CHAIRMAN'S STATEMENT

THE PRC'S GAS FUEL MARKET

Positive economic conditions and supportive government policies provided strong drive for the development of the gas fuel sector in the People's Republic of China (the "PRC") in 2006. With a growth of 10.7% in gross domestic product recorded for the year, it became more pressing in the PRC to protect the environment from rapid economic expansion. In order to build the PRC into a resources saving and environmentally friendly society, Premier Wen Jiabao announced in his 2006 work report to the National People's Congress that the PRC is determined to reduce the release of major pollutants by 10% in the 11th Five-Year Plan period beginning 2006. Moreover, as part of the means to promote healthy growth for the oil and natural gas sectors, the PRC has begun drafting the Energy Law in late 2006 aiming at strengthening the management and governance of market participants, lifting government price controls, and safeguarding the long-term development of industries through detailed legislation. Against this background of buoyant economic growth and progressive legal system, the PRC's gas fuel market has marched a major step forward.

The PRC produced 59.5 billion cubic metres of natural gas in 2006, an increase of 9.6 billion cubic metres over 2005. While this ranked the PRC as the world's 11th natural gas producer, consumption of natural gas in the PRC is expected to grow even more rapidly. Currently, natural gas only accounts for 2.5% of the PRC's total energy consumption, a much lower figure than the world average of 25%. The per capita consumption of natural gas is only 25 cubic metres in the PRC, compared to an average of 403 cubic metres elsewhere in the world. It is expected

CHAIRMAN'S STATEMENT

that natural gas will gradually become a major gas fuel in the PRC cities, taking up 55%-60% of the market by 2020 compared to its current market share of 43%. In order to meet the rising demand for natural gas, the PRC will need to import large quantities of liquefied natural gas ("LNG"). Such imports are expected to exceed 12 million tonnes in 2010 and double in 2020. The rapid growth of natural gas consumption will no doubt provide favourable business opportunities for piped gas enterprises.

Notwithstanding the rapid increase in piped gas consumption, the liquefied petroleum gas ("LPG") sector in the PRC also maintains a solid growth. It is expected that the PRC's demand for LPG will grow to 25 million tonnes in 2007 and 38.9 million tonnes in 2015. With cylindered LPG gradually accounting for higher market shares in rural areas and the relevant rules and regulations gradually in place, downstream enterprises with higher capacity and efficiency will be able to compete in a more advantageous position. Since the LPG business requires a relatively smaller amount of fixed asset investment and enjoys quick cash payback, we believe that the LPG market in the PRC is still favourably attractive for investment.

THE GROUP'S DEVELOPMENT STRATEGIES AND IMPLEMENTATION

During the year, Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") focused on piped gas business development while allocated an appropriate amount of resources to the LPG business and further rationalised its existing operations. On the piped gas front, the Group acquired a 90% equity interest in Fuxin Gas Co., Ltd. ("Fuxin Gas") in Liaoning for a consideration of RMB74,330,000. Moreover, the Group acquired equity interests in 10 PRC companies and took assignment of their shareholder loans from The Hong Kong and China Gas Company Limited ("HKCG"). In consideration for the acquisition, the Company issued approximately 773 million new shares to HKCG, which represented approximately 43.97% of the enlarged issued share capital of Panva. The acquisition has provided the Group with the opportunity of gaining a higher market share in the northeastern and eastern PRC regions. Also, the Group has achieved satisfactory progress in new project development in the northern and southwestern PRC regions. As for the LPG business, the Group in June 2006 acquired a 50% equity interest in Hangzhou LPG Co., Ltd ("Hangzhou LPG") for a consideration of RMB25,000,000. Through this transaction, the Group has strengthened its market position in the LPG market in the eastern PRC region. The Group has been actively exploring opportunities in other large and medium sized PRC cities with strong potential.

The partnership with HKCG represents a strategic development of major significance for the Group. HKCG and the Group intend to coordinate on future gas project acquisitions, and HKCG intends to support the Group as an acquisition platform for future piped gas projects in the

PRC, which will further strengthen the position of the Group as a leading operator of piped gas business in the PRC. Apart from the added value in project development, the Group will also benefit from HKCG's rich experience in the utility sector. HKCG's operational expertise and considerable financial resources will enable the Group to focus on operational improvements, in areas such as project management, engineering, marketing, customer service and safety. These improvements will generate significant value to the sustained growth of the Group.

PROSPECTS

The Group will work closely with HKCG to create operational synergies for both parties by adopting a two-pronged approach. On the one hand, the Group will make new project development a top priority in 2007. This means dedicating more efforts to secure new piped gas projects in the northeastern region and Sichuan province while expanding the LPG business in selective major PRC cities. On the other hand, the Group will capitalise on HKCG's support to enhance our internal controls, engineering and safety management to obtain higher operational efficiency.

Chan Wing Kin, Alfred
Chairman

Hong Kong, 19 April 2007