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港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

2009 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Basic earnings per share rose by approximately 26.9% to HK6.55 cents per share.
- Profit after taxation attributable to shareholders jumped approximately 26.8% to HK$128 million.
- Turnover from piped gas business increased by approximately 18.3% to HK$900 million.
- Operating profit before returns on investments from the piped gas business increased by approximately 12.9% to HK$83 million.

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 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

AT 30 JUNE 2009

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

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

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

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for transfers on or after 1 July 2009.

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

3. SEGMENT INFORMATION

Business segments

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

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

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

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

During the period, the Group disposed of its sale of LPG in bulk and in cylinders ("LPG operations")

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

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

3. SEGMENT INFORMATION - CONTINUED

Business segments - continued

	Sale and distribution of Piped Gas Fuel and related products *HK$'000*	**Gas pipeline construction** *HK$'000*	**Total – continuing operations** *HK$'000*	**Discontinued operation** *HK$'000*	**Consolidated** *HK$'000*
Six months ended 30 June 2009					
REVENUE					
External	**717,260**	**182,306**	**899,566**	**880,471**	**1,780,037**
Segment results	**60,598**	**62,575**	**123,173**	**16,121**	**139,294**
Unallocated other income			**43,080**	**3,608**	**46,688**
Gain on disposal of LPG operations			**–**	**458**	**458**
Unallocated corporate expenses			**(40,045)**	**–**	**(40,045)**
Share of results of associates			**65,714**	**–**	**65,714**
Share of results of jointly controlled entities			**40,532**	**559**	**41,091**
Finance costs			**(63,572)**	**(476)**	**(64,048)**
Profit before taxation			**168,882**	**20,270**	**189,152**
Taxation			**(27,229)**	**(10,446)**	**(37,675)**
Profit for the period			**141,653**	**9,824**	**151,477**

	Sale and distribution of Piped Gas Fuel and related products *HK$'000*	Gas pipeline construction *HK$'000*	Total – continuing operations *HK$'000*	Discontinued operation *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2008					
REVENUE					
External	581,048	179,571	760,619	1,358,626	2,119,245
Segment results	57,929	73,925	131,854	16,430	148,284
Unallocated other income			7,974	3,592	11,566
Unallocated corporate expenses			(55,280)	–	(55,280)
Share of results of associates			84,763	–	84,763
Share of results of jointly controlled entities			37,890	–	37,890
Finance costs			(76,982)	(1,211)	(78,193)
Profit before taxation			130,219	18,811	149,030
Taxation			(17,170)	(3,263)	(20,433)
Profit for the period			113,049	15,548	128,597

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAXATION

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

7. TAXATION

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

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period ranged from 7.5% to 12.5%. PRC Enterprise Income Tax for the period has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

8. DISCONTINUED OPERATION

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

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

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

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

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

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

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

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

9. EARNINGS PER SHARE

From continuing and discontinued operations

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

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to shareholders of the Company	**128,151**	101,063

	Number of shares Six months ended 30 June	
	2009	2008
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	**1,957,556**	1,957,431
Effect of dilutive potential shares: Share options	**2,726**	4,135
Weighted average number of shares for the purpose of diluted earnings per share	**1,960,282**	1,961,566

From continuing operations

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

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

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

9. EARNINGS PER SHARE – CONTINUED

From discontinued operation

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

	Six months ended 30 June	
	2009	2008
	HK cents	*HK cents*
Basic	**(0.02)**	0.37
Diluted	**(0.02)**	0.37

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

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

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

10. INTERIM DIVIDEND

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

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

12. GOODWILL

During the period, the Group acquired a gas pipeline business in Chiping ("Chiping Towngas"), Sichuan Huachuan Gas Company Limited ("Xindu Towngas"), Xinjin Diyuan Natural Gas Co. Ltd. and Xinjin Nanfang Natural Gas Co. Ltd. (together known as "Xinjin Towngas") and the goodwill arising from the acquisitions amounted to HK$13,527,000, HK$219,649,000 and HK$31,264,000 respectively. Please refer to note 18 for the details of acquisitions.

13. DEFERRED CONSIDERATION RECEIVABLE

As part of the consideration for the disposal of certain subsidiaries during the period (see note 19), deferred consideration of HK$379,000,000 is to be settled in cash by the purchaser under five instalments of HK$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK$179,000,000 in June 2015. The amount is secured against the entire share capital of the holding company of the LPG operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Non-current assets	**283,262**	–
Current assets (included under other receivables, deposits and prepayments)	**38,835**	–
	322,097	–

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

14. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. The following is an aged analysis of trade receivables at the reporting date:

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

15. TRADE PAYABLES

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

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

16. BORROWINGS

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

The maturity of the above borrowings is as follows:

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

Note:

(a) The Company issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 30 June 2009, the market value of the Guaranteed Senior Notes amounted to US$150,094,500 (2008: US$135,360,000) (equivalent to approximately of HK$1,163,232,000 (2008: HK$1,049,040,000)). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%. At 30 June 2009, Guaranteed Senior Notes with a principal amount of US$141,000,000 (2008: US$141,000,000) are still outstanding in the market.

17. LOANS FROM A SHAREHOLDER

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

Principal outstanding	Maturity	Effective interest rate	Carrying amount 2009 HK$'000	Carrying amount 2008 HK$'000
HK$277,615,000 (2008: HK$246,614,000)	April 2013 – May 2014 (2008: April – December 2013) (according to date of draw down)	3.5% (2008: 4.25%)	**277,615**	246,614
US$25,000,000 (2008: US$25,000,000)	December 2012 (2008: December 2012)	3.5% (2008: 4.25%)	**193,750**	193,750
			471,365	440,364

18. ACQUISITION OF SUBSIDIARIES/A BUSINESS

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

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

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

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

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

18. ACQUISITION OF SUBSIDIARIES/A BUSINESS - CONTINUED

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

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

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

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

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

18. ACQUISITION OF SUBSIDIARIES/A BUSINESS – CONTINUED

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

Acquisition of business

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

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

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

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.

18. ACQUISITION OF SUBSIDIARIES/A BUSINESS – CONTINUED

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

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

If the acquisitions had been completed on 1 January 2009, total group revenue for the period would have been HK$1,824,000,000 and profit for the period would have been HK$161,983,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

19. DISPOSAL OF SUBSIDIARIES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

Sale of Piped Gas

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

Gas Pipeline Construction

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

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

Sale of Liquefied Petroleum Gas

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

Development of New Pojects

Operation of New Projects

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

Huangshan District of Huangshan City, Anhui Province

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

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

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

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

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

Available-for-sale Investments

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

Contingent Liabilities

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

Financial Position

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

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

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

The Group has not pledged any asset to secure bank loan as at 30 June 2009.

Interim Dividend

The Board has resolved not to declare an interim dividend.

Employee and Remuneration Policies

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

Financial tsunami

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

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

Outlook

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

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

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

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

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

OTHER INFORMATION

Purchases, Sale or Redemption of Listed Securities

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

Corporate Governance

During the six months ended 30 June 2009, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules on the Stock Exchange.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiries by the Company, that they have compiled with the required standards set out in the Model Code throughout the six months ended 30 June 2009.

Audit Committee

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

An Audit Committee meeting was held on 19 August 2009 to review the unaudited interim financial report for six months ended 30 June 2009. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2009 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their diligence during the period.

By Order of the Board
HO Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 26 August 2009

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
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