



港華燃氣有限公司 Towngas China Company Limited

(Formerly known as Panva Gas Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

2007 Interim Results

HIGHLIGHTS

- The Group's turnover increased to HK\$1,400.3 million representing an increase of 12.6% from the same period last year.
- Gross profit increased to HK\$251.5 million representing an increase of 16.8% from the same period last year.
- Profit attributable to equity holders of the Company amounted to HK\$50.5 million, a significant increase when compared to a loss of HK\$221.1 million recorded for the same period last year.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007, together with the comparative figures of the corresponding period in 2006, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Six months ended 30 June	
	<i>NOTES</i>	2007	2006
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover		1,400,276	1,243,931
Cost of sales		(1,148,801)	(1,028,686)
Gross profit		251,475	215,245
Other income		37,194	33,497
Distribution expenses		(53,418)	(40,269)
Administrative expenses		(134,928)	(98,378)
Other expenses		(764)	(1,701)
Discount on acquisition of subsidiaries and additional interest in a subsidiary		1,491	12,998
Impairment loss recognised in respect of available-for-sale investments		–	(967)
Share of results of associates		49,922	4,225
Share of results of jointly controlled entities		30,268	–
Changes in fair value of derivative financial instruments		–	(181,608)
Finance costs	4	(77,394)	(126,765)
Profit (loss) before taxation	5	103,846	(183,723)
Taxation	6	(22,476)	(6,910)
Profit (loss) for the period		<u>81,370</u>	<u>(190,633)</u>
Attributable to:			
Equity holders of the Company		50,507	(221,139)
Minority interests		30,863	30,506
		<u>81,370</u>	<u>(190,633)</u>
		HK cents	HK cents
Earnings (loss) per share	7		
– Basic		<u>3.35</u>	<u>(23.39)</u>
– Diluted		<u>3.32</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	NOTES	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	2,674,180	2,356,654
Prepaid lease payments		166,548	150,785
Intangible assets		179,376	136,527
Goodwill	10	2,179,871	68,641
Interest in associates		742,073	644,940
Interest in jointly controlled entities	11	631,327	—
Available-for-sale investments		170,843	170,528
		<u>6,744,218</u>	<u>3,528,075</u>
Current assets			
Inventories		116,126	96,737
Prepaid lease payments		5,018	4,592
Trade receivables	12	138,839	132,673
Other receivables, deposits and prepayments		452,209	395,619
Amounts due from minority shareholders		3,929	4,421
Bank balances and cash		1,285,768	614,479
		<u>2,001,889</u>	<u>1,248,521</u>
Current liabilities			
Trade payables	13	154,908	151,279
Other payables and accrued charges		454,696	373,259
Taxation payable		91,155	81,846
Amounts due to minority shareholders		26,159	25,352
Borrowings – amount due within one year	14	413,033	110,964
		<u>1,139,951</u>	<u>742,700</u>
Net current assets		<u>861,938</u>	<u>505,821</u>
Total assets less current liabilities		<u>7,606,156</u>	<u>4,033,896</u>
Non-current liabilities			
Borrowings – amount due after one year	14	1,607,050	1,951,751
Deferred taxation		63,136	43,140
		<u>1,670,186</u>	<u>1,994,891</u>
Net assets		<u><u>5,935,970</u></u>	<u><u>2,039,005</u></u>
Capital and reserves			
Share capital	15	193,728	95,830
Reserves		5,192,407	1,440,808
Equity attributable to equity holders of the Company		<u>5,386,135</u>	<u>1,536,638</u>
Minority interests		<u>549,835</u>	<u>502,367</u>
Total equity		<u><u>5,935,970</u></u>	<u><u>2,039,005</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company										
	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Exchange reserve HK\$'000 (unaudited)	Share option reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	General reserves HK\$'000 (unaudited)	Convertible bonds reserve HK\$'000 (unaudited)	Retained earnings HK\$'000 (unaudited)	Total HK\$'000 (unaudited)	Minority interests HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
At 1 January 2006	94,225	722,834	45,259	18,862	1,101	11,834	48,350	700,261	1,642,726	389,618	2,032,344
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	101,849	-	-	-	-	-	101,849	18,533	120,382
(Loss) profit for the year	-	-	-	-	-	-	-	(256,334)	(256,334)	9,695	(246,639)
Total recognised income and expense for the year	-	-	101,849	-	-	-	-	(256,334)	(154,485)	28,228	(126,257)
Issue of shares	1,605	42,747	-	(1,376)	-	-	(3,867)	-	39,109	-	39,109
Recognition of equity-settled share based payments	-	-	-	9,288	-	-	-	-	9,288	-	9,288
Transfer	-	-	-	-	-	4,998	-	(4,998)	-	-	-
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	94,027	94,027
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	5,758	5,758
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(10,764)	(10,764)
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(4,500)	(4,500)
At 31 December 2006 and 1 January 2007	95,830	765,581	147,108	26,774	1,101	16,832	44,483	438,929	1,536,638	502,367	2,039,005
Exchange differences arising on translation of foreign operations 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)	-	-	-
Arising 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

Attributable to equity holders of the Company

	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Exchange reserve HK\$'000 (unaudited)	Share option reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	General reserves HK\$'000 (unaudited)	Convertible bonds reserve HK\$'000 (unaudited)	Retained earnings HK\$'000 (unaudited)	Total HK\$'000 (unaudited)	Minority interests HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
At 1 January 2006	94,225	722,834	45,259	18,862	1,101	11,834	48,350	700,261	1,642,726	389,618	2,032,344
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	(123)	-	-	-	-	-	(123)	-	(123)
Loss for the period	-	-	-	-	-	-	-	(221,139)	(221,139)	30,506	(190,633)
Total recognised income and expense for the period	-	-	(123)	-	-	-	-	(221,139)	(221,262)	30,506	(190,756)
Recognition of equity-settled share based payments	-	-	-	4,238	-	-	-	-	4,238	-	4,238
Transfer	-	-	-	-	-	2,107	-	(2,107)	-	-	-
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	70,658	70,658
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	5,758	5,758
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(10,109)	(10,109)
Exercise of share options	242	2,218	-	-	-	-	-	-	2,460	-	2,460
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(4,499)	(4,499)
At 30 June 2006 (unaudited)	<u>94,467</u>	<u>725,052</u>	<u>45,136</u>	<u>23,100</u>	<u>1,101</u>	<u>13,941</u>	<u>48,350</u>	<u>477,015</u>	<u>1,428,162</u>	<u>481,932</u>	<u>1,910,094</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Six months ended 30 June	
	<i>NOTE</i>	2007	2006
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Net cash generated from operating activities		<u>79,143</u>	<u>184,206</u>
Net cash used in investing activities			
Cash paid for acquisition of property, plant and equipment		(93,617)	(180,198)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	18	8,278	(189,722)
Other investing cash flows		<u>20,561</u>	<u>51,447</u>
		<u>(64,778)</u>	<u>(318,473)</u>
Net cash generated from (used in) financing activities			
Proceeds from open offer of ordinary shares		704,290	—
Expenses incurred in connection with the issue of new shares		(30,399)	—
New bank and other loans raised		—	71,234
Repayments of bank and other loans		(6,458)	(147,858)
Other financing cash flows		<u>(8,666)</u>	<u>(1,892)</u>
		<u>658,767</u>	<u>(78,516)</u>
Net increase (decrease) in cash and cash equivalents		673,132	(212,783)
Cash and cash equivalents at beginning of the period		614,479	986,411
Effect of foreign exchange rate changes		<u>(1,843)</u>	<u>(139)</u>
Cash and cash equivalents at end of the period, representing bank balances and cash		<u><u>1,285,768</u></u>	<u><u>773,489</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

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

Pursuant to a special resolution passed at the annual general meeting held on 23 April 2007, the name of the Company was changed from Panva Gas Holdings Limited 百江燃氣控股有限公司 to Towngas China Company Limited 港華燃氣有限公司 with effect from 23 May 2007.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

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 2006. In addition, the Group has applied the following accounting policy for jointly controlled entities:

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group’s share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group’s net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group’s interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing costs ⁶
HKFRS 8	Operating segments ⁶
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions ⁷
HK(IFRIC) – INT 12	Service concession arrangements ⁸

⁶ Effective for annual periods beginning on or after 1 January 2009.

⁷ Effective for annual periods beginning on or after 1 March 2007.

⁸ Effective for annual periods beginning on or after 1 January 2008.

The directors of the Company anticipate that the application of these standards 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 nature gas, and sale of LPG and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipelines

	Sale and distribution of gas fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2007			
REVENUE			
External	<u>1,286,865</u>	<u>113,411</u>	<u>1,400,276</u>
Segment results	<u>58,753</u>	<u>45,506</u>	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			<u>(77,394)</u>
Profit before taxation			103,846
Taxation			<u>(22,476)</u>
Profit for the period			<u>81,370</u>
Six months ended 30 June 2006			
REVENUE			
External	<u>1,079,727</u>	<u>164,204</u>	<u>1,243,931</u>
Segment results	<u>51,192</u>	<u>49,413</u>	100,605
Unallocated other income			33,497
Unallocated corporate expenses			(25,708)
Discount on acquisition of subsidiaries and additional interest of a subsidiary			12,998
Impairment loss recognised in respect of available-for-sale investments			(967)
Share of results of associates			4,225
Changes in fair value of derivative financial instruments			(181,608)
Finance costs			<u>(126,765)</u>
Loss before taxation			(183,723)
Taxation			<u>(6,910)</u>
Loss for the period			<u>(190,633)</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	4,910	1,345
– bank and other borrowings not wholly repayable within five years	1,260	1,384
– convertible bonds	5,783	11,875
– senior notes	65,247	65,903
	77,200	80,507
Net interest expense on interest rate swaps	–	46,118
	77,200	126,625
Bank charges	194	140
	77,394	126,765

5. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Profit (loss) before taxation has been arrived at after charging:		
Amortisation of intangible assets	8,844	560
Depreciation of property, plant and equipment	61,565	49,575
Share of tax of associates (included in share of results of associates)	5,122	1,802
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	72	–
and after crediting:		
Discount on acquisition of subsidiaries	–	8,499
Discount on acquisition of additional interest in a subsidiary	1,491	4,499
Interest income	3,617	15,441
Dividend income	–	11,676
Gain on disposal of available-for-sale investments	–	3,845

6. TAXATION

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

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

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period is ranging from 12% to 16.5%. 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, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. However, the detailed implementation rules regarding the New Law have not been issued and therefore the Group is not in a position to determine whether the Company's subsidiaries will still be entitled to the preferential tax treatment mentioned above.

7. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Earnings (loss) for the purpose of earnings per share, being profit (loss) for the period attributable to equity holders of the Company	<u>50,507</u>	<u>(221,139)</u>
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of basic earnings (loss) per share	1,507,340	<u>945,628</u>
Effect of dilutive potential shares: Share options	<u>11,829</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,519,169</u>	

The denominator for the purpose of calculating basic loss per share in 2006 have been adjusted to reflect the bonus element in the rights issue under the open offer of shares during the period ended 30 June 2007.

The computation of diluted earnings per share for the current period does not assume the conversion of the Company's outstanding convertible bonds since they are anti-dilutive.

No diluted loss per share has been presented in the prior period as the share options and convertible bonds granted by the Company for 2006 are anti-dilutive.

8. INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2007.

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$93,617,000 (2006: HK\$180,198,000) on acquisition of property, plant and equipment.

10. GOODWILL

	<i>HK\$'000</i>
At 1 January 2006	55,412
Currency realignment	492
Arising from acquisition of subsidiaries	<u>12,737</u>
At 31 December 2006	68,641
Currency realignment	230
Arising from acquisition of subsidiaries (<i>note 18</i>)	<u>2,111,000</u>
At 30 June 2007	<u><u>2,179,871</u></u>

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

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

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a declining growth rate from 6% to 4% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 30 June 2007.

11. INTEREST IN JOINTLY CONTROLLED ENTITIES

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Acquired on acquisition of subsidiaries during the period (<i>note 18</i>)	591,379	—
Share of post-acquisition reserves	39,948	—
	<u>631,327</u>	<u>—</u>

Particulars of the jointly controlled entities as at 30 June 2007 are listed below:

Name of entity	Place of establishment and operation	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activity
Anqing Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited	PRC	50%	Provision of natural gas and related services and gas pipeline construction

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:

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
0 to 90 days	48,367	66,021
91 to 180 days	11,026	62,970
181 to 360 days	75,597	3,682
Over 360 days	3,849	—
	<u>138,839</u>	<u>132,673</u>

13. TRADE PAYABLES

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

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
0 to 90 days	98,916	80,366
91 to 180 days	9,786	30,384
181 to 360 days	21,127	13,954
Over 360 days	25,079	26,575
	<u>154,908</u>	<u>151,279</u>

14. BORROWINGS

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Bank loans – secured	9,076	11,473
Bank loans – unsecured	66,273	24,527
Other loans – unsecured	127,230	119,823
Convertible bonds (<i>note a</i>)	258,808	349,506
Guaranteed senior notes (<i>note b</i>)	1,558,696	1,557,386
	<u>2,020,083</u>	<u>2,062,715</u>

The maturity of the above borrowings is as follows:

On demand or within one year	413,033	110,964
More than one year but not exceeding two years	7,466	355,324
More than two years but not exceeding five years	1,553,164	29,218
More than five years	46,420	1,567,209
	<u>2,020,083</u>	<u>2,062,715</u>
Less: Amount due within one year shown under current liabilities	<u>(413,033)</u>	<u>(110,964)</u>
Amount due after one year	<u>1,607,050</u>	<u>1,951,751</u>

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 on consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal of the bonds amounting to US\$31,955,000 (2006: US\$43,880,000) will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48%. At 30 June 2007, the market value of the convertible bonds amounted to US\$35,151,000 (equivalent to approximately HK\$274,178,000). During the period, the principal of bonds amounting to US\$11,925,000 (equivalent to approximately HK\$93,015,000) were converted into ordinary shares of the Company.
- (b) The Group issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the “Guaranteed Senior Notes”) on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company’s shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 30 June 2007, the market value of the Guaranteed Senior Notes amounted to US\$215,480,000 (equivalent to approximately HK\$1,680,744,000).

15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Shares of HK\$0.10 each	2,000,000,000	200,000
Increase in authorised share capital (<i>note a</i>)	<u>1,000,000,000</u>	<u>100,000</u>
	<u><u>3,000,000,000</u></u>	<u><u>300,000</u></u>
Issued and fully paid:		
Shares of HK\$0.10 each	<u><u>1,937,279,927</u></u>	<u><u>193,728</u></u>

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

	Number of shares	Amount HK\$'000
At 1 January 2007	958,303,336	95,830
Issue of shares on exercise of share options (<i>note b</i>)	5,542,400	554
Issue of shares on conversion of convertible bonds (<i>note c</i>)	24,449,961	2,445
Issue of shares on acquisition of subsidiaries (<i>note d</i>)	772,911,729	77,291
Issue of shares on open offer (<i>note e</i>)	<u>176,072,501</u>	<u>17,608</u>
At 30 June 2007	<u><u>1,937,279,927</u></u>	<u><u>193,728</u></u>

Notes:

- (a) Pursuant to a resolution passed in the annual general meeting of the Company on 23 May 2007, the authorised share capital of the Company increased to HK\$300,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.10 each of the Company.
- (b) During the period, the Company allotted and issued 1,990,000, 1,870,000, 1,200,000 and 482,400 shares of HK\$0.10 each for cash at the exercise price of HK\$3.500, HK\$0.940, HK\$0.4750 and HK\$3.483 per share respectively as a result of the exercise of share options.
- (c) US\$11,925,000 (equivalent to approximately HK\$93,015,000) of the issued convertible bonds were converted into 24,449,961 shares of HK\$0.10 each of the Company at HK\$3.8043 per share during the period.
- (d) During the period, the Company allotted and issued 772,911,729 ordinary shares of HK\$0.10 each at the price of HK\$3.77 for acquisition of certain subsidiaries as detailed in note 18.
- (e) During the period, the Group allotted and issued 176,072,501 ordinary shares of HK\$0.10 each at the price of HK\$4.00 as a result of open offer to the then existing share holders.

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

16. SHARE-BASED PAYMENTS

In the current period, 14,600,000 share options were granted on 16 March 2007. The fair value of the options determined at the dates of grant using the Black-Scholes option pricing model is HK\$22,650,000. The closing price of the Company's share immediately before the grant date was HK\$3.809.

Detail of the share option granted on 16 March 2007 is as follows:

Vesting proportion	Exercisable period	Exercise price HK\$
30%	16.3.2008 – 27.11.2015	3.83
30%	16.3.2009 – 27.11.2015	3.83
40%	16.3.2010 – 27.11.2015	3.83

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

The fair value of share options granted on 16 March 2007 is HK\$1.55 per share and was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	30.6.2007
Weighted average share price	HK\$3.74
Weighted average exercise price	HK\$3.83
Expected volatility	41.21%
Expected life	5.0
Risk free rate	4.177%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expenses of HK\$7,329,000 (1.1.2006 to 30.6.2006: HK\$4,238,000) for the period 30 June 2007 in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

17. CAPITAL COMMITMENTS

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>33,219</u>	<u>27,838</u>

18. ACQUISITION OF SUBSIDIARIES

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

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

	Acquirees' carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Net assets acquired:			
Property, plant and equipment	210,220	—	210,220
Prepaid lease payments	13,521	—	13,521
Intangible assets	4,861	36,540	41,401
Interest in associates	28,927	—	28,927
Interest in jointly controlled entities	457,993	133,386	591,379
Inventories	5,147	—	5,147
Trade receivables	6,451	—	6,451
Other receivables, deposits and prepayments	21,359	—	21,359
Bank balances and cash	8,278	—	8,278
Trade payables	(28,087)	—	(28,087)
Other payables and accrued charges	(8,490)	—	(8,490)
Borrowings	(46,082)	—	(46,082)
Deferred taxation	(8,800)	(10,568)	(19,368)
Net assets acquired	<u>665,298</u>	<u>159,358</u>	824,656
Minority interests			(21,779)
Goodwill arising on acquisition			<u>2,111,000</u>
Total consideration			<u>2,913,877</u>
Satisfied by:			
Issue of new shares			<u>2,913,877</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries, representing bank balances and cash acquired			<u>8,278</u>

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

The subsidiaries acquired during the period contributed HK\$38,477,000 to the Group's turnover and a profit of HK\$40,436,236 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total group revenue for the period would have been HK\$1,424,346,000 and profit for the period would have been HK\$98,323,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

19. RELATED PARTY TRANSACTIONS

On 19 April 2007, 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 US\$25 million (equivalent to HK\$195 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%.

The loan facility was made available to the Company for a six-month period from the date of the Loan Agreement. No amount has been drawn by the Company as at the balance sheet date and up to the date of this report.

20. POST BALANCE SHEET EVENT

Subsequent to 30 June 2007, the Company purchased from the market its guaranteed senior loan notes with an aggregate principal amount of US\$51 million (equivalent to HK\$397.8 million) at a total consideration of approximately US\$54.4 million (equivalent to HK\$425.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of Operations

For the six months ended 30 June 2007, the Group recorded a turnover of approximately HK\$1,400.3 million, an increase of 12.6% over the previous year. Gross profit increased by 16.8% to approximately HK\$251.5 million. The increase in gross profit was due to increases in the gross profit margins in all segments of the Company’s businesses. The Group recorded earnings before interests, taxation, depreciation and amortisation (EBITDA) of approximately HK\$224.6 million, an increase of approximately 53.5% from the corresponding period last year. Profit attributable to equity holders of the Company of approximately HK\$50.5 million, a significant increase from loss of HK\$221.1 million recorded for the same period last year.

The turn around from a loss to profit is mainly due to the loss in fair value of derivatives of HK\$181.6 million and the net interest expense incurred on the interest rate swaps of HK\$46.1 million recorded during the same period last year. A significant increase in contribution from associated companies from HK\$4.2 million in 2006 to HK\$49.9 million in 2007, and the additional contribution of HK\$30.3 million in 2007 from the 6 jointly controlled entities acquired from The Hong Kong and China Gas Company Limited (“HKCG”) are also the contributing factors for making a profit in 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 of the business increased by 52.8% to approximately HK\$281.1 million, accounting for approximately 20.1% of the Group’s aggregate turnover. During the period, the Group recorded residential consumption of approximately 97.9 million cubic metres and commercial and industrial consumption of approximately 60.1 million cubic metres.

As at 30 June 2007, the Group had approximately 1,398,700 households of end-user customers for its sale of piped gas, an increase of approximately 65,100 households over 31 December 2006.

Gas Pipeline Construction

The Group’s gas pipeline construction business mainly includes the development and maintenance of piped gas stations and networks through which the Group provides direct connection of piped gas to customers and receives a connection fee. For the six months ended 30 June 2007, the Group recorded a turnover of approximately HK\$113.4 million in connection fee, which accounted for approximately 8.1% of the Group’s total turnover, representing a decrease of approximately 30.9% when compared to the same period last year.

The total number of connected households as at 30 June 2007 was approximately 1,398,700 households, an increase of approximately 203,100 households from 30 June 2006. The number of new connections made by the Group during the period decreased by approximately 14.7% when compared with same period last year.

The decrease in connection fee income was mainly attributed by the lower connection fee from our projects in the north-eastern part of the PRC when compared to the Sichuan area and the extreme winter weather conditions in the north-eastern part of the PRC where no gas pipeline construction works could be carried out during the first two months of the year. The number of connections for the whole year should be similar to that of 2006.

Sale of Liquefied Petroleum Gas

This business comprises the sale of LPG in bulk to wholesale customers and the retail of LPG to end-user households, industrial and commercial customers. Despite the higher costs of LPG during 2006, the Group’s LPG business maintained a solid growth. For the six months ended 30 June 2007, turnover derived from the sale of LPG in bulk amounted to approximately HK\$577.1 million, accounting for approximately 41.2% of the Group’s total turnover, representing an increase of approximately 12.6% when compared to the same period last year. The retail business increased by approximately 10.9% to HK\$409.5 million, accounting for approximately 29.3% of the Group’s total turnover.

Change of Name

Capitalizing on the opportunities embracing the piped city business, on 1 March 2007 the Group entered into a strategic partnership with HKCG. The partnership has brought enhanced momentum and competitive edges for the Group's future development. HKCG has brought to the Group new and additional strengths such as project expansion, financial support, the cultivation of commercial and industrial customers, management expertise, staff training and operational efficiencies. Since the commencement of the strategic partnership, HKCG and the group had in-depth exchanges at all levels. The Group has benefited much from such exchanges resulting in across-the-board synergies.

On 1 March 2007, upon the completion of the acquisition of the 10 PRC companies from HKCG, HKCG became the largest shareholder of the Company. On 23 May 2007, the Company changed its name to "Towngas China Company Limited (港華燃氣有限公司)".

Shareholder's Loan

On 19 April 2007, the Company entered into a loan agreement with HKCG whereby HKCG agreed to lend to the Company a 60 month loan at a rate of 12-month HIBOR plus 1.25% for use as general working capital. However, due to certain restrictive covenants of the US\$200 million senior guaranteed notes (the "US\$200m Notes") issued by the Company, the loan amount had been restricted to US\$25 million. As at 30 June 2007, the shareholder's loan has not yet been drawn down.

Open Offer

On 25 June 2007, the Company completed an open offer with an assured allotment of one offer share at HK\$4.00 per share for every 10 existing shares held. The Company issued 176,072,501 shares under the open offer raising net proceeds of approximately HK\$696.3 million. The net proceeds will be used to partially reduce the outstanding balance of the US\$200m Notes and as general working capital.

Reduction of the US\$200 million Senior Guaranteed Notes

During the month of August and September 2007, the Company purchased from the market its US\$200m Notes amounted to US\$51 million at an average price of 106.648 totaling US\$54.4 million. A premium of approximately HK\$26.5 million shall be charged to the profit and loss during the second half of the year. The purchases will translate to interest savings of approximately HK\$11.5 million for 2007 and approximately HK\$32.8 million per annum until maturity in 2011.

Ratings Upgrade

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

Acquisition of New Projects

The Group has always taken new project development as the main focus of its business development. Currently, given the accelerated progress of the reform program for state-owned enterprises in China, the push for the privatisation of gas fuel sector in China is intensifying. The Group has always committed to an aggressive yet pragmatic investment strategic approach by striving to achieve a balance between returns and risks; and avoiding investments without clear business purposes; and making decisions in a rational and scientific manner.

The Group has established extensive business contacts with more than thirty cities. In the traditional Sichuan and north-eastern markets, we continue to sustain and facilitate an intimate partnership with the local governments and enterprises for maintaining our competitive advantages, while substantial progress was made over the past year in the eastern and southern parts of the PRC. The Group expects that a batch of established projects will come into practical operation, including, among others, major quality projects located in the provincial capitals and economically vibrant cities. Based on current project progress, a number of projects are expected to be signed up and completed during the second half of the year.

On 1 March 2007, the acquisition of the equity interests in 10 PRC companies from HKCG was completed. This will strengthen the Group's presence in the Shandong and Anhui provinces.

Available for Sale Investments

Available for Sale Investments are mainly made up of the Group's investment in Chengdu City Gas Co., Ltd.

Contingent Liabilities

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

Financial Position

As at 30 June 2007, the Group's cash and cash equivalents amounted to approximately HK\$1,285.8 million which were mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2007, the Group's bank loans and other borrowings amounted to approximately HK\$2,020.1 million, of which approximately HK\$1,817.5 million arose from the issue of US\$200m Notes in September 2004 and the Group's issue of 5-year convertible bonds in April 2003. The Group ended the period under review with a current ratio of approximately 1.7 times and a gearing ratio (net debt to equity attributable to shareholders of the parent company) of approximately 13.6%.

Total assets pledged in securing these bank loans had a net book value of approximately HK\$28.2 million as at 30 June 2007.

Employees and Remuneration Policies

As at 30 June 2007, the Group had approximately 7,600 employees, representing a decrease of approximately 4.8% when compared to 31 December 2006. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

Prospects

A growing economy at an unprecedented rate, ever rising living standards and improved consuming capabilities of its people have all helped to lay a solid foundation for the development of piped gas business in the PRC. As many cities in the PRC are undergoing modernization facelift, piped gas business, a symbol of quality city living, is also experiencing rapid development. A major breakthrough has been made over the past two years in natural gas exploration in Sichuan, Xinjiang and the Northeast. With the commencement of the LNG projects in Guangdong and Fujian, more large-scale liquefied natural gas (LNG) projects are being planned and designed, moving the PRC towards an era of natural gas. Given its prominent advantages in terms of economic and environmental benefits, natural gas has been well received in the PRC where preserving the environment has drawn growing attention. All these helped a broader scope for the piped gas business in the mainland cities. As the current reform for public utilities in China is proceeding steadily, the piped gas sector, as a result, has become more market-oriented, ensuring an improved regime for the piped gas business to further expand, and its outlook bright and promising.

As the operating environment is becoming more market-driven, the Group's advantageous position arising from its economies of scale will become more visible and tangible, reflected for areas such as substantial costs reduction as the Group move ahead. Looking into the future, as the integration of business and culture with HKCG further deepens, the Group is set to achieve better business and financial results through internal management and operation enhancements. With help from HKCG, the Group intends to place a significant part of its marketing effort in the second half of the year towards promoting the use of gas fuel to commercial and industrial users

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2007.

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

CORPORATE GOVERNANCE

During the six months ended 30 June 2007, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiries by the Company that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

AUDIT COMMITTEE

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

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

The interim results of the Group for the six months ended 30 June 2007 had not been audited, but had been reviewed by the Company's auditors, Deloitte Touche Tohmatsu and the Audit Committee.

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, 12 September 2007

At the date of this announcement, the Board comprises:

Executive Directors:

CHAN Wing Kin, Alfred (*Chairman*)

WONG Wai Yee, Peter (*Chief Executive Officer*)

HO Hon Ming, John (*Company Secretary*)

KWAN Yuk Choi, James

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

LI Man Bun, Brian