
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

2008

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 2008.

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*

Despite the maturity of our business in Hong Kong, as well as the keen competition in the territory's energy market, we reached a new high in our distribution of gas during the year. This auspicious beginning together with our proactive marketing activities – from our promotion of flame cooking to the sale of modern and energy-efficient gas appliances – resulted in 4.6 per cent increase in total appliance sales compared to 2007.

Residential and Commercial Activities

Since air temperature in early 2008 was generally lower than that for the same period in 2007 and the restaurant sector flourished due to a prospering economy during the first half of the year, total volume of gas sales in Hong Kong for 2008 as a whole increased by 2.0 per cent mainly attributable to a rise in residential and restaurant consumption. As at the end of 2008, the number of customers was over 1.6 million customers, an increase of 25,592 compared to 2007.

Gas sales in the commercial and industrial sectors decreased marginally by 1.6 per cent in 2008. We are therefore taking a cautious view for 2009, waiting to see what additional effects the 2008 financial tsunami may bring. We are nevertheless moving forward with proactive promotional and marketing plans to maintain and, where possible, grow our market.

On the residential front, our ongoing efforts to promote flame cooking are proving effective. In early 2008, we invited culinary celebrities, Yeung Koon Yat, Suzi Wong and Jacky Yu, to take part in a number of Towngas TV commercials promoting the benefits of cooking with town gas. In September, we sponsored the new cooking programme “So Good” on TVB Jade to demonstrate flame cooking techniques and share tips on cooking. Results have been so positive that the programme has become a talking point in the community.

Underpinning these lifestyle enhancements, we continue to offer innovative, sophisticated and effective gas appliances, giving our customers both cost-efficient as well as environmentally-friendly options both at home and at work. Coupled with aggressive promotions, the total sales of appliances increased 4.6 per cent over the previous year. Looking forward, we expect these sales to continue their positive trend as we introduce new, improved, more user-friendly as well as more energy-efficient models into the market.

Taking our cooking appliances into the high-end market, our Elemento Built-in Hob Series was launched in 2008. Elemento consists of four individual “cooking elements”, including one of the world's first built-in hobs with a flame grill for household use, which can be installed on a modular basis. Developed in conjunction with a Japanese manufacturer, Elemento, which fuses European design and aesthetics with Asian cooking styles, won the Japanese Good Design Award in 2008.

In the commercial and industrial gas market sectors, a new High Efficiency Condensing Water Pack with thermal efficiencies of up to a 94 per cent water heating capacity was introduced. The Water Packs, each with a 32 litre capacity per minute, can be installed as a stand-alone or in multiple units and are operated by a single electronic control system. This modular capability provides greater cost efficiencies and flexibility, while its compact size, instantaneous heating and decentralised supply features minimise heat loss within the hot water supply system. A new heat recovery feature has also improved energy efficiencies in our food steaming cabinets by an average of 20 per cent.

In a major breakthrough, we extended our appliance market through sales channels in a new direction, with the launch of a new line of products for price sensitive customers. These quality yet lower-cost appliance options are distributed through indirect sales channels including agents and dealers.

(b) Serving Our Customers

In bustling Causeway Bay, Towngas Avenue, which received a major face lift and relaunch during the year, continues to provide the heart to our customer activities. The centre offers easy access and one-stop convenience for customers, while also acting as a community hub and a comprehensive showcase for the modern Towngas lifestyle, that we so strongly advocate. Community activities include cooking demonstrations and flame cooking competitions. At Towngas Avenue in Tsim Sha Tsui, activities also include the running of Team Building Cookery Workshops for business corporations.

We keep our communication lines open with constant customer engagement as well as new service initiatives. Examples of this customer engagement include our monthly Towngas Meter Reading Lucky Draw initiative which encourages customers to report their monthly gas meter readings to us, while the launch of two new websites enhance convenient information access for both gas customers and the general public.

Our Towngas Cooking Centre website (www.towngascooking.com) with the slogan "Love to Cook, Cook to Love" and an appliance website (www.towngasappliance.com) were established during the year. The former site provides a comprehensive platform for both experienced and amateur chefs with features such as Celebrity Blog and Knowledge Chat Room, together with over 1,000 flame cooking recipes. The latter provides customers with full details of our appliances as well as any product and service promotions on offer.

Ensuring the safety of our customers, we take a proactive role, carrying out safety inspections on a regular 18-month basis at customer premises. In addition to checking piping and equipment installations, our technicians are able to advise customers on the latest services and products. Inspections carried out on flueless water heaters and open flue water heaters during the year for example, led to a

20 per cent reduction in the use of such appliances. These developments not only create safer surroundings for customers, they also contribute to a cleaner and greener environment with the use of more energy-efficient replacements.

In the use of innovation and technology, we improved our billing system with the commissioning of our new consumption management system (CMS). CMS simplifies the entire billing process and deals with customer queries more efficiently. Our on-site customer services were also enhanced with the use of PDA (Personal Digital Assistant) applications for our service technicians.

These initiatives not only help to enhance staff productivity, they reflect our ongoing pursuit of service and operational excellence. While they form a normal part of our daily operations, we are gratified to see this commitment to quality being recognised both by our customers and the community.

In January 2009, Towngas won the 2008 Hong Kong Awards for Industries: Productivity and Quality Grand Award. In the winning of this prestigious award, we were judged against a comprehensive and rigorous set of rules covering every aspect of leadership and management criteria – from strategic planning to customer and market focus, innovation and creativity to resource management, productivity and quality improvement. We are delighted to win this award once again, first receiving it 10 years ago in 1998. Reflecting our quality improvements over this time, in the past decade the number of compliments from customers has grown tenfold while complaints – despite our larger customer base, have decreased a pleasing 60 per cent.

This quality and service excellence was further reinforced during the year with a number of other awards, including the Excellent Services Brand Award – Excellent After-sales Services presented by Sing Tao Daily; the Hong Kong Service Awards – Public Utilities organised by East Week; and the Supreme Service Award by Capital CEO. While the recognition from the community is highly gratifying, it is all the more important as it provides encouragement and motivation to our workforce in the pursuit of service excellence.

(c) The Gas Infrastructure

Our gas infrastructure, which has grown and developed over the decades, rounds out a picture of customer and service excellence. Hong Kong enjoys world leading gas services with a supply continuity rate of more than 99.99 per cent. Despite this creditable achievement, we continue our improvement efforts, establishing benchmarks against world class standards and making sure that our operational standards continue to reach ever increasing highs.

Attesting to the quality management of our infrastructure assets, including our gas transportation network, we have received PAS 55-1:2004 certification since 2007, the first gas company in Asia to receive this honour. In addition to ensuring that

we manage our assets more effectively, the accreditation also affirms that the value and sustainability of our plant and network assets are fully maximised.

Ensuring more reliable services and enhancing supply security, we continue to expand our supply network with a number of new pipeline projects. The first of these, our Eastern Transmission Pipeline project, which consists of 24 km of high pressure pipeline from Ma On Shan via Sai Kung to East Kowloon has been completed and greatly enhanced supply capacities and service reliability to urban areas in the territory.

Construction of a 9 km ring-feed network in the Western New Territories is also proceeding apace. Upon completion, it will greatly improve network security in the region. The laying of a 15 km pipeline, carrying natural gas from our Tai Po plant to Ma Tau Kok, is also proceeding as scheduled. In view of the widespread development due to take place in South East Kowloon, we are also working closely with the government to coordinate gas requirements and ensure necessary supplies when the development is up and running.

The target of accomplishing the replacement of 150 km of medium-pressure ductile iron pipes is achieved. The effort to rejuvenate our gas network will continue according to the needs.

(d) Towards a Sustainable Future

Caring for our community covers just one facet of corporate social responsibility. To combat the alarming effects of global warming, air pollution and the depletion of the world's resources, it is also crucial to care for our environment and our planet.

As a supplier of energy, our business demands that we take a responsible attitude in this direction and we are fully committed to being, not just in the energy business but in the clean energy business. The increasing use of natural gas, one of the cleanest forms of fossil fuel, and LFG in the town gas production process is a realisation of this commitment. In mainland China too, most of our piped city-gas activities are based on natural gas, while ECO's activities in LPG, CNG and LCBM continue to cement our reputation as a pioneer in the clean energy industry. Our research activities in the development of clean energies in the coal industry – in methanol and dimethyl ether for example, not only set the seal on these activities, they are also determining our future business direction.

On a more everyday level, with energy-saving initiatives throughout our operations – such as better building insulation, the use of photovoltaic panels at some of our network facilities as well as the setting of indoor temperatures at 25°C in our offices, we managed to save 1,664,455 kWh of electricity in our Hong Kong operations during the year.

In the management of waste, we added more types of used materials to our recycling list. In addition to the more obvious items such as paper and plastics, we also collect old electronic office equipment, used appliances, replaced piping and flexible hoses, etc. At the same time, simple operational initiatives such as the promotion of “paperless offices” with the shift to the more general use of email, have resulted in substantial savings in the amounts of paper used.

Raising awareness among our employees, business partners, suppliers and the general public, a variety of activities were organised, often in conjunction with green organisations such as Green Power, Conservancy Association, WWF and Friends of the Earth. These ranged from an Environmental Experience Sharing workshop, the Green Power Hike to the Tree Planting Challenge. Several eco-tours were also organised, including a Dolphin Watch in the north-western waters off Lantau Island and a visit to the Hoi Ha Wan Marine Research Centre in Sai Kung. We also participated in the Dim It: Lights Out Campaign and Power Smart Campaign 2008, organised by Friends of the Earth, and as a Green Partner under the Environmental Protection Department’s Green Hong Kong – Carbon Audit Programme, we also endorsed the Carbon Reduction Charter and pledged to carry out activities supporting the reduction of greenhouse gas emissions in Hong Kong. In December 2008, we successfully verified our carbon inventory under ISO 14064-1 specifications.

Over the years, these activities have won us a host of environmental records. For the seventh year running, we received our Gold Wastewi\$e logo and we also became a Green Medallist in the Federation of Hong Kong Industries’ One Factory – One Year – One Environmental Project Programme, which aims to reduce pollution in Hong Kong and the Pearl River Delta region.

(e) Empowering Our People

To realise our vision to become the leading clean energy corporation in Asia, we must develop the necessary environment to attract and retain the people who best “fit” our growth. This quality workforce must not only have the necessary capabilities to carry out their responsibilities professionally and caringly, they also need to have the same aspirations and engagement towards our business, customer and community commitments.

Professional Learning and Leadership Development

In attracting and developing the right people, learning and development play a key role, ensuring that employees not only have the professional skills and knowledge to carry out their responsibilities to the highest standards, but also, that they will develop into innovative leaders and capable managers within the Group. A key initiative is therefore to build a quality workforce for our new businesses and to rejuvenate our core business team.

At the heart of this initiative is our Towngas Leadership Competency (TLC) Model, providing the cornerstone which articulates our future leadership requirements and identify suitable talents to meet these needs. In addition to building this leadership pipeline, it also provides the foundations for our Talent Acceleration Programmes – our Leadership Mobility Programme (LMP) and TLC+ Programmes.

The 18-month LMP programme, which accelerates the progress of young talents identified for managerial responsibilities on the mainland, came to a satisfactory conclusion in 2008. Candidates have completed all programme requirements while also being exposed to greater responsibilities.

TLC+ identifies individuals for future leadership within the Group. Candidates undergo rigorous development ranging from mentorship programmes, development workshops and new responsibilities to e-learning tools and leadership forums, to prepare them for broader management responsibilities.

Our first Executive Development Programme organised in conjunction with Tsinghua University took place in 2008. Over 40 participants, consisting of candidates from our Talent Acceleration Programmes and senior management, attended this 10-day learning programme at the university. Participants not only gained a view of the latest business and management developments, they also had the opportunity to learn from some of the leading professors on the mainland.

Encouraging employees to take responsibility for their own development, our Professional Qualification Policy was relaunched in December 2008 to help employees gain their professional qualifications. This win-win situation translates into better and faster career advancement for employees as well as a professional and quality workforce for the Group.

With over 200 executives from the mainland spending three weeks in Hong Kong, much of our training, hand-in-hand with our Hong Kong Experience Sharing programme, seeks to address the needs of our businesses in China. In addition to a focus on the Towngas corporate culture, there is a strong emphasis on quality improvement processes, professional skills, safety procedures and a customer-focused mindset. We also collaborated with the Chinese University of Hong Kong to organise a two-week Executive Development Programme, focusing on business strategies, global competition and corporate governance. In its third year of operation, 35 senior executives from the mainland attended this programme in 2008.

Ensuring competent manpower in the gas industry we continue our Graduate Trainee Programme, Gas Fitter Apprentice Training Scheme, Trainee Network Fitter Training Scheme as well as Registered Gas Installer Training for contractors. At the same time, supporting the Continuing Professional Development of our engineers, we also run workshops and seminars to update participants with new developments and the latest trends in the gas industry. Attesting to the quality of these programmes, our apprentices and trainees have won many quality awards over the years.

In 2008, these included the First Prize in the Hong Kong Institute of Engineers' Best Trainee of the Year Award, The Most Improved Trainees Awards in the government's Youth Work Experience and Training Scheme, as well as an Apprentices of Excellent Performance Award from the Vocational Training Council.

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 2008, we held 12 safety exhibitions, maintaining our long-standing and well-proven methods of taking our safety message direct to consumers. As always, appliance safety was a high priority: We conducted more than 1,220,000 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 place as high a priority on the health and well-being of our employees as we do on safety. In line with our proactive health and safety management system, we have therefore introduced a number of safety trainings and health initiatives which are showing an increasingly positive effect. During the year for example, we enhanced and reissued the Company Employee Health & Safety Handbook. At the same time, we established a Near Miss Management System to extend the reporting system to events or situations that could have resulted in injury, damage or loss, but which did not do so, due to chance, corrective action or timely intervention.

Results of these initiatives have been highly positive. We did so well in our safety performance in 2008 that we recorded our best industrial safety results for the past 27 years. During the year, a total of nine industrial accidents resulting in an injury were reported, leading to a fall in the Accident Frequency Rate from 0.30 in 2007 to 0.22 in 2008, an improvement rate of 26.7 per cent.

Further improving our health and safety management system, we achieved compliance with new BS OHSAS 18001:2007 standards while an enhanced Corporate Health, Safety and Environment Award Scheme was introduced to replace the previous Corporate Safety Award Scheme. This new scheme will promote and encourage greater participation and higher safety awareness among our people.

(c) Gas Production Plants Safety

We have strong confidence in the safety, reliability and management systems of our Tai Po and Ma Tau Kok gas production plants. Both plants were designed and built by reputable international project contractors, based on proven engineering and chemical processes. Manned by competent and experienced operation and maintenance crews, the two gas works did not have even one interruption to the gas supply since the first day they were commissioned. On this basis, our Company's supply reliability continues to be one of the best in the utilities and reached a level of 99.993% in 2008.

Our Company exerted great efforts in safeguarding the conditions and availability of the two gas plants. Ma Tau Kok gas production plant has over 31 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 22 years. Both sites implement strict work rules and procedures to control various high risk operations, with robust backup from automatic alarms and safety interlocks. A high degree of emergency response preparedness is achieved by a wide range of fire-fighting facilities, well trained response teams and frequent emergency drills. Our standards of safety control compare most favourably with other major utilities in Hong Kong and overseas.

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

The Accident Frequency Rate of gas production plants has always been maintained at a low level, with about 0.5 case per 100,000 man hours worked and the accidents were usually minor cases. Nonetheless, in pursuit of the target of zero accidents, the plant management proactively reviewed the root causes of each incident and implemented every practicable preventive measure. No major gas emergency has happened in the plants for many years.

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

(d) Network Safety

Ensuring network safety, we continue to monitor and enhance our pipeline infrastructure with an active maintenance and rehabilitation programme. The replacement of some 150 km of medium-pressure ductile iron pipes, some of which have been in use since the mid 1980s, was completed during the year. Rigorous trench inspections and leakage surveys continue and the introduction of better equipment and technology also provide invaluable support in the maintenance of safety standards.

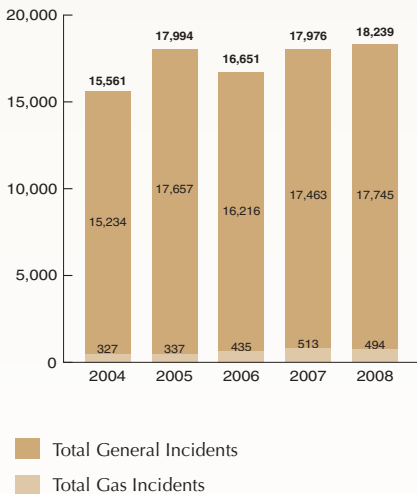
Emergency vehicles equipped with computers are now used in the handling of any gas emergencies and the use of new infra-red methane detectors for leakage surveys, as well as advanced detectors which check the condition of the coating on steel pipes, were also introduced during the year.

Despite the fact that our activities and appliances meet stringent international standards, we continue to make every effort to enhance their safety even further. We continue to check our pipes rigorously by sophisticated leakage survey from anywhere between six times a year to once a year to ensure their integrity.

We also augmented the number of trench inspections of third party excavation sites to circumvent damage to nearby Towngas pipelines. In 2008, about 146,790 trench inspections covering 15,541 active sites were made, helping reduce third party damage by nearly 17% compared to 2007.

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

(i) Number of Urgent Reports

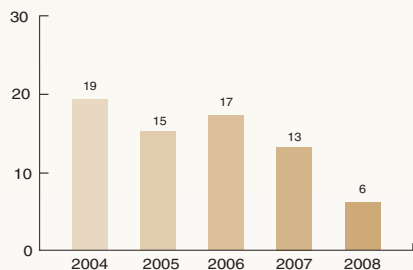


Urgent Reports refer to incidents which require Towngas personnel to attend immediately, whether the incident is gas-related or not.

Out of the 18,239 Urgent Reports received in 2008, only 494 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

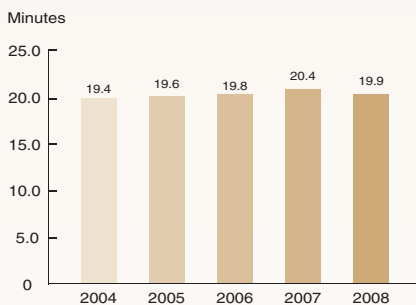
(ii) Number of Major Gas Emergencies



Out of the 494 Gas Incidents in 2008, only 6 cases were Major Gas Emergencies.

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

(iii) Average Response Time for Gas Incidents



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

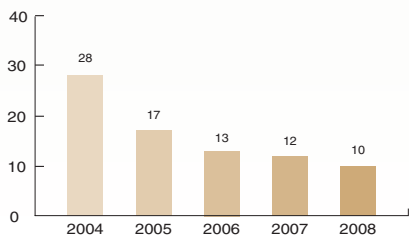
(iv) Number of Fatal Gas Accidents

Year	2004	2005	2006	2007	2008
No. of Accidents	0	0	1	0	0

* Suicide cases are not included.

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

(v) Number of Incidents Involving Third Party Damage



Towngas has been able to significantly reduce the number of incidents involving third party damage over the past five years. Incident in 2008 dropped by 17% compared to 2007.

(vi) Trench Inspection

Total number of active sites inspected in 2008

Island	Kowloon	New Territories	Total
5,927	4,387	5,227	15,541

To minimise third party damage to its network facilities, Towngas emphasises close coordination with concerned parties in any excavation work that may subject its pipelines to possible damage. Apart from provision of alignment drawings and safety advice for the third parties, the Company organises safety talks for the construction industry. In 2008, a total of 443 contractor personnel attended our safety talk sessions. Besides, the Company is possibly the only local utility to proactively send its technicians to work at sites to ascertain the alignment of its facilities for maximum safety.

(vii) Number of Leakage and Pipeline Surveys

Type of pipelines	Frequency of leakage surveys
Transmission pipelines: - All HP & IPB mains	At least once a year
Distribution pipelines: - PE or steel pipes over or enclosed within structures	At least twice a year
- Medium pressure ductile iron pipes or all galvanized iron pipes	At least six times a year
- Low pressure ductile iron pipes	At least three times a year
- Others	At least once a year

HP - High Pressure

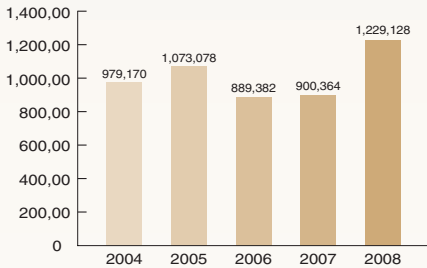
IPB - Intermediate Pressure B

PE - Polyethylene

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

As a result of the stringent and proactive leakage survey and trench inspection programmes, the number of public reported gas escape incident in network was only 0.038 per km per year in 2008. Even if minor seepages located by the sensitive leakage survey were also included, the number was 0.167 per km per year only, much lower than the figures in many other similar metropolitan cities.

(viii) Number of Regular Safety Inspections



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

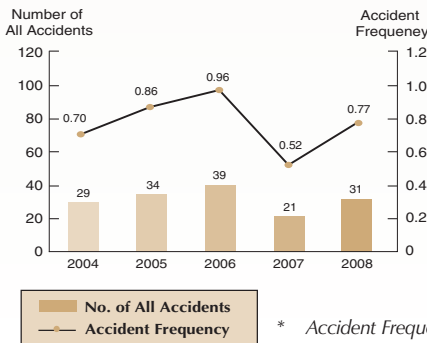
(ix) Number of Sub-standard Appliances Upgraded

Towngas encourages customers to upgrade their sub-standard appliances through various educational and promotional programmes. In 1999, we introduced a discount scheme to encourage customers to upgrade their water heaters and cooking appliances. In 2008, 333 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 2008, we organised 12 safety exhibitions and 2 safety talks in housing estates and elderly centres. Information panels were exhibited and information booklets on gas safety were delivered.

(xi) Industrial Safety Performance of Employees



Towngas is committed to providing a safe and healthy environment for its employees. From 2004 to 2008, there have been less than 1 injury accident per 100,000 working hours. Towngas continuously provides training on occupational safety to employees with the aim of further reducing the occurrence of accidents.

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

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 14 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 2008

	<u>Results</u>
Reliability	
• Uninterrupted gas supply (over 99.99%)	99.993%
• In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
• Restoration of gas supply within 12 hours	100%
Safety	
• Emergency Team arrived on site within 30 minutes (at 90% of the times) ¹	93.62%
Appointments	
• Availability of maintenance and installation services within 2 working days	Average 1.08 day
Speed and Convenience	
• Customer Service Hotline (calls answered within 4 rings)	95.84%
• 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)	99.93% (upon customer's request)
Service Quality	
• Efficiency ²	8.70
• Courteous and friendly attitude ²	8.65
Handling Suggestions	
• Reply within 3 working days	100%
• Resolution, or a statement of when the matter will be resolved, within 2 weeks	97.92%

1. Average 20.25 minutes.

2. The result was based on monthly surveys conducted from January to December 2008 by an independent research company. Our target is to exceed a score of eight out of ten.

(b) Service Pledge for 2009

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 2009, and the annual reporting on performance results will be announced in January 2010.

Pledges

Target

Reliability

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

Safety

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

Appointments

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

Speed and Convenience

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

Service Quality

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

Handling Suggestions

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

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

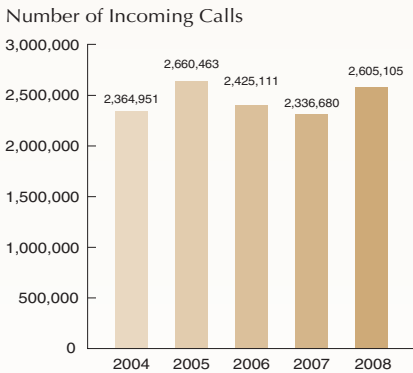
4. Customer Liaison

(a) Customer Focus Team

Since its inception in 1993, the Customer Focus Team has provided an effective communication channel between Towngas and its customers. It is a key factor in ensuring that our services meet customer expectations. The Team, comprising managers from customer related departments, visits two public or private housing estates every month. Issues related to Towngas service, gas safety, bill payment and gas appliances are discussed at the meetings. Comments from customers contribute greatly to the improvement of Towngas products and services. In 2008, the Customer Focus Team made 24 visits to its customers.

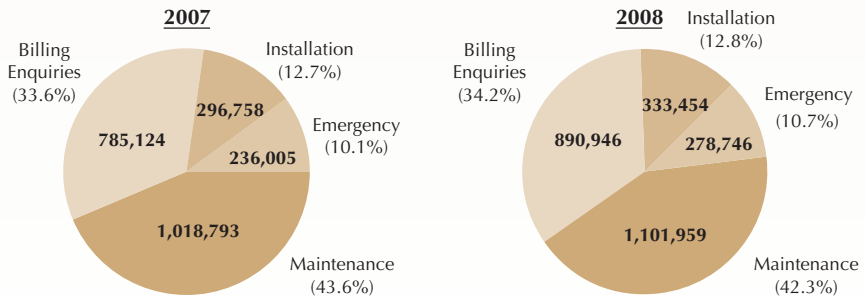
(b) Customer Service Hotline and Emergency Hotline

2004 to 2008 Customer Service Hotline and Emergency Hotline:



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

Number of Incoming Calls by Categories:



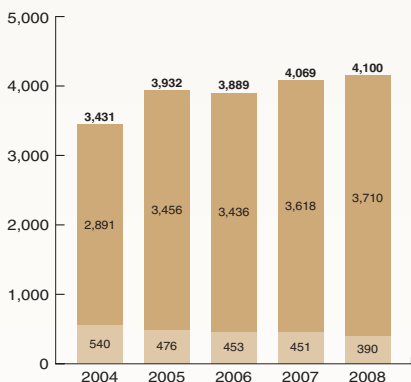
The largest category of incoming calls to the CSH and Emergency Hotlines is maintenance, representing 42.3% of total calls in 2008 while other categories include billing enquiries, installation and emergency.

(c) Bill Inserts to Customers

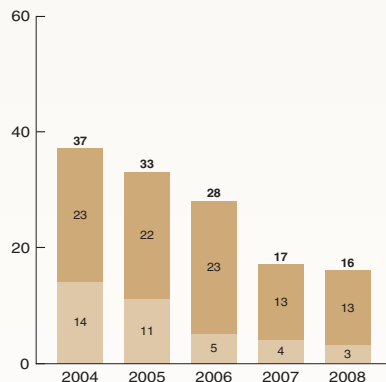
A bill insert, which comes with the bi-monthly gas bill, is an effective means to keep our customers informed. In 2008, a total of 19 information leaflets on various topics were sent to customers. The topics of these leaflets were mostly related to new Towngas services and products, appliance special offers, Towngas Avenue special offers, gas safety and advice on using gas appliances, as well as energy saving.

(d) Number of Customers' Compliments and Complaints

Number of Customers' Compliments



Number of Customers' Complaints



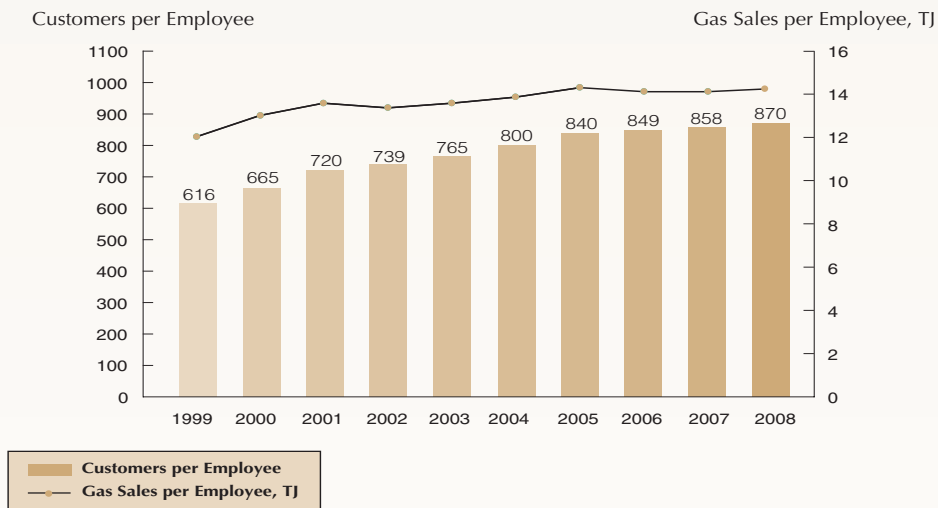
Written Compliments
 Verbal Compliments

Written Complaints
 Verbal Complaints

Delivering high quality customer service has always been a Towngas priority. We are more focused than ever on the continuous enhancement of customer satisfaction by providing superior quality service. As a result, there were a total of 4,100 compliments about Towngas' service in 2008, which included 3,710 written compliments and 390 verbal compliments.

Regarding the number of customer complaints, Towngas received a total of 16 complaints in 2008 (13 written complaints and 3 verbal complaints). With 1,672,084 customers as at 31 December 2008, the ratio is 1 complaint per 104,505 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 2008, Towngas continued to devise and implement measures to maintain high cost-efficiency without compromising the quality of our services to customers. Through vigorous research and development efforts, we have further promoted the use of information technology to attain a higher level of automation throughout our operations.

These measures, together with a range of other initiatives, resulted in a 1% increase in productivity in 2008, which is measured in terms of number of customers served by each employee. In 2008, each Towngas employee served 870 customers, and town gas sales averaged 14.4 TJ per employee. Towngas will continue to seek ways to ensure our customers receive the best and most cost-effective service.

Supplying more than 200 town gas appliance models and 30 Liquefied Petroleum Gas (LPG) appliance models in Hong Kong, Towngas has strived to develop more environmentally friendly products with high efficiency which would help reduce green house gases. In 2008, Towngas improved the efficiency of a self-developed stockpot by using heat shield and refractory rock. A new condensing water heater pack with efficiency up to 94% was also introduced to commercial market. For residential appliances, on top of the high efficiency built in hob with Sealed Hygienic Burner, our "Elemento" built in hob series for high end market was launched in end 2008. It consists of 4 modular cooking units including the high efficiency inner flame unit, the high power mega flame unit, the world's first flame grill for household use, and a double-burner unit, and can suit for different cuisine methods.

In addition, we have been proactively developing environmentally friendly energy businesses in Hong Kong. Our North East New Territories (NENT) landfill gas treatment facility was officially commenced in January 2008 and is also operating well. Treated landfill gas is transported to Tai Po gas production plant via a dedicated pipeline to partially replace naphtha as a fuel for town gas production with the aim of further reducing carbon dioxide emissions. Based on the success of the NENT project, the company is proactively looking for further opportunities to utilize landfill gas at other sites in Hong Kong.

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 (FCVC) 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 650,000 on-demand maintenance works and more than 1,220,000 Regular Safety Inspections in customers' homes in 2008.

However, MMC does not include the costs of replacing spare parts, rubber hose, stainless-steel braided flexible hose or corrugated stainless steel tube for appliances, nor the costs of repair or replacement of gas installation pipes and external service risers, appliance disconnection and reconnection, or gas meter accuracy testing. To provide our customers with maximum protection, 24-hour emergency services are rendered free-of-charge.

(b) Fuel Cost Variation Charge

The 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 “2008 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 collection and recycling of retired domestic appliances, commercial and industrial appliances, spare parts, gas meters and used CDs etc. We are now recycling and reuse more than 20 items since the programme introduced in 2002.

1. Environmental Promotional Programmes

We continue to offer our proactive support to environmental protection agencies and government-led environmental protection programmes. In 2008, we again sponsored the “Tree-planting Challenge 2008” organised by Friends of the Earth, and participated in the environmental education tour to the Hoi Ha Wan Marine Life Centre and the Mai Po Natural Reserve organised by WWF Hong Kong, “The Collaboration of Green NGOs, Businesses and Governments International Conference” organised by The Conservancy Association, and the annual “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. We also joined the Climate Change Business Forum to promote best practice in greenhouse gas reduction.

2. Environmental Training and Education Programmes

In recent years Towngas has organised a large number of environmental training and educational activities to promote environmental awareness among our employees. Programmes conducted in 2008 included the Annual Outstanding Environmental Subcommittee Competition, Fuel Saving Competition, Green Office Purchase Competition and the publication of three issues of the Health, Safety & Environment 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 2008, Towngas received the Hang Seng Pearl River Delta Environmental Category Award (Green Management) under the 1-1-1 (One Factory-One Year-One Environmental Project) Programme jointly organised by the Federation of Hong Kong Industries and Hang Seng Bank in recognition of our environmental protection performance. The Gold Wastewi\$e logo which the Environmental Protection Department conferred upon us for the seventh consecutive year was testimony to our strong commitment to waste reduction.

4. Environmental Performance

In 2008, Towngas’ 12 functional environmental sub-committees achieved a total of 40 environmental objectives. For instance, our “Used Gas Appliance Recycling Programme” is now in its sixth year, and has enabled us to divert around 1,000 tonnes of scrap metal annually from landfill sites. The revenue generated has been added to our green creativity fund, which is used to foster environmental awareness in the community.

For more details about our environmental performance and targets, the public can access our website to view or download our “2008 Sustainability Report”.

(a) Environmental Performance Table

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

Ozone Layer Protection

- 100% of our vehicle air conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.
- In 2010, 25% of existing building central air conditioning system will operate with HCFC-free refrigerants.

Air Quality

- Total NO_x output was 4.55 kg/TJ of town gas (Annual total of 125,302 kg, equivalent to a daily average of 342 kg).
- Total SO_x output was 0.048 kg/TJ of town gas (Annual total of 1,309 kg, equivalent to a daily average of 3.6 kg).
- Total CO₂ output was 12.35 MT/TJ of town gas (Annual total of 339,968 MT, equivalent to a daily average of 929 MT).

Greenhouse Gas Emission

- Annual total greenhouse gas emissions from major gas production equipment was 342,159 MT in terms of CO₂ equivalent.

Volatile Organic Compounds (VOC)

- Estimated annual total VOC emissions was 6.44 kg/TJ of town gas (Annual total of 177,176 kg, equivalent to a daily average of 484 kg)
(In 2005, before introduction of natural gas feedstock, estimated annual total VOC emissions was 9.83 kg/TJ of town gas (Annual total of 268,242 kg, equivalent to a daily average of 735kg))

Water Quality

- Total waste water output was 6.55 m³/TJ of town gas (Equivalent to a daily average of 493 m³).

Chemical Waste

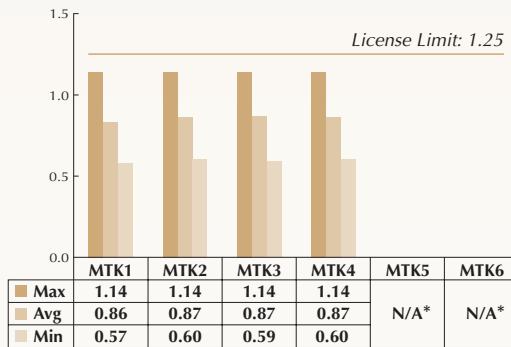
- Total chemical waste output was 2.45 kg/TJ of town gas (Equivalent to a daily average of 185 kg).

Noise

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

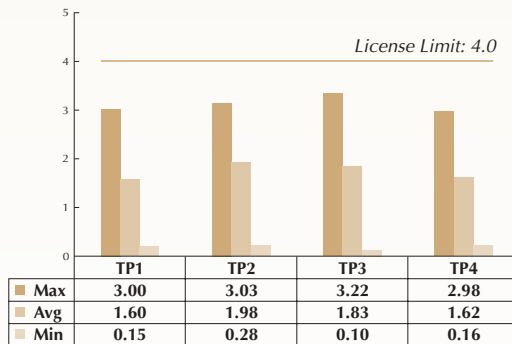
(b) Emission Level of Gas Production Plants for 2008

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

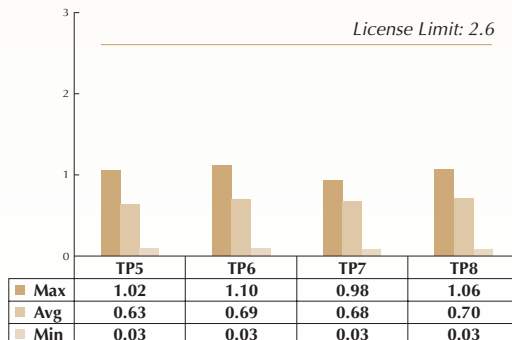


* MTK5 and MTK6 at cold standby in 2008

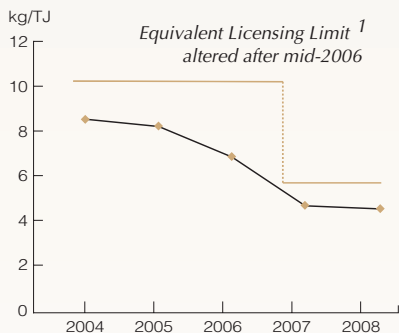
(ii) NOx emission level of Tai Po (TP) gas making units Phase 1 (Kg/hour)



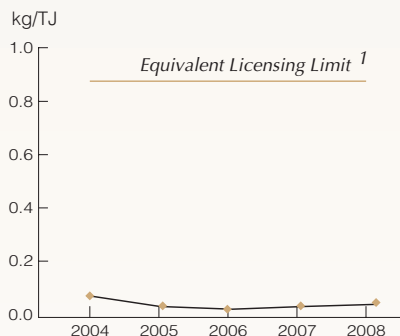
(iii) NOx emission level of Tai Po (TP) gas making units Phase 2 (Kg/hour)



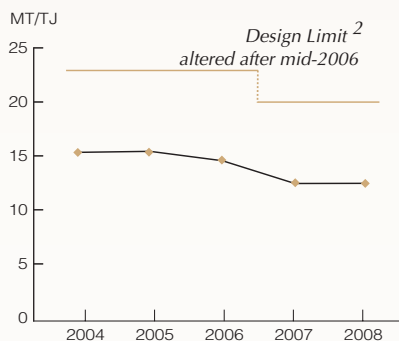
(iv) NO_x emission level



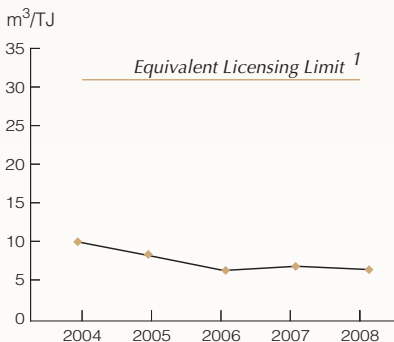
(v) SO_x emission level



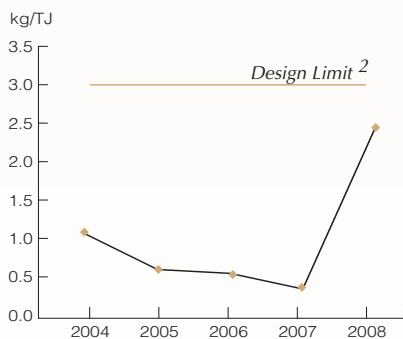
(vi) CO₂ emission level



(vii) Waste water output



(viii) Chemical waste output³



1. "Equivalent Licensing Limited" (kg/TJ OR m³/TJ) = "Weighted average of actual licensing limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2007 (TJ/hr)
2. As there is no Licensing Limit for the emission level of the substance, we apply the design limit of our production plants as a reference point for the emission level.
3. Chemical waste output increased in 2008 due to special submarine pipeline coating work. Chemical waste was disposed of by registered chemical waste treatment companies.

FINANCIAL INFORMATION

1. Consolidated Income Statement

for the year ended 31st December 2008

	HK\$'M
Revenue	12,352.2
Total operating expenses	(8,738.2)
	<u>3,614.0</u>
Other (losses)/gains, net	(584.6)
Interest expense	(416.8)
Share of profits less losses of associated companies	1,820.3
Share of profits less losses of jointly controlled entities	524.5
Profit before taxation	4,957.4
Taxation	(562.6)
Profit for the year	<u>4,394.8</u>
Attributable to:	
Shareholders of the Company	4,302.5
Minority interests	92.3
	<u>4,394.8</u>
Dividends	<u>2,333.0</u>
Earnings per share – basic and diluted, HK cents	<u>64.5</u>

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

for the year ended 31st December 2008

	HK\$'M
Residential maintenance revenue	(181.0)
Less expenses:	
Manpower costs	106.9
Other operating and administrative expenses	93.4
Net loss	<u>19.3</u>

2. Consolidated Balance Sheet

as at 31st December 2008

	HK\$'M
Assets	
Non-current assets	
Property, plant and equipment	15,077.0
Investment property	523.0
Leasehold land	561.0
Intangible asset	196.4
Associated companies	10,465.4
Jointly controlled entities	6,164.0
Available-for-sale financial assets	1,105.2
Retirement benefit assets	64.7
Other non-current assets	89.1
	<u>34,245.8</u>
Current assets	
Completed property for sale	110.1
Inventories	1,806.0
Trade and other receivables	2,429.9
Loans to associated companies	29.4
Loans to jointly controlled entities	86.6
Loans to minority interests	85.4
Housing loans to staff	46.8
Financial assets at fair value through profit or loss	767.4
Time deposits over three months	55.7
Time deposits up to three months, cash and bank balances	12,290.9
	<u>17,708.2</u>
Current liabilities	
Trade and other payables	(2,746.7)
Amounts due to jointly controlled entities	(34.0)
Provision for taxation	(384.5)
Borrowings	(2,242.5)
	<u>(5,407.7)</u>
Net current assets	<u>12,300.5</u>
Total assets less current liabilities	<u>46,546.3</u>

2. Consolidated Balance Sheet

as at 31st December 2008

	HK\$'M
Non-current liabilities	
Customers' deposits	(1,074.3)
Deferred taxation	(1,272.9)
Borrowings	(12,342.5)
Loans from minority interests	(44.7)
Derivative financial instruments	(312.1)
	<u>(15,046.5)</u>
Net assets	<u>31,499.8</u>
Capital and reserves	
Share capital	1,666.4
Share premium	3,618.6
Reserves	23,833.5
Proposed dividend	1,533.1
Shareholders' funds	<u>30,651.6</u>
Minority interests	<u>848.2</u>
Total equity	<u>31,499.8</u>

3. Auditors' Report

(Extract from The Hong Kong And China Gas Company Limited Annual Report 2008 Page 61)

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

We have audited the consolidated accounts of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 62 to 128, which comprise the consolidated and company balance sheets as at 31st December 2008, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2008 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, 17th March 2009

4. Directors' Emoluments

for the year ended 31st December 2008

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	12.0
Performance Bonus	27.1
Contributions to Retirement Scheme	7.3
	<hr/> 47.9 <hr/>

Number of directors whose emoluments fell within:

<i>Emoluments Band (HK\$M)</i>	
0.0 - 0.5	7
10.0 - 10.5	1
11.5 - 12.0	1
24.0 - 24.5	1

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK\$40.4 million (2007: HK\$40.6 million) and post-employment benefits of HK\$7.4 million (2007: HK\$7.3 million) paid to the Group's key management during the year ended 31st December 2008. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2007: nil).

