港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

2007 RESULTS ANNOUNCEMENT

Financial Highlights:

- The Group's turnover increased to approximately HK$3,195 million representing an increase of 20.9% from last year.
- Operating profit increased to approximately HK$170 million from HK$0.3 million last year.
- Profit attributable to shareholders of approximately HK$145 million, a significant increase when compared to a loss of approximately HK$256 million recorded last year.

The board of directors (the "Board" or "Directors") of Towngas China Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

RESULTS

The audited consolidated results of the Group for the year ended 31 December 2007 together with the comparative figures of 2006 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Turnover	3	**3,195,434**	2,642,916
Operating profit before returns on investments	4	**169,809**	281
Other income		**92,523**	86,390
Share of results of associates		**105,772**	(13,664)
Share of results of jointly controlled entities		**51,335**	–
Changes in fair value of derivative financial instruments		**–**	(124,151)
Finance costs	5	**(178,048)**	(178,422)
Profit (loss) before taxation	6	**241,391**	(229,566)
Taxation	7	**(37,013)**	(17,073)
Profit (loss) for the year		**204,378**	(246,639)
Attributable to:			
Equity holders of the Company		**144,504**	(256,334)
Minority interests		**59,874**	9,695
		204,378	(246,639)
		HK cents	*HK cents*
Earnings (loss) per share	8		
– Basic		**8.36**	(27.13)
– Diluted		**8.30**	

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
Non-current assets			
Property, plant and equipment		**3,110,475**	2,356,654
Prepaid lease payments		**171,227**	150,785
Intangible assets		**183,892**	136,527
Goodwill	9	**2,180,291**	68,641
Interests in associates		**891,124**	644,940
Interests in jointly controlled entities		**532,635**	–
Loans to jointly controlled entities		**147,569**	–
Available-for-sale investments		**171,209**	170,528
Deposit paid for acquisition of a subsidiary		**344,088**	–
		7,732,510	3,528,075
Current assets			
Inventories		**152,612**	96,737
Prepaid lease payments		**5,263**	4,592
Trade receivables	10	**92,589**	132,673
Other receivables, deposits and prepayments		**341,168**	395,619
Amounts due from minority shareholders		**4,089**	4,421
Bank balances and cash		**786,961**	614,479
		1,382,682	1,248,521
Current liabilities			
Trade payables	11	**150,418**	151,279
Other payables and accrued charges		**455,164**	373,259
Amounts due to minority shareholders		**26,234**	25,352
Taxation		**121,319**	81,846
Borrowings – amount due within one year	12	**315,524**	110,964
		1,068,659	742,700
Net current assets		**314,023**	505,821
Total assets less current liabilities		**8,046,533**	4,033,896
Non-current liabilities			
Loan from a shareholder	13	**193,750**	–
Borrowings – amount due after one year	12	**1,468,087**	1,951,751
Deferred taxation		**49,973**	43,140
		1,711,810	1,994,891
Net assets		**6,334,723**	2,039,005
Capital and reserves			
Share capital	14	**195,635**	95,830
Reserves		**5,534,568**	1,440,808
Equity attributable to equity holders of the Company		**5,730,203**	1,536,638
Minority interests		**604,520**	502,367
Total equity		**6,334,723**	2,039,005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Share option reserve *HK$'000*	Capital reserve *HK$'000*	General reserves *HK$'000*	Convertible bonds reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2006	94,225	722,834	45,259	18,862	1,101	11,834	48,350	700,261	1,642,726	389,618	2,032,344
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	101,849	–	–	–	–	–	101,849	18,533	120,382
(Loss) profit for the year	–	–	–	–	–	–	–	(256,334)	(256,334)	9,695	(246,639)
Total recognised income and expense for the year	–	–	101,849	–	–	–	–	(256,334)	(154,485)	28,228	(126,257)
Issue of shares	1,605	42,747	–	(1,376)	–	–	(3,867)	–	39,109	–	39,109
Recognition of equity-settled share based payments	–	–	–	9,288	–	–	–	–	9,288	–	9,288
Transfer	–	–	–	–	–	4,998	–	(4,998)	–	–	–
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	94,027	94,027
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	5,758	5,758
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(10,764)	(10,764)
Reduction in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(4,500)	(4,500)
	1,605	42,747	–	7,912	–	4,998	(3,867)	(4,998)	48,397	84,521	132,918
At 31 December 2006 and 1 January 2007	95,830	765,581	147,108	26,774	1,101	16,832	44,483	438,929	1,536,638	502,367	2,039,005
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	292,682	–	–	–	–	–	292,682	41,948	334,630
Profit for the year	–	–	–	–	–	–	–	144,504	144,504	59,874	204,378
Total recognised income and expense for the year	–	–	292,682	–	–	–	–	144,504	437,186	101,822	539,008
Issue of shares	99,805	3,703,867	–	(3,954)	–	–	(19,436)	–	3,780,282	–	3,780,282
Expenses incurred in connection with the issue of new shares	–	(38,811)	–	–	–	–	–	–	(38,811)	–	(38,811)
Recognition of equity-settled share based payments	–	–	–	14,908	–	–	–	–	14,908	–	14,908
Lapse of options to retained earnings	–	–	–	(710)	–	–	–	710	–	–	–
Transfer	–	–	–	–	–	23,595	–	(23,595)	–	–	–
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	21,779	21,779
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(19,957)	(19,957)
Reduction in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(1,491)	(1,491)
	99,805	3,665,056	–	10,244	–	23,595	(19,436)	(22,885)	3,756,379	331	3,756,710
At 31 December 2007	195,635	4,430,637	439,790	37,018	1,101	40,427	25,047	560,548	5,730,203	604,520	6,334,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LPG") and natural gas (collectively referred as "Gas Fuel") in the People's Republic of China (the "PRC") including the sale of LPG in bulk and in cylinders, the provision of piped LPG and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LPG and natural gas household appliances.

Pursuant to a special resolution passed at the annual general meeting held on 23 May 2007, the name of the Company was changed 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) with effect from that date.

The presentation of the financial statements has been changed in the current year to align with those presentation adopted by its major shareholder for consistent analysis of the users of the financial statements. The analysis of expenses of the consolidated income statement has been changed from analysis by function to nature, the line items of previously reported cost of sales, gross profit, distribution and selling expenses and administrative expenses have been changed to analysis by nature as disclosed in the note 4 operating profit before returns on investments accordingly.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions [2]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] *Effective for annual periods beginning on or after 1 January 2009.*
[2] *Effective for annual periods beginning on or after 1 March 2007.*
[3] *Effective for annual periods beginning on or after 1 January 2008.*
[4] *Effective for annual periods beginning on or after 1 July 2008.*

The Directors of the Company anticipate that the application of these standards or interpretations may have impact on the results and the financial position of the Group but the Directors are still assessing the impact.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group currently organises its operations into two business segments, namely sale and distribution of Gas Fuel and related products, and gas pipeline construction. These divisions are the basis on which the Group reports its primary segment information. The principal activities of the business segments are as follows:

Sale and distribution of Gas Fuel and related products	–	Sale of LPG in bulk and in cylinders, provision of piped LPG and natural gas, and sale of LPG and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipeline networks

The Group's operation by business segment is as follows:

	Sale and distribution of Gas Fuel and related products *HK$'000*	**Gas pipeline construction** *HK$'000*	**Consolidated** *HK$'000*
For the year ended 31 December 2007			
REVENUE			
External	**2,815,805**	**379,629**	**3,195,434**
Segment results	**81,525**	**173,917**	**255,442**
Other income			**92,523**
Unallocated corporate expenses			**(85,633)**
Finance costs			**(178,048)**
Share of results of associates			**105,772**
Share of results of jointly controlled entities			**51,335**
Profit before taxation			**241,391**
Taxation			**(37,013)**
Profit for the year			**204,378**

	Sale and distribution of Gas Fuel and related products *HK$'000*	Gas pipeline construction *HK$'000*	Consolidated *HK$'000*
For the year ended 31 December 2006			
REVENUE			
External	2,311,696	331,220	2,642,916
Segment results	33,384	30,634	64,018
Other income			86,390
Unallocated corporate expenses			(63,737)
Finance costs			(178,422)
Share of results of associates			(13,664)
Changes in fair value of derivative financial instruments			(124,151)
Loss before taxation			(229,566)
Taxation			(17,073)
Loss for the year			(246,639)

The assets and liabilities of the Group are substantially attributable to sale and distribution of Gas Fuel and related products, an analysis of segment assets and liabilities is not presented.

Geographical segments

No geographical segment analysis is shown as the Group's operating businesses are solely carried out in the PRC and assets are solely located in the PRC.

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	2007	2006
	HK$'000	*HK$'000*
Revenue	**3,195,434**	2,642,916
Less expenses:		
Stores and materials used	**2,473,824**	2,123,916
Staff costs	**232,322**	146,742
Depreciation, amortisation and release of prepaid lease payments	**147,853**	113,613
Other expenses	**171,626**	258,364
	169,809	281

5. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
– bank and other borrowings wholly repayable within five years	**11,126**	3,454
– bank and other borrowings not wholly repayable within five years	**2,040**	4,446
– convertible bonds	**9,827**	25,097
– guaranteed senior notes	**119,639**	131,336
	142,632	164,333
Net interest expense on interest rate swaps	**–**	12,874
	142,632	177,207
Loss on repurchase of guaranteed senior notes	**33,370**	–
Bank charges	**2,046**	1,215
	178,048	178,422

6. PROFIT (LOSS) BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	**23,100**	12,138
Share-based payments for other staff	**4,028**	4,468
Other staff costs	**200,666**	124,433
Retirement benefit scheme contributions (excluding Directors)	**27,628**	17,841
Total staff costs	**255,422**	158,880
Allowance for doubtful debts	**–**	40,000
Amortisation of intangible assets	**5,155**	4,107
Auditor's remuneration	**7,951**	6,327
Depreciation of property, plant and equipment	**136,127**	104,584
Impairment loss recognised in respect of available-for-sale investments	**–**	983
Loss on deemed disposal of interest in an associate	**652**	–
Operating lease rentals in respect of land and buildings	**14,792**	10,927
Release of prepaid lease payments	**6,571**	4,922
Share of tax of associates (included in share of results of associates)	**11,821**	12,597
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**902**	–

7. TAXATION

	2007	2006
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**52,502**	17,475
– underprovision in prior years	**–**	810
Deferred taxation		
– taxation credit for the year	**(1,089)**	(1,212)
– attributable to a change in tax rate	**(14,400)**	–
	37,013	17,073

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC Enterprise Income Tax has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued implementation regulations of the New Law. The New Law and implementation regulations will change the tax rate to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share, being profit (loss) for the year attributable to equity holders of the Company	**144,504**	(256,334)
	Number of shares	
	'000	*'000*
Weighted average number of shares for the purposes of basic earnings (loss) per share	**1,728,201**	945,871
Effects of dilutive potential ordinary shares: Share options	**11,802**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,740,003**	

The denominator for the purpose of calculating basic loss per share in 2006 have been adjusted to effect the bonus element in the rights issued under the open offer of shares during the year ended 31 December 2007.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in profit per share.

No diluted loss per share has been presented in the year ended 31 December 2006 as the then outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or conversion would result in a decrease in loss per share.

9. GOODWILL

	HK$'000
At 1 January 2006	55,412
Currency realignment	492
Acquired on acquisition of subsidiaries	12,737
At 31 December 2006	68,641
Currency realignment	650
Acquired on acquisition of subsidiaries	2,111,000
At 31 December 2007	2,180,291

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of Hong Kong & China Gas (Qingdao) Limited ("Qingdao"), Hong Kong & China Gas (Zibo) Limited ("Zibo"), Hong Kong & China Gas (Yantai) Limited ("Yantai"), Hong Kong & China Gas (Weifang) Limited ("Weifang"), Hong Kong & China Gas (Weihai) Limited ("Weihai"), Hong Kong & China Gas (Taian) Limited ("Taian"), Hong Kong & China Gas (Maanshan) Limited ("Maanshan"), Hong Kong & China Gas (Anqing) Limited ("Anqing") and other subsidiaries of HK$278,329,000, HK$299,351,000, HK$506,763,000, HK$116,330,000, HK$231,596,000, HK$204,903,000, HK$243,209,000 and HK$230,519,000 respectively.

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates of 4% to 6% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a declining growth rate from 4% to 6% per annum, which is based on industry growth forecasts. The Directors of the Company considered no impairment loss is necessary at 31 December 2007.

10. TRADE RECEIVABLES/OTHER FINANCIAL ASSETS

Trade receivables

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**72,719**	66,021
91 to 180 days	**17,073**	62,970
181 to 360 days	**2,797**	3,682
	92,589	132,673

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$6,261,000 (2006: HK$3,763,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
61 – 90 days	**278**	81
91 – 180 days	**3,186**	–
181 – 360 days	**2,797**	3,682
Total	**6,261**	3,763

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

Other financial assets

The bank balances carry interest at prevailing market rates ranges from 3.0% to 5.5% per annum.

11. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**104,235**	80,366
91 to 180 days	**9,743**	30,384
181 to 360 days	**10,661**	13,954
Over 360 days	**25,779**	26,575
	150,418	151,279

12. BORROWINGS

	2007	2006
	HK$'000	*HK$'000*
Bank loans – secured	**28,665**	11,473
Bank loans – unsecured	**250,451**	24,527
Other loans – unsecured	**137,846**	119,823
Convertible bonds *(note a)*	**206,173**	349,506
Guaranteed senior notes *(note b)*	**1,160,476**	1,557,386
	1,783,611	2,062,715
Carrying amount repayable:		
On demand or within one year	**315,524**	110,964
More than one year but not exceeding two years	**76,789**	355,324
More than two years but not exceeding five years	**1,363,681**	29,218
More than five years	**27,617**	1,567,209
	1,783,611	2,062,715
Less: Amount due within one year shown under current liabilities	**(315,524)**	(110,964)
Amount due after one year	**1,468,087**	1,951,751

Notes:

(a) The Company issued the 2% convertible bonds of US$50,000,000 on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The convertible bonds are listed on the Luxembourg Stock Exchange. The conversion price at which each share shall be issued upon conversion is HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for, subdivision on consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal amount of the bonds US$24,707,000 (2006: US$43,880,000) will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48% per annum. At 31 December 2007, the market value of the convertible bonds amounted to US$27,425,000 (equivalent to approximately of HK$213,913,000). During the year, the principal amount of US$19,173,000 (2006: US$3,845,000) of the convertible bonds were converted into ordinary shares of the Company.

(b) The Company issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 31 December 2007, the market value of the Guaranteed Senior Notes amounted to US$160,208,000 (equivalent to approximately of HK$1,249,622,000). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%.

During the year, the Company purchased the Guaranteed Senior Notes with a principal amount of US$51,000,000 at prices ranging from US$105.50 to US$108.25 from the open market. At the balance sheet date, Guaranteed Senior Notes with a principal amount of US$149,000,000 are still outstanding in the market.

(c) The bank and other loans mainly comprise of:

	Maturity date	Effective interest rate	Carrying amount 2007 *HK$'000*	2006 *HK$'000*
Floating-rate bank borrowings:				
Unsecured HKD bank loan of HKD200,000,000 at Hong Kong Interbank Offered Rate ("HIBOR") + 0.55%	6 December 2010	4.4%	**200,772**	–
Unsecured RMB bank loan of RMB46,500,000 at 90% of basic borrowing rate announced by People's Bank of China	Revolving credit settle within 6 months from date of drawdown	5.427% to 5.832%	**49,679**	–
Fixed rate other borrowings:				
Unsecured RMB other loans of RMB103,820,000	Partial repayment matured and instalment repayment for two years	2.55% to 2.8%	**104,596**	94,077
Other secured bank loans and other loans		2.55% to 8.31%	**61,915**	61,746
Total bank loans and other loans			**416,962**	155,823

13. LOAN FROM A SHAREHOLDER

The amount represents an unsecured loan denominated in USD, bears interest at 1.25% plus the HIBOR per annum and is repayable in the fifth year from December 2007 (the date of the relevant draw down of the loan). At 31 December 2007, the effective interest rate is 4.25% per annum.

14. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Shares of HK$0.10 each	3,000,000,000	300,000
Issued and fully paid:		
Shares of HK$0.10 each	1,956,350,330	195,635

A summary of the movements in the authorised share capital is as follows:

	Number of shares	*HK$'000*
At 1 January 2006 and 31 December 2006	2,000,000,000	200,000
Increase in authorised share capital *(note a)*	1,000,000,000	100,000
At 31 December 2007	3,000,000,000	300,000

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	*HK$'000*
At 1 January 2006	942,250,891	94,225
Issue of shares on exercise of share options *(note b)*	8,169,000	817
Issue of shares on conversion of convertible bonds *(note c)*	7,883,445	788
At 1 January 2007	958,303,336	95,830
Issue of shares on exercise of share options *(note b)*	9,752,150	975
Issue of shares on conversion of convertible bonds *(note c)*	39,310,614	3,931
Issue of shares on acquisition of subsidiaries *(note d)*	772,911,729	77,291
Issue of shares on open offer *(note e)*	176,072,501	17,608
At 31 December 2007	1,956,350,330	195,635

Notes:

(a) Pursuant to a resolution passed in the annual general meeting of the Company on 23 May 2007, the authorised share capital of the Company increased to HK$300,000,000 by the creation of an additional 1,000,000,000 shares of HK$0.10 each of the Company.

(b) During the year ended 31 December 2006, the Company allotted and issued 2,710,000, 4,529,000 and 930,000 shares of HK$0.10 each for cash at the exercise price of HK$0.475, HK$0.940 and HK$3.500 per share respectively as a result of the exercise of share options.

During the year ended 31 December 2007, the Company allotted and issued 1,990,000, 1,870,000, 1,200,000, 532,650, 3,919,500 and 240,000 shares of HK$0.10 each for cash at the exercise price of HK$3.500, HK$0.940, HK$0.475, HK$3.483, HK$0.473 and HK$2.810 per share respectively as a result of the exercise of share options.

(c) During the year ended 31 December 2006, US$3,845,000 of the issued convertible bonds were converted into 7,883,445 shares of HK$0.10 each of the Company at HK$3.8043 per share. US$19,173,000 (equivalent to approximately of HK$149,549,000) of the issued convertible bonds were converted into 39,310,614 shares of HK$0.10 each of the Company at HK$3.8043 per share during the year ended 31 December 2007.

(d) During the year ended 31 December 2007, the Company allotted and issued 772,911,729 ordinary shares of HK$0.10 each at the price of HK$3.77 for acquisition of certain subsidiaries as detailed in note 15.

(e) During the year ended 31 December 2007, the Group allotted and issued 176,072,501 ordinary shares of HK$0.10 each at the price of HK$4.00 as a result of open offer to the then existing share holders.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

15. ACQUISITION OF SUBSIDIARIES

The summary of the acquisition of subsidiaries, the net assets acquired in the transactions and the goodwill or discount arising on acquisitions during the year ended 31 December 2007 is as follows:

On 1 March 2007, the Group acquired 100% equity interest in Qingdao, Zibo, Yantai, Weifang, Weihai, Taian, Maanshan and Anqing, which are all engaged in the operation of piped gas assets and related business in PRC at an aggregate consideration of HK$2,913,877,000. This transaction has been accounted for by the acquisition method of accounting.

The fair value of the intangible assets acquired, which are the exclusive operating rights for city pipeline network, has been determined by reference to professional valuation which is based on discounted cash flow method with reference to the operating environment of each of the operating entities.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	210,220	–	210,220
Prepaid lease payments	13,521	–	13,521
Intangible assets	4,861	36,540	41,401
Interest in associates	28,927	–	28,927
Interest in jointly controlled entities	324,263	133,386	457,649
Loans to jointly controlled entities	133,730	–	133,730
Inventories	5,147	–	5,147
Trade receivables	6,451	–	6,451
Other receivables, deposits and prepayments	21,359	–	21,359
Bank balances and cash	8,278	–	8,278
Trade payables	(28,087)	–	(28,087)
Other payables and accrued charges	(8,490)	–	(8,490)
Borrowings	(46,082)	–	(46,082)
Deferred taxation	(8,800)	(10,568)	(19,368)
Net assets acquired	665,298	159,358	824,656
Minority interests			(21,779)
Goodwill arising on acquisition			2,111,000
Total consideration			2,913,877
Satisfied by:			
Issue of new shares (772,911,729 shares @ HK$3.77)			2,913,877
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries, representing bank balances and cash acquired			8,278

The goodwill on acquisition of the above subsidiaries represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiaries.

The subsidiaries acquired during the year contributed HK$103,391,000 to the Group's turnover and a profit of HK$66,738,000 to the Group's profit before taxation for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total group revenue for the period would have been HK$3,219,504,000 and profit for the year would have been HK$220,228,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

16. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**10,528**	7,789
In the second to fifth year inclusive	**28,968**	18,479
Over five years	**23,168**	36,411
	62,664	62,679

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

17. COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**8,529**	27,838
Capital injection contracted for but not provided in the consolidated financial statements in respect of		
– investment in jointly controlled entities	**163,462**	–
– investment in a subsidiary	**37,393**	–

18. POST BALANCE SHEET EVENT

Pursuant to a conditional sale and purchase agreement dated 11 December 2007 entered into by the Group and Shenzhen Huafu Energy Investment Limited ("Shenzhen Huafu"), the Group has agreed to purchase from Shenzhen Huafu its entire equity interests in Mianyang Tianneng Gas Development Company Limited, ("Target Company"). In consideration of the acquisition, the Group paid RMB315 million (approximately HK$337 million) to Shenzhen Huafu and this amount together with related expenses have been included as deposit paid for acquisition of a subsidiary in the consolidated balance sheet. At the balance sheet date, RMB35 million (approximately HK$37 million) of the total consideration out of RMB350 million (approximately HK$374 million) is payable upon completion and has not been provided for in the financial statements.

The Target Company operates in Mianyang City of Sichuan Province of the PRC and is engaged in the operation of piped gas assets and related business.

The acquisition was completed on 22 January 2008. The Group is in the process of finalising the relevant information of the Target Company and accordingly, the financial impact of the acquisition to the Group is not disclosed.

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$3,195 million, an increase of approximately 20.9% over the last year. Operating profit before returns on investments increased to approximately HK$170 million from approximately HK$0.3 million recorded in 2006. The increase in operating profit before returns on investments was due to increases in the gross profit margins in all segments of the Company's businesses. The Group recorded earnings before interests, taxation, depreciation and amortisation (EBITDA) of approximately HK$532 million, an increase of approximately 1.9 times from last year. Profit after tax attributable to shareholders of the Company amounted to approximately HK$145 million, a significant increase from loss of HK$256 million recorded in 2006.

The reasons for a turnaround from a loss to profit includes the elimination of the loss in fair value of derivatives of approximately HK$124 million and the net interest expense incurred on the interest rate swaps of approximately HK$13 million recorded in 2006 as a result of their termination. A significant improvement in contribution from associated companies from loss of approximately HK$14 million in 2006 to profit of approximately HK$106 million in 2007, and the additional contribution of approximately HK$51 million in 2007 from the six jointly controlled entities acquired from The Hong Kong and China Gas Company Limited ("HKCG") are also the contributing factors in 2007.

Sale of Piped Gas

This business comprises the direct sale of piped natural gas and piped LPG to customers. Turnover of the business increased by 60.8% to approximately HK$602 million, accounting for approximately 18.8% of the Group's aggregate turnover. During the period, the Group recorded residential consumption of approximately 181 million cubic metres and commercial and industrial consumptions of approximately 170 million cubic metres, representing increases of approximately 11.7% and 61% respectively. The significant increase in the commercial and industrial consumptions represents the Group's shift in its strategic focus to spend more resources to service the higher volume commercial and industrial users.

Gas Pipeline Construction

The Group's gas pipeline construction business mainly includes the development and maintenance of piped gas stations and networks through which the Group provides direct connection of piped gas to customers and receives a connection fee. For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$380 million in connection fee, which accounted for approximately 11.9% of the Group's total turnover, representing an increase of approximately 14.6% when compared to last year.

The total number of connected households as at 31 December 2007 was approximately 1,467,000 households, an increase of approximately 133,400 households from last year, of which about approximately 16,000 households were existing customers of newly acquired subsidiaries and approximately 117,400 households were new customers during the period. The number of new connections made by the Group during the year increased by approximately 2.2% when compared with last year.

Sale of Liquefied Petroleum Gas

This business comprises the sale of LPG in bulk to wholesale customers and the retail of LPG to end-user households, industrial and commercial customers. For the year ended 31 December 2007, turnover derived from the sale of LPG in bulk amounted to approximately HK$1,167 million, accounting for approximately 36.5% of the Group's total turnover, representing an increase of approximately 5.1% when compared to last year. The retail business increased by approximately 25.7% to HK$993 million, accounting for approximately 31.1% of the Group's total turnover.

Shareholder's Loan

On 19 April 2007, the Company entered into a loan agreement with HKCG whereby HKCG agreed to lend to the Company a 60 month loan of US$25 million at a rate of 12-month HIBOR plus 1.25% for use as general working capital.

Open Offer

On 25 June 2007, the Company completed an open offer with an assured allotment of one offer share at HK$4.00 per share for every 10 existing shares held. The Company issued 176,072,501 shares under the open offer raising net proceeds of approximately HK$696 million. The net proceeds were used to partially reduce the outstanding balance of the US$200 million Notes and as general working capital.

Reduction of the US$200 million Senior Guaranteed Notes

During the months of August and September 2007, the Company purchased from the market its US$200 million Notes amounted to US$51 million at an average price of 106.648 totaling US$54.4 million. The purchases translate to savings on interest payments of approximately HK$11.5 million for 2007 and approximately HK$32.8 million per annum until maturity in 2011.

Ratings Upgrade

On 23 August 2007, the ratings agency Standard and Poor's Ratings Services ("S&P") raised its long-term corporate credit rating on the Company from 'BB+' to 'BBB-'. The outlook is stable. At the same time, S&P also raised the issue ratings on the Company's US$50 million convertible bonds due 2008 and US$200 million Notes from 'BB+' to 'BBB-'. The upgrades reflect the stronger financial profile as well as improving operational performance of the Group.

BUSINESS REVIEW

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 as the largest shareholder. HKCG through on-market purchases increased its shareholdings 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 the operational foot print and future development potential. As a leading piped gas operator in Asia, the management believes that the Group should accelerate the integration and consolidation of operational management with HKCG, benefiting from the best of both companies as well as creating synergy, thus enhancing value to the Group. The year 2007 marked the start of the integration process. Through communications and exchange of ideas at different levels of the Group's operations, HKCG's advanced piped gas operation and management philosophies are being absorbed into the Group.

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)", as well as the approval of changes in the composition of the Board. At the same time, the Group officially adopted the use of "Towngas" as one of its brand. The adoption of the new brand will increase exposure as well as influences for both 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") as well as the renaming of the two representative offices in Shenyang and Chengdu. Currently nine enterprises in Sichuan, including companies such as Ziyang, Jianyang, Pengshan and Zhongjiang, and the company in Shaoguan, Guangdong have been amended to include "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 Company, integration with them was a major priority in 2007. Although the Group has enjoyed a prosperous and rapid development in just ten years of operations, yet there are room for improvement in the operation and management of the piped gas business, a sector that requires a high level of technical know-how. As a century-old company in the Asian gas fuel sector, 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, which would increase synergy, strengthen the Group's operational and administrative management of the piped gas business, thus enhances the value of the Company and maximises 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 respective 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 can be seen 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 established 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 developments, management training, safety and risk management, customer services, construction engineering 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 work ethics and mentality.

Up to date, the Company's finance department has adopted HKCG's management directives in the budgeting process as well as the introduction of an electronic information platform to increase the financial control and management standards. The project development department has reviewed their project development and evaluation policies, updated relevant processes and approval policies 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 complete management system from HKCG. Regular safety inspections are conducted with the aid of the safety department of HKCG. On engineering management, a three-tier management hierarchy comprising headquarter, regional offices and enterprises departments has been established to strengthen the monitoring of the construction works. On information-based management, the Group together with HKCG has established a task force which has developed and standardised the SCADA and GIS systems for use in the Group's piped gas operations. The systems have been adopted by several enterprises under the guidance from the task force. During the year, the Company 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 services, the Group has adopted HKCG's natural gas replacement and publicity programs, whereas the departmental natural gas replacement program in Shaoguan and Qingyuan have been completed. The Group has graded the indoor installation and technical requirements and is currently developing a customer management system for the piped gas enterprises as well as the completion of the public image building campaign proposal. 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 under the domain name, http://www.towngaschina.com/, was launched, accessible in both Chinese and English. The site has sections on Company background, PRC businesses, Company 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 gases in the urban areas of the city of Mianyang, and 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 kms 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 titles such as the Prize for the Model as the Best Living Environment from the United Nations, an advanced city in the construction of civilized cities in China, a national city with good public health, a model city for national environmental protection, a national garden city and a Chinese outstanding tourist city.

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 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 annual gas consumption reaches up to 230 million cubic metres, principally from sales to 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 December 2007 by entering into an agreement to establish a wholly-owned subsidiary, Gongzhuling Hong Kong and China Gas Company Limited (公主嶺港華燃氣有限公司) in the city of Gongzhuling, Jilin province. The Group 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 Group 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 indirect access to upstream natural gas resources.

Gongzhuling is a county-level city, governed by Siping City, Jilin province and is located near the provincial capital, Changchun, renowned for its automobile manufacturing industry such as the 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 the urban area covers 30 sq. km. The total population is 1,040,000 of which 230,000 people live in the urban area. 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 gas pipeline network within the area of Gunan Town (inner city), 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.

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 Panva Gas 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 and cultural centre of Hubei province. It has a large, comprehensive transport hub 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 an annual consumption of 84,000 tonnes. The project has a favourable geographical location with direct access by road (railway) and by water. 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 Yangtse River and with a well-developed transportation network, Wuhan, the largest city in Central China, is advantageously positioned in the PRC. Securing the Wuhan project 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 business sector.

Corporate Culture

The Group's mission is to provide customers with a safe and reliable gas supply as well as caring, competent and efficient services, while working to protect, preserve and improve the environment. The Group will continue to launch innovative products and services, improve logistical procedures, pursue operational results 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 over to reducing pollution and waste. The Group is also working to help the disadvantaged, participates in charity activities and undertakes a range of public services. 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, particularly in 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, bonuses and other incentives 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. The Group also offers training aimed at increasing staff working capability to meet the needs of the Company's development.

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". The program significantly improves staff's technology know-how and key technology theories 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 in Hong Kong. The Group and HKCG jointly organized a "Corporate Culture Integration Conference", which also covered skills for running the "Management Trainee Recruitment Program" and "Interview Skills Training in Recruitment of Senior Employees".

Health, Safety and Environmental Protection

To improve standards, the Group has fully adopted the safety and risk management policies and procedures from HKCG. Professionally qualified staffs have been recruited to run a safety and risk management department, established in August 2007. 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 within the Company. 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 commenced compilation of a set of files on health, safety and environmental protection management which will be made available for reference and then implemented 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 manager of each operating company 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 conducted a "Workshop on Coke-oven Gas Safety" in Benxi and Chaoyang in June. In addition, a comprehensive "Safety and Risk Management Training Session" was held at the Company's training facilities in Nanjing in April. A "Safety and Risk Management Workshop 2007" was held in Xi'an in September 2007 attended by more than 100 managers 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.

PROSPECTS

Looking ahead to 2008, the Group will continue to further integrate with HKCG so as to fully capitalize on the benefits from the partnership. Operational efficiency shall be enhanced through, to name a few, the strengthening of internal controls, engineering and safety management and so on, in order to increase synergy for the building of a stronger foundation for the Group's ongoing development.

In 2008, the Group shall aim to:

- **building up the Towngas brand**

  During the coming year, the Group will continue to work with HKCG to build up the Towngas brand as a renowned and quality brand, consolidating its leading position in the PRC gas fuel sector. With safety as a priority, the Group shall execute its mission to provide customers with caring, competent and efficient services, while preserving the environment and be a socially responsible enterprise, making the "Towngas" known throughout the PRC.

- **develop new gas fuel projects**

  In 2008, the Group shall continue to strive for rapid expansion through mergers and acquisitions increasing the Group's future growth potential. Backed by HKCG's strong financial support, the Group will have more choices and stronger negotiating power when seeking new projects. The Group shall step up its mergers and acquisitions efforts by committing more resources in project development in 2008. In addition to increasing its stake in the Group's two major traditional regions in the north-east and Sichuan province, the Group shall strive to breakthrough into other regions, thus speeding the Group's development.

- **optimise customer base and increases enterprise returns**

  With a sizable number of household customers coverage, the Group has built a sizable market share in the PRC. Although the Group's operational companies have enjoyed reasonable returns in 2007, when compared with the pace of development in the PRC, we expect the market still holds enormous potential for development. A rapidly growing economy coupled with rapid urbanization and industrialization in the PRC offers significant growth opportunities in the gas fuel sector. The pace of development in the industrial, commercial and the automobile gas consumption is far higher than that of the residential gas consumption, offering higher gross profit margins to the Group. Therefore, in 2008 the Group shall seek to optimise its customer structure by aggressively increasing its industrial and commercial customer base, and to increase the Group's sourcing power from upstream suppliers, both aimed at enhancing profitability of its enterprises.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

During August and September 2007, the Company purchased from the market a portion of its US$200 million Senior Guaranteed Notes which are listed on the Singapore Exchange Securities Trading Limited. Please refer to the paragraph headed "Reduction of the US$200 million Senior Guaranteed Notes" above for details.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2007.

CORPORATE GOVERNANCE

During the year ended 31 December 2007, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2007.

AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The Audit Committee comprises of Messrs. LI Man Bun, Brian David (being the Chairman of the Audit Committee), CHOW Yei Ching and CHENG Mo Chi, Moses, all of whom had been appointed as independent non-executive Directors and members of the Audit Committee effective from 23 May 2007. Prior to 23 May 2007, the Audit Committee comprised of three former independent non-executive Directors, namely Messrs. CHEUNG Hon Kit, ZHANG Ke and LI Xiao Ru, who had either resigned or retired by rotation on 23 May 2007.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Group's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The consolidated financial statements of the Company for the year ended 31 December 2007 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted in the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their diligence during the period.

By Order of the Board
HO Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 25 March 2008

At the date of this announcement, the Board comprises:

Executive Directors:
CHAN Wing Kin, Alfred *(Chairman)*
WONG Wai Yee, Peter *(Chief Executive Officer)*
KWAN Yuk Choi, James
HO Hon Ming, John *(Company Secretary)*
OU Yaping
CHEN Wei
SHEN Lian Jin
TANG Yui Man Francis (Alternate director to OU Yaping)

Independent Non-executive Directors:
CHOW Yei Ching
CHENG Mo Chi, Moses
LI Man Bun, Brian David