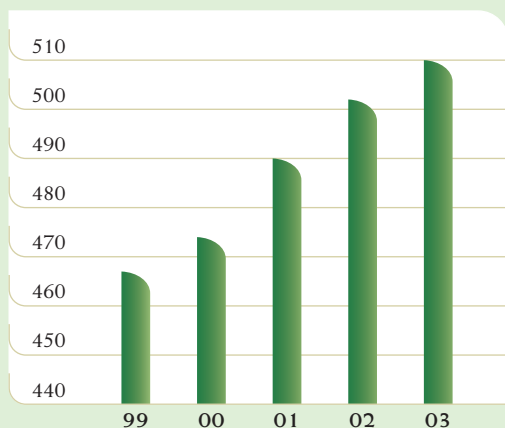


## SERVICE INITIATIVES

Towngas' dedication to understanding our customers, listening and responding to their feedback, delivering on service promises and providing innovative solutions to the changing trends in contemporary lifestyles, is second to none. We are always looking to raise the bar on quality so as to enhance service excellence.

**Number of Customers  
per km of Mains** (Company)



## Customer Services

The success of Towngas Avenue as a lifestyle and gastronomic outlet, appealing particularly to a younger consumer group, paved the way for refurbishing our more traditional customer centres during 2003. The first and largest of these, Mongkok Customer Centre, was reopened in March. With interior design consultants and a comprehensive library of home décor magazines complementing residential appliance purchases and installation work, the centre's refreshing new look has since become the model to emulate for our JVs in the mainland as well.

Other ways in which we sought to enhance the quality of our services throughout the year focused on direct communication with our customers. Knowing how much residential consumers value meeting different professional Towngas staff, our Customer Focus Teams held a series of special liaison gathering events in 2003 to further nurture this kind of interaction. We also boosted training for our front line staff whose helpful and courteous attitude is clearly beginning to earn them a reputation for service excellence as they received over 25 per cent more written compliments and 34 per cent fewer complaints from the public in 2003 compared to 2002.

## Continuing Service Diversity

Towngas Avenue's growing reputation equally prompted us to start publishing in July a high quality lifestyle magazine, *Avenue*, highlighting selected, kitchen and bathroom equipment, home décor and gourmet cooking. By providing a glimpse



*Towngas Avenue has become a symbol of quality living, displaying contemporary appliances in relaxing surroundings.*

**“An uncompromising level of service quality — that’s what sets Towngas apart.”**

into the world of contemporary living as seen through the eyes of our modish concept store, *Avenue* has helped to strengthen our market position with design-conscious customers.

During 2003, we also identified an emerging trend for more productive leisure activities which led us to utilise Towngas Avenue as an additional venue for cooking workshops. This has proven very successful in further promoting our products and restaurants

as culinary-lovers of all ages can now deepen their experience in the art of flame cooking in stylish surroundings.

We also continued enhancing home safety throughout the year. For example, we introduced a plastic Braille label, showing emergency hotline numbers, for sticking onto the cooking appliances of the visually-impaired; we brought greater peace of mind to domestic helpers and their employers with the launch of Tagalog and Bahasa Indonesian hotline services; and we made nearly 990,000 Regular Safety Inspection residential visits, a safety driven programme that is very popular with our customers.

## Results of Towngas Service Pledge 2003

RESULTS	
<b>Reliability</b>	
Uninterrupted gas supply (over 99.99%)	<b>99.992%</b>
In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	<b>98.75%</b>
Restoration of gas supply within 12 hours	<b>99.91%</b>
<b>Safety</b>	
Emergency Team arrived on site within 30 minutes (at 90% of the times) <sup>1</sup>	<b>92.05%</b>
<b>Appointments</b>	
Availability of maintenance and installation services within 2 working days	<b>Average 1.08 days</b>
<b>Speed and Convenience</b>	
Customer Service Hotline (calls answered within 4 rings)	<b>95.74%</b>
Connect or disconnect gas supply within 1 working day	<b>100% (upon customer's request)</b>
Deposit refunded at Customer Centres (2 hours after disconnection of gas supply)	<b>100% (upon customer's request)</b>
<b>Service Quality</b>	
Efficiency <sup>2</sup>	<b>8.73</b>
Courteous and friendly attitude <sup>2</sup>	<b>8.81</b>
<b>Handling Suggestions</b>	
Reply within 3 working days	<b>97.73%</b>
Resolution, or a statement of when the matter will be resolved, within 2 weeks	<b>93.18%</b>

1. Average 20.50 minutes

2. The result was based on monthly surveys conducted from January to December 2003 by an independent research company. Our target is to exceed a score of eight out of ten.

## Service Pledge

We raised our Service Pledge targets for 2003, guaranteeing to restore interrupted gas supply within 12 not 24 hours and to get emergency teams to incidents within 30 not 45 minutes. We also

launched more efficient services such as answering hotline calls within 4 not 5 rings and giving customers 3 days notification in advance of planned gas supply suspension.

## EMPLOYEES, PRODUCTIVITY AND INNOVATION

As we expand our footprint ever more deeply into mainland China, Towngas is becoming increasingly diverse of background and experience. We therefore look to constantly enhance the exchange of information, culture of commitment, pursuit of excellence and not least, the promotion of innovation throughout the entire organisation so as to remain at the forefront of very competitive local and regional markets.

### Performance and Productivity

By redeploying our manpower resources into areas where we needed them most, and by creating a sense of inspiring purpose, we continued to nurture quality performance while maintaining the same core business headcount in 2003 as the previous year. With a true spirit of challenge and adventure, an encouraging number of our employees took up positions in our China JVs or moved to one of our diversified business subsidiaries throughout the year, transferring their skills and experience in the process. This, together with a raft of enhancement programmes that offered the right mix of training, at the right time, in the right place, also enabled us to achieve improved



*It all depends on teamwork!*

productivity gains of 3.5 per cent measured in terms of customer numbers per employee.



### Continuous Learning Strategies

To smooth the path of business expansion, 2003 initiatives particularly focused on preparing Hong Kong employees for new opportunities in the mainland and sharpening the skills and knowledge of our JV colleagues. With nearly 3,985 staff now employed in China, a major plank in our learning strategy was to increase experience-sharing programmes in Hong Kong, step up Company vision/mission and technical training sessions at our Guangzhou Hong Kong & China Gas Technical Training Centre, and raise proficiency in readiness for upcoming natural gas conversion, market expansion, new product launches and delivery of after-sales maintenance. We also boosted our customer service training for frontline employees. Within China, this was directed at fostering trust and loyalty to our

*In winning the Hong Kong Award for Services: Innovation Grand Award, Towngas Avenue has been honoured for its innovative spirit and groundbreaking concept.*

corporate brand; within Hong Kong, at enhancing valued relationships and standards of service. In addition, staff were also encouraged to further their own professional self-development through a variety of alternative learning opportunities.

## Creativity and Innovation

Creativity and innovation count in competitive environments, and Towngas aims to be at the forefront of new developments wherever it operates. Our strength depends on the free flow of ideas, dynamic teamwork and a drive to constantly do better at both the individual and company level. We welcome all proposals and suggestions in our search for innovative products and services, improved market performance and cost savings, and ability to deliver results. In this push for imaginative thinking, we recognise the importance of working together to achieve a common goal, potentially symbolised each year by our Towngas Dragon Boat team whose

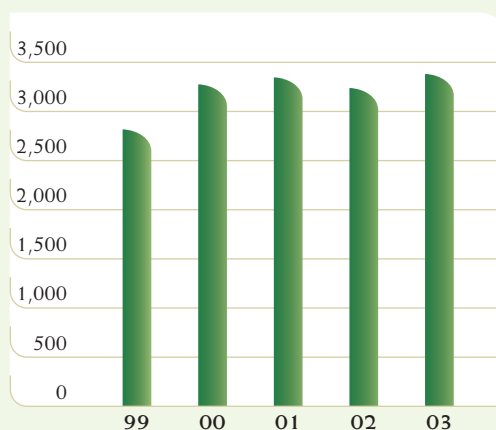
**“Innovation is the lynchpin of our success – teamwork the driver.”**

tireless enthusiasm and persistence always brings rewards – in 2003, a raft of trophies from competitive races held between May and June.

Two years ago it was this kind of collaborative determination which broke new ground in creating Towngas Avenue as a quality lifestyle customer centre. Since then this concept has been refined even further, earning the Company the Hong Kong Chamber of Commerce's Grand Award for Innovation in 2003. This accolade was hot on the heels of our winning the Gold Award for

## Turnover per Employee

Company (HK\$ thousand)



“Most Effective Use of Corporate Identity, Product Design and Packaging” in the Asian Brand Marketing Awards in late September – a regional first for Towngas. Both successes honoured innovative efforts that sought to enhance business performance in terms of product development, brand positioning and marketing activities.

Internally, our own Company Creativity Award since 1997 encouraged staff to submit a wide variety of ideas ranging from a toolkit to more effectively clean gas pipes, to a high efficiency hotplate burner, to techniques for preventing corrosion of gas risers. In addition, our total quality management programme, Superior Quality Service (SQS), continued to pursue its hallmark reputation for “thinking global, acting local” by enthusiastically winning over JV colleagues to the SQS concept through interactive workshops, Quality Day presentations, and elite courses on becoming SQS facilitators and trainers. On the home front, apart from promoting team spirit and seeking fresh ideas from young graduate trainees, the 700-strong SQS members also managed to complete 69 projects yielding HK\$20 million in tangible savings for the Company.

## GAS SUPPLY AND GAS SAFETY

On Chinese New Year's Eve 2003, Towngas reached a record high for gas consumption. Integrity of supply, commensurate with persistent growth in demand, is vital to supporting Hong Kong's residential, commercial and industrial way of life. Preserving trust in the safety of the pipeline network therefore remained a key concern for the Company during 2003.

### Infrastructure

Pipeline extension is focused on two major areas of development within the territory. The eastern regions have seen large residential expansion in the last few years. To meet this growth Towngas is constructing a 24 km Eastern Transmission Pipeline, including associated offtake and pigging stations. Once finished in 2006 this will not only enhance security of supply for the New Territories network, but also enlarge our peak gas storage capacity.

**“A secure, reliable, and safe supply of gas is the cornerstone of our reputation.”**

On a more visible level, recent relaxation of the guidelines on mainland tourists entering Hong Kong has boosted arrivals and bodes well for the

eagerly anticipated opening of the territory's theme park on Lantau Island. Towngas' contribution to this mega project – installing 15 km of gas pipelines to the park and two on-site hotels – is on target for completion by April 2004.



*By the time Hong Kong's international theme park at Penny's Bay on Lantau Island, lights up our skies, town gas will be on hand to supply the theme park's hotels, retail outlets, dining and entertainment facilities.*

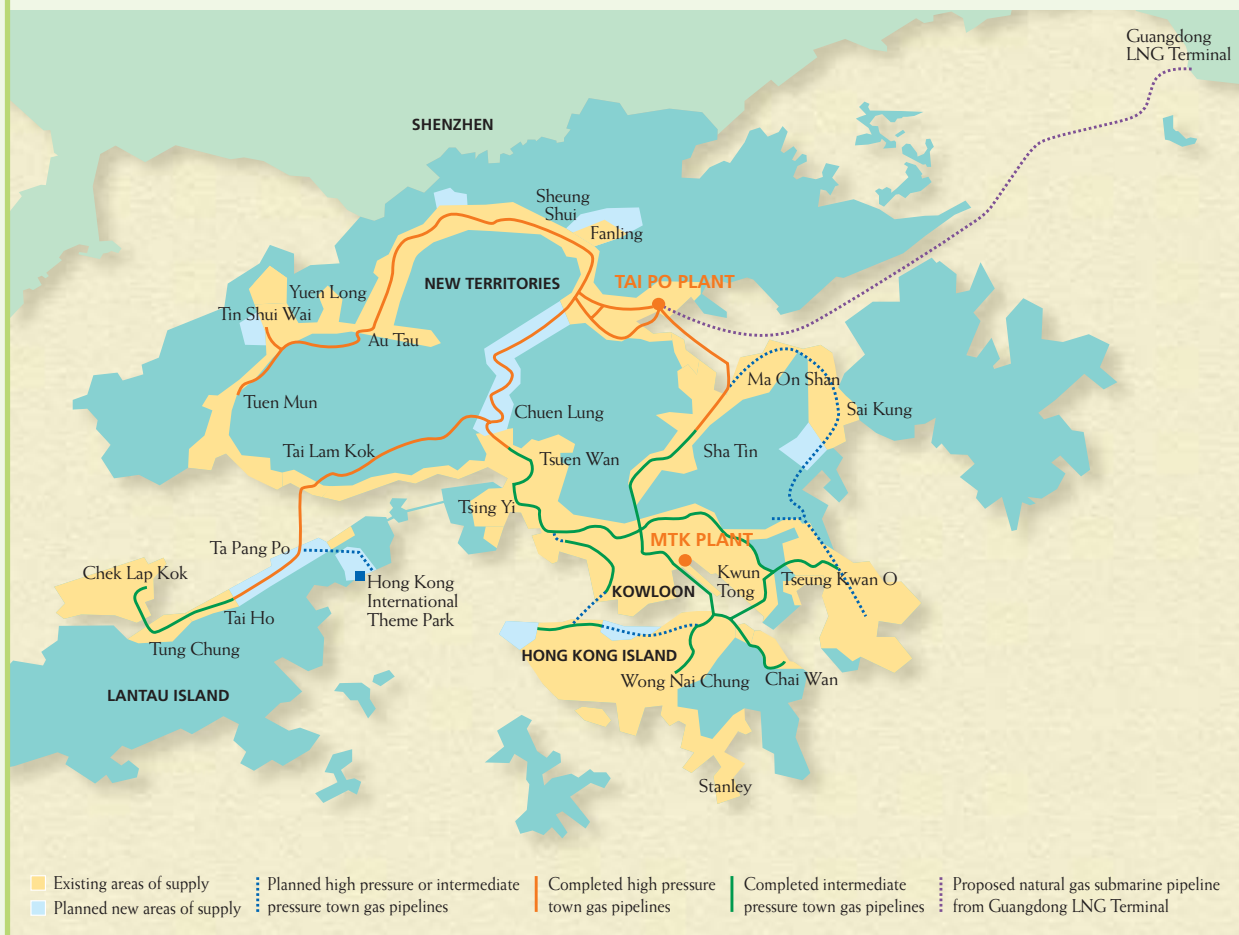


## Network Maintenance and Replacement Programme

We are now in the process of implementing a third generation SCADA system and commissioning advanced computer-mapping technology to further strengthen security of gas supply. As safety of transmission and distribution is our foremost priority, we were especially concerned when damage to two separately located cast iron pipes

caused gas leakage and the lifting of several nearby manhole covers in early 2003. In response to these incidents, we intensified our surveillance programme and accelerated our replacement schedule for this older type of pipeline. By the end of 2003, less than 12 km of cast iron pipes remained out of a total underground network of 3,000 km. When this work is completed towards the end of 2004, Towngas will be entirely free of cast iron pipes.

Towngas' extensive pipeline network, currently covering over 3,000 km, will eventually be supplemented by a natural gas submarine line connecting the Guangdong LNG Terminal to our Hong Kong Tai Po plant.



## Natural Gas in Hong Kong

In April, an Environmental Impact Assessment (EIA) approved development of twin 450 mm-diameter submarine natural gas pipelines 33 km in length from the Guangdong LNG Terminal, located across the border at the eastern end of Shenzhen, to our Tai Po plant in Hong Kong. In confirming the project would meet all environmental and ecological requirements, the EIA effectively brought the territory a step closer to a more long-term, reliable

source of gas. Detailed engineering plans will now be finalised for tentative supply of natural gas to start in the second half of 2006 when it will be gradually introduced to replace naphtha as the main source of feedstock in the production process. Once reliability of natural gas throughout the supply chain is proven, consideration will then be given to feed it directly to the network for partial conversion of Hong Kong's districts.

## HEALTH, SAFETY, AND THE ENVIRONMENT

Towngas' Health, Safety and Environmental Report, published in 2003, set a landmark in clearly outlining our obligations to the current and future well-being of our employees, customers, and society in which we operate. We are determined to forge the path to sustainability while maintaining best practices in health and safety.

### Health and Safety Initiatives

We intensified our drive to make health and safety an integral part of our business activities during 2003. Initiatives included complete revision of our Employee Safety Handbook, standardisation of personal protective equipment, appointment of Safety Wardens within our buildings and further enhancement to safety talks and emergency drills. To raise employees' safety awareness, more

promotional activities were held throughout the year, safety training was increased, and a Safety and Environmental Day, an inter-departmental safety quiz and experience-sharing discussions were organised.

Our Accident Frequency Rate for every 100,000 man-hours worked rose to 1.03 from 0.7 the previous year (still the second lowest in the past 22



**“Our intent in addressing these issues is serious, our commitment wholehearted and our determination absolute.”**

years) following a spate of minor traffic accidents in the first three quarters of 2003. Although these declined substantially in the fourth quarter, we continue to monitor this situation closely. On site however, third party damage was down 11 per cent in 2003, the effect of continuous safety training for contractor workers and stepping up our own site safety checks to over 11,000 inspections during the year.

An excellent safety record is the key to successful business development in all gas industries. Mainland China is no exception, especially at a time when the market is undergoing an immense expansion in the process of adopting natural gas for the first time in many of the cities where we operate JV companies. During 2003, we therefore focused our efforts in two main directions. Within JVs, we strengthened safety training, produced risk and safety manuals and technical guidelines, conducted loss prevention audits, and held emergency drills and exercises. These initiatives are now beginning to create constructive change as our JVs progressively adopt, internalise and implement a systematic approach to risk management. On the consumer side, we launched two programmes which our experience tells us are particularly effective preventative safety



*Our robust and unambiguous approach to sustainable development and the health and safety of our employees is clearly highlighted in our most recent HSE Report, recipient of the Gold Award for Best Environmental Reporting at the 2003 Hong Kong Eco-Business Awards.*

## Environmental Performance Table

### Ozone Layer Protection

99% of our vehicle air conditioning systems now operate with refrigerant R134A

70% of BCF fire extinguishers have been replaced by dry powder ones since 1995

### Air Quality

Total NO<sub>x</sub> output was 8.48 kg / TJ of town gas

Total SO<sub>x</sub> output was 0.12 kg / TJ of town gas

Total CO<sub>2</sub> output was 15.25 metric tonnes / TJ town gas

### Water Quality

Total waste water output was 7.73m<sup>3</sup> / TJ of town gas

### Chemical Waste

Total chemical waste output was 0.86 kg / TJ of town gas

### Noise

All installations and operations complied with the statutory requirements.

No noise abatement notice has ever been received.

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

measures – regular gas safety inspections of homes to which we supply gas and the promotion of gas safety education. As a result of our stringent attention to safety, we have received strong support from municipal governments over the year and have earned the JVs a lot of public goodwill and praise.

### Environmental Protection

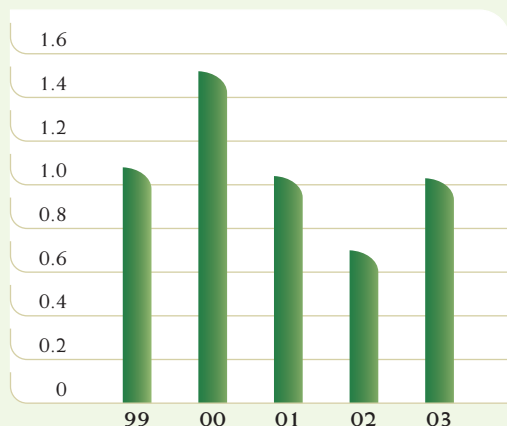
During 2003, the nine Environmental Objectives set out in our Health, Safety and Environmental Report (HSE) were all achieved. These ranged from holding Environmental Impact Assessment seminars offering our experience and knowledge to others

preparing for such studies, to launching a high energy-efficient cooking appliance. Our comprehensive HSE report won us the Gold Award in the 2003 Hong Kong Eco-Business Awards for Best Environmental Reporting.

As part of our commitment to implementing green management practices, we continued to encourage our main suppliers to adopt environmentally-friendly products, packaging and services throughout the year. We also boosted our partnership with environmental organisations by supporting and sponsoring events that took on new

### Accident Frequency Rate

Company (Number of accidents  
per 100,000 man-hours)



significance as the fight against pollution met the clarion call for a cleaner environment and more balanced lifestyle in the wake of the SARS outbreak.

Equally, we spared no effort to advance conservation schemes whenever opportunities arose, especially in relation to energy efficiency. In this respect, we were particularly pleased in July when we successfully registered our headquarters with the Government's Electrical and Mechanical Services Department as an energy efficient building – the first public utility in Hong Kong to be certified for outstanding conservation performance in lighting, air-conditioning, lifts and electrical installations.

A major environmental protection initiative in mainland China is the replacement of coal or oil with natural gas as this will drastically reduce particulate, sulphur dioxide, carbon dioxide and oxides of nitrogen emissions in the atmosphere. In alignment with our business objectives, our JVs are now well prepared to play their part in this clean-energy policy, and are ready to convert city networks and related systems at the customer end to natural gas as soon as this becomes available in stages along the route of the West-to-East pipeline throughout 2004. This will be quickly followed by conversions in Shandong and Hubei Provinces. With residents, businesses and governments alike all looking forward to such a step as the push for a pollution-free environment gathers pace, the Company takes pride that its reputation is now going before it by ensuring all our projects are operated in a safe and professional manner.

## FINANCIAL RESOURCES REVIEW

### Liquidity and Capital Resources

As at 31st December 2003, the Group had a net borrowing position of HK\$284 million (31st December 2002: a net cash position of HK\$1,195 million). After taking into account of the trading securities portfolio of HK\$393 million (31st December 2002: HK\$428 million), total liquid funds as at 31st December 2003 amounted to HK\$109 million (31st December 2002: HK\$1,623 million).

During the year, the Company repurchased 47,204,000 shares on The Stock Exchange of Hong Kong Limited. The aggregate consideration including related expenses amounted to HK\$451 million in cash. Furthermore, investments have been made to a number of promising city gas joint ventures in mainland China amounting to HK\$1,468 million in 2003.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and bank loans. The Group has adequate sources of fund and unutilised banking facilities to meet its future capital expenditure.

### Borrowing Structure

As at 31st December 2003, the Group's bank borrowings amounted to HK\$2,282 million (31st December 2002: HK\$1,748 million). All the Group's borrowings are unsecured and have a floating interest rate with maturity within one year on revolving credit or term loan facility.

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations. The net gearing ratio (net borrowing/shareholders' funds) for the Group as at 31st December 2003 stayed healthily at around 2%.

### Contingent Liabilities

As at 31st December 2003, the Group provided guarantees totalling HK\$998 million (31st December 2002: HK\$2,249 million) in respect of bank borrowing facilities made available to an associated company.

### Currency Profile

The Group's operations and activities are predominantly based in Hong Kong. As such, both its cash and cash equivalents and borrowings are denominated in either Hong Kong dollars or United States dollars. Borrowings for our Group's subsidiaries and joint ventures in mainland China are however predominantly in the local currency, Renminbi.

### Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2003, the investments in securities amounted to HK\$1,254 million (31st December 2002: HK\$2,080 million). During the year, the performance of the Group's investments in securities was satisfactory.

## COMMUNITY INVOLVEMENT

The reality and legacy of SARS wove an influential thread throughout our 2003 community outreach programmes as Towngas staff enthusiastically worked to raise the spirit of care and harmony within Hong Kong. In touching the hearts and minds of all generations in the territory, we seek to make a difference to their quality of life through all our volunteer and fundraising activities.



The "Our Ten Commitments" campaign focused on encouraging customers back into restaurants following the SARS outbreak.

## Sharing and Caring

It is a truth universally acknowledged in Chinese society that long boiled soup is the best way to renew body energy and boost the immune system. It was therefore to this traditional recipe that we turned when wishing to lift the morale of hospital workers during the SARS outbreak, providing well over 40,000 bowls of soup to front-line employees between May and June. We also donated HK\$200,000 to the Hospital Authority to purchase medical supplies for front-line staff, and established a Towngas hotline centre to supplement the Department of Health's SARS phone enquiry service which was overwhelmed when the epidemic first broke out.

It is said that every cloud has a silver lining, and so it was with SARS. The community came together in ways that had not been seen before. Riding on this new-found spirit, Towngas therefore decided to unite all its outreach activities under one umbrella called the Towngas Harmony Campaign. Launched in August, the campaign oversaw its first brand-new initiative in the winter of 2003 – the distribution of gift packs to senior citizens during cold weather



Sunshine Volunteers enthusiastically limber up!





*Distribution of warm soup and blankets to those in need, just one of several Towngas Harmony Campaign community programmes run throughout the year.*

when the need for warm soup, clothing and food is at its height.

### Partnering with Others

Working alongside other community organisations, Towngas volunteers delivered traditional homemade turnip cakes to senior citizens living alone during Chinese New Year; in Spring they helped to make 90,000 rice dumplings for the needy during Dragon Boat festivities; and in Autumn, they baked 15,000 mooncakes for the elderly. In between these events, staff broke all previous records by donating HK\$79,000 to the Community Chest as they “skipped” lunch for one day in March. This and other support for the Chest, such as sponsoring the annual Music to Your Ears charity concert, earned us a roll-call of honours in 2003 – third ranking in the Top Ten Fund-raising Organisations, Highest Donation in the Company and Organisation

**“Seven million people live in the community we serve – by reaching out and touching their lives, we make a difference.”**

Category of the CARE programme and not least, the Community Chest’s President’s Award for the ninth year running.

The Company has also worked for many years with groups and institutions to stretch and develop the talent and knowledge of Hong Kong’s young people. In 2003, we deepened our commitment with a new Towngas programme dedicated to developing secondary school students’ organisational and



*Mooncakes, baked by Towngas volunteers, ready for delivery to senior citizens during the Mid-Autumn Festival.*

teamwork skills. In an activity-packed summer, Sunshine Volunteers arranged fitness workouts and games for the old and young alike, and provided English lessons to immigrant children. We also jointly sponsored another creative venture for youngsters, “Learning from SARS and beyond”, organised by the Hong Kong Institute of Education. And in what has now become a much sought-after opportunity, we continued to provide internships for 20 new graduates from local and overseas universities under the Government’s One-Company-One-Job Campaign.