interest Expense	(310.2)
Share of Profits less Losses of Associated Companies	1,102.0
Share of Profits less Losses of Jointly Controlled Entities	316.1
Profit before Taxation	6,804.2
Taxation	(914.6)
Profit for the year	5,889.6
Attributable to:	
Shareholders of the Company	5,862.6
Minority Interests	27.0
	5,889.6
Dividends	1,928.1
Earnings per Share – Basic and Diluted, HK cents	106.4

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

for the year ended 31st December 2006

	HK\$M
Residential Maintenance Revenue	177.1
Less Expenses:	
Manpower Costs	(93.0)
Other Operating and Administrative Expenses	(88.9)
Net Loss	(4.8)

2. Consolidated Balance Sheet

as at 31st December 2006

HK\$M

Assets

Non-Current Assets

Property, Plant and Equipment	12,385.9
Leasehold Land	478.8
Intangible Asset	48.6
Associated Companies	3,457.0
Jointly Controlled Entities	5,815.0
Available-for-Sale Financial Assets	848.5
Retirement Benefit Assets	36.1
Other Non-Current Assets	64.6
	<u>23,134.5</u>

Current Assets

Property under Development for Sale	–
Completed Property for Sale	1,147.7
Inventories	934.2
Trade and Other Receivables	4,153.2
Loans to Associated Companies	2,991.7
Loans to Jointly Controlled Entities	283.3
Housing Loans to Staff	80.5
Financial Assets at Fair Value through Profit or Loss	1,675.6
Time Deposits over three months	31.3
Time Deposits up to three months, Cash and Bank Balances	1,730.7
	<u>13,028.2</u>

Current Liabilities

Trade and Other Payables	(3,737.9)
Provision for Taxation	(834.5)
Borrowings	(2,568.6)
	<u>(7,141.0)</u>

Net Current Assets

Total Assets less Current Liabilities

	<u>5,887.2</u>
	<u>29,021.7</u>

2. Consolidated Balance Sheet (continued)

as at 31st December 2006

	HK\$M
Non-Current Liabilities	
Customers' Deposits	(1,013.2)
Deferred Taxation	(1,131.3)
Retirement Benefit Liabilities	–
Borrowings	(5,609.2)
Loans from Minority Interests	(49.8)
	<u>(7,803.5)</u>
Net Assets	<u>21,218.2</u>
Capital and Reserves	
Share Capital	1,377.2
Share Premium	3,907.8
Reserves	14,141.7
Proposed Dividend	1,267.0
Shareholders' Funds	<u>20,693.7</u>
Minority Interests	524.5
Total Equity	<u>21,218.2</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2006 Page 65)

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 66 to 120 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit and 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 as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts 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 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 2006 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, 19th March 2007

4. Directors' Emoluments

for the year ended 31st December 2006

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

	HK\$M
Fees	1.5
Salaries, Allowances and Benefits in Kind	11.3
Performance Bonus	21.5
Contributions to Retirement Scheme	7.2
	<u>41.5</u>

Number of directors whose emoluments fell within:

<i>Emoluments Band (HK\$M)</i>	
0.0 - 0.5	7
10.0 - 10.5	2
19.0 - 19.5	1

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK\$34.3 million (2005: HK\$30.1 million) and post-employment benefits of HK\$7.2 million (2005: HK\$6.5 million) paid to the Group's key management during the year ended 31st December 2006. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2005: nil).