

# 2009

# Interim Report



**Towngas China Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1083)

## CORPORATE INFORMATION

### Board of Directors

#### *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  
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

### Authorised Representatives

Chan Wing Kin, Alfred  
Ho Hon Ming, John

### Company Secretary

Ho Hon Ming, John

### Audit Committee

Li Man Bun, Brian David (*Chairman*)  
Chow Yei Ching  
Cheng Mo Chi, Moses

### Remuneration Committee

Chow Yei Ching (*Chairman*)  
Cheng Mo Chi, Moses  
Li Man Bun, Brian David  
Chan Wing Kin, Alfred

### Auditor

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

### Registered Office

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

### Head Office and Principal Place of Business

23rd Floor, 363 Java Road  
North Point, Hong Kong  
Telephone : (852) 2963 3298  
Facsimile : (852) 2561 6618  
Stock Code : 1083  
Website : [www.towngaschina.com](http://www.towngaschina.com)

### Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman  
KY1-1107  
Cayman Islands

### Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited  
Rooms 1806-1807, 18th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Legal Advisers

(*As to Hong Kong Law*)  
Woo, Kwan, Lee & Lo

(*As to Cayman Islands Law*)  
Maples and Calder

### Principal Bankers

Bank of China (Hong Kong) Limited  
Bank of China, Shenzhen Branch  
Hang Seng Bank Limited



## CONTENTS

	Page
Management Discussion and Analysis	2
Other Information	6
Report on Review of Interim Financial Information	16
Condensed Consolidated Income Statement	17
Condensed Consolidated Statement of Comprehensive Income	18
Condensed Consolidated Statement of Financial Position	19
Condensed Consolidated Statement of Changes in Equity	21
Condensed Consolidated Statement of Cash Flows	24
Notes to the Condensed Consolidated Financial Statements	25

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2009, the Group recorded a turnover of HK\$900 million from its piped gas business, an increase of 18.3% over the previous year, after disposal of its liquefied petroleum gas business. Operating profit before returns on investments grew by 12.9% to HK\$83 million. This was mainly due to the increased sales in piped gas over the same period last year. The Group recorded an EBITDA of HK\$348 million, an increase of 12.3% over the corresponding period last year. Profit after taxation attributable to shareholders jumped 26.8%, reaching HK\$128 million.

The jump in profit attributable to shareholders of the Group is mainly due to the growing profits of its subsidiaries, coupled with dividends from available-for-sale investments of HK\$27.5 million. Such a dividend income was not recorded in the first half of 2008.

### Sales of Piped Gas

This business comprises the direct supply of piped natural gas, piped liquefied petroleum gas and piped fuel gas to customers. Sales of piped gas and related products jumped 23.4% to HK\$717 million, accounting for 40.3% of the Group's aggregate turnover. During the period, the Group achieved gas sales to residential households of 101 million cubic metres natural gas equivalent and commercial and industrial customers of 263 million cubic metres natural gas equivalent, representing increases of 15.6% and 30.6% respectively.

### Gas Pipeline Construction

The Group's gas pipeline construction business mainly includes the development and maintenance of piped gas facilities and networks, through which it provides direct connection of piped gas to customers and for which it receives connection fees. For the six months ended 30 June 2009, the Group recorded a 1.5% increase in connection fees to HK\$182 million, accounting for 10.2% of the Group's total turnover.

The total number of connected households as at 30 June 2009 was approximately 1,808,400, an increase of approximately 105,400 households from 31 December 2008.

### Sale of Liquefied Petroleum Gas ("LPG") Business

As disclosed in the Company's announcement on 2 April 2009 (as supplemented by subsequent announcement dated 1 June 2009), the Group had disposed of its LPG business at a total consideration of HK\$419 million during the period. This transaction was approved at the extraordinary general meeting held on 11 May 2009. The disposal, which was completed on 4 June 2009, has facilitated the Group to focus its resources on developing its piped city-gas business, thereby enhancing the profitability of the Group.

## **Development of New Projects**

### ***Operation of New Projects***

During the end of last year and early this year, the Company invested in new projects in Xinjin County of Sichuan Province, Chiping County of Shandong Province and Xindu District of Chengdu City. These projects were inaugurated and entered into operation in the first half of this year. The Group will continue to strive for rapid market expansion through mergers and acquisitions. In addition to expanding its market coverage over Northeastern China and Sichuan Province, the Group is actively expanding into other regions so as to accelerate development.

### ***Huangshan District of Huangshan City, Anhui Province***

After obtaining the concession in Tunxi District and Huangshan Economic Development Zone of Huangshan City in May 2008, the Company was again successful in securing a piped gas project in Huangshan District of Huangshan City in July 2009, with a registered capital of US\$3.5 million. The Company holds 100% stakes in the project company and the period of the exclusive operating right is 30 years.

The above-mentioned project is scheduled to start operation in 2010. Natural gas consumption of 19 million cubic metres per year is anticipated by 2014. In the long run, the gas consumption will exceed 40 million cubic metres per year.

Tourism is the pillar industry of Huangshan District, which comprises an area of 1,775 square kilometers with a total population of 163,000. Under its direct jurisdictions are Tangkou Town and Gantang Town which are located at the southern and northern gateway of Huangshan respectively, where the demand for natural gas is relatively large from the catering and hotel sectors due to the booming tourism business.

Huangshan is a renowned tourism city and its government has attached great emphasis to preserving its natural environment, through keen enforcement of environmental policies that are beneficial to the development of the local natural gas market.

As an expansion of the existing piped gas project in Tunxi District of Huangshan City, the new piped gas project of Huangshan District is of an outstanding scale and impact, capable of further strengthening the Group's status in the natural gas market of Anhui Province.

### **Available-for-sale Investments**

Available-for-sale investments are mainly made up of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas"). Chengdu Gas is accounted for at cost. No provision for impairment was necessary during the six months ended 30 June 2009.

### **Contingent Liabilities**

The Group has no material contingent liabilities as at the balance sheet date.

## **Financial Position**

As at 30 June 2009, the Group's cash and cash equivalents amounted to HK\$839 million, which were mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2009, the Group's bank loans and other borrowings amounted to HK\$2,563 million, of which HK\$1,107 million arose from the issue of US\$200 million Guaranteed Senior Notes ("Guaranteed Senior Notes") in September 2004 and HK\$471 million loans from The Hong Kong and China Gas Company Limited ("HKCG"). The Group ended the period under review with a current ratio of approximately 0.8 times and a gearing ratio (net debt excluding HKCG loans ("ND") to equity attributable to shareholders of the Company plus ND) of 16.6%.

In its areas of operation, the Group's exposure to exchange rate fluctuations is insignificant and it does not expect any considerable fluctuations in the near future.

The Group has not pledged any asset to secure bank loan as at 30 June 2009. Shares of certain BVI incorporated companies have been pledged to secure the Guaranteed Senior Notes.

## **Interim Dividend**

The board of directors of the Company (the "Board") has resolved not to declare an interim dividend.

## **Employee and Remuneration Policies**

As at 30 June 2009, the Group had 13,845 employees, representing a decrease of 21.7% when compared to 31 December 2008, mainly due to the disposal of its LPG business. Employee remuneration is based on individual performance, job nature and the responsibilities involved. The Group also provides training as well as a comprehensive package of benefits for employees, including medical welfare, provident funds, bonuses and other incentives. The Group encourages its employees to strike a balance between work and life and continuously improve the working environment for employees to maximize both their potential and their contribution to the Group.

## **Financial tsunami**

The financial tsunami has dealt a severe blow on economies around the world yet its impact on China remains relatively mild. Under a RMB4 trillion economic stimulus package introduced on the mainland, bank loans have increased with more infrastructure projects being undertaken, as the effects of this policy become gradually apparent. On 23 June 2009, the National Bureau of Statistics website posted a bylined article pointing out that, based on indicators of GDP and industrial productivity growth and the performances of indices-in-kind such as steel production and electricity output, the domestic economy is gradually recovering.

While the financial tsunami seems unlikely to deteriorate further, the Group will uphold its current strategy of crisis management in the short run, not only out of prudence but also to preempt the possibility of a weaker economic rebound. Depending on the economic circumstances prevailing in the cities where the Group's various projects are located, optimal efforts will be made to consolidate markets with existing pipeline coverage and increase their penetration rates, with a view of achieving a higher level of asset utilization to foster a stronger momentum for growth.

## Outlook

As rapid economic growth continues unabated, there is still ample room for urbanization on the mainland, where a greater population is forecast in the cities. This will be accompanied by a rise in the standard of living. Hence in the long run, the development outlook is exceptionally optimistic for public utilities sectors including city-gas industry. Given this scenario, the city-gas projects under the Group's control on the mainland hold out a strong earning potential. The Group will continue to grow its business through mergers and acquisitions activities in the city-gas sector.

The PRC natural gas industry has been undergoing tremendous changes since the beginning of 2009.

Firstly, phase two of the West-to-East pipeline project is already underway, ushering China into a new era of increasing reliance on natural gas imports to substantially expand the gas supply. In the recent months too, LNG receiving-station projects along the coastal area have appeared in the news, along with reports on construction of China-Burmese oil and natural gas pipelines scheduled to begin in September of 2009. "Sichuan-to-East Gas Transmission" will also commence in the fourth quarter this year to transmit gas to the country's eastern coastal provinces. In time to come, China will have relatively abundant supply of natural gas. The price of natural gas will be influenced by local and foreign market conditions. Looking ahead, the price reforms for domestically-produced natural gas on the mainland will be geared towards "integration with international market prices".

Secondly, upstream natural-gas suppliers will find the industry on the mainland greatly appealing, by virtue of its prosperous business outlook, as they stand ready to exchange their resources for a quick market entry. Moreover, with international oil prices on retreat again, the absolute competitive advantage of natural gas from the past will be under pressure. Due to changes in the competitive environment, business rivalry in the city-gas industry, from bidding for projects to competition in the operational phase and for alternative fuels, will be increasingly intense. However, given that Towngas China Group has gained a considerable magnitude in operation, the Group is able to maintain a competitive edge in business expansion.

Surmounting the aforesaid challenges, the Group has closely followed the market and regulatory situation and prepared itself fully for any contingencies. While monitoring the latest progress in price reforms of natural gas, it has also maintained a positive communication with the authorities in key mainland cities where its projects are represented. Over several years, it has been investing in provincial-level pipeline network ventures in different parts of China and will be stepping up these investments, in accordance with developments in the operating environment. The Group will strive to retain its competitive edge, endeavoring to widen the competitive gap between itself and its business rivals. Its competitive advantages over other private gas enterprises, particularly traditional natural gas suppliers, remain considerable in many aspects, especially in terms of market expansion, standard of customer services, safety of gas supply of city pipeline networks and optimization of assets investments and operating costs of enterprise.

## 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, 26 August 2009

## OTHER INFORMATION

### Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2009, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

#### *Long positions in Shares and underlying Shares*

Name of Director	Capacity	Interest in Shares		Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 30.06.2009
		Personal interest	Corporate interest				
Chan Wing Kin, Alfred	Beneficial owner	—	—	—	3,618,000	3,618,000	0.18%
Wong Wai Yee, Peter	Beneficial owner	—	—	—	3,015,000	3,015,000	0.15%
Kwan Yuk Choi, James	Beneficial owner	—	—	—	3,015,000	3,015,000	0.15%
Ho Hon Ming, John	Beneficial owner	—	—	—	3,015,000	3,015,000	0.15%
Ou Yaping	Beneficial owner and interest in controlled corporations	3,618,000	530,487,245 (Note)	534,105,245	—	534,105,245	27.28%
Chen Wei	Beneficial owner	1,600,000	—	1,600,000	6,633,000	8,233,000	0.42%
Chow Yei Ching	Beneficial owner	1,600,000	—	1,600,000	—	1,600,000	0.08%
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	Beneficial owner	—	—	—	3,015,000	3,015,000	0.15%

Note: The 530,487,245 Shares represent the aggregate of (i) 344,046,568 Shares held by Kenson Investment Limited ("Kenson") and 186,440,677 Shares held by Supreme All Investments Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina Holdings Limited ("Enerchina"). As Asia Pacific Promotion Limited ("Asia Pacific") was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 530,487,245 Shares.



Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

### Directors' Rights to Acquire Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2009 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2009	As at 30.06.2009		
				Exercise price HK\$	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,085,400	3.811	1,085,400	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2009	As at 30.06.2009		
				Exercise price HK\$	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	1,809,000	0.473	1,809,000	0.09%
	04.04.2001	01.01.2004 – 03.04.2011	1,809,000	0.473	1,809,000	0.09%
	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%

*Notes:*

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no option was granted to or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2009, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### **Arrangements to Purchase Shares or Debentures**

Other than the share option schemes of the Group as disclosed herein, at no time during the period was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders

As at 30 June 2009, the interests and short position of every person, other than the Directors or chief executive of the Company disclosed above, in the Shares and underlying Shares of the Company as notified to the Company and recorded in the register of substantial shareholders required to be kept under section 336 of the SFO were as follows:–

### *Long positions in Shares and underlying Shares in the Company*

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 30.06.2009
Lee Shau Kee	Interest of controlled corporations	893,172,901 (Note 1)	45.63%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	893,172,901 (Note 2)	45.63%
Riddick (Cayman) Limited ("Riddick")	Trustee	893,172,901 (Note 2)	45.63%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	893,172,901 (Note 2)	45.63%
Henderson Development Limited ("HD")	Interest of controlled corporations	893,172,901 (Note 2)	45.63%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	893,172,901 (Note 2)	45.63%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	893,172,901 (Note 2)	45.63%
HKCG	Interest of controlled corporations	893,172,901 (Note 3)	45.63%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	850,202,901 (Note 3)	43.43%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	850,202,901 (Note 3)	43.43%
Asia Pacific	Interest of controlled corporations	530,487,245 (Note 4)	27.10%
Enerchina	Interest of controlled corporations	530,487,245 (Note 4)	27.10%
Kenson	Beneficial owner	344,046,568 (Note 4)	17.58%
Supreme All	Beneficial owner	186,440,677 (Note 4)	9.52%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 893,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 893,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG(China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 850,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
4. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 344,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson, Supreme All, Enerchina and Asia Pacific.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2009, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

### ***Short positions in Shares and underlying Shares in the Company***

As at 30 June 2009, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

### ***Other Persons***

Save as disclosed above, as at 30 June 2009, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of the SFO.

## Share Option Schemes of the Company

The Company operates three share option schemes, the Pre-GEM Scheme, 2001 GEM Scheme, and 2005 Main Board Scheme under which the Board may, at its discretion, offer any employee (including any Director) of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the three schemes. The Pre-GEM Scheme and the 2001 GEM Scheme were approved by the shareholder on 4 April 2001 and have a life of 10 years until 3 April 2011. The 2005 Main Board Scheme was approved by the shareholders on 28 November 2005 and has a life of 10 years until 27 November 2015.

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
<b>Pre-GEM Scheme:</b>			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473
	04.04.2001	01.01.2004 – 03.04.2011	0.473
<b>2001 GEM Scheme:</b>			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483
	19.11.2004	31.12.2006 – 30.03.2011	3.483
	19.11.2004	31.12.2007 – 30.03.2011	3.483
<b>2005 Main Board Scheme:</b>			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

The following table discloses movements in the share options during the period:

Option types	Date of Grant	Exercise Period	Exercise Price	Outstanding at 01.01.2009	Grant during the period	Exercised/ Lapsed during the period	Resigned as Director during the period	Transfer to Employee during the period	Outstanding at 30.06.2009
								(Note 4)	
<b>Category 1:</b>									
<b>Directors</b>									
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	—	—	—	1,085,400
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	—	—	—	1,085,400
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	—	—	—	1,447,200
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	—	1,206,000
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	—	1,206,000
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	—	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	—	1,206,000
Chen Wei	Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	—	—	—	1,809,000
		04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	—	—	—	1,809,000
		2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	—	—	—
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	—	—	—	904,500
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	—	—	—	1,206,000
Shen Lian Jin (Note 4)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	603,000	—	—	(603,000)	—
		19.11.2004	31.12.2006 – 30.03.2011	3.483	603,000	—	—	(603,000)	—
		19.11.2004	31.12.2007 – 30.03.2011	3.483	804,000	—	—	(804,000)	—
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	301,500	—	—	(301,500)	—
		16.03.2007	16.03.2009 – 27.11.2015	3.811	301,500	—	—	(301,500)	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	402,000	—	—	(402,000)	—
Tang Yui Man, Francis	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	—	—	—	904,500
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	—	—	—	904,500
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	—	—	—	1,206,000
<b>Total for Directors</b>				<u>25,326,000</u>	<u>—</u>	<u>—</u>	<u>(3,015,000)</u>	<u>—</u>	<u>22,311,000</u>

	Option types	Date of Grant	Exercise Period	Exercise Price	Outstanding at 01.01.2009	Grant during the period	Exercised/ Lapsed during the period	Resigned as Director during the period	Transfer to Employee during the period (Note 4)	Outstanding at 30.06.2009
Category 2: Employees	2004 GEM	19.11.2004	31.12.2005 – 30.03.2011	3.483	1,597,950	—	—	—	603,000	2,200,950
	Options	19.11.2004	31.12.2006 – 30.03.2011	3.483	2,412,000	—	—	—	603,000	3,015,000
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,216,000	—	—	—	804,000	4,020,000
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	1,085,400	—	—	—	—	1,085,400
		03.10.2006	04.04.2008 – 27.11.2015	2.796	1,326,600	—	—	—	—	1,326,600
		03.10.2006	04.10.2008 – 27.11.2015	2.796	1,768,800	—	—	—	—	1,768,800
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	301,500	—	—	—	301,500	603,000
		16.03.2007	16.03.2009 – 27.11.2015	3.811	301,500	—	—	—	301,500	603,000
		16.03.2007	16.03.2010 – 27.11.2015	3.811	402,000	—	—	—	402,000	804,000
<b>Total for Employees</b>					<u>12,411,750</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,015,000</u>	<u>15,426,750</u>
<b>All categories</b>					<u>37,737,750</u>	<u>—</u>	<u>—</u>	<u>(3,015,000)</u>	<u>3,015,000</u>	<u>37,737,750</u>

*Notes:*

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no share option was cancelled or had lapsed under any share option schemes.
3. During the period, no new option was granted.
4. Mr. Shen Lian Jin resigned as an executive Director with effect from 19 March 2009 but remains as an employee of the Group. As at 30 June 2009, Mr. Shen had a total of 3,015,000 share options being outstanding.

## PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2009.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2009, 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") on the Stock Exchange.

## **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 standards set out in the Model Code throughout the six months ended 30 June 2009.

## **AUDIT COMMITTEE**

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

An Audit Committee meeting was held on 19 August 2009 to review the unaudited interim financial report for six months ended 30 June 2009. Deloitte Touche Tohmatsu, the Group’s external auditor, has carried out a review of the unaudited interim financial report for the six months ended 30 June 2009 in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## **UPDATE ON DIRECTORS’ INFORMATION**

Below sets out the changes and updated information regarding Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David:–

### **Dr. Chow Yei Ching**

Aged 73, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Dr. Chow is the founder and chairman of Chevalier Group which consists of two public listed companies in Hong Kong, Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is currently an independent non-executive director of Van Shung Chong Holdings Limited and a non-executive director of Television Broadcasts Limited, both being public listed companies in Hong Kong. His other directorship in public listed company in the last 3 years include Shaw Brothers (Hong Kong) Limited which was delisted on 19 March 2009. Dr. Chow resigned from the said company on 16 April 2009. Dr. Chow is currently the Honorary Consul of the Kingdom of Bahrain in Hong Kong.



**Dr. Cheng Mo Chi, Moses** *GBS, OBE, JP*

Aged 59, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the member of both the Audit Committee and the Remuneration Committee of the Company. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. His other directorships in public listed companies in the last 3 years include Beijing Capital International Airport Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited) and Shui On Construction and Materials Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Assets Management Limited, a company whose shares are listed on the Singapore Stock Exchange, and an independent director of ARA Assets Management (Singapore) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on the Singapore Stock Exchange.

**Mr. Li Man Bun, Brian David**

Aged 34, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Li is the Deputy Chief Executive of The Bank of East Asia, Limited (“BEA”), responsible for BEA’s China and international businesses. Mr. Li serves as a member of the National Committee and the Beijing Municipal Committee of the Chinese People’s Political Consultative Conference. He is an Associate of The Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as an MA and BA from the University of Cambridge.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

**Introduction**

We have reviewed the interim financial information set out on pages 17 to 42, which comprises the condensed consolidated statement of financial position of Towngas China Company Limited as of 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
26 August 2009

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	NOTES	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Turnover			
– Continuing operations		899,566	760,619
– Discontinued operation		880,471	1,358,626
		<u>1,780,037</u>	<u>2,119,245</u>
<b>Continuing operations</b>			
Operating profit before returns on investments	4	83,128	73,645
Other income		43,080	10,903
Share of results of associates		65,714	84,763
Share of results of jointly controlled entities		40,532	37,890
Finance costs	5	(63,572)	(76,982)
Profit before taxation	6	168,882	130,219
Taxation	7	(27,229)	(17,170)
Profit for the period from continuing operations		141,653	113,049
<b>Discontinued operation</b>			
Profit for the period from discontinued operation	8	9,824	15,548
Profit for the period		151,477	128,597
Profit for the period attributable to:			
Shareholders of the Company		128,151	101,063
Minority interests		23,326	27,534
		<u>151,477</u>	<u>128,597</u>
		<b>HK cents</b>	<b>HK cents</b>
Earnings per share	9		
From continuing and discontinued operation			
– Basic		6.55	5.16
– Diluted		6.54	5.15
Earnings per share	9		
From continuing operations			
– Basic		6.57	4.79
– Diluted		6.56	4.78

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Profit for the period	<u>151,477</u>	<u>128,597</u>
Other comprehensive income		
Exchange differences arising on translation of operations outside Hong Kong	1,793	313,251
Reserve released on disposal of subsidiaries	<u>(11,541)</u>	<u>—</u>
Other comprehensive income for the period (net of tax)	<u>(9,748)</u>	<u>313,251</u>
Total comprehensive income for the period	<u><u>141,729</u></u>	<u><u>441,848</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	117,618	366,833
Minority interests	<u>24,111</u>	<u>75,015</u>
Total comprehensive income for the period	<u><u>141,729</u></u>	<u><u>441,848</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	30.6.2009 HK\$'000 (unaudited)	31.12.2008 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	3,739,750	3,811,432
Prepaid lease payments		213,105	221,004
Intangible assets		186,352	195,276
Goodwill	12	2,756,145	2,491,871
Interest in associates		1,137,454	1,083,075
Interest in jointly controlled entities		708,652	701,689
Loans to jointly controlled entities		110,430	101,618
Available-for-sale investments		168,839	169,968
Deferred consideration receivable	13	283,262	—
		<u>9,303,989</u>	<u>8,775,933</u>
Current assets			
Inventories		111,459	192,510
Prepaid lease payments		6,351	7,016
Loans to a jointly controlled entity		—	84,781
Trade receivables	14	81,953	101,694
Other receivables, deposits and prepayments		392,376	350,589
Amounts due from minority shareholders		13,259	10,140
Bank balances and cash		839,457	863,882
		<u>1,444,855</u>	<u>1,610,612</u>
Current liabilities			
Trade payables	15	203,495	199,286
Other payables and accrued charges		995,424	747,643
Amounts due to minority shareholders		41,129	27,704
Taxation payable		151,493	174,900
Borrowings – amount due within one year	16	406,487	222,950
		<u>1,798,028</u>	<u>1,372,483</u>
Net current (liabilities) assets		<u>(353,173)</u>	<u>238,129</u>
Total assets less current liabilities		<u>8,950,816</u>	<u>9,014,062</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

At 30 June 2009

	NOTES	<b>30.6.2009</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2008 HK\$'000 (audited)
Non-current liabilities			
Loans from a shareholder	17	<b>471,365</b>	440,364
Borrowings - amount due after one year	16	<b>1,685,473</b>	1,600,397
Deferred taxation		<b>83,855</b>	60,467
		<b>2,240,693</b>	2,101,228
Net assets		<b>6,710,123</b>	6,912,834
Capital and reserves			
Share capital	18	<b>195,756</b>	195,756
Reserves		<b>6,082,293</b>	5,982,045
Equity attributable to shareholders of the Company		<b>6,278,049</b>	6,177,801
Minority interests		<b>432,074</b>	735,033
Total equity		<b>6,710,123</b>	6,912,834

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to shareholders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Convertible bonds reserve	Retained earnings	Total	Minority interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2008	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
Exchange differences arising on translation of operations outside Hong Kong	—	—	234,166	—	—	—	—	—	234,166	45,480	279,646
Profit for the year	—	—	—	—	—	—	—	202,282	202,282	68,905	271,187
Total comprehensive income for the year	—	—	234,166	—	—	—	—	202,282	436,448	114,385	550,833
Issue of shares	121	3,332	—	(947)	—	—	—	—	2,506	—	2,506
Recognition of equity-settled share based payments	—	—	—	8,644	—	—	—	—	8,644	—	8,644
Transfer of convertible bonds reserve to retained earnings upon redemption	—	—	—	—	—	—	(25,047)	25,047	—	—	—
Transfer	—	—	—	—	—	10,450	—	(10,450)	—	—	—
Addition on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	4,544	4,544
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	44,505	44,505
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(10,013)	(10,013)
Reduction in minority interests on deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	—	(22,908)	(22,908)
	121	3,332	—	7,697	—	10,450	(25,047)	14,597	11,150	16,128	27,278

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2009

	Attributable to shareholders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Convertible bonds reserve	Retained earnings	Total	Minority interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 31 December 2008 and 1 January 2009	195,756	4,433,969	673,956	44,715	1,101	50,877	—	777,427	6,177,801	735,033	6,912,834
Exchange differences arising on translation of operations outside Hong Kong	—	—	1,008	—	—	—	—	—	1,008	785	1,793
Reserve released on disposal of subsidiaries	—	—	(11,541)	—	—	—	—	—	(11,541)	—	(11,541)
Profit for the period	—	—	—	—	—	—	—	128,151	128,151	23,326	151,477
Total comprehensive income for the period	—	—	(10,533)	—	—	—	—	128,151	117,618	24,111	141,729
Recognition of equity-settled share based payments	—	—	—	2,206	—	—	—	—	2,206	—	2,206
Disposal of subsidiaries	—	—	—	—	(1,101)	(14,321)	—	15,422	—	(356,160)	(356,160)
Transfer	—	—	—	—	—	7,592	—	(7,592)	—	—	—
Acquired on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	28,942	28,942
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	13,729	13,729
Dividend paid	—	—	—	—	—	—	—	(19,576)	(19,576)	—	(19,576)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(13,581)	(13,581)
	—	—	—	2,206	(1,101)	(6,729)	—	(11,746)	(17,370)	(327,070)	(344,440)
At 30 June 2009	<u>195,756</u>	<u>4,433,969</u>	<u>663,423</u>	<u>46,921</u>	<u>—</u>	<u>44,148</u>	<u>—</u>	<u>893,832</u>	<u>6,278,049</u>	<u>432,074</u>	<u>6,710,123</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2009

	Attributable to shareholders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Convertible bonds reserve	Retained earnings	Total	Minority interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2008	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
Exchange differences arising on translation of operations outside Hong Kong	—	—	265,770	—	—	—	—	—	265,770	47,481	313,251
Profit for the period	—	—	—	—	—	—	—	101,063	101,063	27,534	128,597
Total comprehensive income for the period	—	—	265,770	—	—	—	—	101,063	366,833	75,015	441,848
Issue of shares	121	3,332	—	(947)	—	—	—	—	2,506	—	2,506
Recognition of equity-settled share based payments	—	—	—	4,525	—	—	—	—	4,525	—	4,525
Transfer of convertible bonds reserve to retained earnings upon redemption	—	—	—	—	—	—	(25,047)	25,047	—	—	—
Transfer	—	—	—	—	—	10,151	—	(10,151)	—	—	—
Acquired on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	4,544	4,544
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	44,505	44,505
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(9,337)	(9,337)
	121	3,332	—	3,578	—	10,151	(25,047)	14,896	7,031	39,712	46,743
At 30 June 2008	195,756	4,433,969	705,560	40,596	1,101	50,578	—	676,507	6,104,067	719,247	6,823,314

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	NOTES	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash generated from operating activities		<u>131,447</u>	<u>196,793</u>
Investing activities			
Purchase of property, plant and equipment		(140,195)	(189,634)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	21	(190,412)	20,502
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	22	(206,474)	—
Investment in a jointly controlled entity		—	(68,259)
Prepaid lease payments		(15,270)	(22,529)
Repayment of loan from a jointly controlled entity		84,902	—
Other investing cash flows		<u>29,964</u>	<u>11,541</u>
Net cash used in investing activities		<u>(437,485)</u>	<u>(248,379)</u>
Financing activities			
New loans from shareholder raised		31,001	150,000
New bank and other loans raised		318,292	101,308
Redemption of convertible bonds		—	(208,362)
Repayment of bank and other loans		(49,679)	(15,857)
Other financing cash flows		<u>(19,428)</u>	<u>37,675</u>
Net cash generated from financing activities		<u>280,186</u>	<u>64,764</u>
Net (decrease) increase in cash and cash equivalents		(25,852)	13,178
Cash and cash equivalents at beginning of the period		863,882	786,961
Effect of foreign exchange rate changes		<u>1,427</u>	<u>22,929</u>
Cash and cash equivalents at end of the period, representing bank balances and cash		<u><u>839,457</u></u>	<u><u>823,068</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

### 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 "Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of natural gas and liquefied petroleum gas ("LPG") (together known as "Gas Fuel") in The People's Republic of China (the "PRC") including the provision of piped natural gas and LPG, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of Gas Fuel household appliances. The Group was also engaged in the sale of LPG on bulk and in cylinders, which was disposed of and discontinued in the current period (see note 8).

The condensed consolidated financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited ("the Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") Interim financial reporting.

At 30 June 2009, the Group had net current liabilities of approximately HK\$353 million. The Group's liabilities as at 30 June 2009 included borrowings of HK\$406 million that are repayable within twelve months from the end of the reporting period. As at 30 June 2009, the Group has un-drawn but committed unsecured facilities amounted to HK\$372 million and RMB50 million (approximately HK\$57 million). Taking into account of the internally generated funds and the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the interim financial information have been prepared on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2009.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Amendment)	First-time adoption of Hong Kong Financial Reporting Standards <sup>1</sup>
HKFRS 2 (Amendment)	Group cash-settled share based payments transactions <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>1</sup>
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners <sup>1</sup>
HK(IFRIC) – INT 18	Transfers of assets from customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SEGMENT INFORMATION

#### Business segments

The Group has adopted HKFRS 8 “Operating segments” with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group’s chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the Chief Executive Officer.

The Group determines its operating segments based on the internal reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Group currently organises its operations into three reportable segments, namely sale and distribution of piped Gas Fuel and related products, gas pipeline construction and sales of LPG in bulk and cylinders. They represent three major line of business engaged by the Group. The principal activities of the reportable segments are as follows:

Sales and distribution of piped Gas Fuel and related products	—	Sales of piped Gas Fuel and Gas Fuel related household appliances
Gas pipeline construction	—	Construction of gas pipelines
LPG operations	—	Sales of LPG in bulk and in cylinders

During the period, the Group disposed of its sales of LPG in bulk and in cylinders (“LPG operations”).

Segments results represent the profit before taxation earned by each segment, excluding interest income, finance costs, unallocated other income and unallocated corporate expenses such as central administration costs and directors’ salaries. This is the measure reported to the Group’s Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

Information regarding these segments is presented below. The segment results reported for the prior period have been restated to conform with the requirements of HKFRS 8.

### 3. SEGMENT INFORMATION (CONTINUED)

#### Business segments (Continued)

	Sales and distribution of piped Gas Fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Total – continuing operations HK\$'000	Discontinued operation HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 June 2009</b>					
REVENUE					
External	<u>717,260</u>	<u>182,306</u>	<u>899,566</u>	<u>880,471</u>	<u>1,780,037</u>
Segment results	<u>60,598</u>	<u>62,575</u>	123,173	16,121	139,294
Unallocated other income			43,080	3,608	46,688
Gain on disposal of LPG operations			—	458	458
Unallocated corporate expenses			(40,045)	—	(40,045)
Share of results of associates			65,714	—	65,714
Share of results of jointly controlled entities			40,532	559	41,091
Finance costs			(63,572)	(476)	(64,048)
Profit before taxation			168,882	20,270	189,152
Taxation			(27,229)	(10,446)	(37,675)
Profit for the period			<u>141,653</u>	<u>9,824</u>	<u>151,477</u>
<b>Six months ended 30 June 2008</b>					
REVENUE					
External	<u>581,048</u>	<u>179,571</u>	<u>760,619</u>	<u>1,358,626</u>	<u>2,119,245</u>
Segment results	<u>57,929</u>	<u>73,925</u>	131,854	16,430	148,284
Unallocated other income			7,974	3,592	11,566
Unallocated corporate expenses			(55,280)	—	(55,280)
Share of results of associates			84,763	—	84,763
Share of results of jointly controlled entities			37,890	—	37,890
Finance costs			(76,982)	(1,211)	(78,193)
Profit before taxation			130,219	18,811	149,030
Taxation			(17,170)	(3,263)	(20,433)
Profit for the period			<u>113,049</u>	<u>15,548</u>	<u>128,597</u>

#### 4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
<b>Continuing operations</b>		
Revenue	899,566	760,619
Less: Expenses		
Stores and materials used	528,858	432,749
Staff costs	111,049	94,715
Depreciation, amortisation and release of prepaid lease payments	84,701	70,867
Other expenses	91,830	88,643
	<u>83,128</u>	<u>73,645</u>

#### 5. FINANCE COSTS

	Continuing operations Six months ended 30 June		Discontinued operation Six months ended 30 June		Consolidated Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Interest on:						
– bank and other borrowings wholly repayable within five years	14,391	16,057	421	1,133	14,812	17,190
– bank and other borrowings not wholly repayable within five years	652	2,778	—	—	652	2,778
– convertible bonds	—	4,115	—	—	—	4,115
– senior notes	46,460	53,357	—	—	46,460	53,357
	<u>61,503</u>	<u>76,307</u>	<u>421</u>	<u>1,133</u>	<u>61,924</u>	<u>77,440</u>
Bank charges	2,069	675	55	78	2,124	753
	<u>63,572</u>	<u>76,982</u>	<u>476</u>	<u>1,211</u>	<u>64,048</u>	<u>78,193</u>

## 6. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:						
Amortisation of intangible assets	2,539	2,843	1,559	113	4,098	2,956
Cost of inventories sold	610,989	482,674	762,421	1,262,382	1,373,410	1,745,056
Depreciation of property, plant and equipment	79,343	65,029	9,494	11,553	88,837	76,582
Release of prepaid lease payments	2,819	2,995	940	889	3,759	3,884
Share of tax of associates (included in share of results of associates)	8,278	7,001	—	—	8,278	7,001
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	3,956	800	—	—	3,956	800
Staff cost	111,049	94,715	63,846	57,386	174,895	152,101
and after crediting:						
Dividend from available-for-sale investments	27,548	—	—	—	27,548	—
Interest income	7,121	4,662	964	750	8,085	5,412
Imputed interest on loans to jointly controlled entities	2,713	2,934	—	—	2,713	2,934

## 7. TAXATION

The taxation charge comprises of PRC Enterprise Income Tax for both periods.

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

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 ranged from 7.5% to 12.5%. PRC Enterprise Income Tax for the period has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.



## 8. DISCONTINUED OPERATION

On 2 April 2009, the Group entered into a sale agreement to dispose of its LPG operations. The disposal was effected in order to focus resources for the expansion of the Group's other businesses. The disposal was completed on 4 June 2009, on which date control of LPG operations passed to the acquirer.

The profit for the period from the discontinued operation is analysed as follows:

	<b>Period ended 30.6.2009 HK\$'000</b>	Period ended 30.6.2008 HK\$'000
Profit of LPG operations for the period	9,366	15,548
Gain on disposal of LPG operations	458	—
	<u>9,824</u>	<u>15,548</u>
(Loss) profit for the period attributable to:		
Shareholders of the Company	(515)	7,307
Minority interests	10,339	8,241
	<u>9,824</u>	<u>15,548</u>

The results of the LPG operations, which have been included in the consolidated income statement, were as follows:

	<b>Period ended 30.6.2009 HK\$'000</b>	Period ended 30.6.2008 HK\$'000
Turnover	<u>880,471</u>	<u>1,358,626</u>
Operating profit before returns on investments	16,121	16,425
Other income	3,608	3,597
Share of results of jointly controlled entities	559	—
Finance costs	(476)	(1,211)
Profit before taxation	19,812	18,811
Taxation	(10,446)	(3,263)
Profit for the period	9,366	15,548
Gain on disposal of LPG operations	458	—
	<u>9,824</u>	<u>15,548</u>

No tax charge or credit arose on gain on discontinuance of the operations.

## 8. DISCONTINUED OPERATION (CONTINUED)

During the period, the LPG operations contributed HK\$45,891,000 (2008: contributed HK\$42,639,000) to the Group's net operating cash flows, contributed HK\$762,000 (2008: paid HK\$40,536,000) in respect of investing activities and paid HK\$11,898,000 (2008: contributed HK\$37,543,000) in respect of financing activities.

As a result of the discontinuance of the LPG operations, certain comparative figures were restated so as to reflect the results for the discontinued operation.

## 9. EARNINGS PER SHARE

### From continuing and discontinued operations

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to shareholders of the Company	<u>128,151</u>	<u>101,063</u>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares for the purpose of basic earnings per share	<u>1,957,556</u>	1,957,431
Effect of dilutive potential shares: Share options	<u>2,726</u>	<u>4,135</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,960,282</u>	<u>1,961,566</u>

### From continuing operations

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period attributable to shareholders of the Company for calculating basic and diluted earnings per share	<u>128,666</u>	<u>93,756</u>

The denominators used are the same as those detailed above for basic and diluted earnings per share.

## 9. EARNINGS PER SHARE (CONTINUED)

### From discontinued operation

The (loss) earnings per share for the discontinued operation is as follows:

	Six months ended 30 June	
	2009	2008
	HK cents	HK cents
Basic	<u>(0.02)</u>	<u>0.37</u>
Diluted	<u>(0.02)</u>	<u>0.37</u>

The calculation of the (loss) earnings per share for the discontinued operation is based on the following data:

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
(Loss) profit from discontinued operation attributable to shareholders of the Company	<u>(515)</u>	<u>7,307</u>

The denominators used are the same as those detailed above for basic and diluted (loss) earnings per share. The weighted average number of shares used for the purpose of calculating the diluted earnings per share for discontinued operation for the period ended 30 June 2008 was 1,961,566,330.

## 10. INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2009 (2008: nil).

## 11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$140,195,000 (2008: HK\$189,634,000) on acquisition of property, plant and equipment, including approximately HK\$59,503,000 (2008: HK\$9,910,000) on the construction in progress.

## 12. GOODWILL

During the period, the Group acquired a gas pipeline business in Chiping ("Chiping Towngas"), Sichuan Huachuan Gas Company Limited ("Xindu Towngas"), Xinjin Diyuan Natural Gas Co. Ltd. and Xinjin Nanfang Natural Gas Co. Ltd. (together known as "Xinjin Towngas") and the goodwill arising from the acquisitions amounted to HK\$13,527,000, HK\$219,649,000 and HK\$31,264,000 respectively. Please refer to note 21 for the details of acquisitions.

### 13. DEFERRED CONSIDERATION RECEIVABLE

As part of the consideration for the disposal of certain subsidiaries during the period (see note 22), deferred consideration of HK\$379,000,000 is to be settled in cash by the purchaser under five instalments of HK\$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK\$179,000,000 in June 2015. The amount is secured against the entire share capital of the holding company of the LPG operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
Non-current assets	<b>283,262</b>	—
Current assets (included under other receivables, deposits and prepayments)	<b>38,835</b>	—
	<u><b>322,097</b></u>	<u>—</u>

The amount of deferred consideration receivable is within credit period. The directors of the Company consider the amounts will be recoverable because the purchaser is of good financial position.

### 14. 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 reporting date:

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
0 to 90 days	<b>72,688</b>	90,550
91 to 180 days	<b>4,220</b>	2,742
181 to 360 days	<b>5,045</b>	8,402
	<u><b>81,953</b></u>	<u>101,694</u>

### 15. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
0 to 90 days	<b>116,544</b>	147,761
91 to 180 days	<b>34,350</b>	14,431
181 to 360 days	<b>24,703</b>	7,689
Over 360 days	<b>27,898</b>	29,405
	<u><b>203,495</b></u>	<u>199,286</u>

## 16. BORROWINGS

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
Bank loans – secured	—	567
Bank loans – unsecured	<b>837,067</b>	560,147
Other loans – unsecured	<b>147,625</b>	156,750
Guaranteed senior notes ( <i>note a</i> )	<b>1,107,268</b>	1,105,883
	<b>2,091,960</b>	1,823,347

The maturity of the above borrowings is as follows:

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
On demand or within one year	<b>406,487</b>	222,950
More than one year but not exceeding two years	<b>78,841</b>	12,516
More than two years but not exceeding five years	<b>1,543,325</b>	1,544,709
More than five years	<b>63,307</b>	43,172
	<b>2,091,960</b>	1,823,347
Less: Amount due within one year shown under current liabilities	<b>(406,487)</b>	(222,950)
Amount due after one year	<b>1,685,473</b>	1,600,397

*Note:*

- (a) 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. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company’s shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 30 June 2009, the market value of the Guaranteed Senior Notes amounted to US\$150,094,500 (2008: US\$135,360,000) (equivalent to approximately of HK\$1,163,232,000 (2008: HK\$1,049,040,000)). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%. At 30 June 2009, Guaranteed Senior Notes with a principal amount of US\$141,000,000 (2008: US\$141,000,000) are still outstanding in the market.

## 17. LOANS FROM A SHAREHOLDER

The amount represents an unsecured loan denominated in US dollar and HK dollar, bears interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and is repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount	
			30.6.2009 HK\$'000	31.12.2008 HK\$'000
HK\$277,615,000 (2008: HK\$246,614,000)	April 2013 – May 2014 (2008: April – December 2013) (according to date of draw down)	3.5% (2008: 4.25%)	277,615	246,614
US\$25,000,000 (2008: US\$25,000,000)	December 2012 (2008: December 2012)	3.5% (2008: 4.25%)	193,750	193,750
			<b>471,365</b>	<b>440,364</b>

## 18. SHARE CAPITAL

At 1 January 2009 and 30 June 2009	Number of shares	Amount 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	1,957,556,330	195,756

During the period, there is no movement in the issued share capital of the Company.

## 19. SHARE-BASED PAYMENTS

No share option was granted in the current period.

The Group recognised total expenses of HK\$2,206,000 for the six months ended 30 June 2009 (1.1.2008 to 30.6.2008: HK\$4,525,000) in relation to share options granted by the Company.

## 20. CAPITAL COMMITMENTS

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	27,137	40,252

## 21. ACQUISITION OF SUBSIDIARIES/A BUSINESS

In April 2009, the Group completed the acquisition of 100% equity interest in Xindu Towngas, which is engaged in the operation of piped gas assets and related business in Xindu area of Chengdu of the PRC at an aggregate consideration of HK\$286,848,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

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

	Acquirees' carrying amount at acquisition date HK\$'000	Provisional fair value adjustments HK\$'000	Acquirees' carrying amount and provisional fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	21,292	38,268	59,560
Prepaid lease payments	559	8,758	9,317
Trade receivables	7,942	—	7,942
Other receivables, deposits and prepayments	2,610	—	2,610
Bank balances and cash	26,466	—	26,466
Taxation recoverable	2,106	—	2,106
Trade payables	(3,822)	—	(3,822)
Other payables and accrued charges	(25,268)	—	(25,268)
Deferred taxation	—	(11,712)	(11,712)
	<u>31,885</u>	<u>35,314</u>	<u>67,199</u>
Net assets acquired			67,199
Goodwill arising on acquisition			219,649
Total consideration			<u><u>286,848</u></u>
Satisfied by:			
Cash consideration			171,848
Other payables			115,000
			<u><u>286,848</u></u>
Net cash outflow arising on acquisition:			
Cash consideration			171,848
Bank balances and cash acquired			(26,466)
			<u><u>145,382</u></u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u><u>145,382</u></u>

The goodwill on acquisition of the above subsidiary 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 subsidiary.

The subsidiary acquired during the period contributed HK\$31,066,000 to the Group's turnover and HK\$6,334,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

## 21. ACQUISITION OF SUBSIDIARIES/A BUSINESS (CONTINUED)

In May 2009, the Group completed the acquisition of 60% equity interest in Xinjin Towngas, which is engaged in the operation of piped gas assets and related business in Xinjin area of Chengdu of the PRC at an aggregate consideration of HK\$68,026,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

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

	Acquirees' carrying amount at acquisition date HK\$'000	Provisional fair value adjustments HK\$'000	Acquirees' carrying amount and provisional fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	27,905	18,095	46,000
Prepaid lease payments	2,514	17,694	20,208
Inventories	4,455	—	4,455
Other receivables, deposits and prepayments	40,364	—	40,364
Bank balances and cash	3,670	—	3,670
Trade payables	(7,343)	—	(7,343)
Other payables and accrued charges	(30,737)	—	(30,737)
Taxation payable	(977)	—	(977)
Borrowings	(5,672)	—	(5,672)
Deferred taxation	—	(8,696)	(8,696)
	<u>34,179</u>	<u>27,093</u>	<u>61,272</u>
Net assets acquired			61,272
Minority interests			(24,510)
Goodwill arising on acquisition			<u>31,264</u>
Total consideration			<u><u>68,026</u></u>
Satisfied by:			
Cash consideration			40,815
Other payables			<u>27,211</u>
			<u><u>68,026</u></u>
Net cash outflow arising on acquisition:			
Cash consideration			40,815
Bank balances and cash acquired			<u>(3,670)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u><u>37,145</u></u>

The goodwill on acquisition of the above subsidiary 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 subsidiary.

Goodwill arising on the acquisition of Xindu Towngas and Xinjin Towngas is determined on a provisional basis as the Company is in the process of identifying and obtaining independent valuation to assess the fair value of the identifiable tangible and intangible assets. The goodwill may be adjusted upon the completion of initial accounting year.



## 21. ACQUISITION OF SUBSIDIARIES/A BUSINESS (CONTINUED)

The subsidiary acquired during the period contributed HK\$2,577,000 to the Group's turnover and HK\$682,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

### Acquisition of business

During the period ended 30 June 2009, the Group paid a consideration of HK\$38,647,000 to an independent vendor to acquire a gas pipeline business, including related assets located in Chiping of Shandong Province of the PRC. The acquisition enabled the Group to continue the operation of the existing natural gas business which the vendor previously engaged. This transaction has been accounted for using the purchase method of accounting.

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

	Acquirees' carrying amount at acquisition date HK\$'000	Provisional fair value adjustments HK\$'000	Acquirees' carrying amount and provisional fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	18,298	2,649	20,947
Prepaid lease payments	7,125	3,173	10,298
Inventories	814	—	814
Trade receivables	984	—	984
Other receivables, deposits and prepayments	340	—	340
Bank balances and cash	1,785	—	1,785
Other payables and accrued charges	(4,160)	—	(4,160)
Deferred taxation	—	(1,456)	(1,456)
	<hr/>	<hr/>	<hr/>
Net assets acquired	25,186	4,366	29,552
			<hr/>
Minority interests			(4,432)
Goodwill arising on acquisition			13,527
			<hr/>
Total consideration			38,647
			<hr/> <hr/>
Satisfied by:			
Cash consideration			9,670
Other payables			28,977
			<hr/>
			38,647
			<hr/> <hr/>
Net cash outflow arising on acquisition:			
Cash consideration			9,670
Bank balances and cash acquired			(1,785)
			<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			7,885
			<hr/> <hr/>

## 21. ACQUISITION OF SUBSIDIARIES/A BUSINESS (CONTINUED)

The goodwill on acquisition of the above business 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 business.

Goodwill arising on the acquisition of Chiping Towngas is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional basis only. The Company is in the process of obtaining independent valuation to assess the fair value. It may be adjusted upon the completion of initial accounting year.

The related business acquired during the period contributed HK\$1,993,000 to the Group's turnover and HK\$374,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

If the acquisitions had been completed on 1 January 2009, total group revenue for the period would have been HK\$1,824,000,000 and profit for the period would have been HK\$161,983,000. The pro forma 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 2009, nor is it intended to be a projection of future results.

## 22. DISPOSAL OF SUBSIDIARIES

On 4 June 2009, the Group discontinued its LPG operations at the time of disposal of its subsidiary, Panva LPG Investment Holdings Ltd. to a related purchaser, which is an associate of a former executive director of the Company.

The net assets of Panva LPG Investment Holdings Ltd. at the date of disposal were as follows:

	<b>4 June 2009</b> HK\$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	251,674
Prepaid lease payments	60,378
Intangible assets	5,080
Interests in a jointly controlled entity	34,027
Available-for-sale investments	1,135
Inventories	149,701
Trade receivables	32,247
Other receivables and prepayments	172,969
Bank balances and cash	246,474
Trade payables	(9,530)
Other creditors and accruals	(184,631)
Taxation	(16,612)
Bank loan	(8,765)
Deferred taxation	(4,807)
Minority interests	(356,160)
	<hr/>
	373,180
Exchange gain realised	(11,541)
	<hr/>
	361,639
Gain on disposal	458
	<hr/>
Total consideration	<u>362,097</u>
Satisfied by:	
Cash	40,000
Deferred consideration	322,097
	<hr/>
	362,097
	<hr/>
Net cash outflow arising on disposal:	
Cash consideration	40,000
Bank balances and cash disposed of	(246,474)
	<hr/>
	(206,474)
	<hr/>

The deferred consideration will be settled in cash by the purchaser on or before 3 June 2015.

### 23. RELATED PARTY TRANSACTIONS

On 2 April 2009, the Company entered into an agreement with the purchaser of the LPG operations, pursuant to which the Company shall sell and the purchaser shall buy the shares of the company holding the LPG operations at a consideration of HK\$419.2 million (see note 8, 13 and 22). The purchaser is an associate of a former executive director of the Company.

On 12 May 2009, the Company has drawn an unsecured loan amount of HK\$31 million under the loan agreement with The Hong Kong and China Gas Company Limited (“HKCG”) dated 8 April 2008, a substantial shareholder of the Company. The loan was to be repayable within sixty months from the date of draw down and interest was to be charged at Hong Kong Inter-bank Offered Rate plus 1.25% per annum.

During the period, the Company has purchased construction materials amounted to HK\$2,264,000 from GH-Fusion Corporation Limited (“GH-Fusion”), which HKCG has a beneficial interest in GH-Fusion.

During the period, the Company has purchased coalbed methane amounted to HK\$ 5,036,000 from Shanxi Hong Kong & China Coalbed Gas Company Limited (“Shanxi”), which HKCG has a beneficial interest in Shanxi.