

Associated Companies

The Hong Kong and China Gas Company Limited

The Hong Kong and China Gas Company Limited
(38.46% owned by Henderson Investment Limited)*Gas Business in Hong Kong*

	2006	2005	Change %
Town gas sold in Hong Kong, million MJ (for the 6 months ended 30 June)	14,995	15,226	-2
Number of customers in Hong Kong at 30 June	1,606,841	1,574,513	+2
Number of employees at at 30 June	1,890	1,919	-2
Number of customers per employee	850	820	+4

Property Developments

- International Finance Centre Complex (approximately 15.8% owned)
- Grand Promenade (50% owned)
- Grand Waterfront (entitled to 73% of the net sales proceeds of the residential portion and full interest in the commercial portion)

*Introduction of Natural Gas to Hong Kong**Joint Ventures in Mainland China*

- City piped gas and water business

*City piped gas projects*

Guangdong Province		19 Huzhou
1 Panyu		20 Yuhang
2 Zhongshan		Anhui Province
3 Dongyong		21 Maanshan
4 Jianke		22 Anqing
5 Shenzhen		23 Tongling
6 Shunde		Shandong Province
Hubei Province		24 Jimo
7 Wuhan		25 Laoshan
Jiangsu Province		26 Zibo
8 Suzhou Industrial Park		27 Longkou
9 Yixing		28 Weifang
10 Taizhou		29 Jinan
11 Changzhou		30 Weihai
12 Nanjing		31 Taian
13 Zhangjiagang		Jilin Province
14 Wujiang		32 Jilin
15 Xuzhou		Beijing
16 Danyang		33 Economic-Technological Development Area
17 Jintan		Shaanxi Province
Zhejiang Province		34 Xian
18 Tongxiang		

Water projects

8 Suzhou Industrial Park
14 Wujiang
35 Wuhu



“Towngas Cooking Centre continues to enjoy enormous popularity and has proved highly successful. More than 100 cooking classes take place on average every month encompassing a broad variety of cuisines. After its total refurbishment last year, the Centre now provides a friendly environment where our members can use the latest equipment to experience the enjoyment of gourmet cooking.”

Pauline Wong (right)

*Cooking Instructor
Towngas Cooking Centre*

The high price of crude oil is focusing the world's attention on cleaner and more competitively priced fuel alternatives. Hong Kong and China Gas has demonstrated great foresight by introducing natural gas as a partial feedstock for the territory-wide supply of town gas.

Hong Kong and China Gas reported an unaudited consolidated net profit after taxation of HK\$2,509.5 million for the six months ended 30 June 2006, which comprised HK\$1,803.6 million arising from its gas business and property rental income (an increase of HK\$38.7 million as compared with the corresponding period in 2005) and HK\$705.9 million from the sale of properties and a revaluation surplus on an investment property.

Gas business in Hong Kong

A slower pace of completion and occupancy of new residential units, compounded by the warmer weather during the first half of 2006, has led to a decrease of 2.1% 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%. Total volume of gas sales in Hong Kong for the six months ended 30 June 2006 decreased slightly by 1.5% compared with the same period last year. At 30 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

By the fourth quarter of this year, Hong Kong and China Gas will introduce natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal to Hong Kong to partially replace naphtha as feedstock for the production of town gas. Hong Kong and China Gas has a 3% interest in this terminal project and the LNG for this 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





Submarine pipes have been laid in preparation for the delivery of natural gas from Guangdong LNG terminal to Hong Kong and China Gas Production Plant in Tai Po.

2006. As Hong Kong and China Gas has a contract for natural gas to be supplied at a price currently lower than naphtha, savings in production cost will be shared with customers through the existing fuel cost adjustment mechanism, thereby enhancing the competitiveness of the gas tariff. In addition, the introduction of natural gas will also help to protect the environment.

Business development in Mainland China

Hong Kong and China Gas is diversifying its business on the mainland. Having built up a well-established base, Hong Kong and China Gas'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, Hong Kong and China Gas is continuing to expand its water supply and wastewater business.

Involvement in another utility sector is further extending the scope of its investments on the mainland.

Following signing of a joint venture agreement to establish a piped gas project in Xian, Shaanxi province in early 2006, Hong Kong and China Gas has since signed further agreements this year to establish joint ventures in Yuhang, Hangzhou, Zhejiang province; Tongling, Anhui province; and Jintan, Jiangsu province. Hong Kong and China Gas 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, Hong Kong and China Gas's joint ventures there converted to natural gas. After the Guangdong LNG Terminal is formally commissioned in the fourth quarter of 2006, its 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 Hong Kong and China Gas's other energy-related businesses. In addition to investing in the Guangdong LNG Terminal project, Hong Kong and China Gas 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 Hong Kong and China Gas 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, Hong Kong and China Gas 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.

Hong Kong and China Gas has diversified its portfolio to include the water supply and wastewater business on the mainland, entering this sector in 2005. Hong Kong and China Gas 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, Hong Kong and China Gas will continue to seek opportunities to develop city-water projects with a view to further expanding its scope of investments.

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

Environmentally-friendly energy businesses

Liquefied petroleum gas (LPG) filling station business, run by its wholly-owned subsidiary company, ECO Energy Company Limited (ECO), continues to achieve business growth. 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. This will improve business prospects as prices can now be more directly linked to the cost of LPG. Meanwhile, ECO's landfill gas project at the North East New Territories landfill site is progressing well and its operational tests 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 would 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 will effectively limit depletion of underground oil resources and reduce air pollution, thereby further contributing to the Group's commitment to protect the environment.



Property developments

Hong Kong and China Gas has a 50% interest in the Grand Promenade property development project at Sai Wan Ho, whose significant returns contributed to its profitability. Following the success of Grand Promenade, the pre-sale of Grand Waterfront which is located at the Ma Tau Kok south plant site commenced in August 2006 and drew excellent response. Hong Kong and China Gas is entitled to 73% of the net sales proceeds of the residential portion, and has the full interest in the commercial portion of this project. Hong Kong and China Gas has an approximate 15.8% interest in the International Finance Centre (IFC). The shopping mall and office towers of IFC are almost fully let. Four Seasons Hotel and Four Seasons Place, which provide approximately 400 six-star hotel guest rooms and 520 hotel suites respectively, reported satisfactory results since their opening in September 2005.

Business outlook for 2006

Hong Kong and China Gas has not increased its basic gas tariff for the past eight years. Nevertheless it 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 Hong Kong and China Gas 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.

The popularity of Grand Promenade was mirrored in the excellent response to the pre-sale of Grand Waterfront.