

2008

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
Shen Lian Jin
Tang Yui Man, Francis
(*Alternate Director to Ou Yaping*)

Independent Non-executive Directors

Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

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

Ugland House
P.O. Box 309 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

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

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Room 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

(*As to the PRC Law*)
Haiwen & Partners

Principal Bankers

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



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MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

For the six months ended 30 June 2008, the Group recorded a turnover of HK\$2,119 million, an increase of 51.3% over the previous year. Operating profit before returns on investments grew by 44.4% to HK\$90 million. The increases were mainly due to increases in the number of operating subsidiaries during the past 12 months and the natural growth of individual subsidiaries. The Group recorded an EBITDA of HK\$310 million, an increase of 25.0% over the corresponding period last year. Profit attributable to shareholders jumped to HK\$101 million representing an increase of 100.1% over the same period last year.

The jump in profit attributable to shareholders was mainly due to the significant increase in contributions from associated companies of HK\$35 million to HK\$85 million, together with an increase of 25.2% to HK\$38 million from the six jointly controlled entities acquired from The Hong Kong and China Gas Company Limited (“HKCG”), where only four months of results were accounted for in the first half of 2007.

Sale of Piped Gas

This business comprises the direct sale of piped natural gas, piped liquefied petroleum gas (“LPG”) and piped coal gas to customers. Turnover for the business jumped 104.7% to HK\$575 million, representing 27.2% of the Group’s aggregate turnover. During the period, the Group achieved gas sales to residential households of 112 million cubic metres and commercial and industrial customers of 227 million cubic metres, representing increases of 14.4% and 277.7% 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 we provide direct connection of piped gas to customers, and for which we receive connection fees. For the six months ended 30 June 2008, the Group recorded a 58.7% increase in connection fees to HK\$180 million, accounting for 8.5% of the Group’s total turnover.

The total number of connected households as at 30 June 2008 was approximately 1,623,200 households, an increase of approximately 156,200 households from 31 December 2007.

Sale of Liquefied Petroleum Gas

This business comprises the sale of LPG in bulk to wholesale customers and the retail of bottled LPG to end-user households, industrial and commercial customers. Despite the higher costs of LPG in the first half of 2008, our LPG business maintained solid growth. For the six months ended 30 June 2008, turnover derived from the sale of LPG amounted to HK\$1,328 million, accounting for 62.7% of the Group’s total turnover, representing an increase of 34.6% when compared to the same period last year.

Shareholder’s Loan

In April 2008, the Company entered into a loan agreement with HKCG whereby HKCG agreed to lend the Company a 60 month loan of HK\$300 million for use as general working capital, at a favourable rate of 12-month HIBOR plus 1.25%.

Convertible Bonds Redemption

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

Ratings Upgrade

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

Increase in Shareholdings

HKCG through on-market purchases during the period increased its shareholdings in the Company to 45.63% as at 30 June 2008.

New Project Acquisitions

Huangshan

In May 2008, through tendering, the Company successfully acquired a 100% equity interest city piped-gas project in Huangshan city, Anhui Province with a registered capital of RMB40 million for an exclusive operating period of 30 years.

This project is expected to supply gas to customers at the end of 2008. With residential household accounts estimated to reach 20,000 by 2015, natural gas consumption is expected to be approximately 30 million cubic metres a year.

Huangshan is a world class tourist city with strong and expanding hospitality and catering industries. In view of its rich natural attractions and with an increasing in-bound tourism, Huangshan is seeing rapid development which is translating into extremely high potential in the gas market. This project will also create synergies with the Group's other city piped-gas projects in the province.

Shenyang Jinhai Economic Zone

In July 2008, the Company entered into an agreement to establish a 100% equity interest city piped-gas project in the Jinhai Economic Zone in Shenyang, Liaoning Province with an initial registered capital of approximately HK\$62 million for an exclusive operating period of 30 years.

The Jinhai Economic Zone was established in January 2007. As a provincial-level economic development zone in Liaoning province, it is vested with municipal economic management authority. The economic zone is situated at the heart of the Western Shenyang Industrial Corridor, which is the main passage between Shenyang city and Yingkou Port.

The project is scheduled for commissioning in 2009 to supply natural gas to industrial customers. The economic zone's gas consumption is estimated to reach approximately 35 million cubic metres by 2014, increasing to 100 million cubic metres in 10 years' time.

The Jinhai Economic Zone's development in the casting and forging industries will capitalise on Shenyang's established equipment manufacturing base, the nation's revitalisation strategy for its northeastern regions and Liaoning Province's "Western Shenyang Industrial Corridor" strategies. Casting and forging businesses moving into the economic zone will create strong demand for natural gas to power their operations. The project is also expected to create synergies with the Group's other piped gas projects in the province.

The Sichuan Earthquake

On 12 May this year, an earthquake hit Sichuan's Wenchuan County causing some interruptions in 11 of the Group's companies. Most gas supplies were suspended on the day of the earthquake, but were rapidly resumed the following day. Gas production and sales have now returned to pre-earthquake levels. The quake caused minor repair expenditures and loss of sales for our Sichuan businesses, estimated at around RMB10 million which was accounted for in the first half results of 2008. We are confident that the impact of the Sichuan earthquake on the Group's 2008 results will be insignificant.

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 is accounted for at cost and assessed for impairment. No impairment was necessary during the six months ended 30 June 2008.

Contingent Liabilities

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

Financial Position

As at 30 June 2008, the Group's cash and cash equivalents amounted to approximately HK\$823 million which were mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2008, the Group's bank loans and other borrowings amounted to HK\$2,063 million, of which HK\$1,166 million arose from the issue of US\$200 million Notes in September 2004 and HK\$344 million loans from HKCG. The Group ended the period under review with a current ratio of approximately 1.2 times and a gearing ratio (net debt excluding HKCG loans ("ND") to equity attributable to shareholders of the Company plus ND) of 12.8%.

In our areas of operations, the Group's exposure to exchange rate fluctuation is insignificant and we do not expect any considerable fluctuations in the near future.

Total assets pledged to secure these bank loans had a net book value of HK\$13 million as at 30 June 2008.

Interim Dividend

The Board has resolved not to declare an interim dividend (2007: Nil).

Employee and Remuneration Policies

As at 30 June 2008, the Group had 16,750 employees, representing an increase of 12.3% when compared to 31 December 2007. Employee remuneration is based on individual performance, job nature and the responsibilities involved. We also provide training as well as a comprehensive package of benefits for employees, including medical welfare, provident funds, bonuses and other incentives. Employees are also encouraged to pursue a balance between work and life. We continuously improve the working environment for employees to maximise both their potential and their contribution to the Group.

Prospects

China's natural gas industry is still in its early and rapid stages of development. Currently natural gas accounts for only around 3% of primary energy consumption. This is expected to increase to around 6% by 2015. Annual city natural gas consumption is approximately 31 billion cubic metres and is expected to reach around 80 billion cubic metres in 2015. The country has been commissioning various infrastructural projects, such as the West-East Gas Second Pipeline, Sichuan to Eastern China Pipeline and LNG receiving terminals, to tap gas from various sources and to supply gas to end users. The upsurge in the country's economy in recent years has called for the urgent need to bring in more oil and gas supplies to fuel burgeoning markets. It is expected that the 2008 Beijing Olympics will place China in the international spotlight more than ever before, resulting in a brighter future for the country. With the domestic economy maintaining its high-speed development and the population pursuing ever higher living standards, gas prices have become affordable. The general population has also become much more receptive to using piped natural gas. As such, demand for natural gas is growing rapidly. Additionally, with the oil prices remaining sky-high, natural gas has a distinct advantage over petrol and diesel.

Other than the city piped-gas business, the Group's compressed natural gas refilling business has been expanding rapidly as well. With the increasing number of cars on the mainland, and the government's growing support for environmental protection, we are highly optimistic with regard to the growth and profitability of this business.

The Group has established extensive business ties in numerous cities throughout the country. In Sichuan and provinces in the Northeast region, we continue to maintain and promote cooperation with the local governments, while also actively exploring the possibility of collaboration with private enterprises. Several projects with extensive market potential are expected to enter into advanced negotiation stages in the latter part of the year.

In sum, given its vast territories, huge population and unceasing urbanization, China's natural gas market will provide exceptional potential for the Group's business profitability and expansion.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

On 23 April 2008, the Company fully repaid its 5 year convertible bonds which were issued in 2003 and listed on the Luxembourg Stock Exchange. Please refer to the paragraph above headed "Convertible Bonds Redemption" for details.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

During the six months ended 30 June 2008, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (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 2008.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Group's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

An audit committee meeting was held on 3 September 2008 to review the unaudited interim financial report for the six months ended 30 June 2008. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2008 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.

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, 11 September 2008

OTHER INFORMATION

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

As at 30 June 2008, 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; (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:

(a) Long positions in Shares and underlying Shares

Name of Director	Capacity	Interest in Shares			Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 30.06.2008
		Personal interest	Corporate interest	Total interest in Shares			
Chan Wing Kin, Alfred	Beneficial owner	—	—	—	3,618,000	3,618,000	0.19%
Wong Wai Yee, Peter	Beneficial owner	—	—	—	3,015,000	3,015,000	0.16%
Kwan Yuk Choi, James	Beneficial owner	—	—	—	3,015,000	3,015,000	0.16%
Ho Hon Ming, John	Beneficial owner	—	—	—	3,015,000	3,015,000	0.16%
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%
Shen Lian Jin	Beneficial owner	301,500	—	301,500	3,015,000	3,316,500	0.17%
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 Investment Limited (“Supreme All”), both wholly-owned subsidiaries of Enerchina. As approximately 35.5% of the issued share capital of Enerchina was held by Asia Pacific Promotion Limited (“Asia Pacific”) as at 30 June 2008 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 “Rights to Acquire Shares” below.

Rights to Acquire Shares

(a) Interest in options to subscribe for Shares

Pursuant to the Company’s share option schemes, the Company had granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2008 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2008	As at 30.06.2008		
				Exercise price (as adjusted, if applicable) 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	1,080,000	3.811	1,085,400	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	1,080,000	3.811	1,085,400	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	1,440,000	3.811	1,447,200	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2008	As at 30.06.2008		
				Exercise price (as adjusted, if applicable) 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%
Shen Lian Jin	19.11.2004	31.12.2005 - 30.03.2011	603,000	3.483	603,000	0.03%
	19.11.2004	31.12.2006 - 30.03.2011	603,000	3.483	603,000	0.03%
	19.11.2004	31.12.2007 - 30.03.2011	804,000	3.483	804,000	0.04%
	16.03.2007	16.03.2008 - 27.11.2015	300,000	3.811	301,500	0.02%
	16.03.2007	16.03.2009 - 27.11.2015	300,000	3.811	301,500	0.02%
	16.03.2007	16.03.2010 - 27.11.2015	400,000	3.811	402,000	0.02%
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. The exercise prices per Share under the 2005 Main Board Scheme had been adjusted during the period. Please refer to the section headed "Share Option Schemes of the Company" below for details.
4. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2008, 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 Issuers.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes of the Company 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, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Substantial Shareholders

As at 30 June 2008, 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 recorded in the register of substantial shareholders required to be kept under section 336 of the SFO ("DI Register of Substantial Shareholders") 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 30.06.2008
Lee Shau Kee	Interest of controlled corporations	887,672,901 (Note 1)	45.35%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	887,672,901 (Note 2)	45.35%
Riddick (Cayman) Limited ("Riddick")	Trustee	887,672,901 (Note 2)	45.35%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	887,672,901 (Note 2)	45.35%
Henderson Development Limited ("HD")	Interest of controlled corporations	887,672,901 (Note 2)	45.35%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	887,672,901 (Note 2)	45.35%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	887,672,901 (Note 2)	45.35%
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. However, the number of Shares in which Dr. Lee Shau Kee was deemed interested in as recorded in the DI Register of Substantial Shareholders as at 30 June 2008 was 887,672,901 since a substantial shareholder was only required under the SFO to file a notice if there was an increase in the percentage figure of his holding that resulted in his interest crossing over a whole percentage number which is above 5%.
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. However, the number of Shares in which each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was deemed interested in as recorded in the DI Register of Substantial Shareholders as at 30 June 2008 was 887,672,901 since a substantial shareholder was only required under the SFO to file a notice if there was an increase in the percentage figure of his holding that resulted in his interest crossing over a whole percentage number which is above 5%.
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 each of Kenson and Supreme All. Enerchina was owned as to approximately 35.5% by Asia Pacific as at 30 June 2008. Therefore, by virtue of Part XV of the SFO, the 344,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively 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 as disclosed above, no person had registered an interest in the share capital of the Company as at 30 June 2008 that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders of the Company as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2008, 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 2008, 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.

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 shareholders of the Company 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 of the Company 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\$
Pre-GEM Scheme:			
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
2001 GEM Scheme:			
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
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796 (Note 3)
	03.10.2006	04.04.2008 – 27.11.2015	2.796 (Note 3)
	03.10.2006	04.10.2008 – 27.11.2015	2.796 (Note 3)
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811 (Note 3)
	16.03.2007	16.03.2009 – 27.11.2015	3.811 (Note 3)
	16.03.2007	16.03.2010 – 27.11.2015	3.811 (Note 3)

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

Option types	Date of Grant	Exercise Period	Exercise Price (Note 3)	Outstanding at 01.01.2008	Grant/ Adjustment during the period (Note 4)	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) (Note 5)	
Category 1:										
Directors										
Chan Wing Kin, Alfred	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,080,000	5,400	—	—	1,085,400	—
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	1,080,000	5,400	—	—	1,085,400	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,440,000	7,200	—	—	1,447,200	—
Wong Wai Yee, Peter	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	—	—	1,206,000	—
Kwan Yuk Choi, James	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	—	—	1,206,000	—
Ho Hon Ming, John	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	—	—	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	—	—	—	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	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	—
Options	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	300,000	1,500	—	—	301,500	—
	16.03.2007	16.03.2009 – 27.11.2015	3.811	300,000	1,500	—	—	301,500	—	
	16.03.2007	16.03.2010 – 27.11.2015	3.811	400,000	2,000	—	—	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	—
Total for Directors					25,258,000	68,000	—	—	25,326,000	—

Option types	Date of Grant	Exercise Period	Exercise Price (Note 3)	Outstanding at 01.01.2008	Grant/ Adjustment during the period (Note 4)	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) (Note 5)
Category 2:	Pre-GEM	04.04.2001	0.473	80,400	—	(80,400)	—	—	3.53
Other Participants	Options	04.04.2001	0.473	482,400	—	(482,400)	—	—	3.53
	2004 GEM Options	19.11.2004	3.483	643,200	—	(643,200)	—	—	4.07
Total for Other Participants				1,206,000	—	(1,206,000)	—	—	
Category 3:	2004 GEM	19.11.2004	3.483	1,597,950	—	—	—	1,597,950	—
Employees	Options	19.11.2004	3.483	2,412,000	—	—	—	2,412,000	—
		19.11.2004	3.483	3,216,000	—	—	—	3,216,000	—
	2006	03.10.2006	2.796	1,080,000	5,400	—	—	1,085,400	—
	Options	03.10.2006	2.796	1,320,000	6,600	—	—	1,326,600	—
		03.10.2006	2.796	1,760,000	8,800	—	—	1,768,800	—
	2007	16.03.2007	3.811	300,000	1,500	—	—	301,500	—
	Options	16.03.2007	3.811	300,000	1,500	—	—	301,500	—
		16.03.2007	3.811	400,000	2,000	—	—	402,000	—
Total for Employees				12,385,950	25,800	—	—	12,411,750	
All categories				38,849,950	93,800	(1,206,000)	—	37,737,750	

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. After the specific approval granted by the shareholders at the annual general meeting of the Company held on 16 May 2008 for the adjustments to the outstanding share options granted under the 2005 Main Board Scheme (details of which are contained in the circular issued by the Company on 23 April 2008), the exercise price of the 2006 Options was adjusted from HK\$2.810 per Share to HK\$2.796 per Share and the exercise price of the 2007 Options was adjusted from HK\$3.830 per Share to HK\$3.811 per Share.
4. During the period, no new option was granted. As a result of the adjustments as described in Note 3 above, the number of Shares issuable under the outstanding options granted under the 2005 Main Board Scheme was increased by a total of 93,800 for all the three categories of participants.
5. During the period, the weighted average closing price of the Shares immediately before the date of exercise of the share options by Other Participants was between the range of HK\$3.53 and HK\$4.07.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the interim financial information set out on pages 17 to 36, which comprises the condensed consolidated balance sheet of Towngas China Company Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement 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
11 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	NOTES	Six months ended 30 June 2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Turnover		<u>2,119,245</u>	<u>1,400,276</u>
Operating profit before returns on investments	4	90,070	62,365
Other income		14,500	37,194
Discount on acquisition of subsidiaries and additional interest in a subsidiary		—	1,491
Share of results of associates		84,763	49,922
Share of results of jointly controlled entities		37,890	30,268
Finance costs	5	<u>(78,193)</u>	<u>(77,394)</u>
Profit before taxation	6	149,030	103,846
Taxation	7	<u>(20,433)</u>	<u>(22,476)</u>
Profit for the period		<u>128,597</u>	<u>81,370</u>
Attributable to:			
Equity holders of the Company		101,063	50,507
Minority interests		<u>27,534</u>	<u>30,863</u>
		<u>128,597</u>	<u>81,370</u>
		HK cents	HK cents
Earnings per share	8		
– Basic		<u>5.16</u>	<u>3.35</u>
– Diluted		<u>5.15</u>	<u>3.32</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	3,526,557	3,110,475
Prepaid lease payments		208,139	171,227
Intangible assets		203,211	183,892
Goodwill	11	2,493,483	2,180,291
Interest in associates		1,014,084	891,124
Interest in jointly controlled entities		655,010	532,635
Loans to jointly controlled entities		160,072	147,569
Available-for-sale investments		170,942	171,209
Deposit paid for acquisition of a subsidiary		—	344,088
		<hr/> 8,431,498	<hr/> 7,732,510
Current assets			
Inventories		210,075	152,612
Prepaid lease payments		6,572	5,263
Trade receivables	12	92,466	92,589
Other receivables, deposits and prepayments		309,998	341,168
Amounts due from minority shareholders		8,997	4,089
Bank balances and cash		823,068	786,961
		<hr/> 1,451,176	<hr/> 1,382,682
Current liabilities			
Trade payables	13	150,374	150,418
Other payables and accrued charges		637,573	455,164
Amounts due to minority shareholders		27,796	26,234
Taxation payable		128,937	121,319
Borrowings - amount due within one year	14	279,074	315,524
		<hr/> 1,223,754	<hr/> 1,068,659
Net current assets		<hr/> 227,422	<hr/> 314,023

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

At 30 June 2008

	NOTES	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Total assets less current liabilities		8,658,920	8,046,533
Non-current liabilities			
Loans from a shareholder	15	343,750	193,750
Borrowings - amount due after one year	14	1,440,131	1,468,087
Deferred taxation		51,725	49,973
		1,835,606	1,711,810
Net assets		6,823,314	6,334,723
Capital and reserves			
Share capital	16	195,756	195,635
Reserves		5,908,311	5,534,568
Equity attributable to equity holders of the Company		6,104,067	5,730,203
Minority interests		719,247	604,520
Total equity		6,823,314	6,334,723

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

Attributable to equity holders of the Company

	Attributable to equity holders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserves	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 2007	95,830	765,581	147,108	26,774	1,101	16,832	44,483	438,929	1,536,638	502,367	2,039,005
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	—	—	292,682	—	—	—	—	—	292,682	41,948	334,630
Profit for the year	—	—	—	—	—	—	—	144,504	144,504	59,874	204,378
Total recognised income and expense for the year	—	—	292,682	—	—	—	—	144,504	437,186	101,822	539,008
Issue of shares	99,805	3,703,867	—	(3,954)	—	—	(19,436)	—	3,780,282	—	3,780,282
Expenses incurred in connection with the issue of new shares	—	(38,811)	—	—	—	—	—	—	(38,811)	—	(38,811)
Recognition of equity-settled share based payments	—	—	—	14,908	—	—	—	—	14,908	—	14,908
Lapse of options to retained earnings	—	—	—	(710)	—	—	—	710	—	—	—
Transfer	—	—	—	—	—	23,595	—	(23,595)	—	—	—
Acquired on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	21,779	21,779
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(19,957)	(19,957)
Reduction in minority interests on acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(1,491)	(1,491)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2008

	Attributable to equity holders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserves	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 2007 and 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 recognised directly in equity	—	—	265,770	—	—	—	—	—	265,770	47,481	313,251
Profit for the period	—	—	—	—	—	—	—	101,063	101,063	27,534	128,597
Total recognised income and expense 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	<u>195,756</u>	<u>4,433,969</u>	<u>705,560</u>	<u>40,396</u>	<u>1,101</u>	<u>50,578</u>	<u>—</u>	<u>676,507</u>	<u>6,104,067</u>	<u>719,247</u>	<u>6,823,314</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2008

	Attributable to equity holders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserves	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 2007	95,830	765,581	147,108	26,774	1,101	16,832	44,483	438,929	1,536,638	502,367	2,039,005
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	—	—	107,306	—	—	—	—	—	107,306	15,956	123,262
Profit for the period	—	—	—	—	—	—	—	50,507	50,507	30,863	81,370
Total recognised income and expense for the period	—	—	107,306	—	—	—	—	50,507	157,813	46,819	204,632
Issue of shares	97,898	3,642,019	—	(4,686)	—	—	(12,089)	—	3,723,142	—	3,723,142
Expenses incurred in connection with the issue of new shares	—	(38,787)	—	—	—	—	—	—	(38,787)	—	(38,787)
Recognition of equity-settled share based payments	—	—	—	7,329	—	—	—	—	7,329	—	7,329
Transfer	—	—	—	—	—	11,226	—	(11,226)	—	—	—
Acquired on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	21,779	21,779
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(19,639)	(19,639)
Reduction in minority interests on acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(1,491)	(1,491)
At 30 June 2007	193,728	4,368,813	254,414	29,417	1,101	28,058	32,394	478,210	5,386,135	549,835	5,935,970

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	NOTE	Six months ended 30 June 2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Net cash generated from operating activities		<u>196,793</u>	<u>79,143</u>
Investing activities			
Purchase of property, plant and equipment		(189,634)	(93,617)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	19	20,502	8,278
Investment in a jointly controlled entity		(68,259)	—
Prepaid lease payments		(22,529)	—
Other investing cash flows		<u>11,541</u>	<u>20,561</u>
Net cash used in investing activities		<u>(248,379)</u>	<u>(64,778)</u>
Financing activities			
New loans from shareholder raised		150,000	—
New bank and other loans raised		101,308	—
Redemption of convertible bonds		(208,362)	—
Repayments of bank and other loans		(15,857)	(6,458)
Proceeds from open offer of ordinary shares		—	704,290
Expenses incurred in connection with the issue of new shares		—	(30,399)
Other financing cash flows		<u>37,675</u>	<u>(8,666)</u>
Net cash generated from financing activities		<u>64,764</u>	<u>658,767</u>
Net increase in cash and cash equivalents		13,178	673,132
Cash and cash equivalents at beginning of the period		786,961	614,479
Effect of foreign exchange rate changes		<u>22,929</u>	<u>(1,843)</u>
Cash and cash equivalents at end of the period, representing bank balances and cash		<u><u>823,068</u></u>	<u><u>1,285,768</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

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 sale and distribution of liquefied petroleum gas ("LPG") and natural gas (together "Gas Fuel") in The People's Republic of China (the "PRC") including the sale of LPG in bulk and in cylinders, the provision of piped LPG and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LPG and natural gas household appliances.

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.

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 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods.

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 13	Customer loyalty programmes ³
HK(IFRIC) – INT 15	Agreements for the construction of real estate ¹
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

* IFRIC represents the International Financial Reporting Interpretations Committee.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is 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 a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group currently organises its operations into two business segments, namely sale and distribution of Gas Fuel and related products, and gas pipeline construction. The principal activities of the business segments are as follows:

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

3. SEGMENT INFORMATION (Continued)

	Sale and distribution of Gas Fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2008			
REVENUE			
External	1,939,674	179,571	2,119,245
Segment results	74,359	73,925	148,284
Unallocated other income			11,566
Unallocated corporate expenses			(55,280)
Share of results of associates			84,763
Share of results of jointly controlled entities			37,890
Finance costs			(78,193)
Profit before taxation			149,030
Taxation			(20,433)
Profit for the period			128,597
Six months ended 30 June 2007			
REVENUE			
External	1,286,865	113,411	1,400,276
Segment results	58,753	45,506	104,259
Unallocated other income			26,300
Unallocated corporate expenses			(31,000)
Discount on acquisition of additional interest in a subsidiary			1,491
Share of results of associates			49,922
Share of results of jointly controlled entities			30,268
Finance costs			(77,394)
Profit before taxation			103,846
Taxation			(22,476)
Profit for the period			81,370

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Revenue	2,119,245	1,400,276
Less: Expenses		
Stores and materials used	1,662,801	1,089,976
Staff costs	152,101	104,675
Depreciation, amortisation and release of prepaid lease payments	83,422	67,161
Other expenses	130,851	76,099
	<u>90,070</u>	<u>62,365</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	17,190	4,910
– bank and other borrowings not wholly repayable within five years	2,778	1,260
– convertible bonds	4,115	5,783
– senior notes	53,357	65,247
	<u>77,440</u>	<u>77,200</u>
Bank charges	753	194
	<u>78,193</u>	<u>77,394</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	2,956	2,851
Cost of inventories sold	1,745,056	1,148,801
Depreciation of property, plant and equipment	76,582	61,565
Share of tax of associates (included in share of results of associates)	7,001	5,122
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	800	72

and after crediting:

Discount on acquisition of additional interest in a subsidiary	—	1,491
Interest income	5,412	3,617
Imputed interest on loans to jointly controlled entities	2,934	1,363

7. TAXATION

The taxation charge comprises of the 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 is 12.5%. PRC Enterprise Income Tax for the period has been provided for after taking these tax incentives into account.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

Temporary differences arising in connection with interests in associates and jointly controlled entities are insignificant.

At the balance sheet date, no deferred tax liabilities have been recognized in respect of the temporary differences associates with undistributed earnings of subsidiaries. No deferred tax liabilities has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Earnings for the purpose of earnings per share, being profit for the period attributable to equity holders of the Company	101,063	50,507
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of basic earnings per share	1,957,431	1,507,340
Effect of dilutive potential shares: Share options	4,135	11,829
Weighted average number of shares for the purpose of diluted earnings per share	1,961,566	1,519,169

9. INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2008 (2007: nil).

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$179,724,000 on acquisition of property, plant and equipment.

In addition, the Group spent approximately HK\$9,910,000 on the construction in progress.

11. GOODWILL

During the period, the Group acquired Mianyang Tianneng Gas Development Company Limited ("Mianyang") and Gongzhuling Towngas Limited ("Gongzhuling") and the goodwill arising from the acquisitions amount to HK\$289,595,000 and HK\$22,437,000 respectively. Please refer to note 19 for the details of acquisitions.

The directors of the Company considered no impairment loss is necessary at 30 June 2008.

12. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 90 days to its customers. The following is an aged analysis of trade receivables at the reporting date:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
0 to 90 days	83,307	72,719
91 to 180 days	6,064	17,073
181 to 360 days	3,095	2,797
	<hr/> 92,466 <hr/>	<hr/> 92,589 <hr/>

13. TRADE PAYABLES

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

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
0 to 90 days	86,041	104,235
91 to 180 days	22,693	9,743
181 to 360 days	21,394	10,661
Over 360 days	20,246	25,779
	<hr/> 150,374 <hr/>	<hr/> 150,418 <hr/>

14. BORROWINGS

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Bank loans – secured	14,107	28,665
Bank loans – unsecured	378,555	250,451
Other loans – unsecured	160,344	137,846
Convertible bonds (<i>note a</i>)	—	206,173
Guaranteed senior notes (<i>note b</i>)	1,166,199	1,160,476
	1,719,205	1,783,611

The maturity of the above borrowings is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
On demand or within one year	279,074	315,524
More than one year but not exceeding two years	12,626	76,789
More than two years but not exceeding five years	1,384,196	1,363,681
More than five years	43,309	27,617
	1,719,205	1,783,611
Less: Amount due within one year shown under current liabilities	(279,074)	(315,524)
Amount due after one year	1,440,131	1,468,087

Notes:

- (a) The Company issued the 2% convertible bonds of US\$50,000,000 on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The convertible bonds were listed on the Luxembourg Stock Exchange. The conversion price at which each share shall be issued upon conversion is HK\$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for subdivision or consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal of the bonds amounting to US\$24,707,000 has been redeemed on maturity date 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds was 6.48%.
- (b) The Company issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the “Guaranteed Senior Notes”) on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2008, 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 2008, the market value of the Guaranteed Senior Notes amounted to US\$159,275,000 (equivalent to approximately HK\$1,242,345,000). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%. At 30 June 2008, Guaranteed Senior Notes with a principal amount of US\$149,000,000 are still outstanding in the market.

15. LOANS FROM A SHAREHOLDER

The loans are unsecured, bear interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and are repayable in the fifth year from the date of the relevant draw down of the respective loans. At 30 June 2008, the effective interest rate is 4.25% per annum.

Details of loans from a shareholder are as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
USD loans	193,750	193,750
HKD loans	150,000	—
	<u>343,750</u>	<u>193,750</u>

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Shares of HK\$0.10 each	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
Shares of HK\$0.10 each	<u>1,937,279,927</u>	<u>193,728</u>

A summary of the movement in the issued capital of the Company is as follows:

	Number of shares	HK\$'000
At 1 January 2008	1,956,350,330	195,635
Issue of shares on exercise of share options (<i>note</i>)	<u>1,206,000</u>	<u>121</u>
At 30 June 2008	<u>1,957,556,330</u>	<u>195,756</u>

Note: During the period, the Company allotted and issued 562,800 and 643,200 shares of HK\$0.10 each for cash at the exercise price of HK\$0.473 and HK\$3.483 per share respectively as a result of the exercise of share options.

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

17. SHARE-BASED PAYMENTS

No share option was granted in the current period.

The Group recognised total expenses of HK\$4,525,000 for the six months ended 30 June 2008 (1.1.2007 to 30.6.2007: HK\$7,329,000) in relation to share options granted by the Company.

18. CAPITAL COMMITMENTS

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u><u>15,333</u></u>	<u><u>8,529</u></u>

19. ACQUISITION OF A SUBSIDIARY/BUSINESS

In January 2008, the Group completed the acquisition of 100% equity interest in Mianyang, which is engaged in the operation of piped gas assets and related business in PRC at an aggregate consideration of HK\$381,481,000. 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 and provisional fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	69,894
Prepaid lease payments	7,508
Inventories	2,751
Trade receivables	1,701
Other receivables, deposits and prepayments	3,292
Bank balances and cash	27,187
Trade payables	(4,368)
Other payables and accrued charges	(7,618)
Taxation payable	(3,917)
	<hr/>
Net assets acquired	96,430
Minority interests	(4,544)
Goodwill arising on acquisition	289,595
	<hr/>
Total consideration	381,481
	<hr/> <hr/>
Satisfied by:	
Other payables	37,393
Deposit paid for acquisition of a subsidiary	344,088
	<hr/>
	381,481
	<hr/> <hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	
Bank balances and cash acquired	(27,187)
	<hr/> <hr/>

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 Mianyang is determined on a provisional basis as the Company is in the process of obtaining independent valuation to access the fair value of the identifiable assets. The goodwill may be adjusted upon the completion of initial accounting year.

19. ACQUISITION OF A SUBSIDIARY/BUSINESS (Continued)

The subsidiary acquired during the period contributed HK\$162,282,000 to the Group's turnover and a profit of HK\$31,647,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

Acquisition of business in 2008

During the period ended 30 June 2008, the Group paid a consideration of HK\$60,296,000 to a vendor to acquire a gas pipeline business, including related assets. The assets acquired on 8 January 2008 enable the Group to operate 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 and provisional fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	25,775
Prepaid lease payments	3,961
Interest in jointly controlled entities	2,777
Inventories	734
Trade receivables	3,754
Other receivables, deposits and prepayments	376
Bank balances and cash	482
	<hr/>
Net assets acquired	37,859
Goodwill arising on acquisition	22,437
	<hr/>
Total consideration	60,296
	<hr/> <hr/>
Satisfied by:	
Cash consideration	7,167
Other payables	53,129
	<hr/>
	60,296
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration	7,167
Bank balances and cash acquired	(482)
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	6,685
	<hr/> <hr/>

19. ACQUISITION OF A SUBSIDIARY/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 Gongzhuling is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional value only. The Company is in the process of obtaining independent valuation to access the fair value. It may be adjusted upon the completion of initial accounting year.

20. RELATED PARTY TRANSACTIONS

On 8 April 2008, the Company entered into a loan agreement (the "Loan Agreement") with Hong Kong & China Gas Company Limited, a substantial shareholder of the Company, for an unsecured loan amount of HK\$300 million. 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.

The loan facility was made available to the Company for a twelve-month period from the date of the Loan Agreement. HK\$150 million has been drawn by the Company as at the balance sheet date and up to the date of this report.