

# THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)  
(stock code: 0003)

## NOTICE TO SHAREHOLDERS

### 2006 INTERIM DIVIDEND HK 12 CENTS PER SHARE CLOSURE OF REGISTER OF SHAREHOLDERS

The Board of Directors has today declared an interim dividend for the year ending 31<sup>st</sup> December 2006 of HK 12 cents per share payable to Shareholders whose names are on the Register of Shareholders on 13<sup>th</sup> October 2006.

The Register of Shareholders will be closed on Thursday, 12<sup>th</sup> October 2006 and Friday, 13<sup>th</sup> October 2006, during which period no transfer of shares will be registered. **In order to qualify for this dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 11<sup>th</sup> October 2006.**

Dividend warrants will be despatched to Shareholders on Monday, 23<sup>rd</sup> October 2006.

By Order of the Board

**RONALD T.H. CHAN**

Executive Director & Company Secretary

Hong Kong, 13<sup>th</sup> September 2006

*As at the date of this notice, the board of directors of the Company comprises: Dr. Lee Shau Kee (Chairman), Mr. Liu Lit Man\*, Mr. Leung Hay Man\*, Mr. Colin Lam Ko Yin, Dr. The Hon. David Li Kwok Po\*, Mr. Ronald Chan Tat Hung, Mr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi and Mr. Lee Ka Shing.*

\* *Independent Non-executive Director*

"Please also refer to the published version of this announcement in South China Morning Post."



**Towngas**

The Hong Kong and China Gas Company Limited

# THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(stock code: 0003)

## PRELIMINARY ANNOUNCEMENT OF 2006 INTERIM RESULTS

### HALF-YEARLY RESULTS

The Directors are pleased to report that the unaudited profit after taxation attributable to shareholders of the Group for the six months ended 30<sup>th</sup> June 2006 amounted to HK\$2,509.5 million, including HK\$1,803.6 million arising from the Group's gas business and property rental income – an increase of HK\$38.7 million as compared with the corresponding period in 2005. Profit after taxation attributable to shareholders from the sale of properties, together with a revaluation surplus from an investment property, amounted to HK\$705.9 million for the six months ended 30<sup>th</sup> June 2006.

Highlights of the unaudited results of the Group for the six months ended 30<sup>th</sup> June 2006, as compared to the same period in 2005, are shown in the following table:

	Unaudited Six months ended 30 <sup>th</sup> June	
	2006	2005
Turnover before Fuel Cost Adjustment, HK million dollars	<b>4,588.0</b>	4,327.3
Turnover after Fuel Cost Adjustment, HK million dollars	<b>5,418.4</b>	4,837.2
Profit Attributable to Shareholders, HK million dollars	<b>2,509.5</b>	3,125.2
Earnings per Share excluding Profits from Sale of Properties and Revaluation Surplus of an Investment Property, HK cents	<b>32.7</b>	31.6
Earnings per Share including Profits from Sale of Properties and Revaluation Surplus of an Investment Property, HK cents	<b>45.6</b>	55.9
Interim Dividends per Share, HK cents	<b>12.0</b>	12.0
Town Gas Sold in Hong Kong, million MJ	<b>14,995</b>	15,226
Number of Customers in Hong Kong as at 30 <sup>th</sup> June	<b>1,606,841</b>	1,574,513

Profit after taxation attributable to shareholders of the Group for the six months ended 30<sup>th</sup> June 2006 included approximately HK\$117.7 million, which represented the Group's share of profits arising from the sale of units at Grand Promenade and King's Park Hill property development projects, and HK\$588.2 million, which represented the Group's share of a revaluation surplus from an investment property, the International Finance Centre complex. In comparison, the Group's share of profits from sale of properties was HK\$1,034.8 million, and its share of a revaluation surplus from the investment property was HK\$325.5 million, for the same period last year.

After excluding both profit from the sale of properties and also the revaluation surplus from the investment property, earnings per share for the six months ended 30<sup>th</sup> June 2006 amounted to HK 32.7 cents compared to HK 31.6 cents for the same period last year.

## **GAS BUSINESS IN HONG KONG**

A slower pace of completion and occupancy of new residential units, compounded by higher temperatures during the first half of 2006, has led to a decrease of 2.1 per cent in the volume of residential gas sales compared with the corresponding period in 2005, whilst the volume of commercial and industrial gas sales has decreased by 0.6 per cent. Total volume of gas sales in Hong Kong for the six months ended 30<sup>th</sup> June 2006 decreased slightly by 1.5 per cent compared with the same period last year. As at 30<sup>th</sup> June 2006, the number of customers was 1,606,841, an increase of 32,328 from the end of June 2005.

## **INTRODUCTION OF NATURAL GAS TO HONG KONG**

The Group will introduce natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal to Hong Kong during the fourth quarter of this year to partially replace naphtha as feedstock for the production of town gas. The Group has a 3 per cent interest in this terminal project (the "Project"). The official commissioning ceremony of the first phase of the Project was hosted by Chinese Premier Wen Jiabao and Australian Prime Minister John Howard on 28<sup>th</sup> June 2006. LNG for the Project will be supplied from Australia under a 25-year contract.

Tai Po gas production plant is now undertaking trial runs of the production of town gas using a dual naphtha and natural gas feedstock mix. Full implementation is scheduled to start in October this year. The Group has a contract for natural gas to be supplied at a price currently lower than naphtha which will help reduce production costs thus enhancing the competitiveness of the gas tariff. Fuel savings will be passed on to customers through the existing fuel cost adjustment mechanism. In addition, the introduction of natural gas will also help protect the environment.

## **BUSINESS DEVELOPMENT IN MAINLAND CHINA**

The Group is diversifying its business on the mainland. Having built up a well-established base, the Group's focus remains on natural gas and expansion of its city piped gas and other energy-related businesses. It is also studying the feasibility of participating in upstream projects. In addition, using its gas business as a role model, the Group is continuing to expand its water supply and wastewater business. Involvement in another utility sector is further extending the scope of the Group's investments on the mainland.

Following signing of a joint venture agreement to establish a piped gas project in Xian, Shaanxi province in early 2006, the Group has since signed further agreements this year to establish joint ventures in Yuhang, Hangzhou, Zhejiang province; Tongling, Anhui province; and Jintan, Jiangsu province. The Group now has city piped gas joint

venture projects in 34 mainland cities across Guangdong province, eastern China, Shandong province, central China, northern China, northeastern China and western China. Following the arrival of natural gas in some regions in recent years, the Group's joint ventures there converted to natural gas. After the Guangdong LNG Terminal is formally commissioned in the fourth quarter of 2006, the Group's joint ventures in Guangdong province will also convert to natural gas. As availability of natural gas will greatly boost gas consumption, these mainland joint ventures are poised to enter a thriving period of business development.

Complementing its city piped gas projects are the Group's other energy-related businesses. In addition to investing in the Guangdong LNG Terminal project, the Group is also participating in high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province. This kind of investment underpins downstream joint venture projects which enable the Group to strengthen its city-gas market interests.

Due to the high level of international oil prices in recent years and the central government's progressive environmental energy policy, demand for natural gas is increasing rapidly. In view of this, the Group is now conducting feasibility studies regarding participation in natural gas upstream projects and the exploitation of other energy sources such as coal-bed gas in order to meet the increasing demand for energy on the mainland.

The Group has diversified its portfolio to include the water supply and wastewater business on the mainland, entering this sector in 2005. The Group now operates a water supply project in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Increasing urbanisation and growth in the size of cities are boosting water consumption. To cope with the rising need for clean water sources, the central government is opening up the water utility market. In view of the expanding business opportunities in this sector, the Group will continue to seek opportunities to develop city-water projects with a view to further expanding its scope of investments.

The Group currently has a total of 43 projects spread across 36 cities in nine provinces and an area of Beijing. The Group's mainland city-gas joint ventures have built up an excellent brand reputation across all cities where they are located. Diversification is rapidly transforming the Group into a sizable, nation-wide, multi-business corporation from its origins as a local company focused on a single business.

## **ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES**

The Group's liquefied petroleum gas (LPG) filling station business, run by a wholly-owned subsidiary company, ECO Energy Company Limited (ECO), continues to achieve growth in turnover. Following the implementation of a new pricing mechanism in March 2006, ECO filling stations have been able to adjust their LPG selling prices every month instead of every six months, thus improving business prospects as prices can now be more directly linked to the cost of LPG.

ECO's landfill gas project at the North East New Territories landfill site is progressing well. Operational tests of the landfill gas treatment facility will be conducted within this year. Construction work of a 19 km pipeline to Tai Po gas production plant is also nearly completed. The plant expects to start using the treated landfill gas to partially replace naphtha as a fuel for town gas production by the end of this year. Using landfill gas effectively will help limit depletion of underground oil resources and reduce air pollution, thereby further contributing to the Group's commitment to protect the environment.

## **PROPERTY DEVELOPMENTS**

Pre-sale of the Grand Waterfront property development project, located at the Ma Tau Kok south plant site, commenced in late August 2006 and is attracting a good response. The project consists of five residential apartment buildings, providing 1,782 units with a residential floor area of approximately 1.2 million square feet. The Group is entitled to 73 per cent of the net sales proceeds of the residential portion of the project. The commercial area will be approximately 150,000 square feet. The project is due for completion by the end of this year.

The Group also has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. This project provides 2,020 units, with a total floor area of approximately 1.7 million square feet of which approximately 1.23 million square feet had been sold by the end of June 2006. With residential occupancy starting in early 2006, the whole project is now yielding substantial returns to the Group.

The Group has an approximately 15.8 per cent interest in the International Finance Centre (IFC). The shopping mall and office towers of IFC are fully let. The project's hotel complex, comprising the Four Seasons Hotel and Four Seasons Place which provide approximately 400 six-star hotel guestrooms and 520 hotel suites respectively, commenced operation in September 2005; business is progressing very well.

## **EMPLOYEES AND PRODUCTIVITY**

The number of employees engaged in the town gas business was 1,890 as at 30<sup>th</sup> June 2006. During the first half of 2006, the number of customers increased by approximately 32,000; overall productivity rose by 3.6 per cent compared with the same period last year. Total remuneration for employees involved directly in the town gas business amounted to HK\$296 million for the six months ended 30<sup>th</sup> June 2006 compared to HK\$301 million for the corresponding period in 2005. The Group offers our employees rewarding careers based on their capabilities and performance and arranges a variety of training programmes in order to constantly enhance the quality of customer services.

## **DIVIDEND**

Your Directors have declared an interim dividend of HK 12 cents per share payable to shareholders whose names are on the register of shareholders of the Company as at 13<sup>th</sup> October 2006. To enable our Registrars to complete the necessary work

associated with this payment, the register of shareholders will be closed on Thursday, 12<sup>th</sup> October 2006 and Friday, 13<sup>th</sup> October 2006, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 23<sup>rd</sup> October 2006.

## **BUSINESS OUTLOOK FOR 2006**

The Company has not increased its basic gas tariff for the past eight years. Nevertheless the Company has made every effort to enhance its operational effectiveness, thus maintaining steady business performance. Full implementation of the production of town gas using a dual naphtha and natural gas feedstock mix is scheduled to start in October 2006. Since the Company contracted in 2002 to take natural gas at a comparatively low price, given the increasing competitiveness in the energy market, it now expects to lower its gas tariff to the benefit of both customers and future business development.

**LEE Shau Kee**

Chairman

Hong Kong, 13<sup>th</sup> September 2006

## FINANCIAL INFORMATION

Highlights of the Group's Interim Accounts for the first six months ended 30<sup>th</sup> June 2006 are shown below. The Interim Accounts are unaudited but have been reviewed by our audit committee and external auditors, PricewaterhouseCoopers.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		<b>Six months ended 30<sup>th</sup> June</b>	
	<i>Note</i>	<b>2006</b>	<b>2005</b>
		<b>HK\$ M</b>	<b>HK\$ M</b>
Turnover	2	<u><b>5,418.4</b></u>	<u>4,837.2</u>
Operating Profit before Returns on Investments	3	<b>1,969.8</b>	1,968.0
Investment Income		<u><b>182.8</b></u>	<u>140.3</u>
Operating Profit		<b>2,152.6</b>	2,108.3
Interest Expense		<b>(146.2)</b>	(24.6)
Share of Profits less Losses of Associated Companies		<b>714.5</b>	408.5
Share of Profits less Losses of Jointly Controlled Entities		<u><b>168.0</b></u>	<u>1,020.4</u>
Profit before Taxation		<b>2,888.9</b>	3,512.6
Taxation	4	<u><b>(369.3)</b></u>	<u>(379.9)</u>
Profit for the period		<u><b>2,519.6</b></u>	<u>3,132.7</u>
Attributable to:			
Shareholders of the Company		<b>2,509.5</b>	3,125.2
Minority Interests		<u><b>10.1</b></u>	<u>7.5</u>
		<u><b>2,519.6</b></u>	<u>3,132.7</u>
Dividends – Interim Proposed	5	<u><b>661.1</b></u>	<u>669.5</u>
Earnings per Share – Basic and Diluted, HK cents	6	<u><b>45.6</b></u>	<u>55.9</u>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

as at 30<sup>th</sup> June 2006

		At 30 <sup>th</sup> June 2006 HK\$ M	At 31 <sup>st</sup> December 2005 HK\$ M
	<i>Note</i>		
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment		11,733.4	10,604.5
Leasehold Land		466.2	462.5
Intangible Asset		45.8	45.8
Associated Companies		3,122.6	2,060.9
Jointly Controlled Entities		4,710.6	5,197.5
Available-for-Sale Financial Assets		788.6	768.0
		<u>20,867.2</u>	<u>19,139.2</u>
<b>Current Assets</b>			
Property under Development for Sale		753.2	579.8
Inventories		899.9	921.3
Trade and Other Receivables	7	2,015.8	2,104.2
Loans to Associated Companies		2,204.9	2,221.0
Loans to Jointly Controlled Entities		190.8	1,154.2
Housing Loans to Staff		88.7	102.8
Financial Assets at Fair Value through Profit or Loss		2,198.4	1,891.0
Time Deposits over three months		13.3	8.7
Time Deposits up to three months, Cash and Bank Balances		1,809.5	1,474.7
		<u>10,174.5</u>	<u>10,457.7</u>
<b>Current Liabilities</b>			
Trade and Other Payables	8	(2,300.8)	(1,747.5)
Provision for Taxation		(319.6)	(577.8)
Borrowings		(2,332.1)	(5,857.2)
		<u>(4,952.5)</u>	<u>(8,182.5)</u>
<b>Net Current Assets</b>		<u>5,222.0</u>	<u>2,275.2</u>
<b>Total Assets less Current Liabilities</b>		<u>26,089.2</u>	<u>21,414.4</u>
<b>Non-Current Liabilities</b>			
Customers' Deposits		(994.9)	(982.3)
Deferred Taxation		(1,139.1)	(1,072.7)
Retirement Benefit Liabilities		(18.2)	(16.1)
Borrowings		(5,604.7)	(2,424.8)
Loans from Minority Interests		(74.0)	(74.2)



	<u>(7,830.9)</u>	<u>(4,570.1)</u>
<b>Net Assets</b>	<u><b>18,258.3</b></u>	<u><b>16,844.3</b></u>
<b>Capital and Reserves</b>		
Share Capital	1,377.2	1,377.2
Share Premium	3,907.8	3,907.8
Reserves	11,828.0	9,863.9
Proposed Dividend	<u>661.1</u>	<u>1,267.0</u>
Shareholders' Funds	17,774.1	16,415.9
<b>Minority Interests</b>	<u><b>484.2</b></u>	<u><b>428.4</b></u>
<b>Total Equity</b>	<u><b>18,258.3</b></u>	<u><b>16,844.3</b></u>

## NOTES TO THE INTERIM ACCOUNTS (UNAUDITED)

### 1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim accounts which do not constitute statutory accounts, have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies used in the preparation of this condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31<sup>st</sup> December 2005. The Group has based on the new Hong Kong Financial Reporting Standards ("HKFRS") – Interpretation 4 "Determining whether an Arrangement contains a Lease", which is effective for accounting periods commencing on or after 1<sup>st</sup> January 2006, determined that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 "Leases". There is however no significant impact on the Group's results and financial position.

The HKICPA has issued a number of new standards, amendments to standards and interpretations which are not effective for accounting period beginning 1<sup>st</sup> January 2006. The Company has not early adopted these new and revised HKFRSs.

## 2. Turnover and Segment Information

The Group's principal activity is the production, distribution and marketing of gas and related activities in Hong Kong and the Mainland China. Turnover comprises the following:

	Six months ended 30 <sup>th</sup> June	
	2006 <i>HK\$ M</i>	2005 <i>HK\$ M</i>
Gas Sales before Fuel Cost Adjustment	<b>3,757.2</b>	3,656.5
Fuel Cost Adjustment	<b>830.4</b>	509.9
Gas Sales after Fuel Cost Adjustment	<b>4,587.6</b>	4,166.4
Equipment Sales	<b>374.2</b>	382.8
Maintenance and Services	<b>128.0</b>	121.9
Other Sales	<b>328.6</b>	166.1
	<b>5,418.4</b>	4,837.2

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

As the Group derives more than 90 per cent of the Group's turnover and total segment results from and has more than 90 per cent of the Group's total segment assets for the production, distribution and marketing of gas and related activities, no business segment information is presented.

The Group operates, through its subsidiaries, associated companies and jointly controlled entities, in Hong Kong and the Mainland China. Information about the Group's operations by geographical segments is as follows:

	Six months ended 30 <sup>th</sup> June					
	Hong Kong		Mainland China		Total	
	2006 <i>HK\$ M</i>	2005 <i>HK\$ M</i>	2006 <i>HK\$ M</i>	2005 <i>HK\$ M</i>	2006 <i>HK\$ M</i>	2005 <i>HK\$ M</i>
Turnover	<b>4,688.9</b>	4,361.8	<b>729.5</b>	475.4	<b>5,418.4</b>	4,837.2
Segment Results	<b>2,040.1</b>	2,024.7	<b>92.5</b>	80.4	<b>2,132.6</b>	2,105.1
Unallocated Corporate Expenses					<b>(162.8)</b>	(137.1)
Operating Profit before Returns on Investments					<b>1,969.8</b>	1,968.0
Investment Income					<b>182.8</b>	140.3
Operating Income					<b>2,152.6</b>	2,108.3
Interest Expense					<b>(146.2)</b>	(24.6)
Share of Profits less Losses of Associated Companies	<b>698.5</b>	394.6	<b>16.0</b>	13.9	<b>714.5</b>	408.5

Share of Profits less Losses of Jointly Controlled Entities	<b>74.1</b>	978.0	<b>93.9</b>	42.4	<u>168.0</u>	<u>1,020.4</u>
Profit before Taxation					<b>2,888.9</b>	3,512.6
Taxation					<b>(369.3)</b>	(379.9)
Profit for the period					<u><b>2,519.6</b></u>	<u>3,132.7</u>
Attributable to:						
Shareholders of the Company					<b>2,509.5</b>	3,125.2
Minority Interests					<b>10.1</b>	7.5
					<u><b>2,519.6</b></u>	<u>3,132.7</u>

Share of profits of associated companies includes HK\$588.2 million (2005: HK\$325.5 million), being the Group's share of change in valuation of investment properties at the International Finance Centre ("IFC") complex.

Share of profits of jointly controlled entities includes HK\$74.1 million (2005: HK\$978.0 million), being the Group's share of profits arising from the sale of a portion of the residential units of the Grand Promenade.

### 3. Operating Profit before Returns on Investments

	<b>Six months ended 30<sup>th</sup> June</b>	
	<b>2006</b>	2005
	<b>HK\$ M</b>	HK\$ M
Turnover	<b>5,418.4</b>	4,837.2
Less Expenses:		
Stores and Materials Used	<b>(2,373.1)</b>	(1,879.4)
Manpower Costs	<b>(416.6)</b>	(362.0)
Depreciation and Amortisation	<b>(283.9)</b>	(242.1)
Other Operating Items	<b>(375.0)</b>	(385.7)
Operating Profit before Returns on Investments	<u><b>1,969.8</b></u>	<u>1,968.0</u>

### 4. Taxation

	<b>Six months ended 30<sup>th</sup> June</b>	
	<b>2006</b>	2005
	<b>HK\$ M</b>	HK\$ M
Current Taxation – Provision for Hong Kong Profits Tax at the rate of 17.5% (2005:17.5%) on the estimated assessable profit for the period	<b>302.9</b>	349.4
Deferred Taxation relating to the origination and reversal of temporary differences	<b>66.4</b>	30.5
	<u><b>369.3</b></u>	<u>379.9</u>

## 5. Dividends

	Six months ended 30 <sup>th</sup> June	
	2006	2005
	HK\$ M	HK\$ M
2005 Final, paid, of HK 23 cents per share (2004 Final: HK 23 cents per share)	1,267.0	1,284.3
2006 Interim, proposed, of HK 12 cents per share (2005 Interim: HK 12 cents per share)	661.1	669.5
	<u>1,928.1</u>	<u>1,953.8</u>

## 6. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$2,509.5 million (2005: HK\$3,125.2 million) and the weighted average of 5,508,759,988 shares (2005: 5,587,299,488 shares) in issue during the period.

As there were no diluted potential ordinary shares outstanding during the period (2005: nil), the diluted earnings per share for the period ended 30<sup>th</sup> June 2006 is the same as the basic earnings per share.

## 7. Trade and Other Receivables

	At 30 <sup>th</sup> June	At 31 <sup>st</sup> December
	2006	2005
	HK\$ M	HK\$ M
Trade Receivables	1,374.3	1,322.4
Other Receivables	443.0	670.3
Payment in Advance	198.5	111.5
	<u>2,015.8</u>	<u>2,104.2</u>

The Group recognised a loss of HK\$10.3 million (2005: HK\$18.7 million) for the impairment of its trade receivables during the period. The impairment has been included in other operating items (Note 3).

The Group has established credit policies for different types of customers. The credit period offered for trade receivables ranges from 30 to 60 days. These are subject to periodic review by management. At 30<sup>th</sup> June 2006, the aging analysis of the trade receivables, net of impairment provision, was as follows:

	<b>At 30<sup>th</sup> June 2006 HK\$ M</b>	<b>At 31<sup>st</sup> December 2005 HK\$ M</b>
0 – 30 days	1,159.9	1,142.9
31 – 60 days	62.1	50.2
61 – 90 days	26.3	15.8
Over 90 days	126.0	113.5
	<u>1,374.3</u>	<u>1,322.4</u>

## 8. Trade and Other Payables

	<b>At 30<sup>th</sup> June 2006 HK\$ M</b>	<b>At 31<sup>st</sup> December 2005 HK\$ M</b>
Trade Payables ( <i>Note a</i> )	309.7	400.4
Other Payments and Accruals ( <i>Note b</i> )	1,991.1	1,347.1
	<u>2,300.8</u>	<u>1,747.5</u>

### Notes:

(a) At 30<sup>th</sup> June 2006, the aging analysis of the trade payables was as follows:

	<b>At 30<sup>th</sup> June 2006 HK\$ M</b>	<b>At 31<sup>st</sup> December 2005 HK\$ M</b>
0 – 30 days	198.6	313.2
31 – 60 days	21.8	13.6
61 – 90 days	12.1	6.9
Over 90 days	77.2	66.7
	<u>309.7</u>	<u>400.4</u>

(b) The balance includes an amount of HK\$380.5 million (2005: HK\$380.5 million) received from Henderson Land Development Company Limited in relation to residential portion of the Ma Tau Kok South property development project.

## FINANCIAL RESOURCES REVIEW

### Liquidity and Capital Resources

As at 30<sup>th</sup> June 2006, the Group had a net current borrowing position of HK\$509 million (31<sup>st</sup> December 2005: HK\$4,374 million) and long-term borrowings of HK\$5,605 million (31<sup>st</sup> December 2005: HK\$2,425 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$2,198 million (31<sup>st</sup> December 2005: HK\$1,891 million), net current fund as at 30<sup>th</sup> June 2006 amounted to HK\$1,689 million (net current debt as at 31<sup>st</sup> December 2005: HK\$2,483 million). In addition,

banking facilities available for use amounted to HK\$3,600 million (31<sup>st</sup> December 2005: HK\$2,234 million).

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

### **Borrowing Structure**

As at 30<sup>th</sup> June 2006, the Group's borrowings amounted to HK\$7,937 million (31<sup>st</sup> December 2005: HK\$8,282 million). All bank loans and overdrafts were unsecured and had a floating interest rate, of which HK\$5,559 million (31<sup>st</sup> December 2005: HK\$2,370 million) were long-term bank loans while HK\$2,301 million (31<sup>st</sup> December 2005: HK\$5,835 million) were with maturity within one year on revolving credit or term loan facilities. As at 30<sup>th</sup> June 2006, a subsidiary in mainland China had a finance lease of HK\$77 million (31<sup>st</sup> December 2005: HK\$77 million) equivalent for a portion of its pipeline with instalment payment up to 2009. As at 30<sup>th</sup> June 2006, the maturity profile of Group's borrowings was 29 per cent within 1 year; 3 per cent within 1 to 2 years and 68 per cent within 2 to 5 years (31<sup>st</sup> December 2005: 71 per cent within 1 year and 29 per cent within 2 to 5 years).

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations. The gearing ratio [net borrowing/(shareholders' funds + net borrowing)] for the Group as at 30<sup>th</sup> June 2006 remained healthy at around 26 per cent (31<sup>st</sup> December 2005: at around 29 per cent). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$2,198 million as at 30<sup>th</sup> June 2006 (31<sup>st</sup> December 2005: HK\$1,891 million), the net gearing ratio [net debt/(shareholders' funds + net debt)] stood at 18 per cent (31<sup>st</sup> December 2005: 23 per cent).

On 15<sup>th</sup> February 2006, the Group took advantage of the ample liquidity in the Hong Kong bank market and concluded a HK\$3 billion unsecured 5-year syndicated term and revolving loan facilities to refinance its shorter maturity existing loans and finance the general corporate funding requirements at a low benchmark pricing for corporations in Hong Kong.

### **Contingent Liabilities**

As at 30<sup>th</sup> June 2006, the Group provided guarantees totalling HK\$884 million (31<sup>st</sup> December 2005: HK\$840 million) in respect of bank borrowing facilities made available to an associated company.

### **Currency Profile**

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

## **Group's Investments in Securities**

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 30<sup>th</sup> June 2006, the investments in securities amounted to HK\$2,987 million (31<sup>st</sup> December 2005: HK\$2,659 million). The performance of the Group's investments in securities was satisfactory.

## **OTHER INFORMATION**

### **Corporate Governance**

During the six months ended 30<sup>th</sup> June 2006, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### **Compliance with Model Code**

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard set out in the Model Code throughout the review period.

### **Purchase, Sale or Redemption of own Shares**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the six months ended 30<sup>th</sup> June 2006.

*As at the date of this announcement, the board of directors of the Company comprises: Dr. Lee Shau Kee (Chairman), Mr. Liu Lit Man\*, Mr. Leung Hay Man\*, Mr. Colin Lam Ko Yin, Dr. The Hon. David Li Kwok Po\*, Mr. Ronald Chan Tat Hung, Mr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi and Mr. Lee Ka Shing.*

\* *Independent Non-executive Director*

"Please also refer to the published version of this announcement in South China Morning Post."

**FOR IMMEDIATE RELEASE**

**Towngas' 2006 Interim Profit  
HK\$2,509.5 Million**

\* \* \*

**INTERIM DIVIDEND AMOUNTS TO 12 CENTS PER SHARE**

**HALF-YEARLY RESULTS**

(HONG KONG, SEPTEMBER 13, 2006) -- The Hong Kong and China Gas Company Limited ("Towngas") today announced its unaudited interim results for the six months ended June 30, 2006. Profit after taxation attributable to shareholders of the Group for the six months ended June 30, 2006 amounted to HK\$2,509.5 million, including HK\$1,803.6 million arising from the Group's gas business and property rental income - an increase of HK\$38.7 million as compared with the corresponding period in 2005. Profit after taxation attributable to shareholders from the sale of properties, together with a revaluation surplus from an investment property, amounted to HK\$705.9 million for the six months ended June 30, 2006. Turnover of the Group was HK\$5,418.4 million during the period under review.

Profit after taxation attributable to shareholders of the Group for the six months ended June 30, 2006 included approximately HK\$117.7 million, which represented the Group's share of profits arising from the sale of units at Grand Promenade and King's Park Hill property development projects, and HK\$588.2 million, which represented the Group's share of a revaluation surplus from an investment property, the International Finance Centre complex. In comparison, the Group's share of profits from sale of properties was HK\$1,034.8 million, and its share of a revaluation surplus from the investment property was HK\$325.5 million, for the same period last year.

After excluding both profit from the sale of properties and also the revaluation surplus from the investment property, earnings per share for the six months ended June 30, 2006 amounted to HK 32.7 cents compared to HK 31.6 cents for the same period last year.

The Directors of Towngas have declared an interim dividend of HK 12 cents per share payable to shareholders whose names are on the register of shareholders on October 13, 2006. The register of shareholders will be closed on Thursday, October 12, 2006 and Friday, October 13, 2006, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, October 23, 2006.

**GAS BUSINESS IN HONG KONG**

A slower pace of completion and occupancy of new residential units, compounded by higher temperatures during the first half of 2006, has led to a decrease of 2.1 per cent in the volume of residential gas sales compared with the corresponding period in 2005, whilst the volume of commercial and industrial gas sales has decreased by 0.6 per cent. Total volume of gas sales in Hong Kong for the six months ended June 30, 2006 decreased slightly by 1.5 per cent compared with the same period last year. As at June 30, 2006, the number of customers was 1,606,841, an increase of 32,328 from the end of June 2005.



## **INTRODUCTION OF NATURAL GAS TO HONG KONG**

The Group will introduce natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal to Hong Kong during the fourth quarter of this year to partially replace naphtha as feedstock for the production of town gas. The Group has a 3 per cent interest in this terminal project (the "Project"). The official commissioning ceremony of the first phase of the Project was hosted by Chinese Premier Wen Jiabao and Australian Prime Minister John Howard on June 28, 2006. LNG for the Project will be supplied from Australia under a 25-year contract.

Tai Po gas production plant is now undertaking trial runs of the production of town gas using a dual naphtha and natural gas feedstock mix. Full implementation is scheduled to start in October this year. The Group has a contract for natural gas to be supplied at a price currently lower than naphtha which will help reduce production costs thus enhancing the competitiveness of the gas tariff. Fuel savings will be passed on to customers through the existing fuel cost adjustment mechanism. In addition, the introduction of natural gas will also help protect the environment.

## **BUSINESS DEVELOPMENT IN MAINLAND CHINA**

The Group is diversifying its business on the mainland. Having built up a well-established base, the Group's focus remains on natural gas and expansion of its city piped gas and other energy-related businesses. It is also studying the feasibility of participating in upstream projects. In addition, using its gas business as a role model, the Group is continuing to expand its water supply and wastewater business. Involvement in another utility sector is further extending the scope of the Group's investments on the mainland.

Following signing of a joint venture agreement to establish a piped gas project in Xian, Shaanxi province in early 2006, the Group has since signed further agreements this year to establish joint ventures in Yuhang, Hangzhou, Zhejiang province; Tongling, Anhui province; and Jintan, Jiangsu province. The Group now has city piped gas joint venture projects in 34 mainland cities across Guangdong province, eastern China, Shandong province, central China, northern China, northeastern China and western China. Following the arrival of natural gas in some regions in recent years, the Group's joint ventures there converted to natural gas. After the Guangdong LNG Terminal is formally commissioned in the fourth quarter of 2006, the Group's joint ventures in Guangdong province will also convert to natural gas. As availability of natural gas will greatly boost gas consumption, these mainland joint ventures are poised to enter a thriving period of business development.

Complementing its city piped gas projects are the Group's other energy-related businesses. In addition to investing in the Guangdong LNG Terminal project, the Group is also participating in high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province. This kind of investment underpins downstream joint venture projects which enable the Group to strengthen its city-gas market interests.

Due to the high level of international oil prices in recent years and the central government's progressive environmental energy policy, demand for natural gas is increasing rapidly. In view of this, the Group is now conducting feasibility studies regarding participation in natural gas upstream projects and the exploitation of other energy sources such as coal-bed gas in order to meet the increasing demand for energy on the mainland.

The Group has diversified its portfolio to include the water supply and wastewater business on the mainland, entering this sector in 2005. The Group now operates a water supply project in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Increasing urbanisation and growth in the size of cities are boosting water consumption. To cope with the rising need for clean water sources, the central government is opening up the water utility market. In view of the expanding business opportunities in this sector, the Group will continue to seek opportunities to develop city-water projects with a view to further expanding its scope of investments.

The Group currently has a total of 43 projects spread across 36 cities in nine provinces and an area of Beijing. The Group's mainland city-gas joint ventures have built up an excellent brand reputation across all cities where they are located. Diversification is rapidly transforming the Group into a sizable, nation-wide, multi-business corporation from its origins as a local company focused on a single business.

## **ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES**

The Group's liquefied petroleum gas (LPG) filling station business, run by a wholly-owned subsidiary company, ECO Energy Company Limited (ECO), continues to achieve growth in turnover. Following the implementation of a new pricing mechanism in March 2006, ECO filling stations have been able to adjust their LPG selling prices every month instead of every six months, thus improving business prospects as prices can now be more directly linked to the cost of LPG.

ECO's landfill gas project at the North East New Territories landfill site is progressing well. Operational tests of the landfill gas treatment facility will be conducted within this year. Construction work of a 19 km pipeline to Tai Po gas production plant is also nearly completed. The plant expects to start using the treated landfill gas to partially replace naphtha as a fuel for town gas production by the end of this year. Using landfill gas effectively will help limit depletion of underground oil resources and reduce air pollution, thereby further contributing to the Group's commitment to protect the environment.

## **PROPERTY DEVELOPMENTS**

Pre-sale of the Grand Waterfront property development project, located at the Ma Tau Kok south plant site, commenced in late August 2006 and is attracting a good response. The project consists of five residential apartment buildings, providing 1,782 units with a residential floor area of approximately 1.2 million square feet. The Group is entitled to 73 per cent of the net sales proceeds of the residential portion of the project. The commercial area will be approximately 150,000 square feet. The project is due for completion by the end of this year.

The Group also has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. This project provides 2,020 units, with a total floor area of approximately 1.7 million square feet of which approximately 1.23 million square feet had been sold by the end of June 2006. With residential occupancy starting in early 2006, the whole project is now yielding substantial returns to the Group.

The Group has an approximately 15.8 per cent interest in the International Finance Centre (IFC). The shopping mall and office towers of IFC are fully let. The project's hotel complex, comprising the Four Seasons Hotel and Four Seasons Place which provide approximately 400 six-star hotel guestrooms and 520 hotel suites respectively, commenced operation in September 2005; business is progressing very well.

## **BUSINESS OUTLOOK FOR 2006**

The Company has not increased its basic gas tariff for the past eight years. Nevertheless the Company has made every effort to enhance its operational effectiveness, thus maintaining steady business performance. Full implementation of the production of town gas using a dual naphtha and natural gas feedstock mix is scheduled to start in October 2006. Since the Company contracted in 2002 to take natural gas at a comparatively low price, given the increasing competitiveness in the energy market, it now expects to lower its gas tariff to the benefit of both customers and future business development.

*- end -*

Encl.: Interim results for the first half of 2006 with comparative figures for 2005

September 13, 2006

Issued by A-World Consulting Ltd. on behalf of The Hong Kong and China Gas Co. Ltd.

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## 2006 INTERIM RESULTS ANNOUNCEMENT

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 30 <sup>th</sup> June	
		2006 HK\$ M	2005 HK\$ M
Turnover	1	<u>5,418.4</u>	<u>4,837.2</u>
Operating Profit before Returns on Investments	2	1,969.8	1,968.0
Investment Income		<u>182.8</u>	<u>140.3</u>
Operating Profit		2,152.6	2,108.3
Interest Expense		(146.2)	(24.6)
Share of Profits less Losses of Associated Companies		714.5	408.5
Share of Profits less Losses of Jointly Controlled Entities		<u>168.0</u>	<u>1,020.4</u>
Profit before Taxation		2,888.9	3,512.6
Taxation	3	<u>(369.3)</u>	<u>(379.9)</u>
Profit for the period		<u>2,519.6</u>	<u>3,132.7</u>
Attributable to:			
Shareholders of the Company		2,509.5	3,125.2
Minority Interests		<u>10.1</u>	<u>7.5</u>
		<u>2,519.6</u>	<u>3,132.7</u>
Dividends - Interim Proposed	4	<u>661.1</u>	<u>669.5</u>
Earnings per Share – Basic and Diluted, HK cents	5	<u>45.6</u>	<u>55.9</u>

## 1. Turnover and Segment Information

The Group's principal activity is the production, distribution and marketing of gas and related activities in Hong Kong and the Mainland China. Turnover comprises the following:

	Six months ended 30 <sup>th</sup> June	
	2006	2005
	HK\$ M	HK\$ M
Gas Sales before Fuel Cost Adjustment	3,757.2	3,656.5
Fuel Cost Adjustment	830.4	509.9
Gas Sales after Fuel Cost Adjustment	4,587.6	4,166.4
Equipment Sales	374.2	382.8
Maintenance and Services	128.0	121.9
Other Sales	328.6	166.1
	<b>5,418.4</b>	<b>4,837.2</b>

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

As the Group derives more than 90 per cent of the Group's turnover and total segment results from and has more than 90 per cent of the Group's total segment assets for the production, distribution and marketing of gas and related activities, no business segment information is presented.

The Group operates, through its subsidiaries, associated companies and jointly controlled entities, in Hong Kong and the Mainland China. Information about the Group's operations by geographical segments is as follows:

	Six months ended 30 <sup>th</sup> June					
	Hong Kong		Mainland China		Total	
	2006	2005	2006	2005	2006	2005
	HK\$ M	HK\$ M	HK\$ M	HK\$ M	HK\$ M	HK\$ M
Turnover	4,688.9	4,361.8	729.5	475.4	5,418.4	4,837.2
Segment Results	2,040.1	2,024.7	92.5	80.4	2,132.6	2,105.1
Unallocated Corporate Expenses					(162.8)	(137.1)
Operating Profit before Returns on Investments					1,969.8	1,968.0
Investment Income					182.8	140.3
Operating Income					2,152.6	2,108.3
Interest Expense					(146.2)	(24.6)
Share of Profits less Losses of Associated Companies	698.5	394.6	16.0	13.9	714.5	408.5
Share of Profits less Losses of Jointly Controlled Entities	74.1	978.0	93.9	42.4	168.0	1,020.4
Profit before Taxation					2,888.9	3,512.6
Taxation					(369.3)	(379.9)
Profit for the period					2,519.6	3,132.7

Attributable to:

Shareholders of the Company	2,509.5	3,125.2
Minority Interests	<u>10.1</u>	<u>7.5</u>
	<u>2,519.6</u>	<u>3,132.7</u>

Share of profits of associated companies includes HK\$588.2 million (2005: HK\$325.5 million), being the Group's share of change in valuation of investment properties at the International Finance Centre ("IFC") complex.

Share of profits of jointly controlled entities includes HK\$74.1 million (2005: HK\$978.0 million), being the Group's share of profits arising from the sale of a portion of the residential units of the Grand Promenade.

## 2. Operating Profit before Returns on Investments

	Six months ended 30 <sup>th</sup> June	
	2006	2005
	HK\$ M	HK\$ M
Turnover	5,418.4	4,837.2
Less Expenses:		
Stores and Materials Used	(2,373.1)	(1,879.4)
Manpower Costs	(416.6)	(362.0)
Depreciation and Amortisation	(283.9)	(242.1)
Other Operating Items	<u>(375.0)</u>	<u>(385.7)</u>
Operating Profit before Returns on Investments	<u>1,969.8</u>	<u>1,968.0</u>

## 3. Taxation

	Six months ended 30 <sup>th</sup> June	
	2006	2005
	HK\$ M	HK\$ M
Current Taxation – Provision for Hong Kong Profits Tax at the rate of 17.5% (2005:17.5%) on the estimated assessable profit for the period	302.9	349.4
Deferred Taxation relating to the origination and reversal of temporary differences	<u>66.4</u>	<u>30.5</u>
	<u>369.3</u>	<u>379.9</u>

## 4. Dividends

	Six months ended 30 <sup>th</sup> June	
	2006	2005
	HK\$ M	HK\$ M
2005 Final, paid, of HK 23 cents per share (2004 Final: HK 23 cents per share)	1,267.0	1,284.3
2006 Interim, proposed, of HK 12 cents per share (2005 Interim: HK 12 cents per share)	<u>661.1</u>	<u>669.5</u>
	<u>1,928.1</u>	<u>1,953.8</u>

## 5. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$2,509.5 million (2005: HK\$3,125.2 million) and the weighted average of 5,508,759,988 shares (2005: 5,587,299,488 shares) in issue during the period.

As there were no diluted potential ordinary shares outstanding during the period (2005: nil), the diluted earnings per share for the period ended 30<sup>th</sup> June 2006 is the same as the basic earnings per share.