


SIGNIFICANT IMPROVEMENT IN FINANCIAL RESULTS



2007 has been the most remarkable year in the Group's history. In March 2007, The Hong Kong and China Gas Company Limited ("HKCG", a public listed company in Hong Kong), through the injection of ten joint ventures in the People's Republic of China ("PRC"), became the largest shareholder of the Group. The Company was officially renamed as Towngas China Company Limited in May of the same year. The introduction of HKCG's excellent management philosophy, quality assets and determined efforts directed at different operational and management levels, focusing on optimization, integration, streamlining and elevation of standards of different business segments, enabled the Group to turn around a loss, after tax attributable to shareholders, of HK\$256 million in 2006 to a profit attributable to shareholders, of HK\$145 million in 2007, an increase of HK\$401 million, demonstrating a substantial improvement in the profitability of the Group. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to HK\$532 million, representing an increase of approximately 1.9 times when compared to 2006, a noteworthy enhancement of the Group's operating cash flow. The changes in management philosophy and operational standards have been positively recognized by the international rating agency, Standard and Poor's Rating Services ("S&P"), who upgraded the Group to investment grade in August 2007. During the year, the Group's gearing ratios also appreciably improved. The Group's sound financial position will provide a solid foundation for future development.

DEVELOPMENT OF PRC GAS FUEL MARKET

With accelerating urbanization in the PRC, industrial output is increasing at a very rapid pace. Urbanization has led to a rapid growth in population in the urban and suburban

areas creating huge potential in the residential and commercial gas sectors whilst the prospering economic development offers enormous prospects for a rise in industrial gas consumption.

In the last few years, several major natural gas-related projects, including among others, the West-East Gas Transmission Project, Shaanxi-Beijing Gas Import Project, Zhong County-Wuhan Pipeline Project and Guangdong Liquefied Natural Gas ("LNG") Project, have all commenced operation. Recent discoveries of enormous natural gas reserves in Daqing's "Xujiaweizi (徐家圍子)" and Sichuan's "Puguang (普光)" Gas Field have paralleled commencement of Sinopec's Sichuan-Shanghai Pipeline Project and the second phase of PetroChina's West-East Gas Transmission Project. These, together with approval granted for construction of the Rudong LNG Project in Jiangsu province, are indications that more natural gas resources will gradually become available for supply and transmission.

Environmental protection is now a hot topic in the PRC. Given the prospering economy, issues such as increasing environmental protection or maintaining a harmonious development between society and nature have become a major concern for the country and its people. According to the 11th Five-year Plan, the PRC government plans to reduce emission of major pollutants by 10%. Currently, at state and local government level environmental protection is being strengthened through legislation and administrative regulation, providing positive development potential for the natural gas sector.

Growth in the PRC natural gas sector appears to be gaining momentum. The Group, through provision of professional services, will contribute to this trend and benefit from market expansion with the delivery of a quality and safe gas supply to its customers.

STRATEGIC ARRANGEMENTS

The Group remains committed to focusing primarily on the development of its piped gas business whilst still allocating appropriate resources to its liquefied petroleum gas ("LPG") business and further rationalizing existing operations. Regarding its piped gas business, the Group acquired Mianyang Tianneng in Sichuan province, Gongzhuling in Jilin province and entered into an agreement to acquire a project in Qijiang, Chongqing. These acquisitions have reinforced the Group's position in Sichuan and northeastern China and also created a breakthrough for the Group in the city of Chongqing. New project developments in the Southern and Southwestern regions of the PRC are also progressing satisfactorily. As for its LPG business, the Group achieved a major advance in December 2007 when it entered into an agreement to form a sino-foreign equity joint venture, Wuhan Wumei Panva Gas Company Limited (武漢武煤百江燃氣有限公司).

BUSINESS INTEGRATION

Once HKCG became the largest shareholder of the Group, business integration became a priority in 2007. The two groups have since enhanced communication, tightened cooperation and refined organizational structures at all levels. Financial support from HKCG and sharing of HKCG's extensive experience in areas such as project management, engineering design, marketing, customer service, safety and risk management are providing significant value in sustaining growth of the Group.

PROSPECTS

Looking ahead to 2008, the Group will continue to deepen integration with HKCG so as to fully capitalize on the benefits and synergy from the partnership. Operational efficiency will be enhanced by strengthening internal controls, engineering and safety management and other measures to build a stronger foundation for the Group's continuing development.

In 2008, the Group will aim to:

- **build up the Towngas brand**

During the coming year, the Group shall continue to work with HKCG to build up the "Towngas" brand as a renowned and quality name so as to consolidate its leading position in the PRC gas fuel sector. With safety as its first priority, the Group will undertake its mission to provide customers with caring, competent and efficient services, while preserving the environment and fulfilling its social responsibilities, making the "Towngas" brand known throughout the PRC.

- **develop new gas fuel projects**

Through mergers and acquisitions, the Group will continue to strive for rapid expansion which alongside organic business growth of existing projects, is set to increase the Group's future growth potential. Backed by HKCG's strong capital support, the Group will have more choice and a stronger negotiating position when seeking new projects. The Group will speed up its mergers and acquisition efforts by committing more resources to project development in 2008. In addition to scaling up its market share in Northeastern China and Sichuan province, the Group will strive to enter into other regions so as to accelerate development.

- **optimize customer composition to enhance project performance**

The Group has already built up an impressive market share in the PRC in terms of number of customers and population coverage. The Group's operational companies performed well in 2007 and still have enormous growth potential given the current trend of development in the PRC. A growing economy coupled with rapid urbanization and industrialization offers significant growth opportunities in the gas fuel sector. The pace of development in industrial, commercial and automobile gas consumption is far higher than that of residential gas consumption, offering higher gross profit margins to the Group. In 2008, the Group will also seek to optimize the customer compositions of its operational companies as well as increasing its sourcing power from upstream suppliers, so as to further enhance profitability of all operational companies and overall results.

APPRECIATION

I would like to take this opportunity to express my heartfelt thanks to our shareholders, customers and business partners for their generous support, as well as our management and staff for their genuine contributions. I look forward to reaching new heights in the coming years.

Chan Wing Kin, Alfred

Chairman

Hong Kong, 25 March 2008