

2003

Interim Report



Towngas

The Hong Kong and China Gas Company Limited

THE HONG KONG AND CHINA GAS COMPANY LIMITED

2003 INTERIM REPORT

To Shareholders

Dear Sir or Madam,

HALF-YEARLY RESULTS

I am pleased to report that the unaudited profit attributable to shareholders of the Group for the six months ended 30th June 2003 amounted to a record of HK\$1,805.1 million.

Highlights of the unaudited results of the Group for the six months ended 30th June 2003 with comparative unaudited figures for the corresponding period in 2002 are shown in the following summary:

	Unaudited	
	Six months ended 30th June	
	2003	2002
Turnover before Fuel Cost Adjustment, HK million dollars	3,850.7	3,790.6
Turnover after Fuel Cost Adjustment, HK million dollars	3,975.6	3,673.9
Profit Attributable to Shareholders, HK million dollars	1,805.1	1,695.0*
Earnings per Share, HK cents	31.8	29.8*
Interim Dividends per Share, HK cents	12.0	12.0
<i>* Adjusted for the revised SSAP12 "Income Taxes"</i>		
Town Gas Sold in Hong Kong, million MJ	14,851	14,565
Number of Customers in Hong Kong as at 30th June	1,492,860	1,436,984

After adjusting for the profit from property investment of the associated companies and the number of shares repurchased, earnings per share amounted to HK 31.8 cents, an increase of 6.7 per cent as compared with the corresponding period in 2002.

Details of the financial statements are shown on pages 4 to 15 of this Interim Report.

SHARE REPURCHASES

For the six months ended 30th June 2003, the Company repurchased about 47 million shares at an aggregate consideration of about HK\$449 million before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term.

BUSINESS DEVELOPMENT IN CHINA

Investment in mainland gas projects is a long-term strategic priority for the development of the Group's core business. China's entry into the World Trade Organization is boosting the prosperity of the national economy, leading to a surge in the demand for clean fuel. It is a national policy of the mainland to improve the air quality of its cities by promoting the use of natural gas. In line with this environmental policy, the Group is actively participating in some of the major national clean fuel projects, including the Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline Project and the West-to-East Gas Pipeline Project. We are also making good progress in negotiating gas projects with a number of cities located along gas trunklines in South, East and Central China.

With regard to the development of city piped gas markets in the mainland, the Group has now invested in 16 city piped gas projects, including three in Maanshan, Anhui Province; Zhangjiagang, Jiangsu Province and Tongxiang, Zhejiang Province. The joint venture agreements of these three projects were signed in the first half of 2003. In June 2003, the Group also officially obtained government approval to establish a sino-foreign equity joint venture with Nanjing Gas General Company for the development of the natural gas market in Nanjing, a major economic, financial and trading hub in the Yangtze River Delta. The total investment amount for this project is RMB1,200 million, of which RMB600 million is registered capital. The Group has a 50 per cent interest in this joint venture which will further consolidate the Group's business development base in East China. This is the Group's first joint venture company established in a provincial capital city in the mainland.

The Group has also recently concluded a framework agreement with Shenzhen Investment Holding Corporation to acquire a 30 per cent equity interest in Shenzhen Gas Corporation. This investment is strategically significant to the Group's development of its gas business in South China.

China's strong economy, expanding industrial base, rising average per capita income, and vigorous promotion of the use of pollutant-free energy is driving an enormous potential natural gas market. Government reforms of state-owned enterprises introducing new management concepts have also generated more business opportunities for the Group to develop city piped gas projects in the mainland. The Group will continue to develop its mainland gas business and explore opportunities to set up more joint ventures in order to create synergy in regions where natural gas will be available in the short term and in cities that possess strong economic potential.

THE IMPACT OF THE SARS OUTBREAK ON TOWNGAS' BUSINESS

The spread of Severe Acute Respiratory Syndrome (SARS) in Hong Kong starting from mid-March 2003 and lasting for over three months had a devastating impact on different business sectors as a result of the drastic fall in the number of inbound visitors and fragile local consumer sentiment. The impact of the SARS outbreak on the restaurant and hotel sector led to a fall in commercial and industrial sector gas sales. Though there was a rise in residential sector gas sales, overall gas sales for the first half of 2003 were lower than expected.

Following the containment of the SARS outbreak and the removal of Hong Kong from the list of infected areas by the World Health Organization in late June this year, the restaurant and hotel sector business has gradually improved.

PROPERTY DEVELOPMENTS

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station project. Phase One office tower and shopping mall have been leased out. Phase Two comprises the 88-storey Two International Finance Centre office tower, which was completed in the second quarter of 2003; fourteen floors have been sold to the Hong Kong Monetary Authority for HK\$3,699 million.

The Group has a 50 per cent interest in the Sai Wan Ho Ferry Concourse development project. Construction of the superstructure, now in progress, is expected to be completed in 2005. Residential buildings with a total gross floor area of approximately 1.4 million square feet are being developed.

The Ma Tau Kok South Plant site will be developed into five residential apartment buildings, providing approximately 2,000 units, with a residential floor area of approximately 980,000 square feet and a total floor area exceeding 1.1 million square feet. Foundation work has already been completed. The project is due for completion in 2006.

EMPLOYEES AND PRODUCTIVITY

The number of employees engaged in the town gas business was 1,978 as at 30th June 2003; the number of customers increased by about 56,000 compared with the corresponding period in 2002. As a result, overall productivity rose by 2.0 per cent. Total remuneration for employees engaged in the town gas business amounted to HK\$313 million for the six months ended 30th June 2003 compared to HK\$314 million for the corresponding period in 2002. The Group offers our employees rewarding careers based on their capabilities and performance and arranges a variety of training programmes in order to provide our customers with quality services.

DIVIDEND

Your Directors have declared an interim dividend of HK 12 cents per share payable to shareholders whose names are on the register of shareholders of the Company as of 10th October 2003. To enable our Registrars to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 9th October 2003 and Friday, 10th October 2003, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 20th October 2003.

BUSINESS OUTLOOK

The Board of Directors anticipates that the Group's businesses will stay steady in 2003. The Board has decided to freeze the gas charges for 2004.

LEE Shau Kee

Chairman

Hong Kong, 1st September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

for the six months ended 30th June

	Note	2003 HK\$ M	2002 HK\$ M
Turnover	2	<u>3,975.6</u>	<u>3,673.9</u>
Operating Profit before Returns on Investments	3	1,912.6	1,924.1
Investment Income		83.6	49.7
Interest Income		47.1	63.0
Interest Expense		(4.5)	(2.3)
Share of Profits less Losses of Associated Companies		209.7	(2.7)
Share of Profits less Losses of Jointly Controlled Entities		<u>4.0</u>	<u>–</u>
Profit before Taxation	4	2,252.5	2,031.8
Taxation	5	<u>(438.5)</u>	<u>(330.8)</u>
Profit after Taxation		1,814.0	1,701.0
Minority Interests		<u>(8.9)</u>	<u>(6.0)</u>
Profit Attributable to Shareholders		<u>1,805.1</u>	<u>1,695.0*</u>
Dividends – Interim Proposed	6	<u>677.2</u>	<u>682.9</u>
Earnings per Share, HK cents	7	<u>31.8</u>	<u>29.8*</u>

* Adjusted for the revised SSAP12 "Income Taxes"

CONSOLIDATED BALANCE SHEET

as at 30th June 2003

	Note	Unaudited At 30th June 2003 HK\$ M	As restated (Note 1) At 31st December 2002 HK\$ M
Assets			
Non-Current Assets			
Fixed Assets	8	9,465.5	9,324.2
Associated Companies		2,776.7	2,539.8
Jointly Controlled Entities		532.7	241.6
Investment Securities		1,265.3	1,651.9
		<u>14,040.2</u>	<u>13,757.5</u>
Current Assets			
Property under Development for Sale		1,080.9	1,051.6
Inventories		617.7	604.7
Debtors and Payment in Advance	9	1,483.2	1,223.7
Housing Loans to Staff		159.3	168.9
Trading Securities		430.9	427.8
Time Deposits, Cash and Bank Balances		1,584.0	2,943.3
		<u>5,356.0</u>	<u>6,420.0</u>
Current Liabilities			
Trade and Other Payables	10	(576.3)	(596.7)
Provision for Taxation		(423.8)	(194.6)
Bank Loans and Overdrafts		(565.1)	(1,748.0)
		<u>(1,565.2)</u>	<u>(2,539.3)</u>
Net Current Assets		<u>3,790.8</u>	<u>3,880.7</u>
Total Assets Less Current Liabilities		<u>17,831.0</u>	<u>17,638.2</u>
Non-Current Liabilities			
Customers' Deposits		(857.7)	(848.5)
Deferred Taxation		(879.8)	(791.6)
Deferred Liabilities		(56.5)	(48.0)
		<u>(1,794.0)</u>	<u>(1,688.1)</u>
Minority Interests		<u>(159.2)</u>	<u>(121.5)</u>
Net Assets		<u>15,877.8</u>	<u>15,828.6</u>
Capital and Reserves			
Share Capital	11	1,410.9	1,422.7
Share Premium	12	3,907.8	3,907.8
Reserves	13	9,881.9	9,189.2
Proposed Dividend	13	677.2	1,308.9
		<u>15,877.8</u>	<u>15,828.6</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30th June

	2003 HK\$ M	2002 HK\$ M
Net Cash Inflow from Operating Activities	1,695.9	1,825.2
Net Cash Inflow from Investing Activities	620.4	248.8
Net Cash Used in Financing Activities	(2,952.3)	(1,347.6)
(Decrease)/ Increase in Cash and Cash Equivalents	(636.0)	726.4
Cash and Cash Equivalents at 1st January	2,142.7	1,547.2
Cash and Cash Equivalents at 30th June	1,506.7	2,273.6
Analysis of Balances of Cash and Cash Equivalents		
Net Cash at Bank and in Hand	128.5	154.1
Time Deposits up to three months	1,394.4	2,127.9
Bank Overdrafts	(16.2)	(8.4)
	1,506.7	2,273.6
Analysis of Net Cash Balances		
Balances of Cash and Cash Equivalents	1,506.7	2,273.6
Time Deposits over three months	61.1	381.7
Bank Loans	(548.9)	(1,529.9)
	1,018.9	1,125.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the six months ended 30th June

	Note	2003 HK\$ M	2002 HK\$ M
Total Equity as at 1st January, as previously reported		16,611.2	17,416.7
Effect of adopting revised SSAP 12	13	(782.6)	(743.3)
Effect of adopting SSAP 34		—	(216.1)
Total Equity as at 1st January, as restated		15,828.6	16,457.3
Profit Attributable to Shareholders for the period	13	1,805.1	1,695.0
Dividends paid	6		
2001 Final Dividend Paid		—	(1,189.9)
2002 Final Dividend Paid		(1,305.3)	—
Shares Repurchased	13	(450.6)	(291.4)
Total Equity as at 30th June		15,877.8	16,671.0

NOTES TO THE INTERIM ACCOUNTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. These interim accounts should be read in conjunction with the 2002 annual accounts.

These interim accounts have been prepared on a basis consistent with the principal accounting policies adopted in the 2002 annual accounts except that the Group has adopted the revised SSAP 12 “Income Taxes” which is effective for accounting periods commencing on or after 1st January 2003.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, the Group adopted a policy to provide for deferred taxation on timing differences to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. Adoption of the revised SSAP 12 represents a change in accounting policy and pursuant to SSAP 2 “Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies”, the Group has retrospectively restated the opening balances of the unappropriated profits and minority interests as at 1st January 2003 by charging HK\$782.6 million and HK\$2.1 million respectively, and recognised further liabilities of HK\$784.7 million in the balance sheet as deferred taxation. The previously reported profit attributable to shareholders for the six months ended 30th June 2002 has also been reduced by HK\$9.1 million accordingly.

2. Turnover

The Group's principal activity is the production, distribution and marketing of gas and related activities in Hong Kong which accounts for more than 90 per cent of the Group's turnover and trading results. Accordingly, no segmental analysis is presented. Turnover comprises the following:

	Six months ended 30th June	
	2003	2002
	HK\$ M	HK\$ M
Gas Sales before Fuel Cost Adjustment	3,244.5	3,149.2
Fuel Cost Adjustment	124.9	(116.7)
	<hr/>	<hr/>
Gas Sales after Fuel Cost Adjustment	3,369.4	3,032.5
Equipment Sales	424.6	480.4
Maintenance and Services	115.9	114.9
Other Sales	65.7	46.1
	<hr/>	<hr/>
	<u>3,975.6</u>	<u>3,673.9</u>

3. Operating Profit before Returns on Investments

	Six months ended 30th June	
	2003	2002
	HK\$ M	HK\$ M
Turnover	3,975.6	3,673.9
Less Expenses:		
Stores and Materials Used	(1,197.6)	(918.0)
Manpower Costs	(351.3)	(336.0)
Depreciation	(217.5)	(204.7)
Other Operating Items	(296.6)	(291.1)
	<hr/>	<hr/>
Operating Profit before Returns on Investments	<u>1,912.6</u>	<u>1,924.1</u>

4. Profit before Taxation

	Six months ended 30th June	
	2003	2002
	HK\$ M	HK\$ M
Profit before Taxation is stated after crediting and charging the following:		
Crediting:		
Dividend Income from Equity Securities		
– Listed	24.5	24.1
– Unlisted	–	0.5
Interest Income from Debt Securities		
– Listed	19.7	33.9
– Unlisted	5.5	4.7
Net Realised and Unrealised Gains on Investments in Securities	53.3	18.1
Charging:		
Cost of Inventories Sold	<u>1,363.2</u>	<u>1,092.3</u>

5. Taxation

	Six months ended 30th June	
	2003	2002
	HK\$ M	HK\$ M
Hong Kong Profits Tax is provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period	350.3	321.7
Deferred Tax relating to the origination and reversal of temporary differences	13.7	9.1
Deferred Tax resulting from the increase in tax rate from 16% to 17.5%	74.5	–
	438.5	330.8

6. Dividends

	Six months ended 30th June	
	2003	2002
	HK\$ M	HK\$ M
2002 Final, paid, of HK 23 cents per share (2001 Final, paid: HK 23 cents per share)	1,305.3	1,189.9
2003 Interim, proposed on 1st September 2003, of HK 12 cents per share (2002 Interim: HK 12 cents per share)	677.2	682.9
	1,982.5	1,872.8

7. Earnings per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,805.1 million (2002: HK\$1,695.0 million) and the weighted average of 5,667,556,821 shares in issue (2002: 5,691,097,821 shares) after adjusting for the shares repurchased (2002: the shares repurchased and bonus issue) during the period.

8. Fixed Assets

	Land HK\$ M	Properties under Development HK\$ M	Buildings, Plant, Mains and Other Equipment HK\$ M	Total HK\$ M
Cost				
At 1st January 2003	1,820.3	196.8	12,220.5	14,237.6
Additions	9.3	4.1	345.5	358.9
Transfer from Building, Plant, Mains & Other Equipment	91.3	–	(91.3)	–
Disposals	–	–	(12.3)	(12.3)
At 30th June 2003	<u>1,920.9</u>	<u>200.9</u>	<u>12,462.4</u>	<u>14,584.2</u>
Accumulated Depreciation				
At 1st January 2003	295.3	–	4,618.1	4,913.4
Charge for the period	19.8	–	197.7	217.5
Disposals	–	–	(12.2)	(12.2)
At 30th June 2003	<u>315.1</u>	<u>–</u>	<u>4,803.6</u>	<u>5,118.7</u>
Net Book Value				
At 30th June 2003	<u>1,605.8</u>	<u>200.9</u>	<u>7,658.8</u>	<u>9,465.5</u>
At 31st December 2002	<u>1,525.0</u>	<u>196.8</u>	<u>7,602.4</u>	<u>9,324.2</u>

9. Debtors and Payment in Advance

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
Trade Debtors (<i>Note</i>)	1,141.1	953.9
Other Debtors and Receivables	304.5	254.4
Payment in Advance	37.6	15.4
	<u>1,483.2</u>	<u>1,223.7</u>

9. Debtors and Payment in Advance (continued)

Note

The Group has established credit policies for different types of customers. The credit period offered for trade debtors ranges from 30 to 60 days. These are subject to periodic review by management. As at 30th June 2003, the aging analysis of the trade debtors, net of provision, is as follows:

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
0 – 30 days	915.4	798.5
31 – 60 days	91.8	51.9
61 – 90 days	37.4	23.4
Over 90 days	96.5	80.1
	<u>1,141.1</u>	<u>953.9</u>

10. Trade and Other Payables

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
Trade Creditors (Note)	94.4	118.1
Other Creditors and Accruals	481.9	478.6
	<u>576.3</u>	<u>596.7</u>

Note

At 30th June 2003, the aging analysis of the trade creditors is as follows:

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
0 – 30 days	78.8	104.2
31 – 60 days	4.9	3.4
61 – 90 days	3.1	2.7
Over 90 days	7.6	7.8
	<u>94.4</u>	<u>118.1</u>

11. Share Capital

	Number of Shares		Nominal Value	
	At 30th June 2003	At 31st December 2002	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
Authorised:				
Ordinary Shares of HK\$0.25 each	10,000,000,000	10,000,000,000	2,500.0	2,500.0
Issued and Fully Paid:				
At beginning of period/ year	5,690,855,988	5,203,724,444	1,422.7	1,300.9
Bonus Issue (<i>Note 12</i>)	–	517,350,544	–	129.3
Shares Repurchased	(47,204,000)	(30,219,000)	(11.8)	(7.5)
At end of period/ year	5,643,651,988	5,690,855,988	1,410.9	1,422.7

12. Share Premium

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
At beginning of period/ year	3,907.8	4,037.1
Less: Bonus Issue (<i>Note 11</i>)	–	(129.3)
At end of period/ year	3,907.8	3,907.8

13. Reserves

	Properties Revaluation Reserve HK\$ M	General Reserve HK\$ M	Capital Redemption Reserve HK\$ M	Unappropriated Profits HK\$ M	Total HK\$ M
At 1st January 2003	3,026.3	3,820.0	144.2	2,981.3	9,971.8
Effect of adopting revised SSAP 12	—	—	—	(782.6)	(782.6)
At 1st January 2003, as restated	3,026.3	3,820.0	144.2	2,198.7	9,189.2
Profit Attributable to Shareholders	—	—	—	1,805.1	1,805.1
Shares Repurchased	—	—	11.8	(450.6)	(438.8)
2002 Final Dividend proposed	—	—	—	1,308.9	1,308.9
2002 Final Dividend paid	—	—	—	(1,305.3)	(1,305.3)
At 30th June 2003	<u>3,026.3</u>	<u>3,820.0</u>	<u>156.0</u>	<u>3,556.8</u>	<u>10,559.1</u>
Balance after 2003 Interim Dividend proposed	3,026.3	3,820.0	156.0	2,879.6	9,881.9
2003 Interim Dividend proposed	—	—	—	677.2	677.2
	<u>3,026.3</u>	<u>3,820.0</u>	<u>156.0</u>	<u>3,556.8</u>	<u>10,559.1</u>

14. Contingent Liabilities

Guarantees have been executed in respect of bank borrowing facilities as follows:

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
Associated Companies	1,050.0	1,050.0
Jointly Controlled Entities	1,251.0	1,199.2
	<u>2,301.0</u>	<u>2,249.2</u>

Save as disclosed above, the Group did not have any further contingent liabilities as at 30th June 2003.

15. Capital Commitments

	At 30th June 2003 HK\$ M	At 31st December 2002 HK\$ M
Capital expenditure authorised but not provided for at end of period/ year	<u><u>965.8</u></u>	<u><u>741.3</u></u>
Of which, contracts had been entered into at end of period/ year	<u><u>726.0</u></u>	<u><u>502.8</u></u>

16. Related Party Transactions

There were no significant related party transactions undertaken by the Group at any time during the six-month period.

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 30th June 2003, the Group had a healthy net cash position of HK\$1,019 million (31st December 2002: HK\$1,195 million).

During the first half of 2003, the Company repurchased 47.2 million shares on The Stock Exchange of Hong Kong Limited. The aggregate consideration including related expenses amounted to HK\$451 million in cash.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and bank loans. The Group has adequate sources of fund and unutilised banking facilities to meet its future capital expenditure and working capital requirements.

Borrowing Structure

As at 30th June 2003, the Group's bank borrowings were reduced to HK\$565 million (31st December 2002: HK\$1,748 million). All the Group's borrowings are unsecured and have a floating interest rate with maturity within one year on revolving credit or term loan facility.

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations. Also, there is no net gearing for the Group as it was in net cash positions throughout 2002 and the first half of 2003.

Contingent Liabilities

As at 30th June 2003, the Group provided guarantees totalling HK\$2,301 million (31st December 2002: HK\$2,249 million) in respect of bank borrowing facilities made available to associated companies and jointly controlled entities.

Currency Profile

The Group's operations and activities are predominantly based in Hong Kong. As such, both its cash and cash equivalents and borrowings are denominated in either Hong Kong dollars or United States dollars. Borrowings for the Group's subsidiaries and joint ventures in mainland China are however predominantly in the local currency, Renminbi.

Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 30th June 2003, the investments in securities amounted to HK\$1,696 million (31st December 2002: HK\$2,080 million). The performance of the Group's investments in securities was satisfactory.

OTHER INFORMATION

Corporate Governance

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this Interim Report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Audit Committee

An audit committee was formed in May 1996 to review and supervise the financial reporting process and internal control of the Company. An audit committee meeting was held in August 2003 to review the unaudited interim accounts for the six months ended 30th June 2003. PricewaterhouseCoopers, the Group's external auditors, have carried out a review of the unaudited interim accounts for the six months ended 30th June 2003 in accordance with the Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. An unmodified review report was issued subsequent to the review.

Purchase, Sale or Redemption of Own Shares

For the six months ended 30th June 2003, the Company repurchased 47,204,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$449,387,050 before expenses. The repurchased shares were subsequently cancelled. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the aggregate consideration was charged to unappropriated profits. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share		Aggregate Consideration Paid
		Highest	Lowest	
		HK\$	HK\$	HK\$
March 2003	5,230,000	9.70	9.55	50,427,350
April 2003	34,927,000	9.70	9.10	332,306,250
May 2003	7,047,000	9.70	9.25	66,653,450
Total	<u>47,204,000</u>			<u>449,387,050</u>

Save as mentioned above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its own shares during the six months ended 30th June 2003.

Disclosure of Interests

A. Directors

As at 30th June 2003, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Shares

Name of Company	Director	Personal Interests	Family Interests	Corporate Interests	Other	Total	%**
The Hong Kong and China Gas Company Limited	Dr. Lee Shau Kee	3,226,174		2,157,017,776 (Note 5)		2,160,243,950	38.28
	Mr. Liu Lit Man	1,539,795				1,539,795	0.03
	Dr. The Hon. David Li Kwok Po	10,964,082				10,964,082	0.19
	Mr. Ronald Chan Tat Hung	1,940				1,940	0.00
	Mr. Lee Ka Kit				2,157,017,776 (Note 4)	2,157,017,776	38.22
	Mr. Chan Wing Kin	102,825*				102,825*	0.00
	Mr. Kwan Yuk Choi	36,300	41,129			77,429	0.00
	Mr. Lee Ka Shing				2,157,017,776 (Note 4)	2,157,017,776	38.22
Lane Success Development Limited	Dr. Lee Shau Kee			9,500 (Note 6)		9,500	95
	Mr. Lee Ka Kit				9,500 (Note 6)	9,500	95
	Mr. Lee Ka Shing				9,500 (Note 6)	9,500	95
Primeland Investment Limited	Dr. Lee Shau Kee			95 (Note 7)		95	100
	Mr. Lee Ka Kit				95 (Note 7)	95	100
	Mr. Lee Ka Shing				95 (Note 7)	95	100
Yieldway International Limited	Dr. Lee Shau Kee			2 (Note 8)		2	100
	Mr. Lee Ka Kit				2 (Note 8)	2	100
	Mr. Lee Ka Shing				2 (Note 8)	2	100

* These shares were jointly held by Mr. Chan Wing Kin and his spouse.

** Percentage which the aggregate long position in the shares represents to the issued share capital of the Company or associated corporation.

Save as mentioned above, as at 30th June 2003, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

B. Substantial Shareholders and Others

As at 30th June 2003, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of Company	No. of Shares in which interested	%**
Substantial Shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,159,024,597	20.54
	Timpani Investments Limited (Note 1)	1,643,249,599	29.12
	Henderson Investment Limited (Note 1)	2,072,571,545	36.72
	Kingslee S.A. (Note 1)	2,072,571,545	36.72
	Henderson Land Development Company Limited (Note 1)	2,072,571,545	36.72
	Henderson Development Limited (Note 2)	2,076,538,017	36.79
	Hopkins (Cayman) Limited (Note 3)	2,157,017,776	38.22
	Riddick (Cayman) Limited (Note 4)	2,157,017,776	38.22
	Rimmer (Cayman) Limited (Note 4)	2,157,017,776	38.22
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	429,321,946	7.61
	Medley Investment Limited (Note 1)	484,225,002	8.58

** Percentage which the aggregate long position in the shares represents to the issued share capital of the Company.

Save as mentioned above, as at 30th June 2003, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

- These 2,072,571,545 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Henderson Investment Limited ("HI"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of HI. Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"), owned 73.48% of total issued shares in HI.
- Henderson Development Limited ("HD") beneficially owned 65.19% of the total issued shares of HLD. Of these 2,076,538,017 shares, 2,072,571,545 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.

3. Of these 2,157,017,776 shares, 2,076,538,017 shares represented the shares described in Notes 1 and 2 and 80,479,759 shares were beneficially owned by Fu Sang Company Limited (“Fu Sang”). Hopkins (Cayman) Limited (“Hopkins”) owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust (“Unit Trust”).
4. These 2,157,017,776 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts were taken to have duties of disclosure in relation to these shares by virtue of Part XV of SFO.
5. These 2,157,017,776 shares included the shares described in Notes 1 to 4. Dr. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of SFO.
6. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of SFO.
7. These 95 shares in Primeland Investment Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 30 shares) and a wholly-owned subsidiary of HLD (as to 65 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of SFO.
8. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of SFO.

CORPORATE INFORMATION

Registered Office

23rd Floor, 363 Java Road, North Point,
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Company’s Website

www.towngas.com

Registrars

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Rooms 1901-5, 19th Floor, Hopewell Centre,
183 Queen’s Road East,
Hong Kong

A printed version of this Interim Report is available on request from the Company and the Company’s Registrars free of charge. The website version of this Interim Report is also available on the Company’s website.

If a shareholder wishes to change his choice of language and/or means of receipt of future corporate communications, the shareholder may at any time free of charge notify the Company’s Registrars by reasonable notice in writing, stating his name(s) in both English and Chinese (if applicable), address, contact telephone number, number of shares held and details of his change of choice.