

diversified business

TOWNGAS has cornered several niche market sectors closely associated with our core business expertise. Our diversified business model, based on a balanced portfolio of activities, includes eco-friendly vehicle gas filling stations, recovery of landfill gas, water and waste management, internet and e-commerce services, and a wholesale telecommunications business.

ECO Energy

Liquefied petroleum gas (LPG) is now powering almost 100 per cent of taxi cabs and more than 26 per cent of public light buses in Hong Kong. This reflects government incentives to encourage substantial reduction in vehicle emissions in recent years. Towngas' LPG refilling business is run by ECO Energy at five dedicated LPG stations located throughout the territory. In 2004, ECO stations sold over 69,000 tonnes of LPG, cornering 33 per cent of market share, and served more than 3.4 million taxi visits. This business continues to generate steady revenue for the Group whilst also enabling us to contribute in a very practical and valuable way to Hong Kong's environmental protection activities.

Following agreement with the operator, ECO's installation of a treatment facility at the North East New Territories (NENT) landfill site to utilise methane recovered from landfill gas as an energy source for town gas production, is progressing well. Connection of a 19 km pipeline to our Tai Po plant and relevant modification works to gas production equipment are on schedule. Use of landfill

gas from NENT is expected to commence by early 2006.

This project will not only benefit the environment by reducing harmful greenhouse gas emissions arising from the flaring of gas on site, but will also conserve natural resources by using the treated landfill gas to partially replace naphtha as a fuel in the production of town gas. Further landfill gas recovery opportunities are being sought in Hong Kong.

U-Tech

U-Tech is now recognised as a reliable, quality-driven and integrated utility contractor for gas, water, drainage, sewerage, electricity and telecommunications. It has gained a reputation for good co-ordination, reduced construction times and enhanced cost controls.

In 2004, U-Tech commenced building services work on the redevelopment of Towngas' decommissioned Ma Tau Kok South site. This project includes five residential towers, with around 1,800 units, and a shopping mall. U-Tech is the contractor for all building services infrastructure.

U-Tech's extensive experience in trenchless technology such as swagelining, horizontal directional drilling, pipe ramming, pipe bursting and pipe jacking is much sought-after. For example, one of the key requirements of U-Tech's contract for a four-year water pipe rehabilitation project in the New Territories was expertise in advanced trenchless techniques. Other major work in hand includes the construction of a 19 km pipeline from the NENT landfill site to our Tai Po production plant, due to be completed in 2005, and the re-construction of a water service reservoir scheduled for completion in 2006. It is this kind of experience which is positioning U-Tech as a foremost specialist trenchless utility contractor.

P-Tech

A new subsidiary, P-Tech, was established in 2004 to handle processes associated with gas and chemical plant design and the construction business. Currently, P-Tech is working on a water recycling project for the Hong Kong government. The nascent company is designing a sewage treatment plant that will turn effluent into industrial grade water for eventual use in gas production as a source for generating steam at our Tai Po plant.

iCare

iCare continued to expand its retail, e-commerce, IDD and internet businesses in 2004, achieving an annual turnover of more than HK\$80 million. In the internet service provider area, a competitive broadband rate helped attract an increasing number of subscriptions from the market and encouraged internet users to upgrade their service. Two further iCare Hotspots were also opened in busy shopping districts during the year, bringing the total number to ten throughout the territory.

Towngas Telecom

In July 2004, Towngas Telecommunications Company Limited (Towngas Telecom), a wholly-owned subsidiary, began operating for business after acquiring Henderson Cyber Limited's Fixed Network Telecommunication Services licence.

Towngas Telecom's primary focus is on the telecommunications wholesale market, providing 'build-to-order' infrastructure and high bandwidth network services to local fixed carriers, global carriers, mobile phone operators and internet service providers. The company's skilful marketing programme has already realised early success by securing orders from key customer sectors.

Leveraging 'Glass-in-Gas' technology, Towngas Telecom's no-dig, environmentally-friendly, fibre optic network is unique in the territory. Laid through Towngas pipelines, the system covers the main commercial districts in Hong Kong. Towngas Telecom's strategy is built around reliability of service, price competitiveness, reputable expertise and respected pedigree.

diversified business

Connection of a pipeline from the NENT landfill site to Tai Po plant will eventually facilitate use of treated **landfill gas** as an energy source for town gas production.





health, safety and the environment

WE believe our employees and business partners should respect healthy and safe workplace practices for the good of themselves and the well-being of the general public. We believe our sustainable development policies should adhere to strong ethical principles and not compromise the preservation and protection of our environment.

Health and Safety

Maintaining the health and safety of all key stakeholders in all our operations is a key priority, be that in our home base of Hong Kong or in partnership with our joint ventures on the mainland. This means we take all possible steps to ensure our employees work in safe environments, our business partners, contractors and suppliers follow safe procedures, and the public are not at risk from gas leakages.

Accident Frequency Rate

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



Hong Kong

We are mindful that maintaining a healthy working environment for our staff boosts morale and improves productivity. Towngas has, for instance, discouraged smoking in all Company work areas and offices since 1999. We were therefore especially pleased to receive the Hong Kong Smoke Free Workplace Leading Company Award in January 2005, in recognition of our efforts to promote a healthier culture within our business.

Educating staff to work safely is also an important aspect of our overall strategy. To enhance awareness, over 19,500 man-hours were dedicated to training throughout 2004, including holding refresher courses, workshops on new procedures and equipment and hands-on sessions. These programmes were complemented by our annual Safety and Environmental Protection Day, an inter-departmental safety quiz, experience-sharing visits and other safety incentive schemes.

All Company-employed contractors are also required to follow the same strict safety standards that we adopt for our own staff. In 2004 therefore, we introduced a Chinese-language safety handbook for contractors and continued with a range of initiatives that had a proven track record in helping to further safety performance, such as a safety and environmental quiz, safety slogan

competition, and safety award scheme. In addition, we inspected over 19,000 third-party site excavations near our pipelines to underline the significance we place on safe work habits. These visits helped to reduce third-party damage by nearly 32 per cent during the year.

With only minor injuries being reported, our Accident Frequency Rate, recording the number of accidents for every 100,000 man-hours worked, decreased to 0.7 in 2004 from 1.03 in 2003, our best performance, along with 2002, for 23 years.

The mainland

Towngas' reputation for gas safety is second-to-none, and well-recognised, on the mainland. This is partly because of the high priority we give to safety and risk management training, and partly because of the safety standards, systems and technologies we recommend to our JV partners. In 2004 for example, we installed sophisticated Supervisory Control and Data Acquisition and computer mapping systems in many JVs such as Nanjing,

Maanshan, Changzhou and Yixing, and more JVs are slated for upgrading in 2005. It is this kind of investment that significantly

enhances the safety and reliability of our mainland operations, providing a technological leading edge that distinguishes our JV establishments from other local gas companies.

In September, we notched up a particular milestone in our safety activities by holding our first JV senior management safety conference. This was followed by a crisis management workshop in November; both events helped to develop a culture of shared beliefs, common practices and appropriate attitudes. A number of risk and safety training courses were also run for JV employees throughout the year, whilst regular emergency drills and exercises further enhanced handling procedures.

Additionally, a gas safety seminar, held for mainland and Hong Kong fire service officials and professionals, was complemented by a 5-day practical fire fighting train-the-trainer course for JV Risk Management staff, the first of its kind ever organised by the Hong Kong Fire Services Department for mainland personnel.

Other safety initiatives included conducting 24 JV loss prevention audits during 2004, launching a personal protective equipment management system for all JVs, and increasing to over 50 per cent the number of JVs carrying out Regular Safety Inspections of residential gas installations. We also held our first JV safety and environmental quiz which we expect to become an annual event, as in Hong Kong.



In December, Towngas gained its first-ever environmental honour in mainland China when we won the 2004 Green Management Award organised by *China Environment Daily*.

health, safety and the environment

Environment

Towngas picked up a raft of environmental awards in 2004. We gained, once more, the highest possible certification for our headquarters building in an independent assessment which recognises the application of rigorous standards to ensure maximum performance and efficiency of buildings. In May, we won the Best Environmental Report prize in the Association of Chartered Certified Accountants Hong Kong Awards for Sustainability Reporting 2003, a testament to the transparency of our sustainability resolve. In November, we were honoured with the 2004 Hong Kong Awards for Industry: Environmental Performance Grand Award in recognition of our strong commitment to the environmental cause and our 'landmark efforts to reduce waste'. In addition, we became the First Energy

Champion of *ECO-PAGES 2004*, a publication promoting greater environmental awareness within industry, and won the 2004 Green Management Award organised by *China Environment Daily*.

During the year, we also focused on furthering our partnerships with professional bodies so as to share our perspective and ideas with influential stakeholders in the community. In joining the Business Environment Council as a Council Member in 2004, our intention was to help promote environmental protection in SMEs. We equally strived to arouse the public's appreciation of green issues through our Green Partnership Programme, supporting an environmental walk and eco-visits, sponsoring an environmental photo-taking competition, and encouraging the recycling of metal mooncake containers.



We collect used appliances for recycling waste metal in order to relieve pressure on Hong Kong's landfill sites and use the revenue generated from sales to promote environmental awareness programmes.

Environmental Performance Table

Ozone Layer Protection

99% of our vehicle air conditioning systems now operate with refrigerant R134A.
75% of BCF fire extinguishers have been replaced by dry powder ones since 1995.

Air Quality

Total NOx output was 8.92 kg / TJ of town gas.
Total SOx output was 0.08 kg / TJ of town gas.
Total CO₂ output was 15.22 metric tonnes / TJ of town gas.

Water Quality

Total waste water output was 10.13 m³ / TJ of town gas.

Chemical Waste

Total chemical waste output was 1.08 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.

Indeed, recycling used materials and reducing waste disposal are pivotal axes of our conservation policies. Towngas recycles as much as it can. This ranges from a variety of office materials to lubrication oil, meter caps and safety helmets. In 2004, we made metal recovery a key objective and collected more than 835 metric tonnes of waste metal by recycling used gas appliances and redundant pipes. We also reduced disposal of waste over the year by requesting suppliers to use paper rather than plastic for protecting spare parts and by their replacing expanded polystyrene with paper for packaging in over 80 per cent of Asian imported appliances. Such waste management improvements helped us retain the coveted Gold Wastewi\$e logo for the third year running.

Towngas' sustainable development drive additionally targets the decreasing use of energy. The Company looks for ways to work smarter with cleaner and more efficient

energy usage. For example, during 2004 we saved over 500,000 kWh of electricity by becoming the first commercial organisation in Hong Kong to replace air-cooled condensers with water-cooled evaporative chillers. We also started another energy conservation project in 2004, with the construction of initial infrastructure to harness gas from the NENT landfill site for town gas production rather than flaring off to the atmosphere.

To achieve our environmental goals, we look for equal consistency across our mainland JV businesses, as well as compliance from contractors and suppliers to meet our requirements. We therefore published an environmental manual for JVs and an environmental handbook for contractors and dealers during 2004. All JVs and associated business partners also received Towngas' Health, Safety and Environmental Report for 2003, our second such report, released in November.

employees and change development

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

Skills Development

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

Turnover per Employee

Company (HK\$ thousand)



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

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

Cultural Appreciation

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

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

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

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

Technical Competence

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

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

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



Our first JV Quality Day was held in 2004, signifying the growth of quality concepts within our mainland businesses.

employees and change development

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

Next Generation

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

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

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

Town Gas Sales per Employee

Company (million MJ)



financial resources review

Liquidity and Capital Resources

As at 31st December 2004, the Group had a net borrowing position of HK\$540 million (31st December 2003: HK\$284 million). After taking into account of the trading securities portfolio of HK\$812 million (31st December 2003: HK\$393 million), net liquid funds as at 31st December 2004 amounted to HK\$272 million (31st December 2003: HK\$109 million).

During the year, the Company repurchased 28,882,000 shares on The Stock Exchange of Hong Kong Limited. The aggregate consideration including related expenses amounted to HK\$414 million in cash. Furthermore, investments have been made to a number of promising city-gas JVs in mainland China amounting to HK\$722 million in 2004 (2003: HK\$1,468 million).

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 2004, the Group's bank borrowings amounted to HK\$2,742 million (31st December 2003: HK\$2,282 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 2004 stayed healthily at around 3 per cent (31st December 2003 at around 2 per cent).

Contingent Liabilities

As at 31st December 2004, the Group provided guarantees totalling HK\$929 million (31st December 2003: HK\$998 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 the Group's subsidiaries and JVs 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 marketable securities and financial instruments. As at 31st December 2004, the investments amounted to HK\$1,437 million (31st December 2003: HK\$1,254 million). During the year, the performance of the Group's investments in securities was satisfactory.