港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

2008 INTERIM RESULTS

Financial Highlights:

- Group's turnover increased 51.3% to HK$2,119 million.
- Operating profit grew by 44.4% to HK$90 million.
- Profit attributable to shareholders jumped 100.1% to HK$101 million.
- Basic EPS rose by 54.0% to HK5.16 cents per share.

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 2008, together with the comparative figures of the corresponding period in 2007, as follows:

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		2,119,245	1,400,276
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	(78,193)	(77,394)
Profit before taxation	6	149,030	103,846
Taxation	7	(20,433)	(22,476)
Profit for the period		128,597	81,370
Attributable to:			
Equity holders of the Company		101,063	50,507
Minority interests		27,534	30,863
		128,597	81,370
		HK cents	*HK cents*
Earnings per share	8		
- Basic		5.16	3.35
- Diluted		5.15	3.32

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2008

	NOTES	**30.6.2008**	**31.12.2007**
		HK$'000	*HK$'000*
		(unaudited)	*(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
		8,431,498	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
		1,451,176	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
		1,223,754	1,068,659
Net current assets		227,422	314,023

	NOTES	**30.6.2008**	**31.12.2007**
		HK$'000	*HK$'000*
		(unaudited)	*(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										
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserves	Convertible bonds reserve	Retained earnings	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(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)

	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$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(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	195,756	4,433,969	705,560	40,596	1,101	50,578	—	676,507	6,104,067	719,247	6,823,314

	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$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(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		196,793	79,143
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		11,541	20,561
Net cash used in investing activities		(248,379)	(64,778)
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		37,675	(8,666)
Net cash generated from financing activities		64,764	658,767
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		22,929	(1,843)
Cash and cash equivalents at end of the period, representing bank balances and cash		823,068	1,285,768

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.

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

	Sale and distribution of Gas Fuel and related products	Gas pipeline construction	Consolidated
	HK$'000	*HK$'000*	*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
	90,070	62,365

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
	77,440	77,200
Bank charges	753	194
	78,193	77,394

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 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.

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	31.12.2007
	HK$'000	*HK$'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
	92,466	92,589

13. TRADE PAYABLES

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

	30.6.2008	31.12.2007
	HK$'000	*HK$'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
	150,374	150,418

14. BORROWINGS

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

The maturity of the above borrowings is as follows:

	30.6.2008	31.12.2007
	HK$'000	*HK$'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 on 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	**31.12.2007**
	HK$'000	*HK$'000*
USD loans	193,750	193,750
HKD loans	150,000	—
	343,750	193,750

16. SHARE CAPITAL

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

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 (note)	1,206,000	121
At 30 June 2008	1,957,556,330	195,756

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

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)
Net assets acquired	96,430
Minority interests	(4,544)
Goodwill arising on acquisition	289,595
Total consideration	381,481
Satisfied by:	
Other payables	37,393
Deposit paid for acquisition of a subsidiary	344,088
	381,481
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	
Bank balances and cash acquired	(27,187)

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.

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
Net assets acquired	37,859
Goodwill arising on acquisition	22,437
Total consideration	60,296
Satisfied by:	
Cash consideration	7,167
Other payables	53,129
	60,296
Net cash outflow arising on acquisition:	
Cash consideration	7,167
Bank balances and cash acquired	(482)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	6,685

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.

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 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 liquefied petroleum gas 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 RMB 40 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 on The Stock Exchange of Hong Kong Limited.

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

At the date of this announcement, the Board comprises:

Executive Directors:
CHAN Wing Kin, Alfred *(Chairman)*
WONG Wai Yee, Peter *(Chief Executive Officer)*
KWAN Yuk Choi, James
HO Hon Ming, John *(Company Secretary)*
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