



Qiqihar Natural Gas Storage Tank

Hong Kong and China Gas Became the Largest Shareholder

On 4 December 2006, the Company entered into an agreement with HKCG, whereby the Company would issue approximately 772 million new shares to HKCG for the acquisition of ten HKCG's piped gas companies in the PRC together with the relevant shareholder loans. The transaction was approved at the extraordinary general meeting of the Company on 15 February 2007. At completion, HKCG held approximately 43.9% of the enlarged share capital of the Company, making it the largest shareholder. HKCG through on-market purchases increased its shareholding in the Company to approximately 45.3% as at 31 December 2007.

Upon completing this significant transaction, the Group is accounted for as an associated company in the books of HKCG. The formation of this partnership has strengthened the Group's position and presence in the PRC's gas fuel market as well as increasing our operational footprint and future development potential. As Asia's leading piped gas operators, both companies believe in enhancing value through accelerating the integration and consolidation of operational management, sharing strengths and resources as well as creating synergy. The year 2007 marked the start of the integration process. Through communications and exchange of ideas at all levels, HKCG's advanced piped gas operation and management philosophies are being absorbed into the Group.



Office building in Ziyang

The Company was Renamed as “Towngas China Company Limited”

On 23 May 2007, the Company changed its name from Panva Gas Holdings Limited (百江燃氣控股有限公司) to Towngas China Company Limited (港華燃氣有限公司), and approved changes in the composition of the Board. At the same time, the Group officially adopted the use of the “Towngas” brand. The adoption of the new brand increases the synergy and presence of HKCG and the Group in the PRC’s gas fuel market.

The Group has adopted an action plan and a time frame for the completion of the renaming of its subsidiaries and project companies in the PRC. The Group’s wholly-owned investment holding company in the PRC, Panriver Investments Company Limited (百江投資有限公司) has been renamed as Towngas Investments Limited (港華燃氣投資有限公司, “TIL”). Two representative offices in Shenyang and Chengdu have also been renamed. Up to now nine enterprises in Sichuan, including companies such as Ziyang, Jianyang, Pengshan and Zhongjiang, and the company in Shaoguan, Guangdong have included “港華燃氣” in their Chinese names. The Group has taken the opportunity to promote the “Towngas” brand as part of the renaming process.

Business Integration

After HKCG became the largest shareholder of the Group, integration with them was given priority in 2007. Although the Group has enjoyed a prosperous and rapid development in just ten years of operation, there is still room for improvement in the operation and management of the piped gas sector, which requires a high level of technical know-how. As a century-old company in the Asian gas fuel market, HKCG has cumulated vast experiences in market development, safety, construction engineering and customer service. The sooner the integration process can be completed the sooner the resources of the two groups can be consolidated, resulting in greater synergy, enhanced company value as well as strengthened operation and management. These in turn would enable the Group to raise its profile and maximise our long-term value.

A task force has been established with HKCG to oversee the integration process. The two groups’ different business segments conducted exchanges and communications with their counterparts in arriving at an integration proposal and action plan. The “Towngas – Panva Gas Integration Workshop” was held in June 2007 marking the commencement of the operational stage of the integration process. As at the end of 2007, significant progress was achieved in the integration of different business segments.

Hong Kong and China Gas Investment Limited (港華投資有限公司), a wholly-owned subsidiary of HKCG in the PRC, and TIL have moved into the same building in Shenzhen. The Group has aligned its operational manuals and procedures on aspects such as strategic evaluation, corporate administration, human resources, project development, management training, safety and risk management, customer service, construction engineering, financial control and internal audit.

Over the past year, the Group had organised a number of major conferences including the Group's annual conference, human resources forum, finance and accounting forum and engineering management workshop to enhance communications between the two groups, thus accelerating the integration process. Through hard work, dedication and innovative ideas from different departments, remarkable achievements had been made for the standardization of philosophies and methodologies.

Up to date, the Group's finance department has adopted HKCG's approach to budgeting and has introduced an electronic information platform to raise the standard of financial control. The project development department has reviewed their project development and the evaluation system, updated relevant processes and the evaluation system incorporating the merits of the two groups. During the year, the Group together with HKCG organised two conferences, one in Eastern China and one in Sichuan on the establishment of a joint purchasing and logistics system, as well as the compilation of a key resources sourcing manual, a pilot version of which has already been launched. On safety and risk management, the Group has adopted the more stringent and comprehensive management system of HKCG. Safety inspections on project enterprises are conducted with the aid of relevant departments of HKCG. On engineering management, a three-tier management hierarchy comprising the headquarters, regional office and local enterprise has been put in place to strengthen the management of engineering projects. On information-based management, the Group together with HKCG has established a task force which has developed standardized SCADA and GIS systems for use in the Group's piped gas operations. The systems have been adopted by several enterprises on a trial basis under the guidance of the task force. During the year, the Group has restructured its functional departments and offices, revised human resources management policies, improved the appraisal process and conducted a number of training sessions on specific topics together with HKCG. On customer service, the Group has completed natural gas replacement for several enterprises, including the one in Shaoguan, by adopting HKCG's natural gas replacement and publicity programs. The Group has raised the indoor installation standards and technical requirements, and is ready to implement a customer management system for the piped gas enterprises as well as a new corporate image building campaign. In addition, following the launch of the Bauhinia brand gas cookers and equipment, a number of enterprises such as Ziyang, Zhongjiang, and Mianyang have already renovated their customer service centres to accommodate a Bauhinia showroom based on HKCG's designs.

The Launch of a New Website

Following the Company's change of name in 2007, a new website at www.towngaschina.com was launched, accessible in both Chinese and English. The site has sections on the Group's background, the PRC businesses, the Company's news, investor relations, safety and the environment.

Project Development

Mianyang Tianneng

In November 2007, the Group acquired through TIL the entire equity interest in Mianyang Tianneng Gas Development Company Limited (綿陽市天能燃氣開發有限責任公司) ("Mianyang Tianneng"). Mianyang Tianneng is principally engaged in the construction, maintenance and operation of gas pipeline networks and the supply of natural gas in the urban areas of the city of Mianyang. It owns a pipeline gas operating right in the Mianyang Economic and Technological Development Zone and another in Santai County in the city of Mianyang.

Mianyang, the second largest city in Sichuan province, is located in the northwest of Sichuan province, 120 km away from the provincial capital, Chengdu, where Cheng-Mian and Mian-Guang Highways interchange and the Baocheng Railway travels through. With an urban area of 55 sq km and population of 650,000, Mianyang is located in the "Cheng-De-Mian" new, high technology industrial zone of Sichuan province and is a major base for national defence scientific research and electronics industries. As the "Land of Wealth and Happiness" and "Silicon Valley of the West", Mianyang has been awarded a number of honours and titles such as the Prize for the Model as the Best Living Environment from the United Nations, an advanced city in China in terms of civilization efforts, a national city with good public health, a model city for national environmental protection, a national garden city and an outstanding tourist city in the PRC. It also is the only State Council-approved technology city in China.

Mianyang recorded a gross domestic product ("GDP") of RMB56,084 million in 2006, an increase of 13.9% year-on-year, 4 percentage points higher than the average growth set out under the 11th Five-Year Plan. The city rose three places to the eighth position in terms of GDP growth for cities and sub-prefectures throughout the province. Its primary industry posted an added value of RMB11,618 million, up 4.2%; its secondary industry, RMB24,534 million, up 21.5%; and its third industry, RMB19,932 million, up 11.4%.

Mianyang Tianneng's annual gas sales reached 230 million cubic metres, principally serving industrial consumers. The acquisition of the Mianyang Tianneng project is expected to considerably increase gas consumption for the Group in Sichuan province, further expanding the Group's natural gas sector and strengthening its presence in urban gas fuel development projects in the southwest region of the PRC.

Gongzhuling

The Group extended its business in Jilin province in December 2007 by establishing a wholly-owned subsidiary, Gongzhuling Towngas Limited (公主嶺港華燃氣有限公司) in the city of Gongzhuling. The project company holds a 100% equity interest valid for 30 years with exclusive operating rights in the piped gas business within Gongzhuling's city-planned region. The project company also has a 50% equity interest in Jilin Tianhe Natural Gas Development Limited (吉林天合天然氣開發有限責任公司) which has rights for natural gas resource exploration in Gongzhuling, giving the Group indirect access to upstream natural gas resources.

Gongzhuling is a county-level city, governed by Siping City, Jilin province. Located near the provincial capital, Changchun, it has a strong industrial base close to the home of automobile manufacturer China Faw Group. Positioned along the traffic corridor to the industrial bases in three major provinces in northeast China, Gongzhuling has a well-developed transportation network. The total area of Gongzhuling is 4,058 sq km of which urban areas cover 30 sq km. The total population is 1,040,000 of which 230,000 people live in the urban areas. With the increasing pace of urbanization coupled with the redevelopment of squatter districts within the city, residential and commercial consumption of natural gas will increase significantly within the next three to five years. The number of household customers is expected to reach 50,000 by 2012, with annual gas consumption projections of nearly 40 million cubic metres.

The acquisition of the Gongzhuling project gives the Group indirect access to rights of exploration for upstream natural gas resources, enhances cooperation between the Group and the local Sinopec operation in the northeastern region, and creates synergy with Changchun Gas Company Limited (長春燃氣股份有限公司) and Jilin Hong Kong and China Gas Company Limited (吉林港華燃氣有限公司), all of which should step up the Group's overall presence in Jilin province.

Qijiang, Chongqing

The Group entered into an agreement in December 2007 to form a joint venture Qijiang Hong Kong and China Gas Company Limited (綦江港華燃氣有限公司), to be managed by the Group, to operate a natural gas project in Qijiang County, which is currently seeking regulatory and legal approvals for its establishment. The Group owns a 50% equity interest in the new company which will adopt the Group's management model. The term of operation is 30 years during which time the company has exclusive rights to operate a piped gas business within Gunan Town (downtown), Sanjiang Town and Shijiao Town in Qijiang County.

Qijiang has often been referred to as the "Southern Gateway to Chongqing". It is 55 km to the city centre of Chongqing and is one of the "one-hour's drive away" economic zone satellite cities in Chongqing. It has a total area of 2,178 sq km of which the urban centre covers 15 sq km. Total population is approximately 950,000 of which 200,000 people live in the urban area. According to the urban plans for Chongqing, Qijiang will be upgraded as a district of Chongqing city in 2012, further fostering the former's economic development. The number of household customers is expected to reach 55,000 by 2012, with annual gas consumption projections of nearly 45 million cubic metres.

With its promising market potential, Qijiang is strategically positioned for the Group to continue to explore the gas fuel market in the surroundings of Chongqing, offering further synergy to the 13 gas companies of the Group in the Sichuan province, thus stepping up the Group's presence in the southwestern region of the PRC. The acquisition is still awaiting regulatory approval by the relevant authorities.



Wuhan LPG

The Group also made a major breakthrough in the LPG sector in December 2007 by entering into an agreement to form a joint venture, Wuhan Wumei Panva Gas Company Limited (武漢武煤百江燃氣有限公司), in which the Group owns a 50% equity interest. The term of the joint venture is 30 years.

Reputed as the “Main Road to Nine Provinces”, Wuhan is located in Central China and is the capital city and the political, economic and cultural centre of Hubei province. It is China’s largest inland transport hub providing air, land and water transport and is an inland port city. Wuhan covers a total area of 20,770 sq km with a resident population of 8.58 million. Existing LPG household customers amount to approximately 500,000 with annual sales of 84,000 tonnes. The project has a favourable geographical location with direct access by water and by land (railway). The project will create synergy with the Group’s other LPG companies in gas source procurement and logistics distribution, playing a leading role in achieving strong and rapid development for the Group in the LPG sector.

Located in the middle of the Yangtze River and with a well-developed transportation network, Wuhan, the largest city hub in Central China, boasts vast hinterlands in all directions, making it a strategical important market in the PRC. Our success in securing the Wuhan project after three years of endeavors was a breakthrough for the Group’s LPG business that has helped to establish the Group in a leading position in the PRC’s LPG sector.

Corporate Culture

In line with the mission of HKCG, the Group’s mission is to provide customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment. The Group will continue to launch innovative products and services, improve our operation, pursue cost efficiency and enhance shareholders’ return whilst also not neglecting its social responsibilities, an important cornerstone for long-term development.

In addition to operating the piped gas business under the policies and directives of the central government and local governments, investment in, and construction of, piped gas network facilities must also take account of local urban development and customers’ needs. Given the high risk involved in the gas fuel sector, safety dictates our priorities in running the business, including production, gas supply and the maintenance of gas equipment. Customers are provided with safety training and cooking instructions for gas appliances of the highest quality, raising standards and quality of living.

While working to deliver quality gas supply and services to our customers, effort is also given to reducing pollution and waste contributing to a better living environment in whatever ways we can. The Group is also working to help the disadvantaged, participates in charity activities and undertakes a range of public services in the PRC. During the year, funds amounting to hundreds of thousands of dollars were raised through voluntary donations and charity auctions to finance the building of schools for children in poverty-hit areas, including certain parts of Guizhou and Sichuan.



Employee Training and Development

As at 31 December 2007, the Group together with its jointly controlled entities and associated companies had 14,917 employees. 99% of the Group's employees work in the PRC. The Group offers remunerations and bonuses to individual employees based on their work performance.

While the Group places significant effort on serving customers and contributing to society and shareholders, emphasis is also given to employees through the provision

of a satisfactory working environment, remunerations and benefits as well as development opportunities. The Group also offers staff training aimed at competency.

During the year, students graduated from the first EMBA course run by the Group in conjunction with the Beijing Science and Engineering University, and a further 30 students started on the second EMBA course. The EMBA program has been widely accredited for its success throughout the Group. It helps to raise senior management skills to meet the needs of the Group now and in future as well as enhance communications between the Group's enterprises.

Commenced for the first time in April 2007, the Group, in conjunction with Southwest Petroleum University, sponsored 26 technicians to attend a three-month full-time "Master Training Program in Professional Gas Technology in the Sichuan Region" at the university. The program significantly improves staff's theoretical foundation as well as practice standards.

During the year, the Group, together with HKCG, held training courses for employees to speed up the integration process. In 2007, five batches, totaling 68 employees, of the Group's middle and senior managers attended corporate culture and experience exchange programs organized by HKCG. The Group and HKCG jointly organized a "Corporate Culture Integration Conference", "Management Trainee Recruitment Program" and "Interview Skills Training in Recruitment of Senior Employees".

Health, Safety and Environmental Protection

To further improve our safety and risk management standards, the Group has fully adopted the safety and risk management models and systems of HKCG. Professionally qualified staff have been recruited to run a safety and risk management department, established in August 2007 to implement the Group's safety and risk management initiatives. Each of the Group's operating companies is required to set up a safety and risk management department and recruit professional management staff proportionate to the number of employees. The Group's full-time safety and risk management staff are required to obtain a national chartered safety engineer qualification within a prescribed time frame to ensure safety and risk management standards are met and maintained.



The Group has completed a review of its safety and risk management system. During the year, revisions were made to emergency contingency plans, accident reporting and work permit approvals. The Group has taken the initiative to establish more comprehensive systems on health, safety and environmental protection management which are planned to be made available for reference and implementation throughout all operating companies in 2008.

A “General Manager Monthly Safety and Risk Management Inspection” program was launched in September 2007, covering 12 key items such as pipeline network safety and customer safety. One item is selected for inspection by the general managers every month in order to identify and rectify any potential safety hazards which may exist.

Emphasis on Safety Training and Exchange Programs

To raise safety and risk management awareness among the management and technical personnel of the Group, experts from HKCG were invited to conduct a “Workshop on Coke-oven Gas Safety” in Benxi and Chaoyang in June. In addition, a large-scale “Safety and Risk Management Training Session” was held at our training facilities in Nanjing in April 2007, and a nationwide “Safety and Risk Management Workshop 2007” was held in Xi’an in September 2007. More than 100 managers attended the meetings, where 20 key topics were discussed, including work permit approvals, a mutual aid program for emergencies, maintenance of site facilities, the measurement and treatment of gas leaks and analysis of work safety.