



During a regular safety check, our technician demonstrates how the customer can get the best performance out of her Bauhinia appliance.



Cultivating Our Business, Enhancing Growth

The Mainland China Gas Business

In 2008, our businesses in mainland China continued from strength to strength, consolidating our role not only as the leading piped city-gas operator, but also as the leading gas conglomerate in the country. Together with our upstream and midstream activities in the exploration and delivery of natural gas, as well as our ongoing research and development into emerging new eco-energies, we are indeed becoming the foremost supplier of clean energy in the region.

Despite the bad weather and the threat of further snowstorms, our technician is hard at work to ensure safe and reliable gas supplies.

At the end of 2008, our total mainland operations, ranging from our piped city-gas projects, upstream and midstream operations, new energy developments to water businesses, consisted of 86 projects and ventures in 18 provinces, municipalities and autonomous regions across the country. During the year, the total turnover on a combined basis was HK\$21.6 billion, an increase of 43 per cent over 2007.

The Piped City-gas Business

Our piped city-gas business forms the mainstay of our activities on the mainland. Commencing with just two joint ventures (JVs) in Guangdong province and less than 5,000 customers in 1994, we are now the leading supplier of piped city-gas in the country, with 71 projects in 15 provinces and municipalities serving 9.4 million



May 2008

Managing Director Alfred Chan (left) visited Sichuan after the devastating earthquake. While there, he looked into the effects of the earthquake on our JVs and helped with our relief efforts. Here he is seen presenting 1,500 pairs of crutches to an orthopedic hospital in Sichuan for earthquake victims.



household customers. During the year, sales volumes rose to 5.8 billion cubic metres, an increase of 1.2 billion cubic metres over 2007, whilst turnover rose 41 per cent to HK\$19.4 billion.

This positive picture may have been coloured to some extent by the global financial crisis, with many mainland industries, especially those involved in export activities, struggling to maintain production. In the long term, however, opportunities on the mainland are endless as the country's gas supplies continue to grow at a rapid pace, in view of the inherent consumption demand. The completion, in 2003, of Phase I of the West-to-East natural gas pipeline, stretching some 4,000 km from Xinjiang to Shanghai, enables the supply of 18 billion cubic metres of city-gas to users annually. With the completion of Phase II, planned for 2012, supplies are expected to grow incrementally to a further 40 billion cubic metres a year.

A branch line of the Phase II project to Guangdong will bring 10 billion cubic metres of city-gas to cities and municipalities along its route, while yet another pipeline, bringing natural gas in from Myanmar, will increase supplies in the market especially in the south-western region. The construction of a further natural gas pipeline from Sichuan to Shanghai, with an annual gas capacity of 12 billion cubic metres, is due for completion in 2010. Starting from Dazhou in Sichuan, the pipeline will run through provinces and cities where many of our JV companies are located, providing an additional source of supply for our markets.

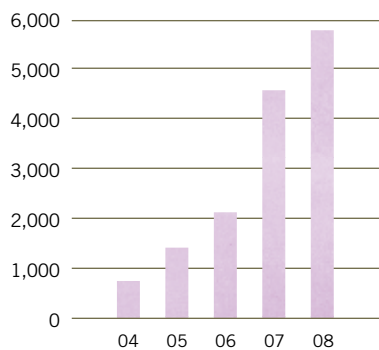
Making sure that we will benefit from this burgeoning demand, we continue to grow our activities, seeking new projects and winning supply concessions throughout the country. In 2007, we doubled our city-gas portfolio with the acquisition of Panva Gas (now

known as Towngas China), which brought in a further 25 piped gas ventures to the Group. In 2008, our portfolio grew to 71 with additional JVs in Huangshan, Anhui province; Qionghai, Hainan province; Changxingdao in Dalian; a further venture in the Dalian Economic and Technical Development Zone; as well as Shenyang in Liaoning province.

With 13 JVs in Sichuan, the devastating earthquake in the province in May 2008 fortunately had only a slight impact on our operations. Only one JV had to stop the provision of gas supply for two days and though there was some damage to the gas infrastructure amongst our other JVs, the overall effects were minimal. Not only were we able to control the damage, not a single gas incident resulting in an injury occurred during this time, greatly contributing to our corporate and safety image in the region.

The Mainland China Gas Business

China Joint Ventures Gas Sales (million m³)



Upstream and Midstream Projects

Our upstream and midstream activities continue to thrive. Our midstream ventures consist of high-pressure natural gas pipelines in Anhui, Hebei and Zhejiang provinces, as well as our latest project in Jilin. These ventures play a strategic role in our operations as they feed gas to a number of cities where our JVs are located.

In the exploration, production and supply of gas, we established a number of firsts in 2008. The commissioning of the mainland's first large-scale liquefaction plant, turning coalbed methane (CBM) into liquid form took place with the first truck carrying its new cargo to our JVs in December. This development not only offers an additional source of gas, it will also

help to deal with high demand levels during peak seasons.

Raising Quality and Safety Standards

In the development of our businesses in mainland China, we were able to draw on our 146 years of experience in Hong Kong. This knowledge and expertise have played a key role in our rapid expansion in the country, where we have not only consolidated our reputation for quality and safety, we have also built strong trust among our partners, the authorities, our customers and the communities that we serve.

Making sure that we provide convenient and seamless services to our customers, our 95 customer centres offer quality one-stop facilities where customers and



Requiring high levels of energy consumption in its production process, this copper manufacturer in Tongling is one of our major users.

potential customers can sign up for city-gas services, gain advice on value-added services and choose the latest range of gas appliances for use in their homes.

To offer the full spectrum of one-stop services, we introduced our own brand of quality gas appliances in 2005 under the Bauhinia brand. In 2007, less than two years after its launch, we achieved a sales record of exceeding 100,000 units. By the end of 2008, this figure had doubled, representing the sale of a further 100,000 units in a single year. We attribute the popularity of our Bauhinia appliances to their quality and safety performance as customer feedback in these two areas has been highly complimentary.

Our first customer information system (CIS) on the mainland was launched during the year. Based on advanced management concepts, CIS standardises management structures and business procedures among our JVs, streamlining work processes and achieving greater efficiencies. The integration of customer service information, such as meter readings, service hotlines, installations and inspections, has also improved service standards.

We continue to place every priority on customers and their safety. Taking proactive action in this direction, we carry out regular



A print advertisement promoting the sale of our quality "Bauhinia" gas appliances on the mainland.

safety inspections at customer premises, checking both piping and advising on the condition of gas appliances. A safety audit scoring system also maintains the focus on the importance of safety at all times. In addition, safety engineers with certified qualifications take responsibility for every aspect of safety within our operations, ensuring that all risks are minimised and professionally managed.

An initiative that is proving to be highly successful is the direct involvement of the general managers of individual JVs, who personally carry out monthly safety inspections. In addition to leading by example, this initiative establishes visible benchmarks while also taking the safety message to every member of staff.

Raising our quality and Health, Safety and Environment (HSE) standards, five regional HSE Management System Workshops

and a national safety and risk management workshop, with more than 400 participants, were held during the year to help implement HSE Management Systems among our various city-gas projects.

In 2008, JVs in Maanshan, Yixing, Guangzhou, Changzhou and Suzhou earned their OHSAS 18001 certification, confirming that their occupational health and safety management systems are on par with stringent international specifications. We also gained external recognition for our activities in this direction. We won an award in the Safety Quiz on Hazards Identification and Elimination, jointly organised by the State Administration of Work Safety, All China Federation of Trade Unions and the China Association of Work Safety. A team from our JV in Anqing also gained the highest score to win the top award in the National Quality Control Project Competition held in April 2008.

The Mainland China Gas Business

Towngas' Businesses in Mainland China in 2008



	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
TOWNGAS PIPED CITY-GAS PROJECTS				
Guangdong Province				
1 Panyu	1994	260	105	80%
2 Zhongshan	1995	240	96	70%
3 Dongyong	1998	132	53	80%
4 Jianke	2002	45	23	100%
5 Shunde	2004	200	100	60%
6 Shenzhen	2004	2,316	772	30%
7 Chaoan	2007	185	99	60%
Central China				
8 Wuhan	2003	1,200	420	50%
Eastern China				
9 Tongxiang	2003	83	58	76%
10 Huzhou	2004	200	87	95%
11 Yixing	2001	246	124	80%
12 Taizhou	2002	200	83	65%
13 Zhangjiagang	2003	150	60	51%
14 Wujiang	2003	150	60	80%
15 Xuzhou	2004	245	125	80%
16 Danyang	2004	150	60	80%
17 Jintan	2006	150	60	60%
18 Tongling	2006	240	100	70%
19 Yuhang	2006	240	160	50%
20 Suzhou Industrial Park	2001	245	100	55%
21 Changzhou	2003	248	166	50%
22 Nanjing	2003	1,200	600	50%
23 Fengcheng	2007	206	88	55%
Shandong Province				
24 Jinan East	2003	610	470	50%
Northern China				
25 Jilin	2005	247	100	63%
26 Yingkou	2006	80	40	100%
27 Beijing Economic-Technological Development Area	2005	111	44	50%
28 Dalian Changxingdao	2008	171	96	100%
29 Dalian Economic and Technical Development Zone	2008	329	137	40%
Northwestern China				
30 Xi'an	2006	1,668	1,000	49%
Hainan Province				
31 Qionghai	2008	110	50	49%

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
MIDSTREAM PROJECTS				
32 Guangdong LNG	2004	7,628	2,289	3%
33 Hangzhou NG	2005	760	304	10%
34 Anhui NG	2005	245	200	25%
35 Hebei NG	2005	660	220	45%
36 Jilin NG	2007	360	120	49%
37 Shanxi Yuanping CNG Filling Station	2008	34	20	42%
UPSTREAM PROJECTS				
38 Shanxi Coalbed Methane	2006	600	200	70%
39 Jilin NG	2007	140	5	50%
WATER PROJECTS				
14 Wujiang	2005	1,400	500	80%
20 Suzhou Industrial Park	2005	3,685	2,197	50%
40 Wuhu	2005	700	300	75%
OTHER PROJECTS				
41 Xianyang CNG Filling Station	2007	22	4	60%
42 Inner Mongolia Erdos Coal-based Chemical Processing*	-	-	-	-
43 Jiangxi Fengcheng Coal Mining	2008	1,100	236	25%
44 Jinan Telecommunication	2008	48	40	50%

* JV company to be established

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province		Northeastern China	
45 Foshan		63 Benxi	
46 Shaoguan		64 Chaoyang	
47 Qingyuan		65 Tieling	
Eastern China		66 Fuxin	
48 Nanjing Gaochun		67 Changchun	
49 Maanshan		68 Gongzhuling	
50 Anqing		69 Qiqihar	
51 Chizhou		70 Shenyang Jinhai Economic Zone	
52 Huangshan		Southwestern China	
Shandong Province		71 Ziyang	
53 Jimo		72 Weiyuan	
54 Laoshan		73 Pengxi	
55 Zibo		74 Lezhi	
56 Zibo Lubo		75 Pingchang	
57 Longkou		76 Dayi	
58 Jinan West		77 Yuechi	
59 Jinan Changqing		78 Cangxi	
60 Weifang		79 Chengdu	
61 Weihai		80 Zhongjiang	
62 Taian		81 Jianyang	
		82 Pengshan	
		83 Mianyang	
		84 Qijiang	



Quality Living



Customers enjoy a pleasant dinner at “Flame”, our newly renovated restaurant at Towngas Avenue. The stylish DIY kitchen corner offers a cosy and well-equipped space for cookery-lovers to share their delicious concoctions with friends.

The Hong Kong Gas Business

In Hong Kong, we continue to provide a "quality living" environment with the provision of one of the safest and most reliable supplies of gas in the world. Our gas infrastructure has grown and been enhanced over the years, such that our customers today enjoy a supply continuity rate of over 99.99 per cent.

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. In view of the cold weather experienced at the beginning of 2008, coupled with the Chinese New Year festivities, we recorded the highest "send-out day" in our history, distributing 123 terajoules of town gas to the people of Hong Kong on 6 February 2008.

Our Residential and Commercial Activities

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 an overall increase in gas sales of 2.0 per cent during the year. At the end of 2008, our customer base stood at 1,672,084 customers, a rise of 25,592 over the previous year.

Our basic tariff had remained unchanged for the past 10 years as we sought to contain costs and introduce new cost-saving initiatives in the aftermath of the Asian financial crisis. Despite rigorous cost-saving measures, rising operational costs have made a modest adjustment to our basic tariff necessary. In October 2008, the basic tariff rose by 0.3 cents per MJ, an increase of 1.4 per cent. The adjustment was well below the rate of inflation – over 90 per cent of our residential customers would pay an increment of less than HK\$5 for their gas supplies each month.

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.

Our new flame cooking TV campaign focused on the benefits of cooking with town gas. With celebrities' participation in a sponsored programme, it generated high awareness and became the talk of the town.



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.

January 2009

Executive Director and Chief Operating Officer James Kwan (left), receiving the 2008 Hong Kong Awards for Industries: Productivity and Quality Grand Award from HKSAR Financial Secretary John Tsang.



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.

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.

The Hong Kong Gas Business

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

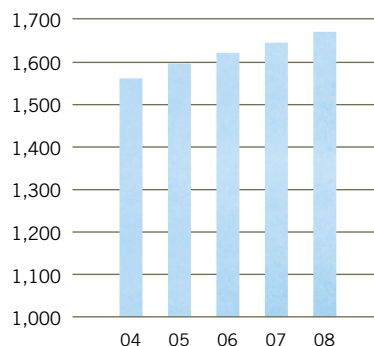
year for example, led to a 20 per cent reduction in the use of such appliances. These developments not only create safer surroundings for customers, they also contribute to a cleaner and greener environment with the use of more energy-efficient replacements.

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.

Using a new infra-red methane detector, our technicians conduct leakage surveys on gas pipes with ease and accuracy.

Number of Customers

Company (Thousand)



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.

Results of Towngas Service Pledge 2008

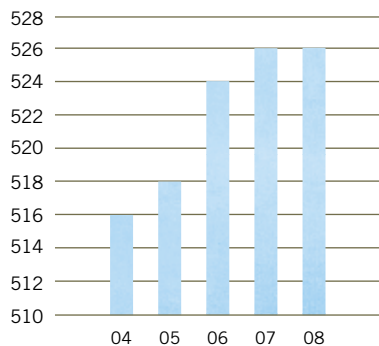
		Results
Reliability	Uninterrupted gas supply (over 99.99%)	99.993%
	In case of supply interruption on account of maintenance or engineering work (3 days prior notification)	100%
	Restoration of gas supply within 12 hours	100%
Safety	Emergency Team arrived on site within 30 minutes (at 90% of the times) 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	97.22%

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.

The Hong Kong Gas Business

Number of Customers
per km of Mains Company



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.

We maintain our focus on green production. In 2008, additional air compressors were installed enabling the use of more natural gas, which now accounts for 50 per cent of our feedstock. First introduced into Hong Kong in 2006, natural gas not only offers a cleaner source of energy, it also provides a more stable and economical alternative for Hong Kong, in view of the 25-year supply contract we were able to secure in 2004.

Commissioned in 2007, our North Eastern New Territories landfill gas utilisation project is now fully operational. This world-leading initiative converts landfill gas into a methane-based fuel, which is used in our gas production process. This project cuts carbon dioxide emissions by some 135,000 tonnes a year and reduces the consumption of

naphtha, our traditional feedstock, by some 43,000 tonnes a year – equivalent to the amount of carbon dioxide removed by 5.8 million trees annually.

Extending our network, our Eastern Transmission Pipeline Project, consisting of 24 km of high pressure pipeline from Ma On Shan via Sai Kung to East Kowloon, was completed during the year. Its completion not only brings better supply capacities and service reliability to the area, the new pipeline also provides an additional supply point for customers in the region. Improving network security in the Western New Territories, the construction of a 9 km ring-feed network is progressing satisfactorily. The laying of a 15 km pipeline, carrying natural gas from our Tai Po plant to Ma Tau Kok, is also proceeding as scheduled.

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.

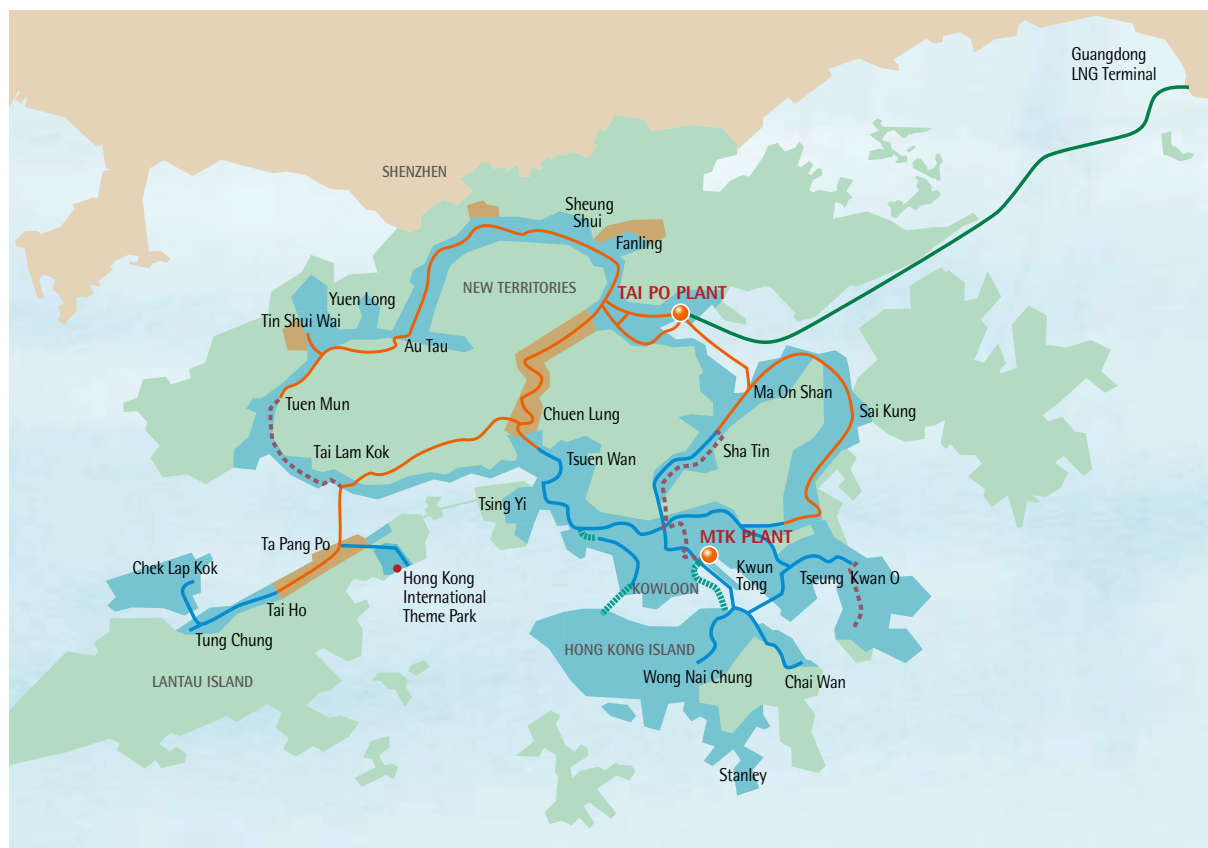
Emergency vehicles equipped with computers are now used in the handling of any gas emergencies and the use of new infra-red methane detectors for leakage surveys, as well as advanced detectors which check the condition of the coating on steel pipes, were also introduced during the year.

A number of new testing facilities were set up in our in-house quality

laboratory to enhance the quality of network accessories – pipes, fittings, gas meters, etc, and in September 2008, our wholly owned subsidiary, Quality Testing Services Limited obtained Hong Kong Laboratory Accreditation Scheme (HOKLAS) accreditation for its services with regard to the testing of more durable flexible corrugated stainless steel tubing for gas connections.

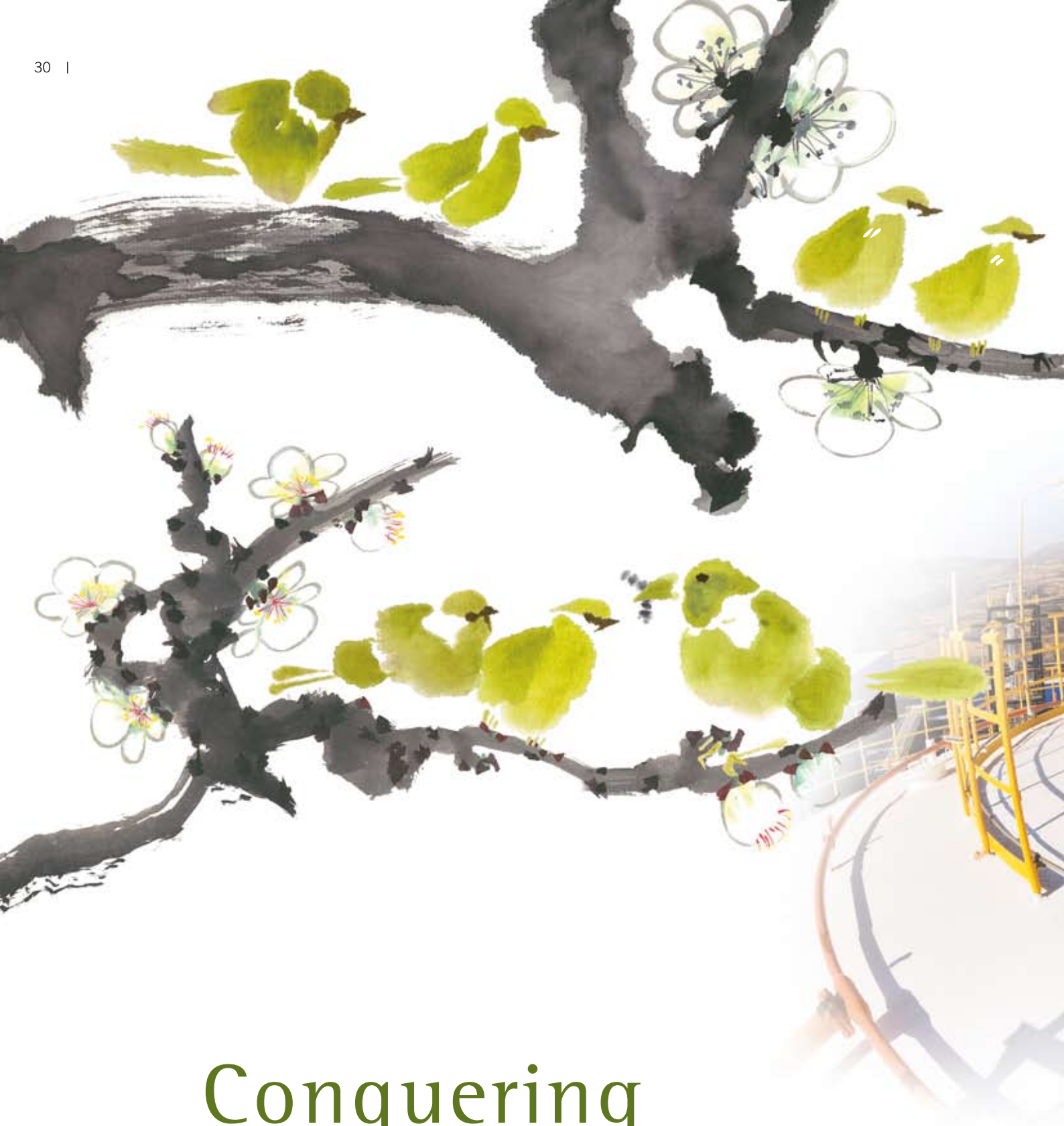
As a result of this focus on gas safety, our safety standards continue to improve. Major gas incidents in 2008 decreased 41 per cent while actual gas emergencies fell by 3.7 per cent in comparison to a year ago, creating a new record. Similarly, third party damage by contractors to our network also dropped to a record low of 10 incidents in 2008.

Towngas Network in Hong Kong



- Existing areas of supply
- Planned new areas of supply
- ▬ Planned high pressure or intermediate pressure town gas pipelines
- ▬ Under construction high pressure or intermediate pressure gas pipelines
- ▬ Completed high pressure town gas pipelines
- ▬ Completed intermediate pressure town gas pipelines
- ▬ Completed natural gas submarine pipeline from Guangdong LNG Terminal to Tai Po plant





Conquering New Horizons



| A technician at ECO's Shanxi plant carries out a safety check on top of a storage tank filled with liquefied coalbed methane.

Our Diversified and Eco-friendly Businesses

As a major supplier of energy in the region, we are fully aware that traditional energy resources, and fossil fuels in particular, are rapidly being depleted around the globe. As a responsible and forward looking business concern, it is therefore imperative that we look into alternative sources of energy, while also ensuring that this energy will contribute to a cleaner and greener environment.

ECO

ECO Energy was established to act as our eco-friendly energy arm and propel our future growth. Since then the company has repeatedly broken new ground with a variety of activities and innovative projects. Riding on these successes, we took yet another giant step forward with the establishment of ECO Environmental Investments Limited (ECO) on 1 January 2008, extending ECO's business scope

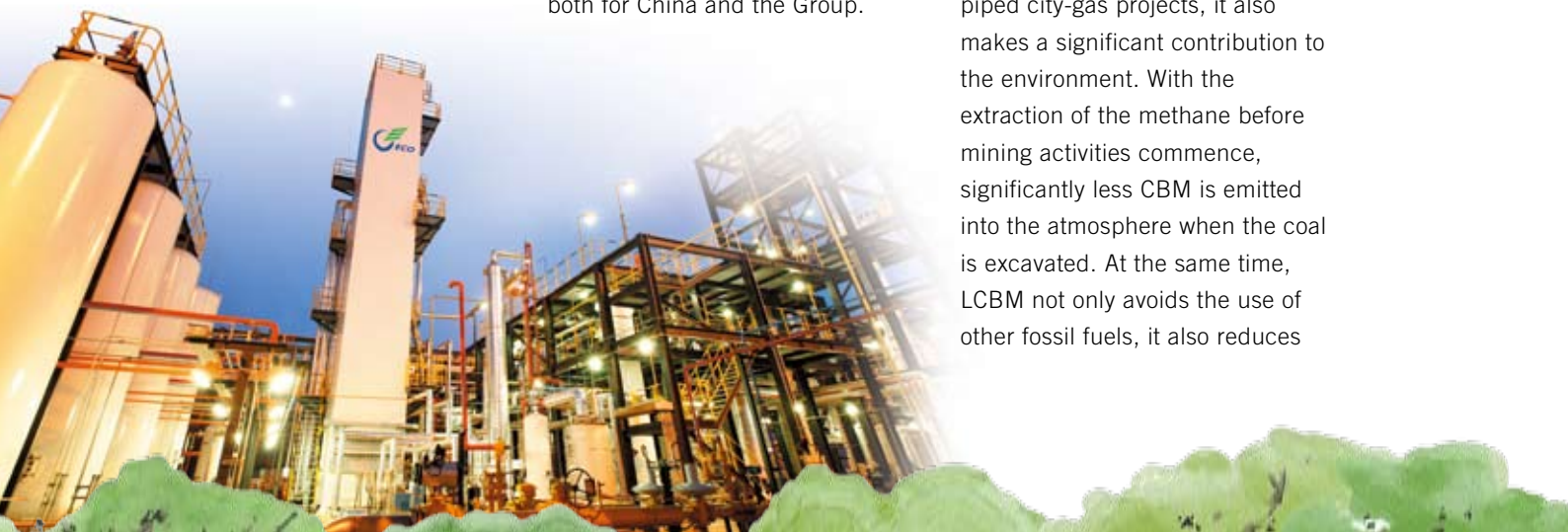
beyond Hong Kong, and shifting its focus into the development of new energy businesses in mainland China. Establishing a leadership role from the very start, ECO achieved a number of triumphs in the new and alternative energy market during the year, significantly broadening our horizons and cementing our role as the leading energy conglomerate in the region, with a key emphasis on the gas market.

On 1 December 2008, the first truck carrying liquefied coalbed methane (LCBM) left ECO's newly commissioned liquefaction plant in Jincheng, Shanxi province for one of our JVs in East China. This project heralds a number of firsts both for China and the Group.

It is the first sizeable plant, turning coalbed methane (CBM) into LCBM, to be commissioned in the country. Phase I came on stream during the year with a designed daily production rate of 250,000 cubic metres. A feasibility study is currently being conducted on Phase II, which when combined with Phase I, will more than triple existing production capacities.

The liquefaction plant holds a 30-year supply contract with a local coal mine facility, taking advantage of the abundant CBM supplies in the Qinshui Basin. For the Group, not only is this new plant another pioneering step into the world of clean energy and an alternative source of supply for our piped city-gas projects, it also makes a significant contribution to the environment. With the extraction of the methane before mining activities commence, significantly less CBM is emitted into the atmosphere when the coal is excavated. At the same time, LCBM not only avoids the use of other fossil fuels, it also reduces

ECO's newly commissioned LCMB plant in Jincheng, Shanxi province broke new ground with a number of firsts both for China and the Group.



December 2008

On 1 December 2008, the first truck left our new LCBM plant in Jincheng, Shanxi province, carrying liquefied coalbed methane to our other JVs in China.



the emission of greenhouse gases into the atmosphere, and thus its significant contribution to global warming. This competitively priced LCBM is delivered by road to destinations wherever there is a market demand for additional gas. With a delivery range of over 1,000 km, the project solves a host of supply problems for our city-gas JVs and enables the better balance of fluctuations in demand and supply.

The second milestone took place in September with the commissioning of our first large capacity compressed natural gas (CNG) filling station in Shaanxi province serving heavy duty trucks. With a designed daily throughput of 50,000 cubic metres, the station provides enough clean energy for 250 trucks, mainly engaged in the hauling of coal along dedicated routes in the region. CNG, which provides a clean alternative to diesel oil, brings both economical and environmental benefits to the area – truck operators enjoy reduced fuel costs, while lower vehicle emissions contribute to better air quality in the locality.

ECO played a pivotal role in this innovative project, working with a well-known Shaanxi truck manufacturer in the development and road testing of these CNG trucks. We are delighted to see orders for these CNG trucks backing up, implying that there is significant demand for these vehicles in the near future. Seeking to replicate this success, we plan to extend the business with more filling stations and routes in other heavy cargo-carrying truck areas.

2008 saw both a volatile and flourishing energy market in the first half of the year, followed by the unimaginable plummeting of international oil prices and the global economic crisis in the last quarter. While these fluctuations posed new uncertainties in the coal-based chemical business in the short term, prompting us to revisit our strategies more frequently, ECO will maintain its interest in the coal-based chemical industry and other clean energy possibilities in the long term. Our portfolio today includes a coal-based chemical project employing clean coal technology

in Erdos, Inner Mongolia, as well as investments in a coal mining project and a coking plant in Fengcheng, Jiangxi province.

ECO has always been in the forefront of the “clean energy” business. Since 2000, we have been operating five dedicated liquefied petroleum gas (LPG) filling stations, under the government’s initiative to improve air quality in Hong Kong. Today, Hong Kong’s taxi fleet of some 18,000 taxis all run on this environmentally-friendly fuel, and we expect demand to continue as Hong Kong’s public light buses make the move to LPG as well. The experience gained in this initiative has made a substantial contribution to the successful expansion of our CNG filling station business on the mainland.

In 1999, we established a first in the region, when we tapped into landfill gas (LFG) – the methane-rich emissions produced by the decomposition of waste – for use as a source of fuel in the production of town gas. With this project proving its success, ECO put a second and much larger

Our Diversified and Eco-friendly Businesses

project into operation at the North Eastern New Territories (NENT) site in 2007. The use of LFG results in considerable benefits to the environment, providing a renewable source of energy while reducing pollutants caused by the flaring off of the unused LFG on site. We are therefore also looking at Hong Kong's other landfill sites and the opportunities contained therein.

The permanent aviation fuel facility now being constructed by ECO under a 40-year franchise agreement with the Hong Kong Airport Authority is due for completion at the end of 2009. Located in Tuen Mun, the facility will act as a key logistics base in the supply of aviation fuel to the Hong Kong International Airport. ECO has also concluded an additional agreement with the Airport Authority for a second phase to be completed by the end of 2010.

Taking the view that energy will increasingly become a scarce resource into the future, we are

fully committed to our ongoing exploration, exploitation and development of alternative fuels and clean energy projects. In addition to negotiations on a number of exploitation and utilisation projects that are progressing, we believe that a host of opportunities with excellent prospects for development will arise in the years to come.

Towngas Telecom

Towngas Telecommunications Fixed Network Limited (TGT) offers high-end telecommunication infrastructure services to telecom carriers, service providers and major corporations. Its services, providing economic and quality network solutions, ride on our existing gas networks – optical fibres with their high bandwidth and environmentally-friendly features are installed using either glass-in-gas (GIG) or glass-along-gas (GAG) techniques. Costs for laying these networks are thus significantly lower than by traditional road excavation methods.

In 2007, TGT achieved a primary objective with the establishment of Towngas TelChina (Shandong) Company Limited, enabling the Group to benefit from China's burgeoning telecommunication market. Capitalising on the synergies of these dual networks, the JV has actively been investing in the development of telecommunication infrastructure projects in the province. Based on the experience gained, an operational model has been developed to replicate this success in the rest of China.

TGT has been operating a state-of-the-art data centre in Hong Kong since 2006. Building on this expertise, a JV was set up in Shandong province to establish an eco-friendly data centre in the region. Operating in partnership with Beijing CHIBO Information Engineering Company Limited, owned primarily by the People's Bank of China; Hitachi Limited; and CL Technology Investment Company Limited; the 10,000 square-metre facility in Jinan marks the Group's first step into the high opportunity, rapidly growing data business in mainland China.



December 2008

At the commissioning ceremony of Towngas TelChina (Shandong) Company Limited, the Group also announced the establishment of an eco-friendly data centre in Jinan, Shandong province.

June 2008

Managing Director Alfred Chan (left) officiated at the ceremony marking the completion and commissioning of Phase II of the water plant in Wujiang. The project doubles water supply capacity to 600,000 cubic metres a day and extends the total pipeline network by a further 78 km.



Hua Yan Water

Our 86 JVs on the mainland include three water projects, owned and managed by Hong Kong & China Water Limited (Hua Yan). During the year, all three JVs consolidated their positions, growing their customers, enhancing their supply capacities and improving productivity.

In Wujiang, Jiangsu province, the second phase construction, to raise water supply capacities to meet the entire city's needs, was completed. The project doubles the daily capacity from 300,000 cubic metres to 600,000 cubic metres and extends the total pipeline network by a further 78 km, to bring water from Taihu to 1.3 million residents in the city.

In 2008, Wuhu Hua Yan's major water supply project in Anhui province was in progress, adding 38 km of pipeline and three pumping stations to supply fresh water from the Yangtze River to Nanling. Expected to be completed in the first quarter of 2009, the project breaks new ground as the system has been designed and

constructed with a view to providing leakage-free operations for 50 years.

The construction of a new wastewater treatment plant in the Suzhou Industrial Park, initially processing 150,000 cubic metres of sewage a day, continued with completion expected in April 2009. Ultimately, the plant will expand to manage a daily processing capacity of 300,000 cubic metres.

U-Tech

Building on the specialist expertise that we have gained in the building of networks using the more environmentally-friendly "trenchless" technology, U-Tech Engineering Company Limited (U-Tech) carries out utility installation projects for the government, utility companies and property developers.

Having completed a number of innovative and highly successful projects in recent years, U-Tech has gained a leading reputation in this niche market. Building on this success, the company extended

its services into the consultancy sector. During the year, for example, U-Tech provided consultancy services in the operations and maintenance systems to an upstream natural gas transmission company in Macau.

With a number of successful water-pipe contracts under its belt, U-Tech has emerged as a frontrunner in the engineering requirements of the water industry, gaining a rush of new water-pipe contracts during the year. Firstly, the company upgraded its Waterworks Contractor Qualification to "Confirmed B", enabling the contracting company to engage in more large-scale Hong Kong government waterworks projects. Secondly, in addition to gaining a number of new contracts for the rehabilitation of water mains for the Water Services Department, U-Tech also secured several government cooling water mains rehabilitation projects for the first time. A further contract for a water mains diversion was awarded for a property development in Kowloon.

Towards a Sustainable Future



┆ Sichuan children gave our volunteers a warm welcome when we were delivering relief supplies in the aftermath of the tragic earthquake.



Corporate Social Responsibility

No business would be successful or sustainable without a sense of responsibility towards the people who make this success possible or the community that it serves. We therefore place a high priority on corporate social responsibility, caring for our people, our community as well as our environment.

Caring for Our Community

In caring for our community, we do our best to improve life for the less fortunate, lending a helping hand where we feel we can make a difference.

During the year, a major initiative was our earthquake relief activities in Sichuan. Once news of the catastrophe reached the Group in Hong Kong, we swung into action. The Henderson Group and Towngas pledged donations

totalling HK\$10 million for relief work, while together with employees and contractors from both Hong Kong and our mainland JVs, we made an additional contribution of more than HK\$10 million. Some 150 volunteers from Towngas in Hong Kong, Towngas China and our JVs also formed teams to carry out relief work, delivering supplies to affected villages such as Wenchuan, Maoxian, Lixian and Qingchuan. These supplies included food packs and drinking water, tents, bottled gas and appliances.

In Hong Kong, we extended our concession scheme by introducing the Towngas Concession Scheme for Single Parent Families on 1 January 2008. Initially introduced to ease economic hardship suffered by the elderly and disabled, around 38,000 households with a single parent on Comprehensive Social Security Assistance can now also benefit from this scheme.

We once again held our “Rice Dumplings for the Community”, our largest annual community event. In 2008, apart from sponsoring materials to make 145,000 dumplings for distribution to the local community, Towngas volunteers visited special schools



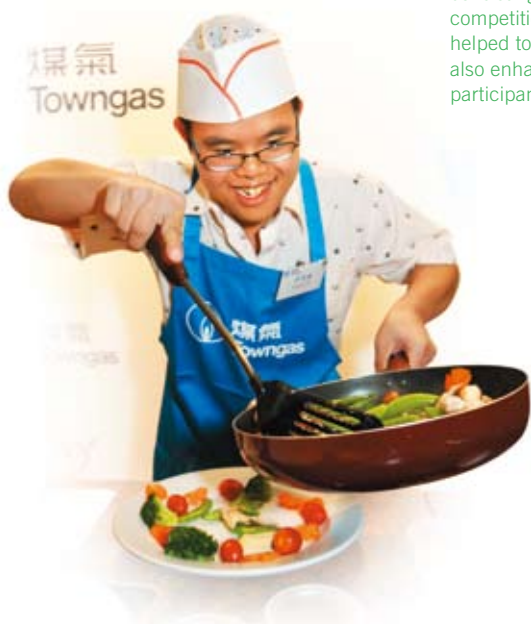
The huge convoy of trucks carrying volunteers and emergency relief supplies from the Group to quake-affected villages.

「商界展關懷」嘉許典禮 2007/08
caringcompany Recognition Ceremony 2007/08

February 2008

In recognition of our unwavering commitment to corporate social responsibility, Towngas was awarded the Total Caring Award 2007/08 by the Hong Kong Council of Social Service.

Executive Director and Chief Operating Officer James Kwan (second from right) received the trophy from HKSAR Chief Secretary for Administration Henry Tang (second from left).



Our Spread the Love programme – consisting of cooking classes and a competition for the disabled – not only helped to improve the cooking skills but also enhance the confidence of our participants.

to share their rice dumpling wrapping skills with the disabled children. During Mid-Autumn Festival, we collaborated with Legislative and District Councillors to donate 150,000 “healthy” mooncakes to the elderly in our community.

Sharing our cooking skills with the mentally handicapped and disabled and helping them to build

confidence, we organised a Towngas Spread the Love programme in conjunction with the Neighbourhood Advice-Action Council (NAAC). The programme consisted of cooking classes for disabled students, followed by a cooking competition and a grand finale. Demonstrating the spirit of social inclusion, our volunteers also partnered with the contestants to prepare delicious Christmas dishes.

The Towngas Volunteer Team is actively involved in the Group's charitable initiatives to bring

Social Caring Awards Received for 2008

The Hong Kong Council of Social Service: Total Caring Award

Next Magazine: Charitable Organisation Award

Social Welfare Department: Best Corporate Volunteer Service Project 2007-2008 for our Cooking for Fun community project

Social Welfare Department: 2007 Highest Service Hour Award (Private Organisations – Best Customers Participation)

Community Chest: President's Award

Community Chest: Community Assistance Raised by Employees Scheme – Top Fund-raiser

Community Chest: Top 10 Fund-raising Organisations – First runner-up

Community Chest: Highest Participation Rate in the Skip Lunch Day programme

Corporate Social Responsibility

warmth, love and care to the community. In November, for example, over 100 Towngas Volunteer Team members, customer volunteers and The Hong Kong Federation of Trade Unions' volunteers joined hands to celebrate the 30th Anniversary of Senior Citizens' Day, organising a hair-cutting gala for some 1,200 senior citizens.

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



■ We launched a green shopping bag design competition to generate greater environmental awareness among our JVs. Bags with these winning designs were subsequently distributed in Qingdao to promote the Green Olympic Games.

Environmental Performance Table (Hong Kong)

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
Air Quality	Total NO _x output was 4.55 kg / TJ of town gas Total SO _x output was 0.048 kg / TJ of town gas Total CO ₂ output was 12.35 metric tonnes / TJ of town gas
Greenhouse Gas Emission	Greenhouse gas emissions from major gas production equipment was 342,159 metric tonnes in terms of CO ₂ equivalent
Water Quality	Total waste water output was 6.55 m ³ / TJ of town gas
Chemical Waste	Total chemical waste output was 2.45 kg / TJ of town gas
Noise	All installations and operations complied with statutory requirements No noise abatement notice has ever been received

All legal requirements relating to environmental protection were fully complied with

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.

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.

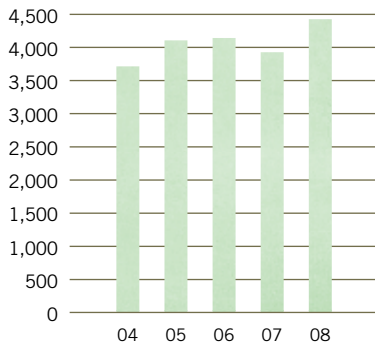
At the heart of this initiative is our Towngas Leadership Competency (TLC) Model, providing the cornerstone which articulates our future leadership requirements and identify suitable talents to meet these needs. In addition to building this leadership pipeline, it also provides the foundations for our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

Corporate Social Responsibility

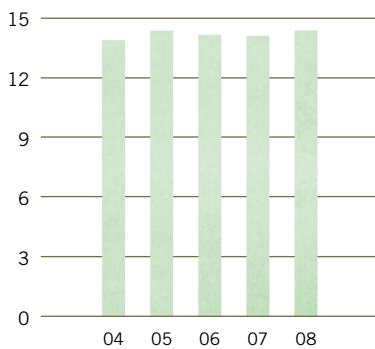
Revenue per Employee

Company (HK\$ thousand)



Town Gas Sales per Employee

Company (million MJ)



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.

Employee Welfare

We provide a competitive package of employee benefits. Further strengthening our position as a preferred employer, on 1 July 2008, in line with overall business trends and general social sentiment in the territory, we introduced a five-day working week for the majority of our employees in Hong Kong. Making our workplace more family-friendly, from 1 January 2009, male employees of Towngas in Hong Kong are eligible for three days' paternity leave at the birth of their children. We also enhanced coverage under our group medical scheme, providing subsidies to employees enabling them to top up their individual medical insurance schemes. At the same time, working in partnership with leading medical service practitioners, our employees and their dependents can now benefit from privileged health checks and service plans. From July 2008 onwards, all our retirees are also able to enjoy special discounts on gas charges and related services under our newly introduced Towngas Concession Scheme for Retirees.

While we are proud of our comprehensive range of benefits, we are aware that our remuneration system must also recognise and reward quality performance. We are therefore managing the two ends of the performance curve more aggressively, reinforcing the performance-driven principle in our compensation system and linking performance to rewards in our drive to enhance productivity. We also make every effort to ensure that our employees take a sense of pride in their work, are fully involved in the business and understand our goals and objectives. Our Strategy Ambassador Club, which celebrated its 10th anniversary during the year, plays an essential role in this regard, acting as an additional and

effective communications bridge between management and employees.

For 16 years, our Superior Quality Service (SQS) Programme has been nurturing work quality and ongoing improvement through team work and innovative thinking. In 2008, SQS focused on promoting the merging of creativity and eco-friendly methods to boost safety, customer services and efficiency under the theme "Enhance Quality with Green Innovation". As such a series of activities were held to encourage ideas among employees to see how we could improve our daily operations using "greener" techniques.

Recreational activities facilitate integration and enhance cooperation and team spirit among our employees both from Hong Kong and our JVs in China.



Corporate Social Responsibility

In 2008, 90 teams consisting of 770 employees completed 54 projects in Hong Kong, realising tangible benefits of HK\$40 million for the year. One of the most innovative projects, which won the Managing Director's Award for 2008, was the re-use of drilled concrete from road works projects, to make safety tiles to protect underground gas pipes. On the mainland, almost 3,000 employees participated in the completion of 327 SQS projects, realising over RMB29 million in both tangible and intangible savings. Eight SQS teams also participated in a national quality control contest with the team from our Anqing JV walking away with the top prize.

Occupational Health and Safety in Hong Kong

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.

Our staff at work laying protective tiles, made from re-use drilled concrete, to shield underground gas pipes. This innovative green project won the Managing Director's Award in 2008.

