港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

2008 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Group's turnover jumped approximately 38.0% to HK$4,409 million, a record high.
- Operating profit before returns on investments increased by approximately 34.3% to HK$228 million.
- Profit after tax attributable to shareholders rose by approximately 40.0% to HK$202 million.
- A final dividend of One HK Cent per share is proposed, being the first cash dividend payment since the listing of the Group.

RESULTS

The board of directors (the "Board") 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 2008.

The audited consolidated results of the Group for the year ended 31 December 2008 together with the comparative figures of 2007 are as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	NOTES	**2008 (Audited) HK$'000**	2007 (Audited) HK$'000
Turnover	2	**4,409,198**	3,195,434
Operating profit before returns on investments	3	**228,132**	169,809
Other income		**69,625**	92,523
Share of results of associates		**146,160**	105,772
Share of results of jointly controlled entities		**61,730**	51,335
Finance costs	4	**(144,521)**	(178,048)
Profit before taxation		**361,126**	241,391
Taxation	5	**(89,939)**	(37,013)
Profit for the year		**271,187**	204,378
Attributable to:			
Equity holders of the Company		**202,282**	144,504
Minority interests		**68,905**	59,874
		271,187	204,378
Proposed final dividend of One HK Cent (2007: Nil) per ordinary share	6	**19,576**	–
		HK cents	*HK cents*
Earnings per share	7		
– Basic		**10.33**	8.36
– Diluted		**10.32**	8.30

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	**2008 (Audited) *HK$'000***	2007 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**3,811,432**	3,110,475
Prepaid lease payments		**221,004**	171,227
Intangible assets		**195,276**	183,892
Goodwill		**2,491,871**	2,180,291
Interests in associates		**1,083,075**	891,124
Interests in jointly controlled entities		**701,689**	532,635
Loans to jointly controlled entities		**101,618**	147,569
Available-for-sale investments		**169,968**	171,209
Deposit paid for acquisition of a subsidiary		**–**	344,088
		8,775,933	7,732,510
Current assets			
Inventories		**192,510**	152,612
Prepaid lease payments		**7,016**	5,263
Loans to a jointly controlled entity		**84,781**	–
Trade receivables	8	**101,694**	92,589
Other receivables, deposits and prepayments		**350,589**	341,168
Amounts due from minority shareholders		**10,140**	4,089
Bank balances and cash		**863,882**	786,961
		1,610,612	1,382,682
Current liabilities			
Trade payables	9	**199,286**	150,418
Other payables and accrued charges		**747,643**	455,164
Amounts due to minority shareholders		**27,704**	26,234
Taxation		**174,900**	121,319
Borrowings – amount due within one year		**222,950**	315,524
		1,372,483	1,068,659
Net current assets		**238,129**	314,023
Total assets less current liabilities		**9,014,062**	8,046,533

	2008	2007
	(Audited)	(Audited)
	HK$'000	*HK$'000*
Non-current liabilities		
Loan from a shareholder	**440,364**	193,750
Borrowings – amount due after one year	**1,600,397**	1,468,087
Deferred taxation	**60,467**	49,973
	2,101,228	1,711,810
Net assets	**6,912,834**	6,334,723
Capital and reserves		
Share capital	**195,756**	195,635
Reserves	**5,982,045**	5,534,568
Equity attributable to equity holders of the Company	**6,177,801**	5,730,203
Minority interests	**735,033**	604,520
Total equity	**6,912,834**	6,334,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. 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 amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – INT 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

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

2. 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 and fuel and related products	–	Sale of Liquefied Petroleum Gas ("LPG") in bulk 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 2008			
REVENUE			
External	**3,961,092**	**448,106**	**4,409,198**
Segment results	**142,071**	**177,409**	**319,480**
Other income			**69,625**
Unallocated corporate expenses			**(91,348)**
Finance costs			**(144,521)**
Share of results of associates			**146,160**
Share of results of jointly controlled entities			**61,730**
Profit before taxation			**361,126**
Taxation			**(89,939)**
Profit for the year			**271,187**
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

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.

3. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
Revenue	**4,409,198**	3,195,434
Less expenses:		
Stores and materials used	**3,359,495**	2,473,824
Staff costs	**325,343**	232,322
Depreciation, amortisation and release of prepaid lease payments	**176,799**	147,853
Other expenses	**319,429**	171,626
	228,132	169,809
Cost of goods sold	**3,540,920**	2,608,967

4. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
– bank and other borrowings wholly repayable within five years	**29,919**	11,126
– bank and other borrowings not wholly repayable within five years	**2,778**	2,040
– convertible bonds	**4,115**	9,827
– guaranteed senior notes	**102,456**	119,639
	139,268	142,632
Loss on repurchase of guaranteed senior notes	**–**	33,370
Bank charges	**5,253**	2,046
	144,521	178,048

5. TAXATION

	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**82,448**	52,502
Deferred taxation		
– taxation charge (credit) for the year	**7,491**	(1,089)
– attributable to a change in tax rate	**–**	(14,400)
	89,939	37,013

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 25% (2007: 15% to 33%).

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. Under the New Law and Implementation Regulation, PRC Enterprise Income Tax was changed to 25% from 1 January 2008 onwards. 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.

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 7.5% to 12.5%. 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.

6. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Final dividend proposed:		
– One HK Cent (2007: Nil) per ordinary share on issued share capital as at the balance sheet date	**19,576**	–

The final dividend of One HK Cent (2007: Nil) per share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2008	2007
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to equity holders of the Company	**202,282**	144,504

	Number of shares	
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	**1,957,494**	1,728,201
Effects of dilutive potential ordinary shares:		
Share options	**3,254**	11,802
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,960,748**	1,740,003

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds at 31 December 2007 since their exercise would result in an increase in earnings per share.

8. 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:

	2008	2007
	HK$'000	*HK$'000*
0 to 90 days	**90,550**	72,719
91 to 180 days	**2,742**	17,073
181 to 360 days	**8,402**	2,797
	101,694	92,589

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$2,249,000 (2007: HK$6,261,000) 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

	2008	2007
	HK$'000	*HK$'000*
61 to 90 days	**1,802**	278
91 to 180 days	**290**	3,186
181 to 360 days	**157**	2,797
Total	**2,249**	6,261

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.

9. TRADE PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
0 to 90 days	**147,761**	104,235
91 to 180 days	**14,431**	9,743
181 to 360 days	**7,689**	10,661
Over 360 days	**29,405**	25,779
	199,286	150,418

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group booked a record turnover of HK$4,409 million, a significant increase of 38.0% when compared to 2007. Operating profit before returns on investments increased to HK$228 million, representing an increase of approximately 34.3%. Earnings before interests, taxation, depreciation and amortization ("EBITDA") was HK$677 million, an increase of approximately 27.3% from 2007. Profit after tax attributable to shareholders of the Company amounted to HK$202 million, an increase of 40.0% when compared to last year.

Turnover

For the year ended 31 December 2008, the Group booked a record turnover of HK$4,409 million, a significant increase of 38.0% when compared to 2007. The increase is mainly attributable by the following businesses:

Piped Gas Business

Sales increased significantly during 2008 from HK$602 million to HK$1,180 million, equating to an increase of 96.0%. The increase is mainly contributed by a 65.8% increase in the total volume sold and a slight increase in the average selling price in 2008. The total volume sold during the year amounted to 582 million cubic metres, an increase of 231 million cubic metres from 2007, of which new subsidiaries contributed approximately 80% of the increase while the remaining 20% being the organic growth of the existing subsidiaries. The total number of piped gas customers as at 31 December 2008 was approximately 1,703,000 households, representing an increase of approximately 236,000 from 2007, of which around 100,100 households were existing customers of newly acquired subsidiaries.

Gas Pipeline Construction Business

Construction revenue amounted to HK$448 million during the year, with an increase of 18.0% when compared to 2007. The increase is contributed by the increase in the number of new direct connection of gas pipelines to customers from 117,400 households in 2007 to around 135,900 households in 2008.

Liquefied Petroleum Gas Business

The turnover increasing by HK$534 million to HK$2,694 million in 2008 is mainly attributed by a general increase in LPG price in 2008. The sale of LPG in bulk decreased by 50,349 tonnes comparing to 2007, however, the decrease was off-set by the strong growth in the retail sale of 50,330 tonnes, representing a decrease of 15.7% and an increase of 40.2% respectively.

Operating Expenses

Operating expenses increased from HK$3,026 million in 2007 to HK$4,181 million in 2008, representing an increase of 38.2%. The increase is mainly due to increases in stores and materials used, staff costs, depreciation and amortization and other expenses of 35.8%, 40.0%, 19.6% and 86.1% respectively. The addition of three new subsidiaries contributed to approximately HK$718 million of the increase.

Stores and Materials Used

Stores and materials used increased from HK$2,474 million in 2007 to HK$3,359 million in 2008. The increase in stores and materials used is in-line with the increase in the turnover, mainly attributed by higher LPG prices and a general growth in the businesses of the Group during the year. The three new subsidiaries contributed to approximately 66.7% of the increase.

Staff Costs

Staff costs increased from HK$232 million in 2007 to HK$325 million in 2008. The increase in staff costs is mainly attributed by the addition of three new subsidiaries during the year accounting for HK$44 million of the increase and the impact of the new labour law.

Other Expenses

The increase in other expenses is mainly attributed by the addition of three new subsidiaries during the year accounting for HK$69 million of the increase, repairs and maintenance relating to the Sichuan earthquake of HK$8 million, and general increases in existing operating subsidiaries.

Financial Expenses

Financial expenses decreasing from HK$178 million in 2007 to HK$145 million is mainly attributed by the repayment of the Company’s 5 year convertible bonds on maturity on 23 April 2008, and the purchase of US$8 million of the Company’s guaranteed senior notes from the market during October and November this year.

Share of Results of Associates

Share of results of associates increased from HK$106 million in 2007 to HK$146 million in 2008, representing an increase of 38.2%. The increase is mainly attributed to the increase in the volume of piped gas sold of 179 million cubic metres to a total of 874 million cubic metres and the increase of the number of customers by 134,000 households, representing increases of 25.7% and 15.4% respectively.

Share of Results of Jointly Controlled Entities ("JCEs")

Share of results of JCEs increased from HK$51 million in 2007 to HK$62 million in 2008, representing an increase of 20.2%. The increase is mainly attributed to the increase in the volume of piped gas sold of 100 million cubic metres to a total of 385 million cubic metres and the total number of JCEs customers of approximately 82,600 households, of which around 32,500 households were existing customers of new JCEs, representing increases of 35.2% and 8.5% respectively.

Financial Resources and Position

As at 31 December 2008, total borrowings amounted to HK$2,264 million, an increase of HK$286 million, representing an increase of 14.5% from the year ended 2007. Of which, HK$440 million are loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 2 to 5 years, HK$1,106 million relates to the guaranteed senior notes due in 2011 and HK$400 million and HK$100 million are loans borrowed from banks in Hong Kong due between 2 to 5 years and within 1 year respectively.

As at 31 December 2008, the Company has un-drawn but committed facilities amounted to HK$203 million and as of the date of this announcement, the Company has obtained an additional facility from a bank in Shenzhen of RMB200 million and arranged another facility from a bank in Hong Kong of HK$250 million.

Cash and cash equivalents amounted to HK$864 million as at 31 December 2008 which are mostly denominated in Renminbi, Hong Kong Dollars and United States Dollars.

As at 31 December 2008, total assets pledged had a book value of HK$11 million securing bank loans amounting to HK$1 million. Shares of certain BVI incorporated companies have been pledged to secure the guaranteed senior notes. The Group had no material contingent liabilities as at the balance sheet date.

The Group ended the year with a current ratio of 1.2 times, an EBITDA interest coverage ratio of 4.9 times and a gearing ratio (net debt excluding HKCG loans ("ND") to equity attributable to shareholders of the Company plus ND) of 13.4%.

Convertible Bonds Redemption

On 23 April 2008, the Company's 5 year convertible bonds issued in 2003 were fully repaid on maturity. The total amount repaid plus the redemption premium amounted to US$26.7 million.

Ratings Upgrade

On 28 April 2008, the ratings agency Moody's Investor Service upgraded the Company's senior unsecured bond rating to Baa3 and also assigned a Baa3 issuer rating to the Company. The outlook is stable. The upgrade reflects the Company's stronger financial and operational outlook.

Reduction of the Guaranteed Senior Notes

During the months of October and November 2008, the Company purchased from the market its guaranteed senior notes amounted to US$8 million at an average price of 94.469.

BUSINESS REVIEW

In 2008, the Group achieved another remarkable year with highly positive results against the backdrop of a rapidly deteriorating operating environment. The Group forged ahead with an innovative and "can do" spirit, overcoming the unprecedented challenges posed by the country's severe snowstorms, the earthquake in Sichuan, as well as the fallout from the global financial tsunami. Investment was scaled up in new projects and screening was carried out more rigorously than ever before, resulting in satisfactory business development in terms of both quality and quantity. In our existing projects, the Group built on HKCG's century-old experience and industry exposure, working conscientiously and with commitment, to achieve both higher standards and greater expertise to bring in excellent business results.

Riding Out the Financial Tsunami

The financial tsunami dealt a severe blow to the mainland's economy in 2008. According to economic data published by the state, every aspect of the country's economy has been affected in varying degrees by this global crisis. In the gas market, the impact on the residential, commercial and industrial sectors varied as the slowdown affected new housing projects and lowered property prices, dampened consumer sentiment and reduced demand for industrial output. Responding proactively, the Group introduced a set of measures devised to tap opportunities in this changing business climate.

Firstly, the Group improved staff morale, enhancing the sense of belonging and commitment by stating clearly and openly that the Group would ride out the crisis hand-in-hand with our employees, while avoiding layoffs as far as possible. Secondly, the economic downswing has given the Group even more opportunities for business expansion in view of weaker peer competition. However, the Group has been selective, adopting a more prudent approach to pre-investment appraisals with stricter criteria and procedures, while also negotiating better prices and conditions. As a result, significant improvements over the previous year were seen in both the quality and quantity of our investments in 2008.

In line with this prudent approach to financial management, all our project companies were required to rigorously enhance management controls over their operations, to minimise the negative market impact. Development plans have been adjusted according to prevailing market conditions, cost controls strengthened, inessential tasks and expenses scrapped, while the expenses of existing projects have also been reviewed. Anticipating a potential fall in market demand, Group companies are improving their core strengths, sharpening their competitive edge and upgrading operating standards. At the same time, to improve profitability and hedge against market risks, member companies have been looking into dividing target markets into different segments, discovering new potential, improving customer structures, perfecting customer services as well as refining price-setting mechanisms. The year-on-year gains in our customer base, sales volumes and gross profit, reflected by the year-end figures, testify to the effectiveness of these measures.

Superior Quality Service Programme

Our Superior Quality Service ("SQS") programme, rooted in the principle of "customers first", expands our "customer" commitments to include both external customers (consumers) and internal customers (employees) as service targets. The programme promotes an all-round approach to meeting customer needs while also creating value. Continuous improvement and creative thinking are emphasised throughout every SQS project process, from the initial problem to analysis and ultimately to the most effective solution.

Ensuring the smooth implementation of SQS, a Towngas China Customer Service Department oversees the programme's overall operations, while individual companies operate their own dedicated units to implement their respective SQS projects. Year-on-year, the Group continues to promote this concept of service excellence and ongoing improvement with the completion of a number of SQS projects and a variety of promotional activities. Our joint venture companies thus benefit from improvements in teamwork, creativity, learning attitudes, problem solving skills and quality awareness, as staff members work together to overcome the challenges posed by their SQS projects.

In 2008, the study of an "emergency replacement gas source for cities" by the "Timely Help" team from Anqing Hong Kong and China Gas won the championship in the inaugural *Real Dragon Cup* nation-wide QC project presentation contest organised by the China Quality Association. The award reaffirms the substantial benefits of our SQS programme to our joint venture companies.

Customer Service

In 2008, the Group enhanced our overall customer service standards with the rigorous promotion of our Bauhinia range, our house brand gas appliances. Many joint venture companies opened one-stop customer centres, modeled on our HKCG's Customer Centres in Hong Kong, offering customers enhanced levels of service and convenience. The promotion focused on the improved design and service efficiency that underpins the Bauhinia product range. In addition to the Bauhinia hotplates, built-in hobs and water-heaters sold in these customer centres, the marketing campaign focused on the professionalism of staff while also assuring customers of the high standards of gas safety that these appliances and our services would bring into their homes.

During the year, the Group unified our corporate image, standardising the logos of our subsidiary companies. A uniform logo of corporate design and consistent signage was applied to office supplies, staff uniforms, company vehicles, gas cylinders as well as company premises, to ensure a unique and unified corporate identity.

Safety and Risk Management

A gas enterprise cannot thrive without solid safety foundations. As such, our Safety and Risk Management Department implemented a range of measures during the year to enhance safety management standards among our mainland ventures, so that risks can be suppressed to the lowest possible level.

In July 2008, for the first time in our history, the Group launched a round of safety and risk management audits on all our subsidiaries. Audits on 18 subsidiaries have been completed, and the exercise continues for the rest of our subsidiaries.

To facilitate the development of safety management systems across our mainland operations, the Group compiled and published *Safety and Risk Management System Model Documents*, *A Guide to Corporate Risk Management for Mainland Joint Ventures* and *A Guide to Safe Operation in Confined Spaces* in a CD format. The Group assisted in the setting up of regional safety committees in Sichuan, northeastern China, Shandong and southern China, and also organised five regional safety and risk management workshops to encourage experience sharing among the 110 participants from our various joint ventures. These measures offer practical help as our joint venture companies develop and implement their own safety and risk management systems.

The Group also introduced additional training opportunities for our mainland ventures, enhancing their knowledge of safety and risk management. Senior officials from the Hong Kong Fire Services and representatives from the Green Council also participated in our *2008 Nation-wide Safety and Risk Management Workshop*. At the seminar, discussions were held to promote an exchange of professional knowledge and experience among the participants, including some 170 delegates from our various joint ventures. Among our many training programmes, the Group also organised a train-the-trainers course in fire safety and risk management in partnership with the Fire Services in Hong Kong.

Also participating in the annual work safety quiz co-organised by the State Administration of Work Safety, the All China Federation of Trade Unions and the China Association of Work Safety, we were very proud to be named as winners of the quiz.

Engineering and Procurement

Building on HKCG's foundations of 147 years of experience in the gas industry in Hong Kong, together with our gas industry experience on the mainland in the past decade or so, the Group compiled several guides on engineering project management. These guides were distributed to our joint venture companies in a bid to help them produce their own individual guidelines based on both Group requirements as set out in the original guides and the unique conditions of their own local markets.

In our gas engineering projects, the Group made the best use of our large team of professionals and our strong technical expertise, standardising project management requirements and marshalling leading specialists in the industry to tackle challenging issues. Our project companies also met stringent requirements on design, construction and installation, to achieve the highest possible engineering standards.

The Group's achievements have been such that it was invited by the national taskforce on standardisation to assist in the drafting of national guidelines for gas engineering projects in China.

During the year, the Group promoted joint procurement even further to achieve cost savings, administrative benefits, standardisation as well as better quality guarantees.

New Acquisitions

In line with our progressive approach to grow our gas business portfolio on the mainland, the Group acquired three new projects in Anhui Province, northeastern China and Sichuan Province in 2008 and two new projects in Shangdong Province and Sichuan Province in 2009.

Piped Gas Project in Huangshan, Anhui Province

Through a tender offer in May 2008, the Group acquired the rights to develop a piped city-gas project in Huangshan city, Anhui Province. The Group holds a 100% equity interest in the project company, which has a registered capital of RMB 40 million. The project owns the exclusive rights for 30 years to supply piped gas to the Tunxi district, including the Huangshan Economic Development Zone, in the city of Huangshan.

Inaugurated in 2009, the project company expects to serve around 20,000 residential customers with a total annual gas consumption of approximately 30 million cubic metres by 2015.

Huangshan is a world class tourist city with a well-developed hotel and catering industry. Rich tourism resources and an ever-expanding immigrant population are driving the city's rapid development, which in turn is guaranteeing the growth potential of its gas market. The project will create synergies with our other piped city-gas projects in Anhui, including the ones in Maanshan, Anqing and Chizhou, HKCG's city gas project in Tongling as well as our midstream investments in the province.

Piped Gas Project in Jinhai Economic Zone in Shenyang, Liaoning Province

The Group acquired the rights to develop a piped city-gas project in the Jinhai Economic Zone in Shenyang, Liaoning Province in July 2008. The Group holds a 100% equity interest in the project company, which has a registered capital of US$8 million. The project has 30-year exclusive rights to supply piped gas to the Jinhai Economic Zone in Shenyang.

A brand-new undertaking, this project, to supply natural gas mainly to industrial customers, is scheduled for commissioning in 2009. The economic zone's gas consumption is estimated to reach approximately 35 million cubic metres by 2014, increasing to 100 million cubic metres in the long term.

In developing its advanced equipment manufacturing and associated industries, the Jinhai Economic Zone will build on the success of Shenyang's equipment manufacturing base while also capitalising on the nation's revitalisation strategy for its northeastern regions and Liaoning's "Western Shenyang Industrial Corridor" project. The casting and forging businesses moving into the area are creating strong demand for natural gas to power their production. There will also be synergies between this project and our existing piped gas projects in the province, those in the cities of Chaoyang, Fuxin, Benxi and Tieling, for example as well as our projects in Qiqihaer, Heilongjiang Province, and HKCG's projects in Yingkou city in Liaoning Province and Jilin city in Jilin Province.

Piped Gas Project in Xinjin, Sichuan Province

The Group acquired a 60% equity stake in each of Xinjin Diyuan Natural Gas Co. Ltd. and Xinjin Nanfang Natural Gas Co. Ltd., both established in Xinjin, Sichuan Province, for a total consideration of RMB60 million in December 2008.

Focally developed as the southern gateway to Chengdu, Xinjin is rapidly establishing itself as Chengdu's backyard and an integral part of the Chengdu metropolis. With Chengdu at the forefront of the state's policy to integrate the development of rural and urban areas, Xinjin is expected to see rapid growth and development.

The project's gas sales volumes amounted to 12.3 million cubic metres in 2007, with 31% of sales being attributed to residential customers and 69% to commercial and industrial customers. Gas sales volumes are expected to reach 66 million cubic metres by 2012 and to exceed 100 million cubic metres in the long term. In addition to these piped city gas businesses, investments have also been made in the compressed natural gas filling stations business to capture the high growth in gas consumption for vehicles.

These new investments have added tremendous synergies to our businesses in Sichuan, while at the same time enabling the building of a greater sphere of influence in the province for the Group.

Shortly before the publication of this annual report, the Group acquired two additional projects in Chiping, Shandong Province and Xindu, Sichuan Province, paving the way for our prosperous and ongoing business development in 2009.

Piped Gas Project in Chiping, Shandong Province

The Group acquired an 85% equity interest in a piped city gas project in Chiping, Shandong Province, in early March 2009. The project has a registered share capital of RMB40 million and 30-year exclusive gas supply rights.

Located in the northwestern part of Shandong Province, Chiping County is located about 100 km away from the provincial capital Jinan. As one of China's key manufacturing and processing bases for aluminium products, Chiping provides a strong appeal for major aluminium and copper firms as well as vehicle parts manufacturers, textiles and medicine companies. The county has one of the fastest growing economies in Shandong Province.

The project's gas sales amounted to approximately 5.6 million cubic metres in 2008. Gas sales are projected to reach 52 million cubic metres by 2015.

Not only will this project reinforce the Group's presence in the natural gas market of Shandong, it will also benefit from the synergies gained between this project and our other piped gas operations in the province, including those in Jinan and Zibo.

Piped Gas Project in Xindu, Sichuan Province

The Group entered into an agreement on 3 March 2009 to develop a piped city gas project in Xindu district, Chengdu, Sichuan Province for a total consideration of RMB253 million. Upon completion of the deal, Sichuan Huachuan Gas Company Limited will become a wholly owned subsidiary of the Group to be renamed as Xindu Hong Kong and China Gas Company Limited, Cheng Du. The company has an operating period of 30 years.

Xindu, was a renowned city in the ancient state of Shu, whose history dates back to 2,800 years ago. Travel to and from Xindu is extremely convenient as the district is just 16 km away from downtown Chengdu. Xindu's major industries include machinery and equipment(aviation), electronics, food, medicines and furniture.

The project's gas sales amounted to approximately 69 million cubic metres in 2008. Gas sales are projected to reach 100 million cubic metres by 2015.

The project's gas sales to residential and industrial customers have already reached a high level. With the huge potential for growth in industrial gas consumption, the project is set to bring in attractive returns for the Group.

Employee Training and Development

As at 31 December 2008, the Group had 17,685 employees, 99% of whom work in China. Employee salaries and bonuses were determined on the basis of individual performance.

Apart from fulfilling customer needs, serving the community and creating value for shareholders, the Group also continued to improve our environmental performance. The Group sees these factors as the keys to success in recruiting, nurturing, developing and retaining talent.

The Group has promised it would do its utmost to avoid layoffs, despite the immense challenges posed by the slowing economy and depressed market conditions in 2008. The Group is determined to join hands with our people to weather the storm, while at the same time boosting a sense of commitment and belonging to the Group. Encouraging improvements in productivity, employee remuneration is linked to job performance. The Group cares for our employees and believe that a people-oriented employee policy is beneficial to our long term development as it builds stronger team bonds and a healthy corporate culture.

The Group continued to attach great importance to employee training, custom-designing different training courses to meet the different professional requirements of our staff at every level. This training commitment helps to ensure that the Group will meet both our short-term operating requirements as well as our mid- to long-term development needs.

Talent development, another key aspect of our employee policy, was achieved through the implementation of our Leadership Competency Model hand-in-hand with succession planning. Together with HKCG in Hong Kong, the Group entered into collaboration with the Chinese University of Hong Kong's Asia-Pacific Institute of Business, and the Tsinghua University in Beijing, to run advanced management courses with a strategic focus on our senior executives. Our succession plans also prepare suitable candidates for taking up top management roles in the future.

Our management trainee programme continued to build a talent pool with the identification and grooming of the right people. Prior to joining the programme, trainees were required to have practical work experience. The Group's wide range of professional training for employees has resulted in improved levels of professionalism in safety and risk management, engineering, financial management and marketing.

The Group is committed to cultivating a people-oriented corporate culture that values harmony and integration. During the year, our "Professional Managers' Club" continued to deliver personal care to employees while our internal newsletter "Ming Qi" began to publish staff contributions so that they now have an extra channel to express their views. Calligraphy and painting competitions provided an opportunity to showcase their artistic talents and recreational activities were also organised to foster team spirit.

The Group believes that a united, dynamic and creative workforce is indispensable to a thriving corporation. The Group will continue to care for our employees, helping them to sharpen their competitive edge and develop their full potential.

Corporate Culture

The Group is a staunch believer in the value of a healthy and responsible corporate culture. The Group believes it is crucial to sustaining our own healthy existence and long-term development.

Understanding that a company's survival relies on the support of its customers, the Group follows HKCG's century-old tradition of putting customers first. As such, in addition to exhausting every means to provide customers with a safe and reliable gas supply, the Group also works to keep them satisfied by constantly enhancing our service quality. The Group endeavours to attract, nurture and develop talent of every kind by creating a desirable working environment and encourage our employees to enhance their professional skills and grow with the Group. The Group fosters positive and balanced working relationships with all our stakeholders in the production chain, including both government officials and suppliers. The Group promotes environmental awareness and the use of natural gas while gradually phasing out coal-fired gas production techniques, to cut the emission of greenhouse gases and preserve our environment.

As the Group benefits from China's overall economic growth and the gas industry's rapid development, the Group recognises that as a pacesetter in the mainland's gas industry, the Group not only makes profits, but at the same time also holds ourselves accountable to shareholders. The Group is obliged to shoulder major social responsibilities.

Since our inception, the Group has carried out a variety of community service programmes to lend Group support to the needy. Every year, hand-in-hand with our employees, the Group offers help and assistance to underprivileged members of our society, as well as children in poverty-stricken areas who are deprived of education opportunities. Our cumulative contributions have exceeded a million dollars.

Prospect

On the one hand, we will continue to expand our city gas portfolio through mergers and acquisitions. On the other, we will closely monitor the ever changing environment in China's economy and the gas industry, so as to continuously fine tune our development strategies and operation models accordingly. With these measures, despite the challenges imposed by the recent down turn in the pace of economic development in the mainland, the Group anticipates a stable progression in 2009.

The Group's priorities for 2009 are as follows:

Overcome the impact of the financial tsunami

The impact of the 2008 financial tsunami has been enormous, and there are no clear signs of the crisis abating as yet. Although the crisis has not seriously affected the industry or the Group up to the present moment, we cannot rule out the possibility that it might have a negative impact on the gas industry should the financial crisis worsen. As a part of the Group's prudent practice, apart from continuing with our existing crisis handling strategies, precautionary measures will be taken to prevent against potential damage from the financial crisis by closely monitoring the situation and adopt further initiatives and strategies as and when necessary.

Develop new piped gas projects

Rapid market expansion and growth, realised through mergers and acquisitions, has been an essential instrument in sustaining the Group's growth potential. In 2009 we will continue to adhere to this strategy. The Group will continue to enjoy the strong backing of HKCG, and will adopt even more prudent investment strategies on a stricter selective basis, to improve the quality of new undertakings while strictly controlling the risks involved.

Maximise the potential of existing projects and improve service quality

The Group has a substantial customer base in mainland China, yet there are still many prospective customers in the regions where we operate. While China's economy continues to grow at a rapid pace, inland provinces are just entering the urbanisation and industrialisation stages. Furthermore, current demand for gas for industrial, commercial and vehicular usage still outstrips supply. Building on the foundations of our existing projects, the Group will further penetrate these markets while working to enhance service standards, improve customer structure, increase the proportion of higher margin businesess, and thus enhance our profitability.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

On 23 April 2008, the Company fully repaid its 5 year convertible bonds on maturity which were issued in 2003 and listed on the Luxembourg Stock Exchange. During October and November 2008, the Company purchased from the market a portion of its guaranteed senior notes which are listed on the Singapore Exchange Securities Trading Limited. Please refer to the paragraphs headed "Convertible Bonds Redemption" and "Reduction of the Guaranteed Senior 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 2008.

Corporate Governance

During the year ended 31 December 2008, 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") .

Audit Committee

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

A meeting of the Audit Committee was held on 9 March 2009 to review the Group's audited consolidated financial statements for the year ended 31 December 2008, in conjunction with the Group's internal auditors and Deloitte Touche Tohmatsu, the Group's external auditor.

Final Dividends

The Board recommends the payment of a final dividend out of the share premium account of the Company of One HK Cent per share (2007: Nil) to shareholders whose name are on the register of members on 11 May 2009, which is subject to approval by shareholders at the Annual General Meeting to be held on 11 May 2009 and compliance with the Companies Law of the Cayman Islands.

If the aforesaid proposed final dividend being approved, the final dividend will be payable on or about 1 June 2009 and the register of members of the Company will be closed from 7 May 2009 to 11 May 2009, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by relevant share certificates should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 6 May 2009.

Annual General Meeting

The Annual General Meeting of the Company will be held on Monday, 11 May 2009. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or around Friday, 3 April 2009.

Acknowledgement

On behalf of the Board, I would like to thank all staff for their dedication and hard work, and to thank all shareholders and investors for their long-standing support.

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

Hong Kong, 16 March 2009

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
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