

2013

Sustainability
Report



煤氣
Towngas

Managing Director's Message



I am pleased to present our tenth sustainability report. We have approached each report in the same way – by offering a candid and open assessment of our progress as a global company that strives to address complex issues in a responsible and ethical way.

This year we again raised our level of transparency by being among the first companies to adopt the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines. Our early adoption of these new reporting standards signals that sustainability is strategically embedded in how we operate as a company. This new reporting format has allowed us to focus on the issues that matter most to us and our stakeholders. Through this report, Towngas seeks to enhance stakeholder communication and provide updates on the Company's operations and impacts. We also seek to engage in open discussions with our stakeholders about the challenges we face while soliciting ideas to address them. We firmly believe that Towngas grows best when stakeholders' full trust and collaboration are assured.

During a year when the global economy continued to face significant challenges, our corporate sustainability agenda remained essential to who we are and what we do. I am proud of our achievements as a business, and I am equally proud of how we do business. At Towngas, we stand deeply committed to social and environmental responsibility. Every day, we work hard to exemplify our Company values. That is why this report is so meaningful to me, our Company and our more than 44,600 employees.

Our focus on ethical business practices and creating value for society and the environment is reflected in the breadth of our commitments: from investing in our employees to reducing our environmental footprint to investing in the communities we serve. These are all long-term, multi-year efforts that require strategic thinking to achieve positive outcomes.

Climate change poses a clear and serious risk to our business and society. But it also represents an opportunity for responsible business leadership. As Hong Kong's leading

supplier of low-carbon clean energy, we are committed to reducing our emissions. We are proud to be one of the first local companies to commit to the Environment Bureau's Energy Saving Charters, and our efforts to reduce our carbon footprint earned us a CarbonCare® label.

2014 will bring a number of challenges and opportunities. The Company is prepared for modest growth in the number of Hong Kong customers based on commercial sales as well as figures from the hotel, restaurant and retail sectors. In Hong Kong, operating costs are increasing, yet an increase in the standard gas tariff has offset some of these rising costs. Looking forward, the Company will continue to enhance its operational efficiency to steadily development its gas business in the territory.

In mainland China, the government's moves towards environmental protection as well as energy conservation and reduced emissions, combined with advocacy for increasing urbanisation and expanding domestic consumption of goods and services, favours the development of the natural gas market and emerging environmentally-friendly energy businesses. This trend is lighting the way for the Group's long-term development, and we predict a good prospect for a better future for all our businesses in the years to come.

As a sustainable business we are conscious of our obligation to give back to the community. We are deeply committed to improving lives, communities and the environment. In 2013, we continued to put these beliefs into action

through volunteer services. Our employees have embraced our philanthropic heritage by investing their time and energy in our communities. In 2013, more than 918 employees volunteered approximately 72,025 hours. In recognition of our hard work, we were proud to receive for the sixth consecutive year the "Highest Service Hour Award" in the "Private Organisations – Best Customer Participation" category by Social Welfare Department.

These successes arise from the hard work and expertise of Towngas employees, whose collaborative efforts enhance our Company's competitiveness and accelerate innovation. Given all that we have been able to achieve not only for our customers but for society and the environment, I am energised by the opportunities that await us and am genuinely excited about what the future holds. Without question, our Company's achievements in 2013 were made possible by the wholehearted support of stakeholders like you.

Let me take this opportunity, therefore, to extend my deepest gratitude to all of you for your terrific contributions to our Company's accomplishments in 2013.

I look forward to your continued trust and support in our endeavours. Thank you.

Alfred W K Chan
Managing Director

About this Report

This is our tenth annual sustainability report. The first was published in 2002 and the most recent one was published in 2013. Over the past decade, we have derived greater value from each subsequent report. By providing a public account of our business operations and their social and environmental impact, we have become a better company.

Our sustainability report covers the progress of sustainability activities at Towngas. In addition to articulating our vision, mission, values, management and corporate governance policies, it helps us prioritise the issues that matter most to our business and stakeholders, identified through a formal materiality assessment. The main sections of the report align with these high-level priorities: corporate governance, the environment, safety performance and society.

This annual review offers an opportunity to reflect on our achievements and evaluate our performance whilst revisiting and reviewing existing programmes and policies. A major objective is to share our experiences with our diverse stakeholders and the community, and solicit their comments.

We encourage feedback from stakeholders, and this report enables us to respond to those with whom we have engaged throughout the year. For details, please check [here](#).

Published online, this report provides easy access to the widest possible audience in an economical and environmental-friendly manner. A printed summary version is also available for anyone with limited access to the Internet.

This report reviews Towngas' sustainability performance from 1 January 2013 to 31 December 2013. As such, it should be reviewed in conjunction with [Towngas 2013 Annual Report](#) published on the [Towngas website](#). All quantitative data relates to the calendar year 2013 unless otherwise stated.

2013 Sustainability Report

We decided to adopt the new Global Reporting Initiative (GRI) G4 reporting framework to ensure our report corresponds with the expectations of our local and international stakeholders. As one of the first companies to adopt this framework, we demonstrate to our stakeholders our commitment to transparency and to GRI's reporting fundamental principles of Materiality, Stakeholder Inclusiveness, Sustainability Context and Completeness. This Report is prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines – Core option.

G4 Core Option

This report was approved by the senior management team at Towngas. We extend our deepest thanks to everyone who contributed to this report and to everyone at Towngas who played a role in our corporate sustainability performance.

Materiality and Basis of Reporting

For the purpose of this report we use the definition of the GRI G4 sustainability reporting guidelines to identify the issues most material to our business and our stakeholders.

We map economic, environmental, and social issues that affect our external stakeholders against those that pose risks and offer opportunities to Towngas. Conducting a thorough materiality assessment helps us to identify the issues that our stakeholders want to see addressed in our report. It also helps us determine priorities to focus our internal resources.

This year we partnered with a specialist third party to identify and prioritise the material issues deemed most important to our business and stakeholders. For this year's materiality assessment, we took into account the CSR reporting practices of Towngas' industry peers and the feedback of [Towngas' stakeholders](#).

The diagram on page 7 outlines the [materiality assessment](#) process we used. This assessment was conducted to streamline material issues and is in line with the principle of materiality as recommended by the GRI G4 sustainability reporting guidelines.

The result of our materiality assessment created a list of priority issues that reflect our most significant impact, reflecting the key concerns and expectations of our stakeholders. We provide performance metrics for these issues in this report aligned with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines covering material Aspects and Specific Standard Disclosures. The [material issues](#) Towngas facing and addressed in this Sustainability Report are shown in the table on page 6.

We will continue to review and share the results of our materiality assessment each year. A feedback form is published online to solicit comments and recommendations for future improvements in our management and reporting of Corporate Sustainability issues.

Material Issues

Aspect	Evaluation of Relevance		Evaluation of Significance			Significance Level	
	Boundary of Impacts		Internal Stakeholder Score	External Stakeholder Score	Peer Benchmarking Score		
	Internal	External					
Economic Performance							
Economic Performance	◆	◆	◆	◆	◆	◆	
Market Presence	✗	◆	◆	◆	◆	◆	
Environmental Performance							
Materials	◆	✗	◆	◆	◆	◆	
Energy	◆	✗	◆	◆	◆	◆	
Water	◆	✗	◆	◆	◆	◆	
Emissions	◆	◆	◆	◆	◆	◆	
Effluents and Waste	◆	◆	◆	◆	◆	◆	
Products and Services	◆	◆	◆	◆	◆	◆	
Compliance (Environmental Performance)	◆	◆	◆	◆	◆	◆	
Labor Practices and Decent Work							
Employment	◆	✗	◆	◆	◆	◆	
Occupational Health and Safety	◆	✗	◆	◆	◆	◆	
Training and Education	◆	✗	◆	✗	◆	◆	
Society							
Local Communities	◆	◆	◆	◆	◆	◆	
Product Responsibility							
Customer Health and Safety	◆	◆	◆	◆	◆	◆	
Product and Service Labeling	✗	◆	◆	◆	◆	◆	
Marketing Communications	◆	◆	◆	◆	◆	◆	
Customer Privacy	✗	◆	◆	◆	◆	◆	
Compliance (Product Responsibility)	✗	◆	◆	◆	◆	◆	

Materiality Assessment Process

1 Identify the sustainability issues with stakeholders

- Stakeholder preference is a critical factor when deciding what topics/Aspects should be covered in the sustainability report
- Key stakeholders were identified by a specialist third party organisation and by different business divisions in TOWNGAS
- Stakeholders were asked to rank the 46 GRI Aspects according to their specific interests and priorities

2 Benchmark Sustainability Reporting Practice

- To identify industry standard Aspects for sustainability disclosure we analysed the Sustainability Reports of four of TOWNGAS' local and international industry peers
- A determination regarding whether an Aspect was material was made based on the rate of disclosure among the selected Peer Group Companies
- The analysis relies on the assumption that the rate of disclosure is related to and reflective of materiality

3 Determine material issues

- Summary rankings from both the stakeholder engagement and Peer Group Benchmarking were compiled to determine the importance of the particular Aspect
- Materiality matrix prepared by translating the results from the stakeholder engagement exercise into coordinates on the Y-axis and from the Peer Group Benchmarking on the X-axis
- The material aspects for reporting were then identified by appearing in the top quadrant of the materiality matrix
- Material aspects were finally determined by senior TOWNGAS managers, who considered the results of the materiality assessment in line with potential business impact

Scope and Boundaries

This 2013 Sustainability Report details our achievements and successes as well as the challenges our operations faced across Hong Kong and mainland China from 1 January 2013 to 31 December 2013. It also includes a clear delineation of our goals and targets both for 2013 and beyond, highlighting our strategy and approach for the years ahead.

Due to the varied nature of our mainland China portfolio, defining the organisational boundary for our Environmental, Social and Governance data collection and reporting proved challenging. In this Report, we decided to disclose Environmental, Social and Governance data mainly from our Hong Kong operations. In 2014 and the years ahead, we will continue to refine the process for determining what portion of the Company is included for each piece of data we report. For the first time, TOWNGAS China has published a [2013 CSR Report](#).

Further details of our financial performance can be found in our Annual Report 2013. Statistics are presented in absolute figures and have been normalised to present a comparable picture where appropriate and applicable. In our attempts to provide a clear and balanced view of our activities and performance, this Report covers TOWNGAS' material sustainability issues while also taking the comments and views of our diverse stakeholders into consideration.

The report has also been examined by an independent verifier, who, in addition to validating the information included herein, also confirms its impartiality, accuracy and reliability. This third-party verification, together with the verifier's opinion and views, can be found in the verification statement of this report.

2013 Highlights

- Outstanding Listed Company Award from The Hong Kong Institute of Financial Analysts and Professional Commentators Limited (IFAPC)



香港股票分析師協會
The Hong Kong Institute of Financial Analysts and Professional Commentators Limited

- Listed as a constituent stock on the Hang Seng Corporate Sustainability Index Series



Hang Seng Corporate Sustainability Index Series Member 2013-2014

- Exclusive of the Group's share of revaluation surplus from investment properties and a one-off net gain, the Group's profit after taxation rose by 13% compared with 2012 to HK\$6,680 million

Hong Kong

CarbonCare® label
5% ↓
Office Carbon Emissions

72,025

Volunteer Service Hours



2013 Hong Kong Awards for Industries:
Innovation & Creativity Grand Award

for our self-developed multi-functional robot

In partnership with the
Salvation Army
Donated **HK\$ 1.5M**

to deliver fresh food packs to underprivileged families

Hong Kong Occupational Safety & Health Annual Report Award

Gold Award
for the 4th consecutive year

Mainland China

Sales of Bauhinia appliances reached
650,000 units



The Developing Learning Champions for Joint Venture Companies Programme received the American Society for Training and Development's

“Excellence in Practice Citation”

City-gas sales rose by **13%**

13.4
Billion m³

Our subsidiary company Towngas China Company Limited won

Hong Kong Corporate Governance Excellence Award 2013

Planted

20,000
trees



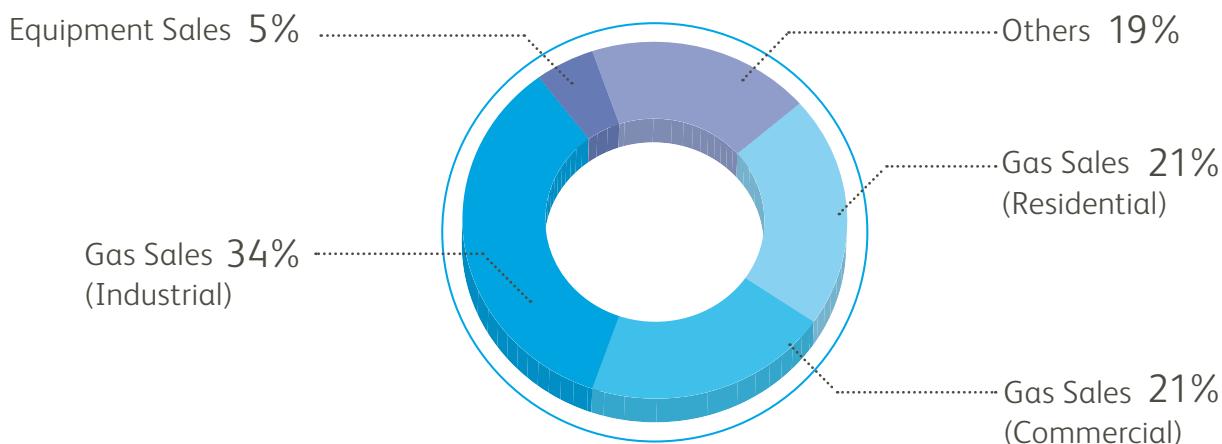
Financial Indicators 2013

Revenue
HK\$28,246 million

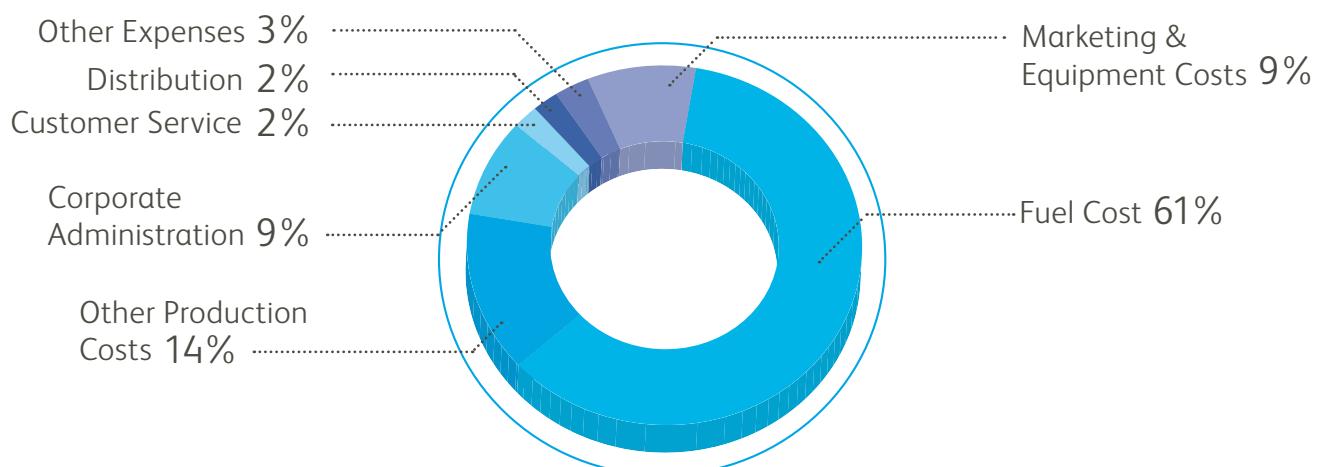
Capital Expenditure
HK\$5,984 million

Manpower Costs
HK\$2,282 million

Analysis of Revenue



Analysis of Expenditure



For more information, please refer to [Towngas Annual Report 2013](#)

Our Company

Established in 1862 to provide lighting for the streets of Hong Kong, The Hong Kong and China Gas Company Limited (incorporated in Hong Kong under the Companies Ordinance with limited liability, Stock Code: 3), or more commonly known as Towngas, has been in operation for over 150 years. Headquartered in Hong Kong, we have grown beyond the city and have evolved into the Asian energy conglomerate that we are today, supplying energy not only to Hong Kong but also mainland China. We have expanded from a small company with initial capital of just £35,000 to one whose operations in 2013 included 174 projects and returned a post-tax profit (before investment property revaluations and one-off items) of HK\$6,680 million, an increase of 13 per cent compared to 2012. With our 44,600 employees, we provided piped gas as well as other utility services to our 19 million customers.

Our activities in Hong Kong mainly entail the production and distribution of gas as well as its marketing and sale, the provision of a full range of gas appliances, and comprehensive after-sales services.



In mainland China, our businesses include upstream, midstream and downstream gas projects, ranging from gas exploration and transportation to city-wide gas projects. We have also diversified into telecommunications, water supply and wastewater treatment amongst other areas. As a result of our efforts and commitment to sustainable development, we are now an acknowledged leader in the field of new, clean and alternative energy.

Our Membership Associations

Hong Kong Federation of Restaurants & Related Trades

Hong Kong Institute of Engineers

Business Environment Council Limited

Management Results

Towngas' objective wherever we operate is to add economic value to and help develop healthy and vibrant communities. As an organisation, we deliver widespread economic benefits for our local communities. We create hundreds of concrete job opportunities, engage numerous local businesses as suppliers and contractors, and contribute significantly through taxes and philanthropic activity.

On a more direct basis, we redistribute the economic value we generated to our different stakeholders: our employees through their salaries and benefits; our suppliers and

contractors through fair compensation for their services; our investors and shareholders through share prices and dividends; and our communities through charitable donations and service-minded activities.

We ensure ongoing profit growth by focusing on customer values and acting as a market leader in the gas industry. Specifically, we apply effective and efficient fund management principles by liquidity management, cash management, and financial risk management, including joint ventures in mainland China and new energy businesses.

During the past year, Towngas did not require any financial assistance from any governmental bodies.

The Group's Good Business Results in 2013

Profit after taxation attributable to shareholders amounted to **HK\$6,854 million**

Earnings per share amounted to HK71.7 cents, paying out **HK\$3,346 million** in dividends

Our employees volunteered over **72,025 hours** to local community projects

The Group invested **HK\$5,984 million** in production facilities, pipelines, plants and other fixed assets throughout the year

Related manpower costs amounted to **HK\$2,282 million**

Major Corporate Awards and Recognitions in 2013

Award	By
Overall ranking of 878th and local ranking of 24th in “Forbes Global 2000 Leading Companies”	Forbes
Ranked 8th in 2013 “Global Chinese Business 1000” list	Yazhou Zhoukan
The Outstanding Listed Company Award	The Hong Kong Institute of Financial Analysts and Professional Commentators Limited
Constituent company of the Hang Seng Corporate Sustainability Index series for the 3rd consecutive year	Hang Seng Indexes
Hong Kong Corporate Governance Excellence Award 2013	The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University
Hang Seng Pearl River Delta Environmental Awards – Silver Award	Federation of Hong Kong Industries and Hang Seng Bank
Green Enterprise Awards 2013	CAPITAL Entrepreneur
Supreme Public Utility Service Award	CAPITAL CEO and CAPITAL Entrepreneur
Excellence in Practice Citation (2012)	American Society for Training and Development
United Nations’ World Summit Award 2012	IT Excellence Awards 2013
Best Deployment of Emerging Technology	IT Excellence Awards 2013

External Environmental, Social and Governance Charters

Whilst Towngas has an experienced team working in our Corporate Health, Safety and Environment Department, it is impossible for them to single-handedly and fully address the countless issues confronting our workers, their communities, and the environment. Working with others is critical to ensuring we are

focused on the right issues. To this end, Towngas subscribes to or endorses a number of externally-developed environmental and social charters to promote sustainable development in the workplace and local communities. Through our backing, we are able to help our partners test, refine and move these charters into the mainstream. Details of the charters can be found on their respective websites.

External Environmental, Social and Governance Charters Endorsed

Carbon Reduction Charter

Environmental Protection Department, HKSAR Government

Energy Saving Charter

Electrical and Mechanical Services Department, HKSAR Government

Green Purchase Charter

Green Council

CarbonCare® Label

Carbon Care Asia

Wastewi\$e Label

Hong Kong Awards for Environmental Excellence

Green Office Award Labelling Scheme

World Green Organisation

Our Role and Service

Hong Kong Core Business

The Hong Kong and China Gas Company Limited	Gas production and distribution Marketing and sale of gas and gas appliances Comprehensive after-sales services
Towngas Engineering Academy	Technical and professional training
Quality Testing Services Limited	Appliance & PE Joint testing and gas meter calibration

Mainland Gas Businesses

Hong Kong & China Gas Investment Limited (HCIL)	Management of Towngas investments in mainland China
Towngas China Company Limited (TCCL)	Focus on city-gas projects on the mainland
Towngas Engineering Academy	Technical and professional training

New Energy Businesses

ECO Environmental Investments Limited (ECO)	LPG, LNG and CNG filling stations in Hong Kong and mainland China Construction and operation of ECO Aviation Fuel Facility (EAFF) in Hong Kong Exploration, research, development and utilisation of new and environmentally-friendly energy, such as coalbed methane, coal-based chemical projects, coal tar-oil and biomass activities Infrastructure and logistic projects in mainland China Oil exploration and production project in Thailand
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Diversified Businesses

Hong Kong & China Water Limited (Hua Yan Water)	Management of water business investments in mainland China
GH-Fusion Corporation Limited (A joint venture with Fusion Group Limited)	Manufacture and supply of polyethylene products and equipment for gas and water piping systems
G-Tech Piping System (Zhongshan) Company Limited (G-Tech)	Manufacture of quality polyethylene piping
Towngas Telecommunications Company Limited (Towngas Telecom)	Provision of telecommunications infrastructure and data centre services in Hong Kong and mainland China
U-Tech Engineering Company Limited (U-Tech)	Specialists in the installation of gas, water and drainage pipes and facilities; application of trenchless technologies for utilities replacement and rehabilitation; professional civil and building services engineering
P-Tech Engineering Company Limited (P-Tech)	Plant design and construction Planning and operation of landfill gas utilisation projects in Hong Kong
M-Tech Metering Solutions Company Limited	Development and manufacture of electronic gas meters providing smart metering solutions for the gas industry

Hong Kong Gas Business

Benefiting from a higher number of inbound tourists to Hong Kong, the tourism, restaurant and hotel sectors continued to prosper, fuelling solid growth in commercial and industrial gas sales in 2013. However, residential gas sales were affected in the first quarter of 2013 by average temperatures being slightly higher than those of the same period in 2012. Overall the Group's gas business performed steadily in Hong Kong, with the total volume of gas sales increasing slightly by approximately 0.7% to 28,556 million MJ.

With a total production capacity of 12.26 million standard cubic metres of gas per day, our 1.79 million customers in the territory (up 22,371 from 2012) continued to receive high levels of service with a supply continuity rate of over 99.992%. This service was provided by two production plants, at Tai Po and Ma Tau Kok, by way of more than 3,500 kilometres of pipeline links to almost every corner of Hong Kong.

Our network capability in Hong Kong continued to expand at a stable pace in line with market growth.



Several network development projects were in progress to meet long-term demand, including the gas supply pipeline to Kai Tak Cruise Terminal which was commissioned in mid-2013.

In addition to providing quality gas services, we also aim to improve our customers' quality of life. A 24-hour customer service hotline and a comprehensive network of Towngas customer centres together provide easy access and friendly one-stop services to our customers across Hong Kong. Customers can also reach us anywhere and anytime via the internet or through our innovative smartphone apps. We aspire to provide same-day installation and maintenance services along with a comprehensive range of award-winning gas appliances that have been specially designed to meet needs in Hong Kong.

[Click to view our geographic reach in Hong Kong](#)

Operational Statistics

	2013	2012	2011
Number of Customers as at 31st December	1,798,731	1,776,360	1,750,553
Town Gas Sales, million MJ	28,556	28,360	28,147
Installed Capacity, thousand m ³ per hour	511	511	511
Maximum Daily Demand, thousand m ³	6,283	6,403	6,742
Length of Gas Network, km	3,520	3,506	3,497

Mainland Utilities Businesses

While the Group's gas business in Hong Kong has been steady, our city-gas businesses in mainland China have flourished, continuing to show ample growth in terms of number of projects and profit.

The Group's city-gas and natural gas businesses recorded continuous growth throughout 2013, benefiting from both China's ongoing economic development and a substantial increase in the production, import volume and consumption of natural gas. A total of 15 new city-gas projects were added to our portfolio, included one located in the economically vibrant and historic city of Hangzhou in Zhejiang province.

As of the end of 2013, inclusive of Towngas China Company Limited (Towngas China), the Group's subsidiary, the Group had a total of 119 city-gas projects in mainland cities, providing gas to 17.29 million customers – an increase of 17% over 2012. The total volume of gas sales for these projects in 2013 was approximately 13,400 million cubic metres – an increase of 13% since 2012. These figures confirm that we are one of the largest providers of piped city-gas services in mainland China.



Overall, inclusive of projects of Towngas China, the Group had 173 mainland projects as at the end of 2013, 23 more than in 2012. These diverse projects were located across 22 provinces, autonomous regions and municipalities. They covered upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications, energy resources exploration and utilisation as well as telecommunications.

A natural gas utilisation policy, formulated to improve air quality, is encouraging faster exploration and utilisation of natural gas. Along with increasing gas supply sources and expanding pipeline networks, we are seeing favourable prospects for the Group's mainland city-gas and emerging environmentally-friendly energy businesses to keep developing.

Click to view our geographic reach in **mainland China**

Operational Statistics

	2013	2012	2011
Number of Customers as at 31st December	17.29 million	14.8 million	13.2 million
Gas Sales, million cubic metres	13,400	11,900	10,300
Length of Gas Network, km	68,067	61,858	57,117

New Energy Businesses

The Group is smoothly developing its emerging environmentally-friendly energy projects and related research and development of new technologies through its wholly-owned subsidiary ECO Environmental Investments Limited (ECO). A number of projects are now at various stages of investment, construction and gradual commissioning. Starting with just two projects back in 2000, ECO is now involved in 26 projects both in Hong Kong and mainland China, and over the years, ECO has grown into a market leader specialising in new energy businesses.

In view of the rapidly-increasing global demand for energy, ECO is focusing on the development of new energy projects in China that are low in emissions and pollution, covering resource exploitation, coal-based chemicals, liquefaction of methane, vehicular fuels and related areas. In Hong Kong, ECO operates LPG vehicular filling stations and an aviation fuel storage facility for Hong Kong International Airport. For more information on our environmentally-friendly energy projects, please refer to Environmental Performance Section.





Our Vision for Sustainability

Organisational Values and Business Drivers

For the last few decades the world has begun to recognise that the way we do business can seriously affect people and the environment. It is equally apparent that the state of the world likewise affects the way we do business. Over the next 20 to 30 years, business exposure to a myriad of environmental and social changes will further intensify, creating risks as well as new opportunities.

Against this backdrop of climate change, resource scarcity, social unrest and environmental regulation, forward-thinking businesses will succeed by acting decisively to fulfil what is good for people and the planet, all while boosting their bottom line. In carrying out our Corporate Social Responsibilities, our aim is to weave into our business and corporate values an all-encompassing strategy that flows from the fundamental tenets of how our Company operates.

Our vision, mission and values define our commitments. They present a clear picture of our overarching goals and outline a roadmap for achieving these objectives.



Our approach is guided by sound business and ethical principles, disclosing accurate accounting and financial information, and complying with all relevant laws, listing rules, regulations, codes and standards.

Vision

To be Asia's leading energy supplier and service provider, with an environmentally-friendly focus

Mission

To provide our customers with a safe, reliable supply of energy and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment

Towngas Corporate Sustainability

Commitment

To conduct ourselves in an ethical and transparent manner so that all stakeholders know that we are accountable to them for the decisions and actions we take to become a sustainable business

Responsibility

To recognise the importance of our employees and their contribution to the success of our business and our responsibility to keep them safe, informed, engaged and equipped to undertake our mission

Corporate Governance

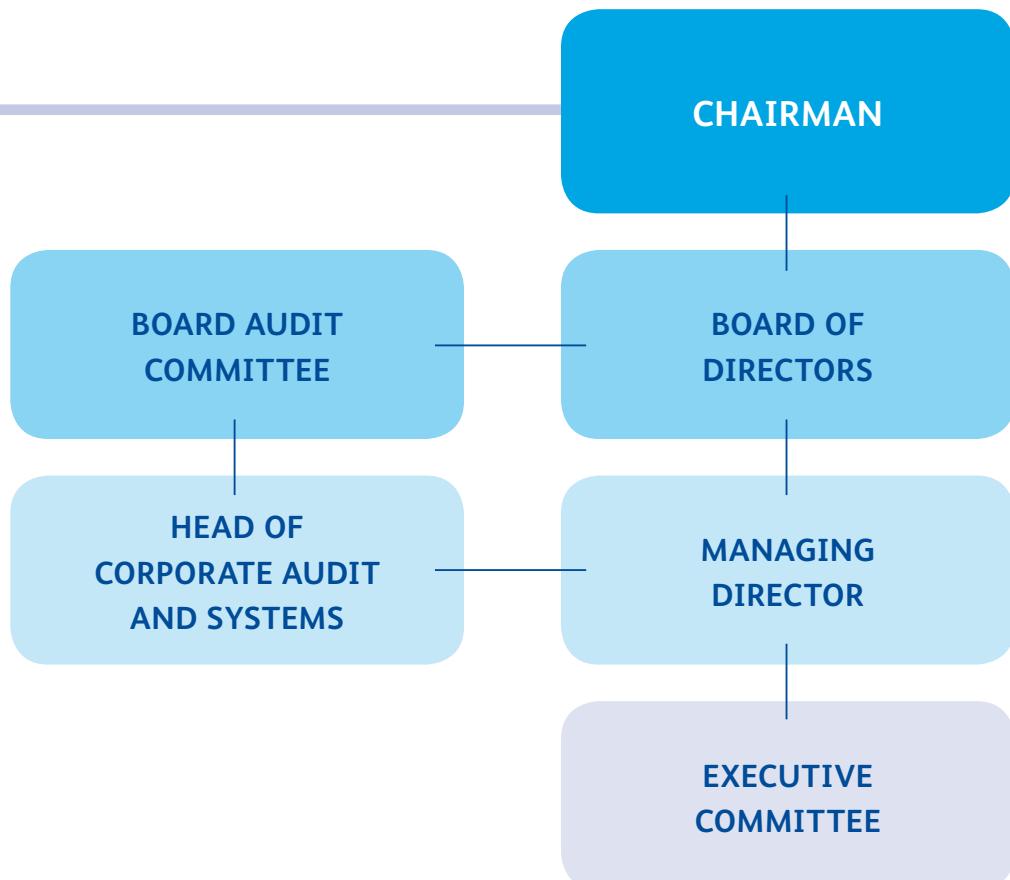
We believe that strong corporate governance goes hand in hand with good management. A well-managed company delivers better business results and, ultimately, greater shareholder value. Towngas' management starts with strict adherence to sound corporate governance principles.

For us, good governance begins with an extremely capable Board of Directors. Through a corporate governance structure that centres on Board of Director engagement, the Company helps encourage transparent, responsible business

management across all operations. We also focus on taking care of our stakeholders' needs, ensuring we act in their best interests and fulfil our social responsibilities in the community.

The Board of Directors is the highest governance body within Towngas. Composed of nine members including two Executive Directors and seven Non-executive Directors, three of whom are independent, the Board is accountable for all activities, strategies and the financial performance of the Group. The Board also makes certain we uphold the highest levels of corporate governance throughout all our activities.

Towngas Organisational Structure

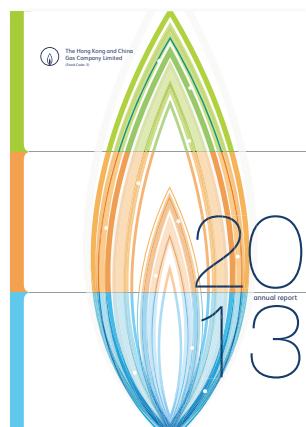


Three Board Committees also work to help the Board strengthen internal controls.

The Audit Committee reviews Towngas' current financial standing, considers the nature and scope of audit reports, and ensures that internal control systems operate in accordance with applicable standards and conventions.

The Remuneration Committee makes recommendations to the Board on the Towngas' policy and structure for all Directors, and remuneration for senior management (who are also executive directors of Towngas). It also reviews and approves the special remuneration packages of all executive directors with reference to corporate goals and objectives resolved by the Board from time to time and determines, with delegated responsibility, the remuneration packages of individual executive directors.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and makes recommendations on any proposed changes to the Board to complement the Group's corporate strategy. It also makes recommendations to the Board on nominations and appointment of Directors as well as assesses the independence of independent non-executive directors. It shall consider the candidate from a range of backgrounds on his/her merits and against objective criteria set out by the Board.



Directors' biographies, along with details of the composition and operation of the Board and its Committees, can be found in our [Annual Report 2013](#).

During the year ended 31 December 2013, we complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Code of Conduct

We follow a strict internal Code of Conduct that provides guidelines on best practices and ethical behaviour in the following areas:

- bribery and corruption;
- equal opportunities;
- fair practices;
- freedom of association; and
- conflicts of interest.

We work with our business partners to ensure that they maintain similar codes of conduct, and a CSR Code of Practice has been developed for our suppliers.

Our goal is to perform beyond mere compliance, and to benchmark ourselves against global best practices in order to develop and deliver innovative and environmentally-friendly products and services that will improve our customers' quality of life.

HSE Policy and Governance

HSE Policy

At Towngas, we take an integrated, cohesive approach to managing sustainability issues alongside, and in harmony with, our other financial and operational objectives.

Our HSE policy embodies our efforts to protect and preserve our people and the environment. To reflect our ongoing commitment to the environment, our HSE policy was amended in 2012 to include climate change.

Under our HSE Policy, we pledge to conduct our operations in a manner that poses no risks to the health, well-being and safety of our employees, contractors, customers, and the public at large. We also make every effort to protect the environment and cultivate sustainable development.

We therefore strive to:

Ensure health and safety at work, and minimize HSE and climate change risks

Achieve a zero-accident rate as well as a high standard of environmental care through continuous improvement

Eliminate HSE hazards in our operations, applications and services

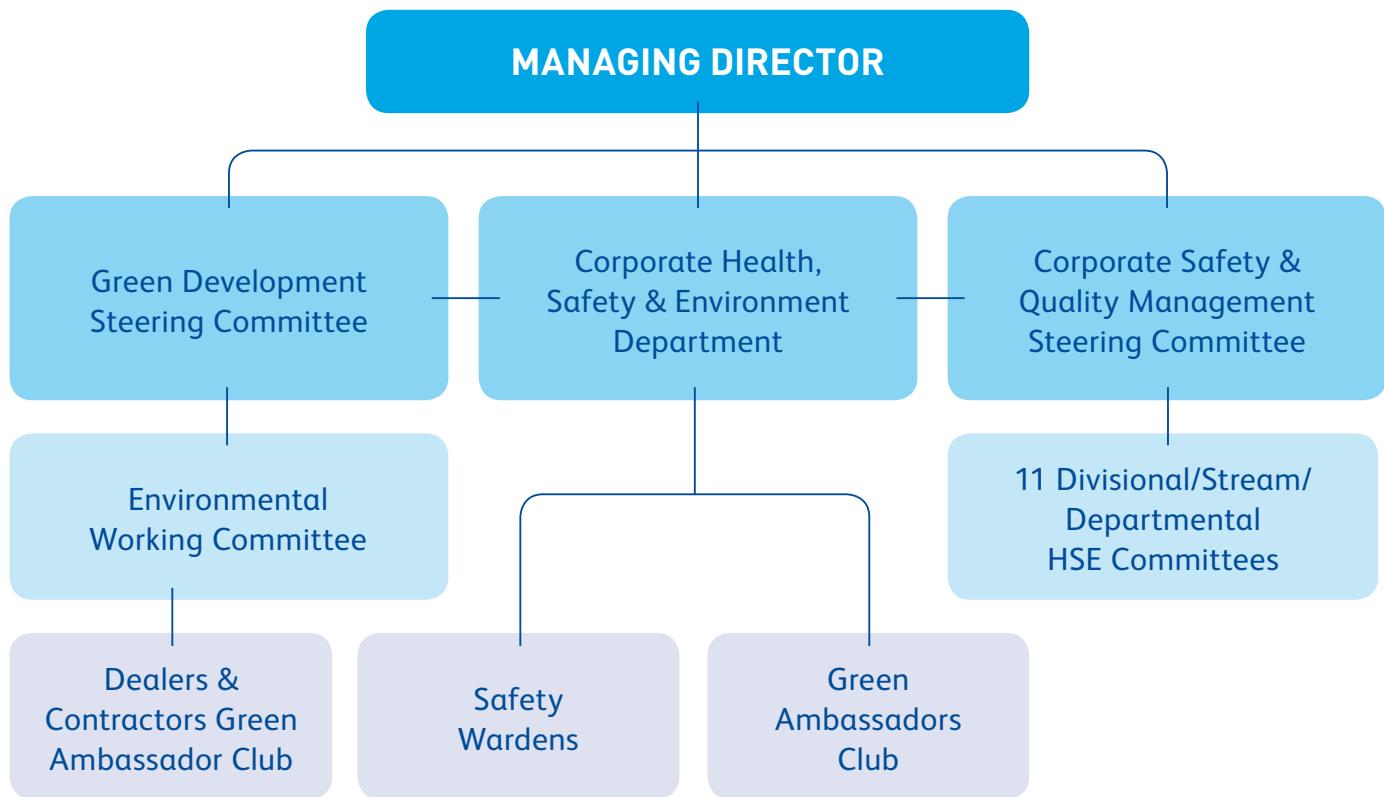
Carry out necessary HSE assessments on all major projects and conduct regular HSE audits in our operations

Promote out necessary HSE assessments on all major projects and conduct regular HSE audits in our operations

Achieve full compliance with all relevant legislation

Use environmentally-friendly materials and technologies, promote economic recycling of materials and conserve resources

HSE Management Structure



HSE Governance

Our governance structure for Corporate Health, Safety and Environment is outlined in the chart above. Our HSE performance and initiatives are coordinated, monitored and controlled by our Corporate Health, Safety and Environment (HSE) Department with the directives and support of the Corporate Safety and Quality Management Steering Committee and the Green Development Steering Committee. Relevant HSE information is communicated to employees, dealers and contractors through Green Ambassadors, Safety Wardens and training programmes.

Our Corporate HSE Department also provides HSE support to our Joint Ventures (JVs) on the mainland through the Safety and Risk Departments in both Hong Kong and China Gas Investment Limited and Towngas China Company Limited as well as the individual companies. In each JV, the Safety and Risk Department reports directly to the General Manager, guaranteeing that safety and risk management are given the highest priority. Our policy is to apply this organisational structure to all JVs.

Stakeholder Engagement

Ongoing Engagement with Stakeholders

Effectively engaging stakeholders is an essential part of being a responsible company, and Towngas is committed to working with and being responsive to the full range of stakeholders who are affected across our value chain.

Our stakeholders include employees, customers, suppliers, our board and investors, regulators, the communities in which we live and work, and sustainability organisations including non-governmental organisations (NGOs). In order to achieve our sustainability goals, we are accessible and responsive to our stakeholders' needs through comprehensive and diverse communication channels. These range from our Customer and District Focus Teams to industry, professional, investor and community programmes.

This ongoing two-way dialogue has proven invaluable in generating a better understanding of the community's needs and expectations. Simultaneously, this openness enables us to stay actively involved in local neighbourhood events.

Stakeholder engagement is fundamental as it allows a reporting company to better understand the expectations, perceptions and concerns of its stakeholders towards the Company. To help us prepare this 2013 Sustainability Report, an external party was commissioned to conduct a series of engagements with different internal and external stakeholders.

These engagements sought to achieve the following:

- Collect key stakeholders' opinions on Towngas' sustainability performance;
- Assess stakeholders' expectations on what sustainability issues should be included in this year's Sustainability Report

Seven important stakeholder groups were identified for inclusion in this exercise, namely employees, customers, local communities, investors, contractors, professional bodies and NGOs. They were identified by the Corporate HSE Department in conjunction with an expert third-party organisation on the basis of their importance to Towngas and previous levels of engagement. Functional divisions then recommended key individual stakeholders under these selected groups.

The engagement exercise

was undertaken through focus groups and face-to-face interviews.

Participants were asked to answer a number of questions relating to our performance on sustainability issues and complete a questionnaire ranking the 46 specific standard disclosures in the GRI G4 reporting guide according to their perceived relevancy for Towngas.



Our Key Stakeholders and Communication Channels

Key Stakeholders	Communication Channels and Frequency of Engagement by Type & Stakeholder Group
Employees	<ul style="list-style-type: none"> Employee surveys Suggestion box, bulletins, newsletters, intranet, screensavers Meetings with employee union Issue-specific consultative sessions Superior Quality Service Programme Strategy Ambassadors Club in Hong Kong Green Ambassadors Club in Hong Kong Healthy Living Every Day Series in 2013 Social media platform such as Weibo in mainland China
Local Communities	<ul style="list-style-type: none"> District Council Focus Teams Community programmes e.g. volunteer services, festive food delivery campaign, etc District Fire Safety Committees
Professional Bodies and Regulators	<ul style="list-style-type: none"> Joint Utilities Safety & Occupational Health Policy Group (JU SOHPG) Joint Utilities Policy Group (JUPG) Climate Change Business Forum (Hong Kong) China Gas Association Gas Authority (GSO), EMSD The Hong Kong Institution of Engineers Polyethylene (PE) piping coalitions & international Organisation for Standardisation (ISO) Technical Committees on PE pipes & fittings Other professional institutions and business chambers
Customers	<ul style="list-style-type: none"> Newsletters and leaflets Bi-monthly bill inserts Company websites, social media & mobile phone networks Regular maintenance visits, safety inspections and safety talks Annually 24 visits by Customers Focus Team for residential customers Monthly surveys and focus group research upon specific programmes Year-round publicity & community campaigns Management Offices/Incorporated Owners' Associations 24-hour Customer Service Hotline and 19 customer centres Social media: Facebook page Towngas smartphone app
Investors	<ul style="list-style-type: none"> Annual general meetings and investors' briefings Interim, Annual Reports and Sustainability Reports
Contractors & Suppliers	<ul style="list-style-type: none"> Ongoing audits Regular management meetings Green Ambassadors Clubs for dealers & contractors Seminars and workshops Mass communications
Non-Governmental Organisations (NGOs)	<ul style="list-style-type: none"> Year-round Green partnership programmes and community programmes

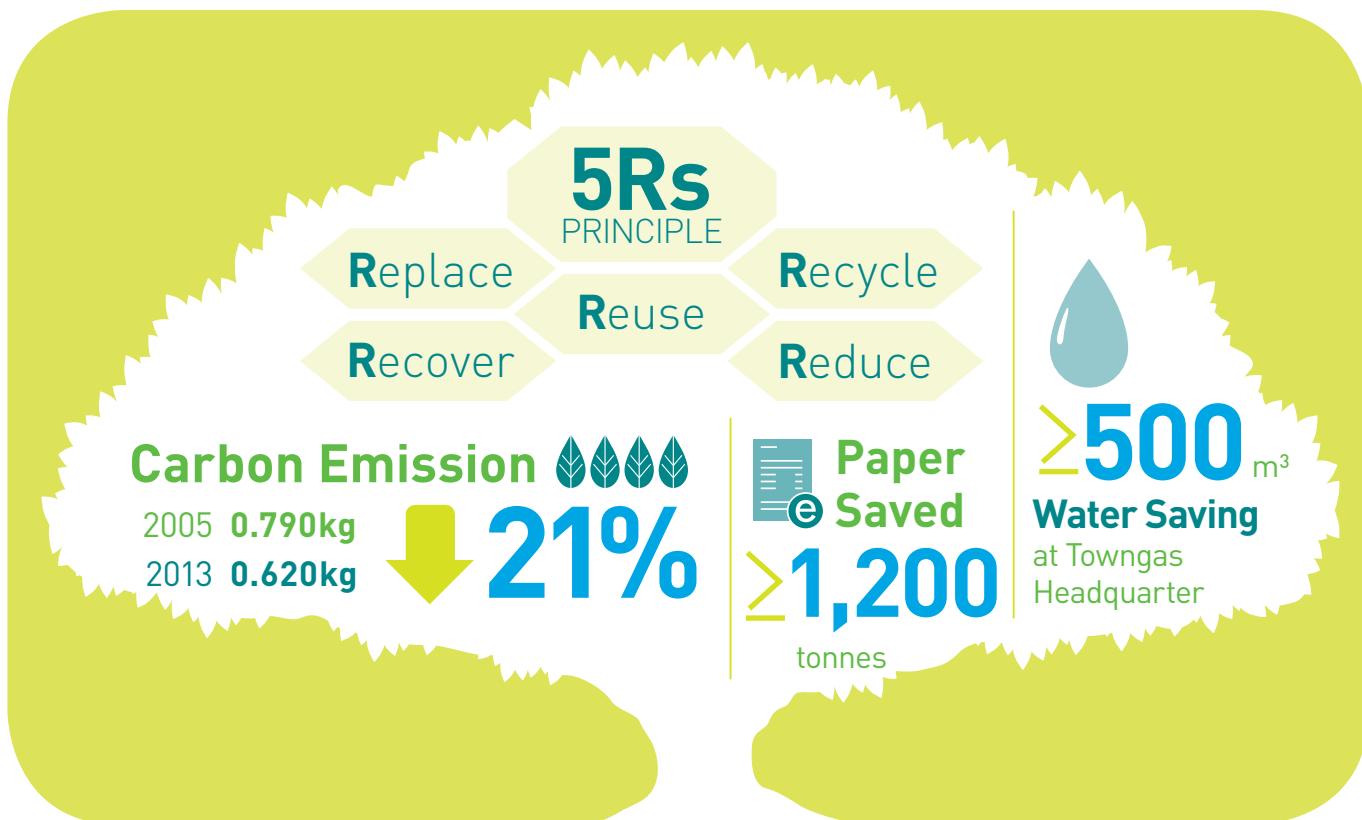


Environmental Performance

As the threats of climate change, pollution and natural resource depletion loom ever more seriously in the world, it is imperative that we effectively address these issues.

As a major energy supplier, we are fully aware of these challenges. Our Company's mission is to safely and reliably supply gas to our customers with a caring, competent and efficient standard of service that they expect, while working to preserve, protect and improve our environment. Our commitment to sustainable development through effectively-managed environmental enhancement programmes has contributed to Towngas' emergence as an industry leader within Hong Kong. Sustainable development forms one of the core values of our operations and is now part of our corporate DNA.

In carrying out our day-to-day work, we ensure our operations comply fully with all relevant environmental guidelines, standards and legislation. We are pleased to report that during the year there was no non-compliance with environmental laws and regulations and no grievances were filed concerning environmental impact.



Stakeholder Dialogue

Q: *What is Towngas doing to help create a green and low-carbon Hong Kong?*

A: "Towngas is committed to providing customers with safe, reliable, cost-effective and environmentally-friendly fuel. We introduced natural gas as feedstock in addition to naphtha in 2006, which generates a cleaner gas production process. This reduces our carbon dioxide, nitrogen oxides and sulphur oxides emissions, thus improving the environment and benefitting our customers."

Towngas has been using landfill gas to generate town gas since 1999, which constitutes about 2% of our overall fuel mix. We are in discussion with the HKSAR Government regarding the use of landfill gas from more landfill sites for increasing renewable energy usage in our energy mix. In a similar vein, we are evaluating the increased use of methane arising from organic waste.

Currently, Towngas has over 200 appliance models offering energy-saving and eco-friendly features, including high-energy efficiency, environmentally-friendly materials, processes and packaging, encouraging our customers to contribute to a cleaner environment".

Peter Wong

Executive Director and Chief Operating Officer – Utilities Business
The Hong Kong and China Gas Company Limited

Major Awards and Recognitions

2013 CarbonCare® label
– Carbon Care Asia

Green Enterprise Award 2013
– CAPITAL Entrepreneur Magazine

“Green Office Label”
– World Green Organisation

“Better World Company Label”
– United Nations Millennium Development Goals

Hang Seng Pearl River Delta Environmental Award 2012-13
– The Federation of Hong Kong Industries and Hang Seng Bank

Hong Kong Awards for Environmental Excellence – Class of Excellence Wastewi\$e Label for the 12th consecutive year
– Environmental Campaign Committee, Environmental Protection Department, etc.

Green China 2013 Environmental Achievement Award Distinguished Enterprises
– Wen Wei Po

To sustain this excellent record, we are determined to strengthen our approach to environmental issues, adopt best practices to conserve energy, reduce emissions of Greenhouse Gases (GHGs), minimise waste,

and involve ourselves even more in community-based environmental programmes. In our sustainability journey towards being the top clean-energy supplier in Asia, we make every effort to ensure that we engage our business partners, contractors and dealers.

Environmental Performance Table 2013 (Hong Kong)



Ozone Layer Protection

All of our vehicle air-conditioning systems now operate with refrigerant R134A.

All BCF portable fire extinguishers have been replaced with dry powder extinguishers.



Air Quality

Total NOx output was 4.59kg/TJ of town gas

Total SOx output was 0.02kg/TJ of town gas

Total CO₂ output was 12.09MT/TJ of town gas



Greenhouse Gas Emissions

Greenhouse gas emissions from major gas production equipment was 365,981 metric tonnes in terms of CO₂ equivalent



Water Quality

Total Wastewater output was 4.2 cubic metres/TJ of town gas



Chemical Waste

Total chemical waste output was 1.94 kg/TJ of town gas



Noise

All installations & operations complied with the statutory requirements.

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

No noise abatement notice has ever been received

Review of 2013 Targets

● Target Achieved ● In Progress

Targets	Progress
Green Certification	
To achieve a Wastewi\$e label for 12 consecutive cycles.	● Obtained our 12th consecutive Wastewi\$e Label, demonstrating our high commitment to environmental protection.
Gas Production Plant Modification	
To complete modification works at Ma Tau Kok gas production plant to enable making town gas from natural gas as feedstock and fuel.	● Government approval applied in Q1 2014 and expected to commence the modification work from Q2 2014.
Material Reuse	
To save the pipe material by utilizing the redundant pipe left over from previous projects.	● An additional buffer for air system using redundant pipe materials left over from previous projects was installed.
Water Recycle & Reuse	
To design and commission the rainwater collecting system at naphtha tank farm for reuse.	● Design of the rainwater collecting system was completed.
Energy Efficiency & Conservation	
To reduce electricity consumption by replacement of existing chiller plants in North Point Building to more energy efficient ones.	● The Phase 1 of Upgrading Central Chiller Plant was completed in mid of 2013. The Phase 2 of the Project will be completed in mid of 2014.
To further improve the energy efficiency of our commercial gas appliances with the development of a high-efficiency stockpot	● Stockpot with flue heat recovery was developed which enhance the overall efficiency and reinforce the cool-kitchen environment.
To promote office energy saving by implementing afterwork office PC shutdown scheme.	● Energy management of IT infrastructure had been included as one of the responsibilities of the Environmental Working Committee. A Pilot PC Power Management Programme will be launched in 2014.

Environmental Organisation

To ensure that the environmental programmes are implemented and objectives achieved, the Company has established an effective environmental management system (EMS) to focus on continuously improving our environmental performance.

In order to sustain these improvements, 12 functional sub-committees under the **Environmental Working Committee** were set up to more systematically drive the environmental programmes. Most of the Chairpersons of these Sub-committees are department/section managers, and all of them are members of the Environmental Working Committee. Each year these sub-committees set environmental objectives to further improve the Company's environmental performance.

In order to ensure effective implantation of the EMS, an officer from the Corporate HSE Department conducts regular audits of company premises to ensure all relevant

environmental legislation and standards are complied with. In addition to these audits of company premises, we also conduct a number of other environmental inspections. These include:

Green Office Audits Green office inspections are conducted by the departmental Green Office Auditors or Green Ambassadors on a monthly basis to assist the Company in developing a green office culture. The inspection looks at a number of areas including energy and water conservation, as well as waste reduction.

Contractor Audits with a view to assisting contractors to further improve their environmental performance, we have developed tailor-made environmental checklists for different categories of contractors. These checklists are used by site supervisory staff to conduct regular contractor environmental performance audits.

The 12 Functional Sub-committees are:

<ul style="list-style-type: none"> • Management and Administration Sub-committee 	<ul style="list-style-type: none"> • Waste Management Sub-committee
<ul style="list-style-type: none"> • Education and Training Sub-committee 	<ul style="list-style-type: none"> • Purchasing and Office Services Sub-committee
<ul style="list-style-type: none"> • Publicity and Promotion Sub-committee 	<ul style="list-style-type: none"> • Environmental Auditing Sub-committee
<ul style="list-style-type: none"> • Environmental Information Sub-committee 	<ul style="list-style-type: none"> • Environmental Technology Services Sub-committee
<ul style="list-style-type: none"> • Building Environment and Energy Conservation Sub-committee 	<ul style="list-style-type: none"> • Environmental Emergency Sub-committee
<ul style="list-style-type: none"> • Environmental Assessment Sub-committee 	<ul style="list-style-type: none"> • Environmental Liaison with Contractors and Dealer Sub-committee

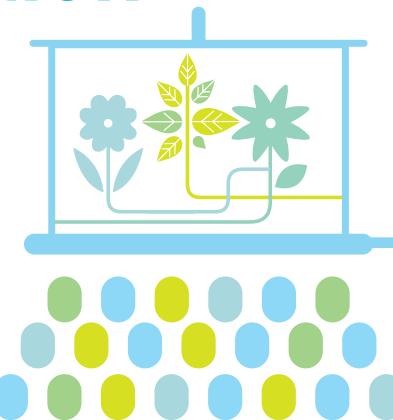


Environmental **Education** and **Training**

Environmental training is an essential component for the implementation of our EMS, where it is also fundamental to the demonstration of due diligence or duty of care in a court of law. Environmental training also improves awareness of the Company's environmental obligations and responsibilities under environmental legislation, while also creating awareness of the Company's own requirements established by the HSE policy.

To this end, we are committed to every company employee, from Executive Committee Members to frontline employees and new employees receiving environmental training so that they can carry out their duties in an environmentally responsible manner.

To aid with the training of our staff we have created the Corporate Environmental Manual, which covers the environmental activities of the Company and its Hong Kong subsidiaries, including production, transmission and distribution of town gas and all customer



service activities. To share best practice and transfer environmental technical knowhow from our Hong Kong operations to our mainland companies, we have developed a separate Environmental Manual written in Chinese for their reference.

We regularly organise environmental campaigns and awards, as another means to raise environmental awareness and promote good practices and environmental standards. One such competition is the annual "Outstanding Environmental Sub-committee Award", in which the objective is to motivate and recognise the vital contribution of the sub-committees in promoting environmental protection.

Clean Energy

Natural gas is a much cleaner source of energy than other energy alternatives. We are very much a green energy business based on our greater use of clean fuels like natural gas. Building on these positive foundations, both the development and use of environmentally-friendly energy are a growing element of our overall business strategy.

The Group's development of emerging environmentally-friendly energy projects through its wholly-owned subsidiary ECO Environmental Investments Limited and its subsidiaries (jointly known as "ECO") is progressing well. A number of projects are now at various stages of investment, construction and gradual commissioning.

The Chinese government is vigorous in its advocacy of a natural gas utilisation policy, demanding increasing sources of clean energy to meet its climate-change obligations and improve air quality. For this reason we expect there will be increasing demand for clean energy, creating good prospects for the Group's mainland city-gas and emerging environmentally-friendly energy businesses.

As a green energy business, we comply fully with internationally-established environmental regulatory requirements and conform to leading world practices. Our Environmental Management System in Hong Kong, which covers our operations and operating systems, was accredited under the internationally acclaimed ISO 14001 environmental management system standard in 1999, certifying that our gas production processes are on par with the cleanest and most efficient industrial systems in the world.

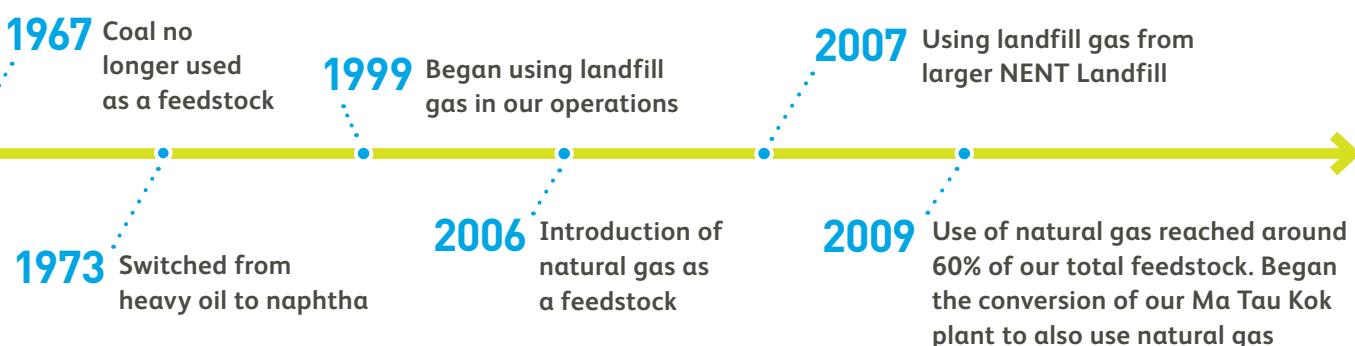
Natural Gas

The journey to cleaner energy began in 1967 when coal was no longer used in the gas production process. The next major advance

came in 1973 when naphtha began to replace the heavy oil that was being used in Hong Kong at the time. Due to its much lower sulphur content, naphtha significantly reduced the emission of sulphur dioxide. Another milestone was reached in 2006 with the opening of the Liquefied Natural Gas (LNG) Receiving Terminal in Guangdong province. This allowed us to begin using natural gas as a feedstock in Hong Kong. Natural gas significantly reduces pollutant emissions such as carbon dioxide (CO₂), nitrogen oxide (NOx) and sulphur oxide (SOx), which means improved air quality for Hong Kong while the reduced emissions mitigates climate change and global warming concerns.

In our activities on the mainland, the emission of CO₂, SOx and NOx is minimal as natural gas provides the basis for our city-gas operations there. With the Chinese government's promotion of natural gas as the leading clean fuel of the future and as we expand our portfolio of city-gas businesses, our activities will magnify our contribution to a cleaner and greener environment throughout the country.

Developments in Feedstock and Fuel (Hong Kong)



New Energy Developments

In the fast-moving world of new energy, we are continually looking for new and more diverse ways to produce clean energy and turn low-grade resources and waste into high-grade products. Our new-energy research and development centre, established in 2010, continues to develop innovative technologies for the production of clean fuels and chemicals. This includes converting coke oven gas into methane, cooling methane into LNG, converting coal to methanol, upgrading methanol to clean gasoline-type chemical products and transforming plant fatty acids into green diesel-type chemical products.

Our research continues regarding the gasification of unwanted agricultural waste into sought-after fuels and chemicals like syngas. As our R&D and project implementation capabilities evolve, we believe that favourable economic benefits resulting from innovation lie ahead.

Vehicular Clean Fuel

In 2000, we began to build and operate five dedicated liquefied petroleum gas (LPG) filling stations to serve Hong Kong's fleet of taxis and most of the city's light buses. LPG reduces the emission of suspended particulates and helps improve air quality. Profit margins for the LPG refilling station business for 2013 were significantly higher than those of 2012.



As oil continues to increase in price, combined with rising concerns over haze and air pollution, mainland China is actively pursuing alternative resources to meet its growing demand for energy and reduce its reliance on imported crude oil. The drive to develop refilling station networks supplying LNG as a fuel for heavy-duty trucks is gaining momentum. When ECO extended its business into the mainland in 2008, its first project was the construction of a compressed natural gas refilling station in Shaanxi province. Several years of development later, a network of ECO natural gas refilling stations has gradually sprung up in provinces such as Shaanxi, Shandong, Shanxi, Henan and Liaoning. A new LNG refilling facility for heavy-duty trucks and river transport vessels is currently being planned for the logistics port of Jining City, Shandong province. This is a port that links the upstream railway with the downstream Beijing-Hangzhou canal.

All in all, ECO currently has 25 refilling stations that are either in operation or under planning or construction, with further expansion of the business into other provinces now in progress.

Turning Waste into Energy

Landfill Gas

Decomposing rubbish in landfill sites produces a significant amount of landfill gas. A major component of landfill gas is methane and carbon dioxide, which can aggravate climate change. To minimise the wastage of this renewable energy, Towngas commenced the harnessing of landfill gas with utilisation projects at the landfill site at Shuen Wan in 1999 for use as a heating fuel in our operations. These activities expanded to the

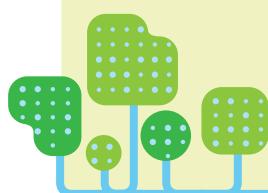
significantly larger North East New Territories (NENT) site in 2007. As the first organisation in Hong Kong to use landfill gas on a commercial basis, we pioneered the use of this “waste material”.

The use of landfill gas
not only reduces the release of greenhouse gases into the atmosphere – it currently saves 31,000 tonnes of carbon emissions a year and conserves around 10,000 tonnes of naphtha annually.



case study

North East New Territories (NENT) Landfill Gas Project



Landfill gas Treatment Units have been installed at the site to remove carbon dioxide, hydrogen sulphide and non-methane hydrocarbons from the raw landfill gas. The treated gas is then transferred through a 19km-long pipeline to our Tai Po production plant, where it is used as a heating fuel for gas production.

The NENT landfill gas utilisation project is one of the largest examples of “green” energy recovery and reuse in the world. It provides a new source of renewable energy, reducing the use of fossil fuels in our town gas production, while substantially reducing the emission of greenhouse gases, thus helping to improve air quality in Hong Kong.

Now accounting for approximately 2% of our total production fuel, we hope this usage again increases after negotiations with the Hong Kong government regarding the utilisation of landfill gas from the South East New Territories (SENT) landfill site are completed.



Coal Bed Methane Activities

Based on our positive experience with landfill gas, we have commissioned China's first large-scale coal bed methane (CBM) liquefaction plant in Shanxi province. CBM, a natural gas that exists in coal seams, like landfill gas, was traditionally considered a waste material and flared off on site. After extraction, the gas can be processed through cryogenic liquefaction technology, converting the purified CBM into liquid form by freezing it to -162 °C. The resulting liquefied coal bed methane (LCBM) is 1/625th of its original volume, and therefore has a higher energy density and is easily transportable by road tankers to wherever it is needed.

Our pioneering LCBM plant in Shanxi province has an annual production capacity of 250 million cubic metres, and has been operating smoothly since the first tankers began to roll out in December 2008. We are currently exploring additional expansion opportunities, with our efforts currently focused on the Qinshui Basin in southern Shanxi province. This region has some of the most abundant reserves of coal bed methane in China.

Alternative and Non-conventional Energy

Clean Coal Energy

We are also making our mark in the world of clean coal energy. Capitalising on the vast stores of coal in China, we have been looking into coal gasification techniques to create

syngas, which can then be further synthesised into methanol. Unlike the traditional burning of coal, which is highly polluting, the process is free from SOx and NOx emissions, and any CO₂ generated is in such pure form that it can be easily captured and stored for other uses. ECO's methanol production plant in Inner Mongolia has been running efficiently since it finished trial production in late 2013. Annual production in 2013 was 240,000 tonnes, 20% higher than originally planned.

Methanol, an effective chemical feedstock, can be further processed into high value-added products which can substitute for gasoline. Moreover, we have begun construction on a new project in Inner Mongolia to upgrade methanol into 140,000 tonnes of high-quality gasoline substitute. This project is expected to be commissioned before the end of 2014.



Green Diesel

ECO has now completed the testing verification for a new process (patent pending) for upgrading plant fatty-acids (palm oil residue and used cooking oil), into green-diesel-type chemical products. The Company's first project in this exciting new field, with an annual capacity to upgrade 150,000 tonnes of plant fatty acid, is located in the Chemical Industrial Park of Zhangjiagang city, Jiangsu province. This is an important step forward in developing ECO's biomass energy business.

Coke Oven Gas

Our LNG initiative picked up momentum this past year as we began to utilise another unconventional gas resource – coke oven gas, a by-product of the coke-making industry. The gas is rich in hydrogen and carbon monoxide, which can be synthesised into methane and further refrigerated into LNG. We will launch two facilities in Jiangsu and Shanxi provinces that will greatly enhance our LNG supply when the plants go operational in 2015.

Reducing Our Environmental Footprint

Conserving Resources

With the 5Rs principle – to Replace, Reduce, Reuse, Recover and Recycle – forming the basis of our conservation programmes, we make every effort to save energy, cut down the use of resources, recycle equipment and materials as well as reduce the generation of waste.



Emissions

In 2008 Towngas joined the Hong Kong government's "Green Hong Kong • Carbon Audit" programme, becoming one of its first "Carbon Audit • Green Partners" to endorse the programme's "Carbon Reduction Charter". As a Green Partner, we pledge to implement or facilitate the implementation of carbon audits within our operations, while also undertaking to reduce our carbon footprint in the years ahead.

Carbon Intensity (Hong Kong)

CO₂ emission per unit of town gas

2005

0.79kg

Reduce 21%

2013

0.62kg

Direct and Indirect Greenhouse Gas (GHG) Emissions



	2012	2013
Scope 1 GHG Emissions Tonnes-CO ₂ e	332,521	342,568
Scope 2 GHG Emissions Tonnes-CO ₂ e	23,298	23,413

Standard: GHG Protocol Corporate Standard

Reported Gases: CO₂ CH₄, N₂O, HFCs & PFCs

Only gas production and storage facilities' GHG emissions are reported.

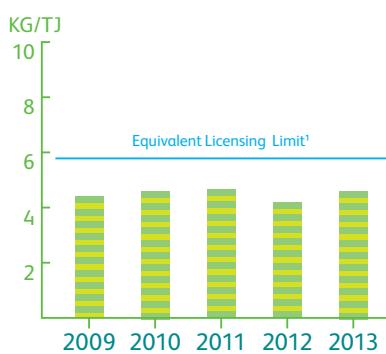
* From 2013 onwards, emission factors of GHG emission due to the consumption of electricity are obtained from the sustainability reports of the two local electricity companies which are released one year prior to our reporting year.

We have accordingly completed carbon inventory accounting procedures and the first carbon audit for our Hong Kong operations. These accounting guidelines were developed based on the government's "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removal for Buildings in Hong Kong". Also ensuring that these procedures meet global standards, our carbon inventories were verified under ISO 14064-1 specifications.

As a result, we now have a clearer understanding of our profile as well as the quantity of our direct and indirect greenhouse gas emissions over the past five years, which will help us prioritise improvement measures in the future. Continuing this process, we will be conducting carbon inventories every year and extending this practice to our mainland companies.

Emission Levels of Gas Production Plants (Hong Kong)

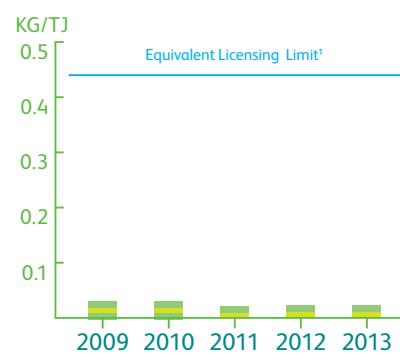
NOx Emission Level



CO₂ Emission Level



SOx Emission Level



1. "Equivalent Licensing Limit" (kg/TJ OR m³/TJ) = "Weighted average of actual licensing limit" (kg/hr or m³/hr) ÷ production rate of the plants for the year 2013 (TJ/hr).

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

case
study

Carbon Reduction Competition



Our Carbon Reduction Competition anchors our efforts to reduce our carbon footprint in mainland China, specifically in our joint ventures there.

The competition was first held in 2010 and proved to be such a success that it has been run every subsequent year. In 2013 the competition received 23 submissions resulting in the saving of a further 19,400 tonnes of carbon emissions a year – the equivalent of the total CO₂ absorbed by 840,000 trees¹ every year. Over the programme's four-year duration to date, a total of 133 submissions have been received, and collectively they have prevented approximately 45,000 tonnes of carbon per year from entering the earth's atmosphere.

The winning entry for 2013 was from ECO's Inner Mongolia Coal Chemical Technology Company Limited, which suggested installing a hydro-turbine in the recycled water cooling tower to replace the old electrical motor driven system. With an implementation cost of only RMB 640,000, this initiative will save RMB 400,000 annually in energy costs and usher in a reduction of 847 tonnes of CO₂ per annum.

¹ Based on the assumption that each tree absorbs 23kg CO₂/year



Carbon Footprint of Gas Appliances

Looking to reduce our carbon footprint and that of our customers even further, we completed a study on the carbon footprint of a typical gas appliance. The study analysed the entire life-cycle of the appliance from its acquisition, processing and use of raw

materials to its manufacturing, storage, transport and distribution as well as its actual usage, disposal and recycling possibilities. Assuming a ten-year product lifespan for a gas cooking appliance, the study results showed that the appliance's usage phase accounts for more than 90% of its carbon footprint. Factors affecting the emissions include the quality of feedstock and fuels used during gas

production process, efficiencies of the production process and of the cooking appliances as well as users' habits. With regard to areas under our operational control, we continue to look for opportunities and technologies to improve performances. At the same time, we have continued the product carbon footprint study to examine possible methods to help customers save energy during the cooking process. We now provide our customers with useful and practical gas-saving tips based on scientific figures. For example:

- Steaming with a metallic food container instead of a ceramic one can reduce cooking times and reduce energy cost and carbon emissions by up to 25%
- Making use of the pan lid when cooking can help reduce energy cost and carbon emissions by up to 10%

The Company is committed to environmentally-friendly products and services, resource conservation, and the promotion of the economical recycling of materials. Meeting the needs of our residential customers, we launch at least one energy-efficient appliance every year. We now offer a wide range of appliance models that offer various energy-saving and eco-friendly features, such as high-energy efficiencies and environmentally-friendly materials and packaging. Some models improve energy efficiencies by almost 6% compared to more conventional models.

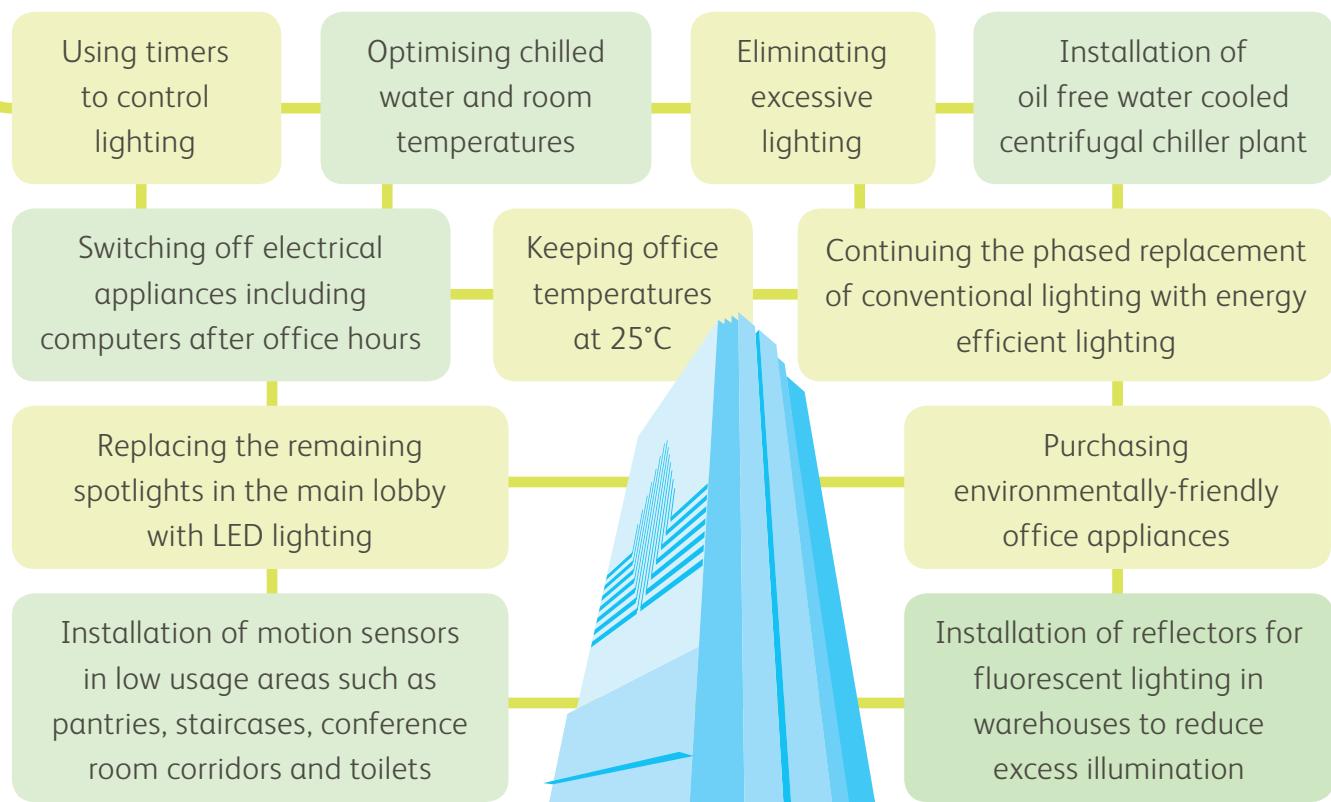
In the commercial and industrial market, our gas products and application systems help our customers enhance their competitive edge. For commercial kitchens, we developed new flue ducts for our wok ranges and stockpots so that flue gas can be more effectively extracted from the kitchen. These efforts help save energy in the kitchen ventilation system and encourage "cool-kitchen" environment.

Carbon Footprint of a Typical Gas Appliance



Life Cycle Process	GHG Emission (CO ₂ eKg)	Distribution
Raw Material	~30	~1%
Manufacturing	~9	<1%
Transportation and Storage	~2	<1%
Use	~3,200	~99%
End-of-life	~6	<1%
Total	<3,300	

Energy Saving Measures implemented at Towngas Headquarters



Saving Electricity

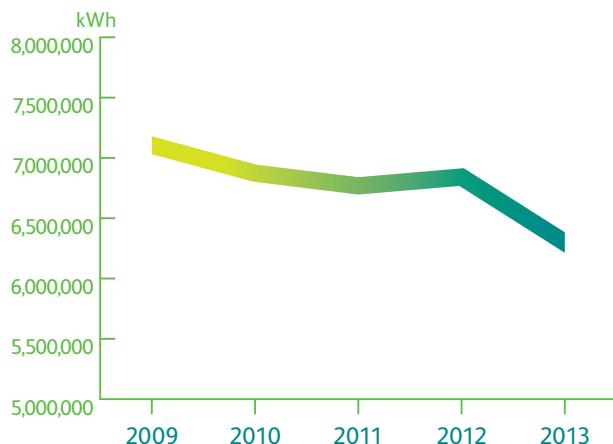
We work hard to implement measures that improve our premises' energy efficiencies. Our headquarters in Hong Kong is classified as an Energy-efficient Building under Hong Kong's Energy-efficiency Registration Scheme. In 2010, the building gained its BEAM (Building Environmental Assessment Method) certification, Platinum Grade (version 5/04). We will be renewing the BEAM Plus Certification for Existing Buildings in 2015. BEAM is a widely-followed assessment tool in Hong Kong for evaluating a building's environmental performance from a full life-cycle perspective.

We make every effort to reduce our consumption of electricity. In 2013 we initiated a programme of upgrading rooftop chiller systems into a more environmentally-

friendly, water-cooled model. The first phase of this programme was completed in mid-2013, with high-efficiency, oil-free chillers being installed at our headquarters. The resulting energy and financial savings have been significant, around 480,000kWh of chiller plant electricity and around 380 tonnes of CO₂ have been saved. The second phase of the upgrading programme will be completed in mid-2014.

We were proud to be one of the first local companies to commit to the Environment Bureau's Energy Saving Charters on Indoor Temperature and No Incandescent Light Bulbs. This will complement the efforts already outlined to reduce our carbon footprint for which we were awarded the CarbonCare® Label, which recognizes 5% reduction in office-related carbon emissions.

Electricity Consumption at Towngas Headquarters



The heat recovery system at our Tai Po production plant is one of our more innovative energy-saving and recycling projects. It collects waste heat generated during the gas production process and uses it to help warm the hot-water boiler at our natural gas receiving station. The system saved more than 37 terajoules in energy last year, translating into a saving of 2,400 tonnes of carbon emissions and approximately HK\$6 million in fuel costs.

Materials

As an organisation we are committed to promoting environmental protection and reducing the volume of materials and packaging we use. We have incorporated sustainable environmental practices into our business principles and promoted environmental awareness among our customers and business associates.

Total Packaging Material Used



Green Office Programme

Towngas is committed to developing a green office culture within the workplace. Accordingly, we have adopted the following green initiatives:

- Practice the 5Rs, e.g. minimise paper consumption by using email and double-sided printing; reuse and recycle office materials; reduce electricity consumption for lighting and air-conditioning
- Improve communications on environmental issues through multiple channels such as in-house bulletins, LCD displays, PC screensaver systems, posters, etc
- Purchasing environmentally-friendly stationery, equipment, etc

Green Purchasing Programme

The Company formulated the Environmental Purchasing Policy to promote green purchasing. Guidelines are in place for purchasing environmentally-friendly products that are of higher energy efficiency, refillable or reusable; produce less waste; conserve resources; and do not contain toxic substances, such as recycled or FSC paper, toners manufactured using recycled cartridges, and more.

Saving Paper

With a greater reliance on digital communication, we are increasingly transitioning into a paperless operation. Our e-procurement practices reduce the need for paper specifications and contracts. Over the years, we have encouraged our customers to make the transition to e-Billing – not only to save paper, but also postage costs and the energy required to deliver these bills. At the end of 2013, 72,231 customers registered for e-Billing service, saving 10.83 tonnes of paper annually. By switching to bi-monthly billing we were also able to save 1,275 tonnes of paper in 2013.

The mobile revolution is further enabling us to reduce our reliance on paper. Equipped with mobile devices to replace traditional forms, our technicians are able to conduct inspections without paper. This will soon be implemented across all maintenance calls to provide our customers with the relevant information in a timely manner. The move to mobile technology will save approximately one million pieces of paper a year, mostly in the form of records and orders. An effort is also being made to reduce the number of printers used throughout our operations. Moreover, our copier paper, company letterheads, envelopes, and other printed matter are made from recycled or environmentally-friendly paper.



Saving Water

Risks associated with water scarcity have been rising up the global corporate agenda. Water conservation and sustainable water resource management are therefore essential components of our EMS.

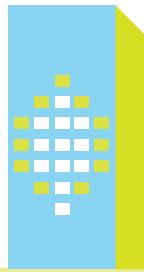
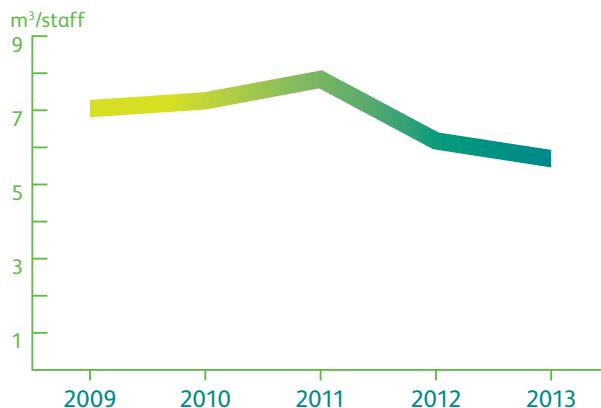
In 2014 we will be installing a rainwater collecting system at the Tai Po gas production plant. This system will save an average of 28,000 cubic metres of raw water (~11 times the volume of a standard swimming pool) per year.

In line with our BEAM activities, we are constantly looking for new ways to ensure more efficient use of water in our buildings, such as regulating the flow of water in toilets. We installed water-saving faucets and water closets in our headquarters building, saving up to 7.5% of fresh water and flush water compared to 2012.

The following actions were also taken to conserve water:

- Installed flow restrictors and automatically shut off systems to reduce water use
- Educated and encouraged employees to always turn off faucets and report any water pipe leaks
- Established a monitoring and repair programme to ensure pipes are in good working order
- Utilised environmentally-friendly cleaning products

Water Consumption at Tawngas Headquarters



Our headquarters

building holds an Indoor Air Quality (IAQ) "Good" Class Certification from the Environmental Protection Department and an IAQwi\$e Good Class Label from the Environmental Campaign Committee.



Effluents and Waste

We initiated a Waste Management programme to minimise our level of waste generation, including an array of general procedures for handling waste. These procedures ensure that all legislation is followed and that the person responsible for the project or operation identifies the major waste types and defines ways to reduce waste.

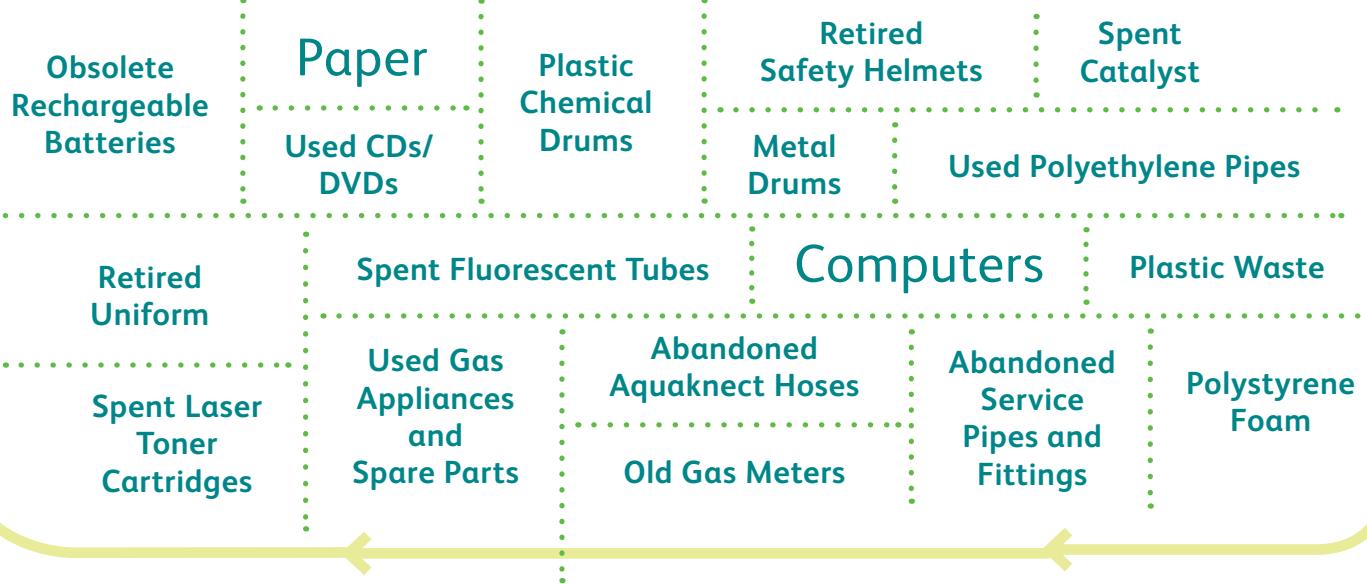
Highlighting our ongoing commitment to effective waste management, we received our "Class of Excellence Wastewi\$e Label" for the 12th consecutive year. Organised and managed by the Environmental Protection Department in Hong Kong, the scheme encourages and helps businesses reduce the amount of waste they generate. Over the past 12 years, we have met 30 targets under this initiative. Our latest target for 2013 was to collect 50 kilograms of old "red packets" for reuse. We surpassed this target by collecting over 80 kilograms of old red packets. For 2014 we have set two new Wastewi\$e goals:

1. Reduce the printing of service orders by 60% and encourage the use of tablets for regular safety inspections
2. Reduce the printing of paper bills by 0.17% and further promote e-billing for our customers.

Recycling Programmes

Our Used Appliance Recycling Programme prevents the dumping of old unwanted gas appliances in landfills by offering to remove them for free when installing new gas appliances at customers' premises. These old appliances are then sent to contractors who safely take them apart for recycling. The revenue generated from these activities is invested in an environmental fund contributing to ongoing environmental events, campaigns and training. We collect approximately 65,000 used appliances annually, leading to the recovery of some 1,000 tonnes of metal. Since 2003, we have recycled over 9,248 tonnes of used appliances.

Major Types of Materials Collected for Recycling or Reuse



Our close association with the food industry means we are highly committed to the management and reduction of food waste. We are working with the Food and Environmental Hygiene Department and relevant NGOs to improve upon the recycling of food waste. We were the exclusive partner of the World Green Organisation's Food Waste Programme. This role complements our installation of two food waste-treatment machines at our restaurants.

Additional pursuits in this realm include the collection of plastic waste for recycling at the Yan Oi Tong Eco Park Plastic Recycling Centre, the Hong Kong government's subsidised plastic recycling plant.

Wastewater and Hazardous Waste

In order to safeguard public health, the environment, and the integrity of sewage collection and disposal systems, we have implemented a number of controls to ensure that the quality of our wastewater is within acceptable levels before it is discharged into the sewage system. Wastewater produced in the gas production process is discharged according to and complying with the effluent discharge standard as specified in the effluent discharge license issued by the HKSAR government.

As just one example of our efforts, a reverse osmosis water treatment facility installed in our Tai Po Gas production plant in 2013 saved more than 127,000 cubic metres of effluent water compared to the previous facility.

Wastewater Discharge

	2009	2010	2011	2012	2013
Daily Average in Cubic Metres	404	351	447	435	323
Cubic Metres per Million MJ of Town Gas	5.47	4.68	5.84	5.74	4.20

Chemical Waste Generated

	2009	2010	2011	2012	2013
Daily Average in Kg	64	178	51	93	150
Kilograms per Million MJ of Town Gas	0.87	2.37	0.67	1.23	1.94

Chemical waste is collected by a licensed waste collector who takes it to a Hong Kong government-designated chemical waste treatment facility.

With the cooperation of manufacturers, we have also succeeded in reducing the use of polyfoam as a packaging material for our gas appliances.

With more than 90% of our appliances imported from Asia now free of polyfoam packaging and all non-glass appliances totally polyfoam-free, we have reduced the use of this environmentally-unfriendly material by approximately five tonnes per year.

Project Management

In accord with Hong Kong's Environmental Impact Assessment Ordinance (EIA Ordinance), we carry out EIA studies before the development of any major gas infrastructure project. These studies look into a project's impact on air quality, noise, construction waste, water quality, hazards to life (if any) as well as potential effects on our cultural heritage. With

the input of consultants and specialists, we devote significant effort and time in these studies to explore the potential environmental impact and recommend appropriate mitigation measures. The resulting EIA Report is then submitted to the Environmental Protection Department for approval.

Green Activities 2013 – Sponsorship and Participation

In 2013, we continued to participate in and support a series of initiatives organised by green groups in Hong Kong, including Green Power's "Waste to Energy" study programme, WWF's annual Earth Hour initiative, Greeners Action's Lai See Packet Reuse and Recycle Programme, Green Sense's No Air-Con Night, Green Council's Hong Kong Green Day, etc. Other major green activities are as follows:

Tree Planting Challenge 2013



For the ninth consecutive year Towngas continued to support the Annual Tree Planting Challenge organised by Friends of the Earth (HK). On 21 April 2013, four Towngas teams joined efforts to reforest a large hillside area near Ma On Shan Park that was badly damaged by forest fire.

GOALS



Towngas participated and completed the Green Office Awards Labelling Scheme (GOALS) organised by World Green Organisation and the Junior Chamber of the Northern District. The GOALS programme helps corporations implement green office policies and practices through training and sharing of best practices. In addition, Towngas met at least 30 assessment criteria, including those related to waste management, green procurement and energy usage.

Green Leaders Bloc



Towngas sponsors the Conservancy Association's "Green Leaders Bloc" training programme to recruit university and secondary students keen to protect the environment for green leadership training Camp and education visits. After training, they are required to develop an environmental promotion campaign. For example, a group of students from Heep Woh College in 2013 started their own campaign in promoting vegetarian meal plans.

Our employees are always encouraged to organise activities that protect the environment and improve the Company's environmental performance. The "Towngas Green Creativity Fund" exists to provide such encouragement and sponsorship. Activities eligible for funding include energy-saving projects, visits to natural resource preservation areas, environmental exhibitions, and environmental protection campaigns.

In partnership with its subsidiaries, the Group unveiled the Towngas China Green Journey Programme to reduce smog. The programme encourages employees to implement the Green Convention through small vital steps such as taking the stairs and not using lifts. Thanks to the concerted effort of our employees, we have planted over 20,000 trees that cover an area of over 50,000 square metres.

Future Targets and Initiatives

	2014 Targets	Medium Term Targets (Two to Three Years)
Green Certification	<p>To achieve a Wastewi\$e label for 13 consecutive cycles.</p> <p>To acquire energy labels for all models covered by the Voluntary Energy Efficiency Labelling scheme.</p>	Renew the BEAM Plus certification for Headquarters Building.
Gas Production Plant Modification	To commission the natural gas system at Ma Tau Kok gas production plant to enable making town gas from natural gas as feedstock and fuel.	
Technological Improvement	To study and explore the feasibility of utilizing landfill gas from SENT landfill for other potential customers.	To continue the study on utilizing other landfill gas and biogas to save fossil fuel by using “green” energy recovery and reuse.
Water Recycle & Reuse	To install and commission the rainwater collecting system at naphtha tank farm for reuse.	
Carbon Management	<p>Complete assessment of carbon footprint for various pipe laying approaches to explore.</p> <p>Disclose corporate's information on carbon footprint and share corporate's successful stories on carbon management and practices through the dedicated website for listed companies in Hong Kong developed by the Environmental Protection Department.</p> <p>To organise the 5th mainland carbon reduction project competition in 2014.</p>	<p>Identify and explore new initiatives on Emissions Reduction.</p> <p>Identify and explore new initiatives on Sustainable Use of Resources.</p> <p>Upgrade corporates' ESG data management system to cater for increase demand for ESG data and information disclosure.</p>
Customer Promotion	Promote gas cooking green tips to customers in leaflets and bill inserts etc.	
Energy Efficiency & Conservation	<p>To save material and reduce electricity consumption by minimizing the number of Data Transit Station (DTS) installed in AMR projects.</p> <p>Launch a Pilot PC Power Management Programme.</p> <p>Complete Upgrading Central Chiller Plant Phase 2 to further reduce electricity consumption in Headquarters Building.</p> <p>To assess and ensure our domestic gas cooking appliances meet the requirement of Voluntary Energy Efficiency Labelling Scheme for domestic gas cookers launched in November 2013.</p>	

Safety Performance



We recognise that we have a responsibility to protect the health and safety of our employees, customers, contractors and general public. As a result, safety is our top priority and it underpins everything we do.

Our Health, Safety and Environment (HSE) management system takes a two-pronged approach in guarding against every potential risk, from possible gas leakages, fires and explosions to the everyday health and safety concerns more commonly found in routine commercial businesses. First, the safety of our operations and our infrastructure is a top priority to ensure the safety of our people, our customers and the general public. Second, we draw upon our leadership position in the industry to exemplify the highest standards of safety and professionalism in the global gas business.

During the year, our activities once again satisfied all relevant health and safety legislation requirements and did not receive alerts or warnings from regulatory authorities. We also witnessed several improvements in our overall safety operations.

2013

Key Statistics

(Hong Kong)

Supply Reliability **99.99%**Pipelines Surveyed **7,000km**Network Inspections **174,048**Number of Reported Accidents **12**Accident Frequency Rate **0.24**

Stakeholder Dialogue

Q: *"How does Towntgas ensure its contractors are complying with its safety guidelines and standards?"*

A: *"From the outset Towntgas contractors are required to submit a safety plan, method statement, risk assessment and other relevant safety documents to the appropriate Towntgas department for review and approval. Towntgas then delivers a Contractor Safety Handbook to provide information about safety guidelines and requirements in addition to providing various training programmes (e.g. a toolbox talk to contractors to ensure they understand all our safety requirements and guidelines). We also invite contractors to join communication sessions run by our Health, Safety and Environment committee to received updated safety information (e.g. safety guidelines and requirements)."*

"In addition, Towntgas employees conduct contractor workplace safety inspections, collecting relevant safety information to monitor our contractors' safety standards."

Victor Kwong
Head of Corporate Health, Safety and Environment
The Hong Kong and China Gas Company Limited

<h2>Major Awards and Recognitions</h2>	<p>Elimination of Non-Compliance – Merit Award</p> <p>Safety Performance Award for the 3rd year</p>	<p>Occupational Safety and Health Annual Report Award – Gold Prize for the 4th consecutive year</p>	<p>Good Housekeeping Gold Award (Other Industries)</p> <p>Good Housekeeping Presentation Award – Bronze</p>
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Review of 2013 Targets

● Target Achieved ● In Progress

Targets	Progress
<p>Safety Training</p> <p>To organise and hold an HSE Day in order to promote safety awareness and foster a safety culture in our colleagues and contractors.</p>	<ul style="list-style-type: none"> ● Towngas HSE Day 2013 was successfully held and its target was met.
<p>To implement a probationary licence programme as well as an online HSE integrated self e-learning and evaluation platform in order to improve overall safety performance.</p>	<ul style="list-style-type: none"> ● The probationary licence programme and the online HSE integrated self e-learning & evaluation platform were completed.
<p>Safety Audit</p> <p>To implement a safety audit scoring system for ECO mainland CNG/LNG filling stations.</p>	<ul style="list-style-type: none"> ● The safety audit system has been successfully launched in 2013. A total of 7 mainland CNG/LNG filling stations completed their first safety audits.
<p>Safety Procedure/Guideline</p> <p>To implement a pointing and calling programme.</p> <p>To review a set of 60 corporate safety procedure or guidelines to be implemented in ECO mainland JVs.</p>	<ul style="list-style-type: none"> ● The pointing and calling programme was implemented. ● 60 corporate safety procedures and guidelines were reviewed. The updated version of procedures and guidelines will be issued in March/April 2014.
<p>Safety Incident</p> <p>To include the report of near-miss incidents of ECO mainland JVs in the quarterly HSE statistics reports.</p>	<ul style="list-style-type: none"> ● The reports of near-miss incidents of ECO mainland JVs were included in the quarterly HSE statistics reports since the first quarter of 2013.

Customer Safety and Supply Reliability

We bear the ultimate responsibility to ensure that our gas pipeline network is maintained at the highest standards. Our commitments and efforts to assure the safety and reliability of our gas systems and infrastructure mean that our customers in Hong Kong enjoy highly secure gas supply networks with a supply reliability of 99.99%. Nevertheless, we work hard to guarantee that these systems not only perform but are certified to the highest global standards. With this in mind, we have implemented the PAS 55-1 certified Asset Management System throughout our gas production plants, transmission and distribution networks in the territory. PAS 55-1, the British Standard Institution's Publicly Available Specifications, certifies the safety of our infrastructure and network and provides a checklist to guarantee proper systems operation. Our HSE Policies also conform to ISO9001, ISO14001, and OHSAS18001 standards.

The Electrical and Mechanical Services Department (EMSD) of the Hong Kong government also regulates our plant, equipment, network and processes. Working in close partnership with EMSD, a mutually agreed strategic plan includes a facilities utilisation framework as well as a preventive maintenance index to ensure the highest safety standards.

The safe operation of our network rests in the capable hands of our sophisticated Supervisory Control and Data Acquisition (SCADA) System. SCADA monitors and controls over 3,500 real-time telemetry points both in our network and across all our strategic pressure-regulating

stations. With a Remote Control, Emergency Logging and Geographical Information System, it monitors and controls the smooth operation of our network as well as improves our ability to track down and address emergencies both quickly and effectively.



Above and beyond the safety management that SCADA provides, we carry out a rigorous schedule of inspections for our pipeline network. In 2013, we completed 174,048 inspections at 13,675 sites and surveyed approximately 7,000 kilometres of pipelines. Combined with our ongoing programme to replace older pipelines with more modern and durable materials, these inspections contribute to our pipeline network's high security. In addition, we have focused on encouraging our customers to replace old gas pipes when renovating their properties. This has been a highly successful campaign as the level of pipe replacement grew in 2013 by 33.8% compared with 2012. Replacing these old pipes is integral to our mission of providing a safe and reliable gas supply throughout Hong Kong.

Leakage and Pipeline Surveys

Type of Pipeline	Frequency of Leakage Survey
All high-pressure and intermediate-pressure mains	At least once a year
Medium-pressure ductile iron pipes or all galvanised iron pipes	At least six times a year
Low-pressure ductile iron pipes	At least three times a year
Polyethylene (PE) or steel pipes over or enclosed within structures	At least twice a year
Others	At least once a year

These activities enjoy the support of our most up-to-date equipment and technologies. Creativity is one of our key organisational values and drives innovation in our gas supply network. This past year, our team developed a number of industry-leading technologies to help boost our efficiencies:

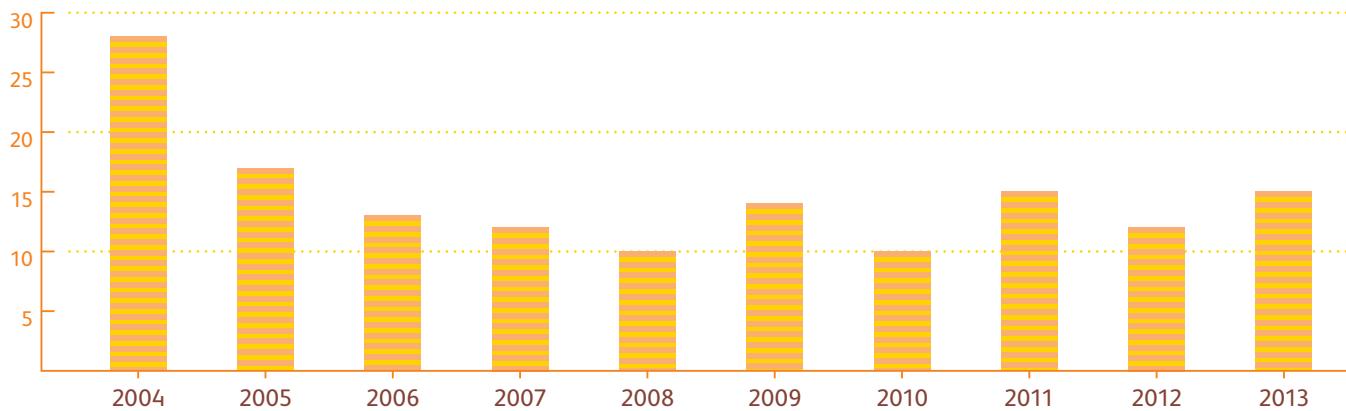
- The Smart Pipe offers a cost-efficient way to repair corroded service branches from the main riser that crosses building walls without needing to erect scaffolding. This minimises the impact on time, cost and disruption to customers.
- The Quadricopter Inspector saves time and manpower by performing aerial inspections of exposed gas pipes on slopes.

Network Safety

Area	Achievement	Target
Gas Supply Reliability	99.998%	>99.99%
Emergencies Attended to within 30 Minutes	96.20%	>95%
Public Reported Gas Seepage Incidents per 10km of Gas Pipes	0.205¹	≤0.18
Third Party Damage Incidents	15²	≤11

1. The persistent cold spell in early 2013 caused a greater number of leaks in the mechanical joints of the older metal pipes in our network. As such, the number of Public Reported Gas Seepage incidents for the year slightly exceeded our targets. Addressing the situation, additional measures including enhanced trench inspections, coordination with roadwork parties and leakage surveys were implemented.
2. There was a drastic increase in roadwork activities during the year due to the many mega-projects being carried out in the territories. These additional vigorous construction activities resulted in an increase in the third party damage incidents that exceeded the target.

Number of Third Party Damage Incidents



Our wholly owned subsidiary, Quality Testing Services Limited, is accredited under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) for its gas-meter calibration services and the testing of gas appliances, stainless steel gas tubing and PE joints. Our “Pay-for-Safety, Quality and Environmental Appraisal System” encourages both contractors and their staff to behave responsibly in our pipe-laying contracts, with contractors receiving 1 to 2% of the contract sum if they meet specified criteria. While such motivational schemes are not new in Hong Kong, our system is unique because 50% of the incentive payments are paid to frontline workers.

To ensure our customers enjoy greater home safety, we have on-demand maintenance services and regular safety inspections (RSIs) for gas appliances in domestic premises every 18 months in Hong Kong and every 12 months on the mainland. These inspections form the backbone of our customer-safety activities. We check gas appliance and pipe conditions and these efforts offer customers

an excellent communication channel. For example, we encourage customers with faulty or older appliances or those without flame-failure devices to upgrade their equipment to safer models. Affirming the value of these activities, over the years we have seen a steady decline in the number of customer-related emergency reports in Hong Kong.

Our diverse range of home appliances offer safe, convenient and energy-efficient products, and we furnish professional installation, warranties, after-sales services and free regular inspections. These products are specifically tailored for local markets and are sold under our own brand names – TGC and Simpa in Hong Kong and Bauhinia in mainland China. All of them meet established safety standards and include modern safety features such as flame-failure devices. These appliances are in high demand. Last year we sold 244,000 gas appliances in Hong Kong while we sold over two million Bauhinia units across 70 cities.

Customer safety is our prime concern. All our residential gas appliances comply with international standards and the Code of Practice GU05 (Approval of Domestic Gas Appliances of HKSAR). Our Quality Assurance Department (QAD) examines compliance for our gas appliances. Quality control mechanisms include inspection and testing of incoming appliances and factory assessment. Our Corporate Supplies Department conducts compliance checks of our suppliers/vendors.

During the past year there were no incidents of non-compliance with respect to regulations and voluntary codes concerning the Health and Safety impact of our products and services.

We also strive to promote safety awareness among our customers. To do so, we provide a list of home safety tips and information as well as make available promotional materials, booklets, leaflets and bill inserts. Our website also features a game promoting safety. We disseminate safety information through community talks and presentations at housing estates, senior citizen centres and other public areas. In addition, we hold focus groups to learn about our customers.

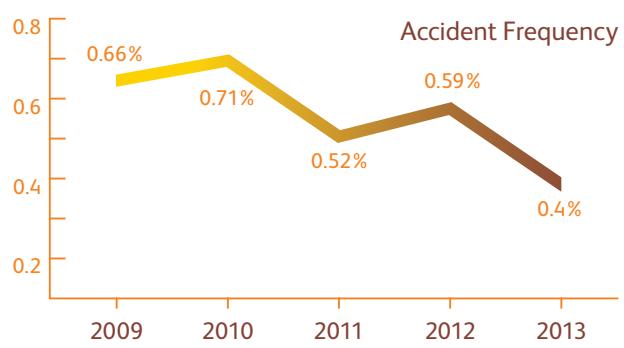
Our safety booklets are published in Chinese, English, Tagalog, Thai and Indonesian to cater to Hong Kong's multicultural community.

Occupational Health and Safety

We continue to raise our standards of performance in our Occupational Health and Safety (OHS) activities through strong leadership, training and educational programmes that actively reinforce a safety culture. We empower our people to take responsibility for their safety and the safety of those around them.

Towngas is committed to providing a safe and healthy environment for its employees. From 2009 to 2013, there was less than one injury-related accident per 100,000 working hours. Towngas continuously provides training to employees on occupational safety with the goal of reducing accident rates.

Industrial Safety Performance of Employees



Our Towngas Safety Practices

- Meeting all relevant health and safety legislation requirements
- Benchmarking against the highest industry standards for health and safety
- Upholding the General Manager Monthly Safety Inspection Programme
- Conducting safety inspections that are led by Group Managing Director
- Directing safety teams to report directly to General Managers
- Executing comprehensive safety inspections and safety audits
- Conducting safety training
- Holding emergency drills and table-top exercises
- Offering safety promotions and incentives

We have established and implemented a Safety Management System to ensure the occupational safety of Towngas employees. This system includes policies, training programmes, accident investigations, inspections, risk assessments and emergency preparedness and is audited by independent parties including a registered safety auditor of the Labour Department of HKSAR.

In addition, we were the first utility to sign Hong Kong's Occupational Safety Charter in 1996. We were also the first utility company in Hong Kong to be designated an International Safe Workplace (ISWP) under the World

Health Organisation's Safety Community framework. Offered under the auspices of the Occupational Safety and Health Council (OSHC) in Hong Kong, this programme consists of seven ISWP indicators that strengthen safety practices while also fostering a safe and happy workplace.

In addition to these ISWP practices, we maintain stringent standards and work practices so that our employees enjoy a safe and healthy workplace. In view of this commitment, we have continued to achieve a low accident frequency rate (number of accidents per 100,000 man-hours). This rate fell from 0.31 in 2010 to 0.24 in 2013. These promising figures move us closer to our goal of achieving a zero-accident rate across all our operations. However, last year we experienced our first fatality in over 5 years due to a tragic road-traffic accident.

International Safe Workplace (ISWP) Indicators

1 Safe Workplace Infrastructure	5 Accident/Incident Record and Analysis
2 Safe Workplace Policies	6 Evaluation of Effectiveness of Policies, Programme, and Processes
3 Programme Implementation and Promotion	7 Experience Sharing and Benchmarking
4 Target High-risk Groups and Environments	

Key Occupational Health & Safety Statistics (Hong Kong)

		2013	2012	2011	2010	2009
	Number of Accidents – All Industrial Injuries ¹	15	10	10	16	14
	Accident Frequency Rate	0.24	0.19	0.19	0.31	0.27
	Number of Reportable Accidents ² (Number of Accidents per 100,000 man-hours)	12	7	9	14	9
	Accident Incidence Rate ³ (Number of Reportable Accidents per 1,000 Employees)	4.9	2.5	2.9	5.7	3.7
	Number of Industrial Injury Man-Days Lost	194	111	160	430	412

Remarks:

1. Accident - an accident that results in incapacity of one or more day
2. Reportable Accident - an accident that results in incapacity of more than 3 days
3. Employees of subsidiaries are excluded

Our Internal Safety Awareness Enhancement Programmes:

Enhancement training on risk assessment techniques and skills

Fire and safety forum

Refresher training course on handling bomb threats without indicating exact location(s)

Seminar on corporate emergencies

HSE and asset management quiz

Health, Safety and Environmental Day

Preparedness for influenza pandemics

Fire and safety competitions

OHS talk on prolonged display screen equipment users

OHSAS 18001 implementation and internal auditing

Health, Safety and Environmental Bulletin

Transport safety quiz

Health, Safety and Environment Day and Month

Maintaining the highest standards of health and safety, we arranged safety trainings and safety and health measures for our staff and contractors. During the year, there were 12 industrial accidents, resulting in an accident frequency rate of 0.24.

Driving a culture of safety and improving emergency procedures internally, we held a number of joint fire exercises with the fire services department. These exercises helped ensure that our emergency response team worked closely with the fire services personnel in the operations.

2013 Health, Safety, and Environment (HSE) Month



Conveying this message to our employees and contractors, we organised Health, Safety and Environment (HSE) month for more than 2,500 staff and contractors. HSE month in 2013 took place between November and December. This annual event was attended by staff and their families, local district councillors, contractors and other stakeholders. Activities such as HSE Day, corporate visits and experience-sharing, an HSE forum, and an HSE display board exhibition were organised.

Contractor safety programmes such as the site safety improvement scheme competition, an HSE slogan competition and a contractor HSE forum were also organised. These activities generated positive responses and raised greater awareness of occupational safety and health. Also, a number of HSE training modules were organised including the HSE forum and mass communications with contractors to help improve their HSE awareness. This popular programme promoted a fundamental aspect of our commitment to raising awareness of health and safety at work.

“Pointing and Calling” Programme

Recent studies indicate that human error is one of the primary causes of occupational accidents, accounting for 88% of all occupational accidents. It is therefore critical that any occupational health and safety management system seek to eliminate human errors to reduce incidents, improve productivity and ensure employees' health and safety. The “Pointing and Calling” approach originated in Japan and has proved effective in eliminating human errors. Its objectives are to enhance employees' alertness, concentration levels and accuracy in conducting operations to reduce accidents arising from negligence, error or misunderstanding.

Towngas launched a “Pointing and Calling” pilot programme this past year at our production plants and ECO gas-filling stations in Hong Kong.

case
study

Towngas Health, Safety, Environment and Caring Programme

In March 2013, we launched the “Towngas Health, Safety, Environment and Caring Programme (the Caring Programme)”. The programme aims to reduce the accident rate of new employees and heighten their safety awareness by providing up-to-date and relevant HSE training through an “Integrated Self E-Learning & Evaluation Platform (ISEE)” as well as mentorship from their senior peers for their first three months. The programme was initially opened to all new Towngas employees who work in the field.

ISEE content is divided into three sections: Occupational health and safety, fire safety, and environmental protection. The candidates’ knowledge, awareness, behaviour and performance are evaluated through online examinations and safety performance assessments by their mentors.

The programme has been incredibly successful, with 97% of candidates completing the Caring Programme. In addition, the user evaluation scores on ISEE indicate that five out of six participants have been more than satisfied with the programme. In fact, the programme has proven so popular that a project manager in one of our subsidiaries voluntarily requested that we extend participation of the “Caring Programme” to their new employees despite their being outside the scope of this initial stage of the programme.

Going forward we will explore the possibility of expanding the programme’s scope by offering it to more new employees from across the organisation. We will improve the usability of the e-learning platform, and ensure the content is up-to-date with the latest in HSE knowledge and accepted best practices.

Towngas Head of Corporate Human Resources Kit Fan presented the award to 2013 Best Caring Programme candidates



Future Targets and Initiatives

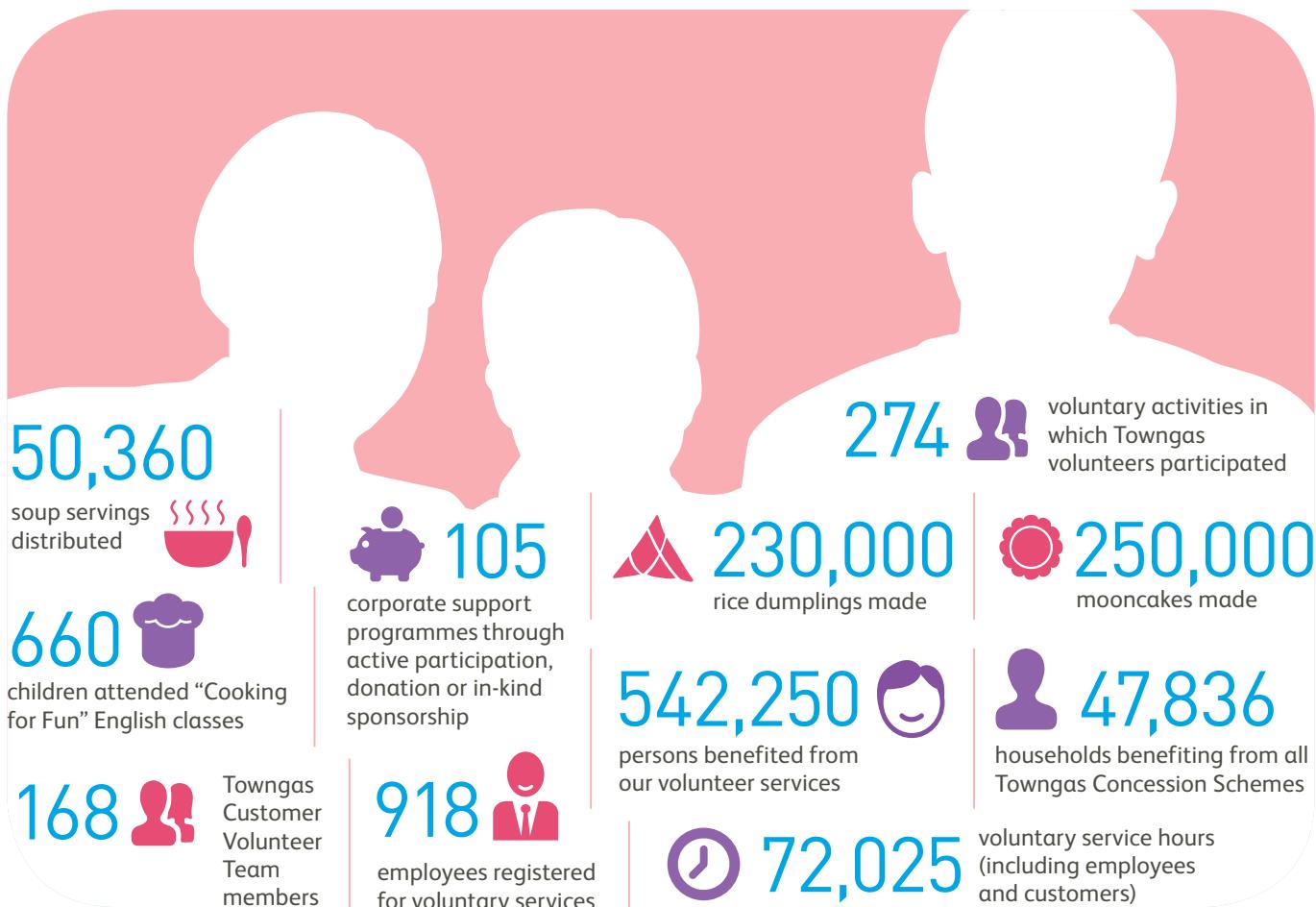
	2014 Targets	Medium Term Targets (Two to Three Years)
Safety Training and Promotion	To organise HSE Quiz and hold HSE Month and Contractor Programme to promote safety awareness and foster safety culture of our colleagues and contractors.	To conduct a safety culture survey to measure the "Safety Culture" of employees and identify improvement opportunities on corporate safety performance.
	To set up an HSE Experience Centre for workers to experience acceptable hazards.	To further promote the safety awareness and safety culture of ECO mainland JVs through education and training and experience-sharing visits.
Safety Audit	To conduct the second round safety audit with scoring for ECO mainland CNG/LNG filling stations.	To achieve the certification of all managerial staff in our mainland JV's Risk Management Department as Certified Safety Engineers.
	To implement a safety audit scoring system for ECO mainland chemical business.	
Safety Procedure / Guideline	To publish a pocket size safety golden rules handbook for ECO mainland chemical business.	



Social Performance

We recognise the important role we play in the community and consider social responsibility central to our business as we strive to develop and nurture a harmonious relationship with all our stakeholders as we care for our employees, customers and the community at large.

As a sustainable business we continue to support, participate, invest in and sponsor social and development programmes that reach out to our employees, communities and business partners. With respect to our employees' training, development and wellbeing, we have often been cited as an ideal employer. Within the community, our aim is to spread care and give back as well as lend a helping hand, particularly to the vulnerable and needy in our society. In doing so, we hope to be regarded as a business that can be trusted, loved and respected within the community.



Major Awards and Recognitions

Supreme Public Utility Service Award

– Capital CEO and Capital Entrepreneur

Highest Service Hour Award in the Private Organisations – Best Customer Participation category

– Social Welfare Department, HKSAR

Friend of Social Enterprise

– Home Affairs Department, HKSAR

Sing Tao Excellent Services Brand Award – Excellent After-sales Services

– Sing Tao Daily

Volunteers with Service Hours Exceeding 10,000 Award

– Social Welfare Department, HKSAR

President's Award

– The Community Chest

Review of 2013 Targets

 Target Achieved

 In Progress

Targets	Progress
Employees – Talent Development	
To institutionalise Talent Review mechanism at locomotive level to facilitate talent development and succession planning process for future business growth.	 The talent review process was implemented for a few locomotives and corporate functions in phases, depending on the business development stages. Development actions were discussed and learning programmes were identified to facilitate talent development and succession planning process.
Employees – Talent Attraction	
To prepare manpower plans to ensure continuous supply of workforce to support daily operations, businesses growth and to maintain high safety standards and quality.	 To support the rapid growth of our new business segments, and to address the retirement workforce in the coming years, manpower planning exercises were initiated with key action points and timelines identified. The Company has been actively recruiting qualified individuals to support the manpower needs of different businesses.
Employees – Information System Enhancement	
To enhance the functionality of Human Resources Information System for better data management and streamlining of work process.	 Functionality of Human Resources Information System was enhanced by capturing detailed information of employees, so that a full standard employee profile could be generated from the system easily for management's review and to facilitate the career development planning.
Employees – Mission, values, and Code of Conduct	
To review the Corporate Code of Conduct and organise refresher workshops to all employees.	 A set of Corporate Code of Conduct, listing the principles of business conduct and ethics, with the new whistle blowing policy incorporated, was established and promoted among the management staff within the Towngas Group. This set of Code became the blueprint for partner companies within the Group to customise their own detailed Code of Conduct and operation guidelines.
Employees – Health and Safety	
To promote Employee Wellness by launching Health campaign and programmes.	 Various health campaign and programmes were organised to promote healthy habits among employees, focusing in 4 areas: <ul style="list-style-type: none"> Physical & Mental Health: Marathon, Staircase walking competition, Health Day, Health Talks Healthy Eating: Green Monday cooking class Smoking Cessation: Smoking cessation seminar, Lok Sin Tong Smoking Cessation Campaign Breastfeeding: Mother Care Room
Community – Social Project	
To distribute a grand total of 1,800,000 rice dumplings, 1,300,000 mooncakes and 295,000 servings of hot soup by the end of 2013.	 Distributed a grand total of 1,835,000 rice dumplings (since 2000), 1,360,930 mooncakes (since 2001) and 322,738 servings of hot soup up to the end of 2013.
Community – Green Living	
"Farming for Fun" would be organised in 2013. The programme aims to promote green living through organic farming and donate the harvest to underprivileged groups through food banks.	 The programme was started in August 2013. Our volunteers made 22 visits to the farm to learn and practise organic farming. One of the visits was arranged for 18 students and their family members from Ebenezer School and Home for the Visually Impaired.

Our People

We recognise that our most important asset is our people because they are indispensable to our ongoing success. Without their efforts, drive and commitment, we would be unable to carry out our business. It is therefore an absolute priority that we cultivate, grow and retain a competent, committed and professional team of employees who are

passionate, involved and driven to give their all in everything that they do.

In Hong Kong, 100% of all senior managers were hired from the local community.

The employee turnover rate in Hong Kong for 2013 was 5.9%, while an average of 5.6 days of sick leave were taken.

Key Employee Statistics

Ratio of Male to Female in Hong Kong

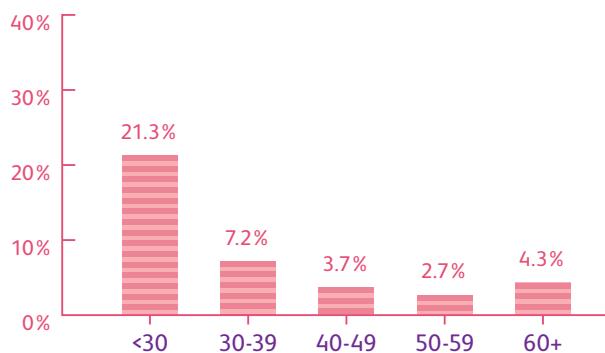
Employees



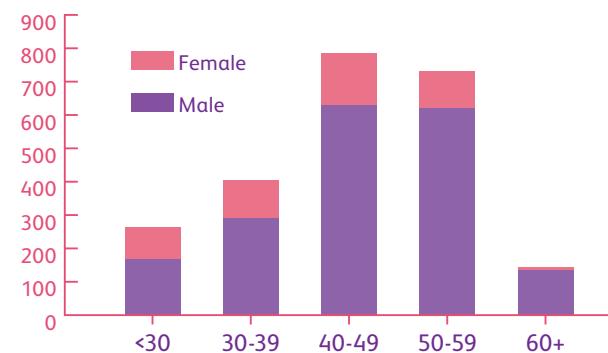
Senior Managers



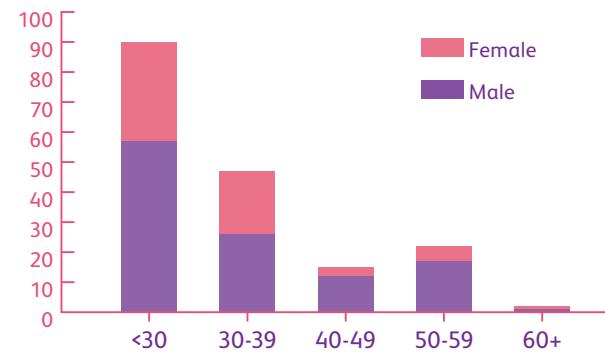
Turnover Rate by Age Group



Total Workforce by Age Group and Gender



Recruitment by Age Group and Gender



Total Workforce by Contract Type and Gender



case
study

Healthy Living Every Day

As a company we believe that our professional and committed employees significantly contribute to our high quality service and good reputation with our customers.

One of the key goals of our operations in Hong Kong is to maintain a sustainable and healthy workforce of over 2,300 employees. As a result, we organise a series of programmes each year with different themes focusing on employee wellness.

In celebrating the 150th anniversary in 2012, we promoted the culture of Wenxin (a warm family culture). To continue the caring company culture, in 2013, “Healthy Living Every Day” became the campaign theme of the year to enhance employees’ awareness on health and fitness. As part of the campaign we have organised a number of activities to promote health education and focus employees’ attention on their health:

- Circulated health related information to employees through a number of health workshops and seminars, including – Exercise at the Office workshop (March 2013), Smoking Cessation seminar (May 2013), a Diabetes Educational Talk (July 2013) and Cooking workshops (August 2013) to support Green Monday and vegetarianism.
- Promoted regular exercising through a number of competitions – Distance Run competition in Tai Po (March 2013) and the North Point Building Staircase Walking competition (November 2013).
- Promoted health awareness – Health Day (May 2013), where we offered staff free basic health checks (blood glucose, cholesterol level, blood pressure), and the Serene Oasis Tour (June 2013) was organised to let employees explore gardening as a means of stress therapy.
- Enhanced company health facilities and equipment to promote healthy habits – adding a changing room with shower facilities, two fitness bicycles in the leisure area, and a Mother Care room were established in our office building to encourage employees to exercise frequently and promote breast feeding amongst female employees. Free pedometers were also distributed to employees to monitor their walking habit and exercise level.

Following the success of the programme in 2013, in 2014 our campaign theme changes to “Fun Living Every Day, literally happy workplace” which aims at promoting positive mind-set and mental attitude to employees.



Stakeholder Dialogue

Q: *“What is Towngas doing to develop and retain its staff?”*

A: *“At Towngas, people development has always been one of our key focuses. Development programmes are in place for all levels, ranging from strengthening the technical and personal capabilities of our core workforce in delivering reliable and efficient services to our customers, to enhancing the leadership competences of our management team in driving sustainable business success. At the same time, Towngas nurtures a working environment which emphasizes “Wenxin” (a warm family culture) that is conducive to employee engagement and hence enriches the total employment experience.*

For example, we establish a Towngas Buddy Club to provide regular activities for retirees to get together, and to actively engage them in our community volunteering services. We have also introduced an Employee Assistance Programme to provide external counselling advice for employees who need assistance on both work-related and personal issues. Terminated employees may also seek advice from the professional service provider in managing their next career move.”

Kit Fan

Head of Corporate Human Resources
The Hong Kong and China Gas Company Limited

Employee Relations

Equal Opportunity and Diversity

In line with Hong Kong’s anti-discrimination ordinances, our equal opportunities policy which we instated in 1995 seeks to maintain a pleasant and harmonious working environment that is free from any discrimination related to sex, age, race, religion, marital status, family status, or any health disabilities or conditions. As such, our recruitment policy at Towngas is to simply hire the most capable and suitable candidate with no discrimination.

Freedom of Association

We comply with and respect all legal requirements in regards to freedom of association, union membership and/or collective bargaining in the countries we operate. Our employees have the freedom of association with any organisation and professional body of their choosing.

Achieving the highest possible service standards is only possible if we treat our employees with care and respect. We offer our employees a compensation and benefits package which is fully complying with all

legislations and guidelines. In addition, we invest in training and development programmes with the objectives to enhance the competencies of our people to bring out their full potentials, as well as to ensure their development with a rewarding career in the Company.

During the reporting year, there was no reported incident related to discrimination, restrictions of personal freedom, child labour, forced labour or corruption within our operations.

Remuneration

The Company is committed to ensuring a competitive remuneration is offered to our employees at all levels in order to attract and retain talents, as well as to raise standards of performance.

Through the annual performance appraisal and pay review exercise, employees' compensation levels are benchmarked against external compensation data obtained by pay survey consultants. Special market adjustments are also made for positions that face particular recruitment or retention challenges.

We review our performance through constant monitoring of key indicators including the 12-month rolling average attrition rate, vacancy rates for different positions etc. Our operational managers and staff union also provide regular feedbacks on labour market situations and suggestions in tackling any particular challenges.

With the introduction of the Minimum Wage Ordinance in Hong Kong in 2011, the Company has strived to ensure all employees are compensated above the statutory minimum. In 2013, all standard entry level wages fulfilled the regulatory requirement, with male and female employees in Hong Kong being compensated at 37.7% and 38% respectively above the minimum wage.

Training and Education

Our success depends on our ability to stay competitive in response to rapidly changing market conditions. One way to achieve this is to ensure our employees are developing and updating their skills and knowledge continuously. Therefore, we invest heavily in the continued learning and development of our people by providing a wide range of training on management, leadership and technical skills.

2013 Average Training Hours

12.3 Hours



Male Employee

12.6 Hours



Female Employee

10.5 Hours



General Employee

29.2 Hours



Managerial Employee

These training programmes not only equip our employees to do their jobs ably and effectively, but also to create a pool of talented and professional leaders which we can draw on for our possible future leadership needs.

For instance, at the supervisory and management managerial level, over 350 supervisors completed more than 5,000 hours of training on “Leading Others” workshop series, which include topics such as “Coaching for Performance”, “Walking our VMV”, “Igniting Creativity and Innovation” and “Reward Management”. Appraising our employees’ performance via an annual appraisal aids in our employees’ personal development whilst also contributes to the continuous development of our human capital. We have chosen to extend this practice to most of our subsidiaries in Hong Kong.

In order to best equip our management team to conduct these appraisals, in 2013, more than 50 communication sessions were conducted and over 230 supervisors attended a workshop to acquire the necessary techniques to conduct performance appraisals and provide feedback to their subordinates.

Besides internal training, we also provide subsidies for external job related training courses, ranging from higher degree programmes, part-time courses, language courses to safety courses.

2013 Employee Performance and Career Development Reviews

88.9%



Male Employee

75.6%



Female Employee

86.2%



General Employee

85.3%



Managerial Employee

Graduate Trainees Programme

Aside from training, Towngas has a tradition of taking a long term perspective in people development. We launched the Graduate Trainees (GTs) Programme back in 1982 to bring in young talents from universities to develop technical and management careers with the Company. This GT programme has been proven to be very successful in ensuring leadership continuity for the Company. As a result, similar programmes have been extended to our newly setup businesses in mainland China to support their business growth.



Executive Development Programme

At a Corporate level, we have implemented a development programme for young leaders called "Towngas Leadership Competency Acceleration Development Programme" (TLC+ Development me) to develop high potential employees from all businesses in different regions as future leaders. Selected participants are given exposure to different businesses as well as participating in solving real business challenges. A total of 39 managers with high potentials have been graduated from this programme.

For managers at more senior levels, Towngas has been cooperating with top-tier mainland Chinese universities to provide Executive Development Programmes (EDP) for these business leaders to further polish their leadership competencies. For example, 36 senior managers attended a week long Tsinghua University Executive Development Programme in 2013. This witnessed our partnership with Tsinghua University since 2007 in leadership development. Besides, a further 30 participants completed a 5-day programme at the Chinese Academy of Governance to enhance their understanding on the changing political, economic and social environments in China. Furthermore, we organised another four regional EDPs engaging 158 executives in 2013 for different regions in mainland China.

Our commitment to staff training and development was recognised by the Employees Retraining Board, which has awarded Towngas as a "Manpower Developer".

This two-year award, now in its second year, has recognized our achievement in five aspects – Leading a Learning Culture, Resources Planning, Training and Development Systems, Performance Development and finally Corporate Social Responsibility.

Towngas Engineering Academy

Towngas Engineering Academy ("TEA") was established to develop qualified professional employees who are equipped with industry-leading safety, services and technical skills. It is responsible for our technical training, Professional Qualification and Superior Quality Service functions.

In view of the rapid expansion of our operations in the mainland, TEA has seen a surge in its training hours in recent years. In 2013, 41,407 training hours in Hong Kong together with 101,268 training hours in the mainland were completed. To maintain our leading position in the industry and nurture the next generation of Towngas employees, the apprenticeship training course offered in Hong Kong has been extended from one year to two years. Graduates from this course will be qualified for a full Registered Gas Installer Licence.

In mainland China, TEA now has four training centres in Jinan, Changchun, Ziyang and Shenzhen to meet the Group's demand for accredited professionals. To cope with our further expansion, a new training facility will be opened in Suzhou in 2014. In addition, we have also partnered with vocational institutions in Changzhou, Guangzhou and Shandong to offer TEA graduates additional ways to enter the gas industry.

Towngas Engineering Academy Training in 2013

	Training Man-hours	Number of courses/Talks	Number of Employee Trained
Continuing Professional Development Seminars*	3,232	46	2,329
Gas Fitter Apprentice Training Scheme*	41,407	465	3,683
Network Trainee Fitter Scheme			
Registered Gas Installer Training for Contractors			
Technical Skills and Refresher Training Programmes			
Technical Training in mainland China	101,268	217	3,956

* For Hong Kong staff only

Customer Service

Treating our customers fairly and providing high-quality services is essential to earning and maintaining their trust. Providing excellent customer services can also help us differentiate ourselves from our competitors and build an even more successful business.

Introduced in 1994, the Towngas Service Pledge sets important targets in major customer service areas: reliability of gas supply, safety, service attitude, the speed and convenience of services, appointments and complaint handling. We have consistently

performed well over the past 18 years. We pledge to continue improving our services and to raise our targets to provide our customers with the best possible services.

In order to assess customer satisfaction, we have enlisted a third-party company to carry out monthly customer satisfaction surveys. These surveys span a variety of customer satisfaction metrics such as efficiency, courtesy, the friendliness and attitude of our staff, reliability, and our ability to maintain appointment timeslots.



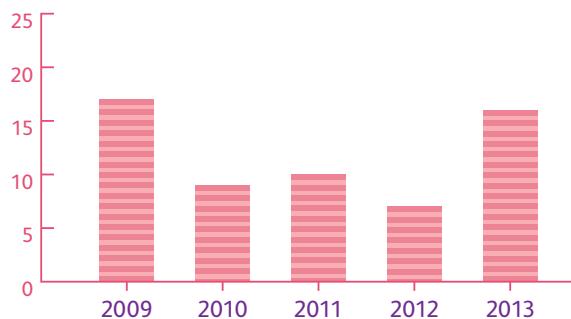
2013 Service Pledge, Target and Progress

Pledges	Target	Progress
Reliability		
Uninterrupted gas supply	Over 99.99%	99.992%
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 Teams	Arrive on site within 30 minutes	95.84%
Appointments		
Availability of maintenance and installation services	Within 2 working days	Average 1.13 days
Speed and Convenience		
Customer Service Hotline	Calls answered within 4 rings	94.06%
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*	100% Upon Customer's Request
Service Quality		
Efficiency **	8 out of a total score of 10	8.79
Courteous and friendly attitude **	8 out of a total score of 10	8.80
Handling Suggestions		
Written comments or suggestions	Reply within 3 working days	100%
	Resolution, or a statement of when the matter will be resolved, within 2 weeks	100%

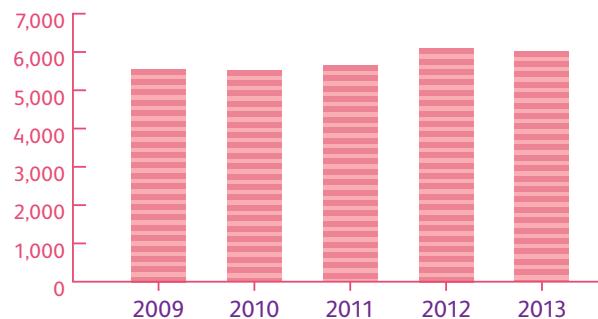
* To enjoy this service, residential customers are advised to inform us of their request for funds at the time of making cap-off service appointment. The maximum refund amount is HK\$2,000

** The result was based on monthly surveys conducted from January to December 2013 by an independent research company. Our target is to exceed a score of eight out of ten.

Customer Complaints



Customer Compliments





Our people are crucial to our consistently delivering excellent customer service. We strive to equip them with the skills, tools and knowledge they need to give our customers “Caring, Competent and Efficient Service” as promised in our Towngas Mission Statement. Bearing this in mind, we have turned our attention to enhancing our employees’ “soft skills” in addition to the technical and management training we make available.

Courtesy (“禮” in Chinese) goes a long way towards fulfilling our mission. Each employee serves as our ambassador, and employee behaviour reflects either positively or negatively on our company brand. A Courtesy Programme featuring three elements of courtesy – etiquette, politeness and caring (“禮儀”, “禮貌”, “禮讓” in Chinese) – was formally launched in 2013. This programme is intended to strengthen awareness of courtesy and sustain a courteous culture at Towngas.

A standardised service model derived from the Towngas Mission – “cAring, Competent and Efficient Service”, the ACE Model – serves as our touchstone for customer service. The model emphasises the prominence of customer services delivery as well as the importance of having a positive attitude and building a good first impression. It gives clear guidelines in being caring, competent and efficient, and applies to all employees, particularly to those who routinely face customers.

Programmes addressing personal grooming, etiquette, services and communications were organised in 2013 with over 300 employees in attendance. A notable highlight was the Towngas Grooming Contest, which recognised four winners for their high standard of grooming. Management leaders and their assistants attended professional grooming and business etiquette workshops in which they were trained on professional image-building techniques and social skills. Participants valued the advice and networking opportunities, and the workshops were well-received, earning a rating of five out of six in overall participant satisfaction.

In addition, courtesy training was also given to our drivers to help remind them of the role of courtesy in good customer service, and, most importantly, to be thoughtful, safe road operators. Concrete behavioural examples of driver etiquette, politeness and caring were shared in the programme, including these examples:

Etiquette (“禮儀”) – Demonstrated by presenting warm smiles as well as neat and tidy appearances. Also entails keeping the cabin clean and orderly.

Politeness (“禮貌”) – Demonstrated by eagerly greeting guests, trying to understand their needs and rendering satisfactory services.

Caring (“禮讓”) – Demonstrated by safe practices on the road and preserving the Company’s good reputation.

The drivers found the workshop useful and rated the programme five out of six in their satisfaction.

Additional activities are being planned for 2014:

- All new staff will receive training so they understand the centrality of courtesy in the Towngas Mission, and to make certain they learn the ACE Model in our orientation programme.
- Courtesy training programmes will be extended to our customer-facing employees and contractors in different departments such as customer service, marketing and sales, restaurants, and meter reading so that Towngas customers receive high-quality services.

Customer Liaison

Since the Customer Focus Team's inception in 1993, it has played an instrumental role in communicating between Towngas and its customers. Simply put, the Team helps us meet customer expectations, and it includes managers from all customer-related departments. The Team visits two public or private housing estates every month to meet customers and discuss with them any issue related to Towngas services. Customer feedback contributes extensively to our ongoing product and services improvement.

Customer Privacy – Data Protection

Towngas respects the privacy of its customers and conscientiously safeguards customers' data. We are therefore committed to protecting all personal data we receive. To comply with the Personal Data (Privacy) Ordinance, Towngas upholds well-established policies and mechanisms to deal with data management, ranging from collection to safe custody.

Towngas has both a Data Privacy Standing Committee and a Data Privacy Departmental Committee to tackle customer data matters. The standing committees are responsible for reviewing all strategies pertaining to personal data handling and recommendation issuance to the Executive Committee if and when there is a significant incident of data leakage. In addition, a designated Data Protection Officer coordinates and handles data protection matters.

To strengthen company accountability, all departments and relevant subsidiaries are required to reveal their respective compliance with privacy laws by submitting an annual data protection declaration to the Company.



This transparency allows Towngas to possess a holistic view of its position and make corresponding enhancements as necessary.

To cope with privacy law amendments pertaining to direct marketing, Towngas upgraded its systems to streamline operational processes. We gave training and seminars to colleagues and sub-contractor staff to build their awareness of data protection issues.

For more detailed information on our data protection policy,

**Click to view
Data Protection Policy**

During 2013 there were no substantiated complaints regarding breaches of customer privacy or losses of customer data.

Community Services

We sponsor and invest in a broad array of campaigns and events to serve our communities, contributing not only financial help and support but also resources, expertise and employees at various activities.

Initially focused on providing help and assistance to the elderly, our community programmes have over the years widened to include under-privileged groups such as the financially underprivileged, new immigrant families as well as people with physical or mental impairments. In addition to extending warmth and care to those in need, we have supported initiatives for recipients who are able to eventually help themselves. Presently, all our major operations in Hong Kong have implemented local community engagement programmes.

2013 marked a major milestone for our community and volunteer programmes. Since 1999, we have contributed over 467,000 hours of community service. For the sixth year in a row, we received the Social Welfare Department's top honour, the "Highest Service Hour Award", in the "Private Organisations – Best Customer Participation" category.

The generous efforts of our volunteers were also recognised by the Home Affairs Department, which named us a "Friend of Social Enterprise", and by Community Chest, which awarded us its "President's Award."

Towngas Concession Schemes

Seeking to make a positive difference on behalf of disadvantaged groups, we have four tariff concession schemes. Introduced in 1995, this scheme began by providing concessionary rates on our Towngas services for the elderly in Hong Kong. This scheme has since evolved to cover people with disabilities, low-income families and single-parent families.

Towngas District Council Focus Teams

District Council Focus Teams were established in 2000 to forge ever-stronger links with our local communities. Consisting of more than 50 Towngas managers, the teams liaise directly with Hong Kong's 18 districts. They keep in regular touch with district councillors and local representatives, working as partners to better the community. This close involvement with the general public gives us a deeper insight into our customers' needs.

We are highly active within the local districts through these teams, participating in charity functions, household safety and environmental protection campaigns, and the provision of services for the elderly.



Towngas Volunteer Service Teams

At the end of 2013, the Towngas Volunteer Service Team consisted of 918 employees in Hong Kong. Through this team, our employees stay engaged in our community activities. This past year the Volunteer Service Team worked with Kwong Wah Hospital to promote a balanced diet as part of the Healthy Diet – Healthy Life for Diabetes Mellitus campaign.

The team also introduced the “Farming for Fun” initiative, an organic farming activity to allow employees to experience farming while enhancing their relationships with their families. The grown crops were donated to food banks and other charitable groups helping those in need. The team recently worked with students from Ebenezer School and Home for the Visually Impaired, who were invited to participate in the programme and learn about organic farming.

Towngas Warmth and Care Fresh Food Aid Programme

Working in partnership with The Salvation Army, the Hong Kong Council of Social Service and CookEasy, the “Towngas Warmth and Care Fresh Food Aid Programme” was launched in 2012, with an initial fund of HK\$1.5 million. This fund helps us provide fresh nutritious food packs to single-parent CSSA households. The programme began in Tung Chung and Kwai Chung, where 150 single-parent families received fresh, nutritious food packs twice weekly. We hope to alleviate single-parent families’ financial burdens and improve their children’s nutrition and growth.

In 2013, we distributed 15,600 nutritious fresh food packs to under privileged single-parent families in Tung Chung and Kwai Chung, with deliveries made twice a week lasting for a year.

This programme has been so successful that we have extended it into 2014 to help other single-parent and low-income households in Sham Shui Po and Kowloon City.

“CookEasy is a food-pack delivery social enterprise employing people with disabilities or low incomes. Under the new food assistance programme, we have recruited three additional staff members with disabilities and two trainees for the programme. We have thus created more work opportunities for the less fortunate.”
Katherine Ma, Fifth Vice Chairman, Tung Wah Group of Hospitals.

Rice Dumplings and Mooncakes for the Community



These two beloved and ongoing programmes are mainstays of our annual community events. This year, volunteers distributed 230,000 "low-carbon" rice dumplings to the elderly. In September, we held an annual mooncake drive, distributing 250,000 mooncakes across Hong Kong.

Gentle Breeze Movement

In March 2013, we launched the "Gentle Breeze Movement" in mainland China, a name meant to encompass all our community projects in the mainland. During the reporting year, we upgraded the facilities of seven schools in Jiangxi and Anhui provinces, and provided financial assistance to enable 100 promising students from underprivileged families affected by the Ya'an earthquake in Sichuan province so that they could attend university in partnership with the Sichuan Youth Foundation.

We also continued our Book Donation with Love and Care Programme and set up 22 book corners in nine provinces.

For example, in 2013, approximately 30 volunteers from Towngas China visited and brought gifts to a primary school in Ma'anshan City, Anhui Province in the mainland. In order to improve the learning environment there, Towngas China contributed more than \$200,000 to establish a library with 700 items in its collections. We also donated winter uniforms as well as teaching and sporting equipment while renovating the campus building.

The China Association of Social Workers recognised our innovative approach to corporate social responsibility and honoured us by naming us a "Five Stars Outstanding Corporate Citizen in China 2013". In addition, China News Service and China Newsweek named Towngas China the "Enterprise with the Best Corporate Social Responsibilities 2013".



Future Targets and Initiatives

	2014 Targets	Medium Term Targets (Two to Three Years)
Talent Development	To strengthen leadership and management development by formalizing Towngas' own leadership programmes for different management levels, and launching the 3rd Corporate TLC programme for talent development.	To support new businesses in launching their locomotive's HIPO programmes to strengthen the Towngas Leadership Competencies of their young leaders.
Information System Enhancement	To implement a web-based Employee Self Service system for streamlining of work process.	To continuously enhance the topics in corporate leadership and management development curriculum to support both business growth and development of our employees. Conduct Train-the-trainer programmes to transfer skills to local JVs on various corporate programmes.
Employee Health and Safety	To promote Employee Wellness through positive thinking, happy at work campaign and programmes.	
Social Project	To distribute a grand total of 2,050,000 rice dumplings, 1,560,000 mooncakes and 330,000 servings of hot soup by the end of 2014.	To distribute a grand total of 2,500,000 rice dumplings, 1,700,000 mooncakes and 380,000 servings of hot soup by the end of 2016.

Key Statistics

	Unit	2013	2012	2011	2010	2009
Business						
Operations (Company)						
Customers as at 31 December	Number	1,798,731	1,776,360	1,750,553	1,724,316	1,698,723
Employees as at 31 December (Hong Kong gas business only)	Number	1,966	1,943	1,938	1,923	1,908
Average turnover of workforce (Hong Kong gas business only)	%	5.1	4.6	4.6	4.5	3.3
Average turnover of workforce (all Hong Kong staff)	%	5.9	5.5	6	5.5	5.4
Installed capacity (Hong Kong town gas production)	Thousand Cubic metres per day	12,260	12,260	12,260	12,260	12,260
Town Gas sales (Hong Kong)	Million MJ	28,556	28,360	28,147	27,578	27,274
Financial						
Revenue	HK\$ million	28,246	24,923	22,427	19,375	12,352
Manpower costs	HK\$ million	2,282	2,013	1,700	1,467	1,120
Taxation	HK\$ million	1,655	1,485	1,344	1,039	751
Dividends	HK\$ million	3,346	3,042	4,148	2,514	2,285
Safety and Social						
Safety (Hong Kong)						
Trench inspections	Number	13,675	17,599	16,533	18,400	17,496
Regular safety inspections – home visits	Number	1,021,089	1,114,409	1,177,367	1,110,744	1,177,170
Community safety exhibitions	Number	12	12	13	12	12
Community safety talks	Number	5	6	5	6	11
In-house safety training	Number of man-hours	17,822	20,254	14,047	19,075	18,031
External staff safety training	Number of man-hours	6,181	6,720	7,071	8,002	7,626

	Unit	2013	2012	2011	2010	2009
Occupational Health and Safety						
Accidents – all industrial for injuries ¹	Number	15	10	10	16	14
(Accident Frequency Rate ¹⁾	(Number of accidents per 100,000 man-hours)	0.24	0.19	0.19	0.31	0.27
Reportable accidents ^{1,2}	Number	12	7	9	14	9
(Accident Incidence Rate ^{1,2)}	(Number of reportable accidents per 1,000 employees)	4.9	2.5	2.9	5.7	3.7
Traffic Accident Injury Rate ³	Number of traffic accident injuries per 100 vehicles	1.47 (1)**	3.74	3.11	3.71	3.05
Industrial Injury Man-days lost	Number of man-days	194	111	160	430	412
Fatal accidents	Number	1	0	0	0	0
• Hong Kong employees						
Fatal accidents	Number	0	0	0	0	0
• HCIL, TCCL and JV employees						
Customer Service (Hong Kong)						
Customer compliments	Number	6,026	6,090	5,658	5,532	5,554
Customer complaints	Number	16	7	10	9	17
Community Involvement (Hong Kong)						
Employees participating in voluntary services	Number	918	1,079	1,215	1,112	1,230
Voluntary service hours (including employees and customers)	Number of hours	72,025	68,508	64,956	48,815	44,939

	Unit	2013	2012	2011	2010	2009
Environmental						
Resource Use / Conservation (Hong Kong)						
Naphtha saved [#]	Metric tonnes	9,982	13,355	13,996	13,657	11,234
Town gas saved [#]	Cubic metres	3,406,278	3,404,587	3,528,364	4,089,133	3,626,266
Water saved [#] (Gas Production)	Cubic metres	230,288	218,887	177,463	224,358	213,971
Grid electricity saved through PV Panels	kWh	86,700	86,500	86,600	86,600	86,900
Electricity saved [#] (North Point headquarters and Ma Tau Kok office)	kWh	4,823,309	4,254,325	4,234,225	4,142,825	3,993,105
Electricity Consumption at Headquarters	kWh	6,370,540	6,913,514	6,840,479	6,945,157	7,177,509
CO ₂ emissions avoided equivalent to electricity saved [*] (North Point headquarters and Ma Tau Kok office)	Metric tonnes	3,376	2,981	2,963	2,900	2,795
Landfill gas utilisation as heating fuel in gas production	Cubic metres from Shuen Wan	2,526,000	2,362,000	2,364,000	2,761,000	2,361,000
Landfill gas utilisation as heating fuel in gas production	Cubic metres from NENT SNG	14,619,749	20,129,181	20,789,390	19,925,269	16,065,375
Air Emissions (Hong Kong)						
CO ₂	Daily average in metric tonnes (Metric tonnes per million MJ of town gas)	931 (12.09)	904 (11.92)	913 (11.91)	896 (11.96)	896 (12.13)
NOx	Daily average in kg (Kg per million MJ of town gas)	353 (4.59)	318 (4.20)	356 (4.65)	344 (4.59)	324 (4.39)
SOx	Daily average in kg (Kg per million MJ of town gas)	1.2 (0.02)	1.5 (0.02)	1.5 (0.02)	1.9 (0.03)	2.5 (0.03)
Greenhouse gases ⁴ (Production equipment)	Metric tonnes in terms of CO ₂ equivalent	365,981	360,634	362,307	355,958	357,043

	Unit	2013	2012	2011	2010	2009
Aqueous Emissions (Hong Kong)						
Wastewater	Daily average in cubic metres (Cubic metres per million MJ of town gas)	323 (4.20)	435 (5.74)	447 (5.84)	351 (4.68)	404 (5.47)
Waste Avoidance / Recycling (Hong Kong)						
Chemical waste generated	Daily average in kg (Kg per million MJ of town gas)	150 (1.94)	93 (1.23)	51 (0.67)	178 (2.37)	64 (0.87)
Spent catalyst collected for metal recovery	Metric tonnes	39.7	35.3	41.1	36	12
Metal chemical drums reused	Number	90	318	216	161	211
Plastic chemical drums reused	Number	914	969	1,064	818	882
Spent lube oil recycled	Metric tonnes	46.7	25.3	16.1	15.17	3.41
Scrap Metal recycled – Old gas appliances	Metric tonnes	1,278	926	840	989	930
Scrap Metal recycled – From construction and maintenance of plant and pipelines	Metric tonnes	28	35	11	47	125
PE pipe recycled	Metric tonnes	12.6	10.7	27	11.66	10.9
Gas appliances polyfoam packaging materials avoided	Metric tonnes	1.31	1.52	2.19	4.33	4.12
Awareness Raising and Training (Hong Kong)						
In-house environmental training (Hong Kong)	Number of man-hours	1,420	1,951	549	4,008	3,036
External environmental training (Hong Kong)	Number of man-hours	818	1,120.3	255	773	403

Remarks:

- 1 Contractor employees are excluded.
- 2 Employees of subsidiaries are excluded.
- 3 Only Towngas employees in Hong Kong are included.
- 4 From 2013 onwards, emission factors of greenhouse gas emission due to the consumption of electricity are obtained from the sustainability reports of the two local electricity companies which are released one year prior to our reporting year.

These figures are the savings achieved compared with the data of a reference year before implementing the respective environmental initiative.

* The default value to account for the GHG Emission Factor of electricity sold to customers in Hong Kong is 0.7kg/kwh. Reference: Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings of Commercial, Residential or Institutional Purposes in Hong Kong (by EPD & EMSD)

** Figure in bracket denotes the number of fatality



ASSURANCE STATEMENT

SGS STATEMENT ON ASSURANCE The Hong Kong and China Gas Company Limited Sustainability Report 2013

NATURE AND SCOPE OF THE ASSURANCE

SGS Hong Kong Ltd was commissioned by The Hong Kong and China Gas Company Limited (hereafter as "Towngas") to conduct an independent assurance of the "Sustainability Report 2013". The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text and data in accompanying tables, contained in the Report. Data and information of Towngas were included in this assurance process, which covered Hong Kong operations.

The information in the report and its presentation are the responsibility of Towngas. SGS has not been involved in the preparation of any of the material included in the Report. Our responsibility is to express an opinion on the text, data, graphs and statements within the mentioned scope of assurance set out below with the intention to inform all Towngas's stakeholders.

This Report has been assured at a basic assurance by using our protocols for:

- Evaluation of content veracity; and
- Evaluation against the AA1000 Accountability Principles (2008).

The assurance comprised a combination of pre-assurance research, interviews with the management and employees at headquarter, Tai Po production plant visit, documentation and record review.

Financial data drawn directly from independently audited financial accounts has not been checked back to source as part of this assurance process.

STATEMENT OF INDEPENDENCE AND COMPETENCE

SGS affirms our independence from Towngas, being free from bias and conflicts of interest with organization, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised auditors registered with Lead Auditor of SA 8000, ISO 26000, ISO 14001, OHSAS 18001 and GRI-nominated Trainer in Sustainability Reporting.

ASSURANCE OPINION

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the Report verified is accurate, reliable and provides a fair and balanced representation of Towngas sustainability activities from 1 January 2013 to 31 December 2013. The assurance team is of the opinion that the Report can be used by the Reporting Organisation's stakeholders.

Signed:
For and on behalf of SGS Hong Kong Limited

Ben Tsang
Senior Director, China and Hong Kong
Systems and Services Certification
4 September 2014
www.sgs.com

Patrick LEUNG
Lead Assuror
Systems and Services Certification