港華燃氣有限公司
Towngas China Company Limited

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

2011 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Profit after taxation attributable to shareholders surged by approximately 75.9% to HK$302 million.
- Basic earnings per share increased significantly by 40.3% to 12.32 HK cents per share.
- Turnover was HK$1,960 million, increased by 58.1%.

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 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	NOTES	Six months ended 30 June 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Turnover	3	**1,960,185**	1,239,565
Operating profit before returns on investments		**227,131**	130,093
Other income and gains		**59,046**	34,404
Share of results of associates		**109,273**	92,859
Share of results of jointly controlled entities		**98,711**	53,265
Finance costs	4	**(74,651)**	(69,946)
Profit before taxation	5	**419,510**	240,675
Taxation	6	**(85,722)**	(48,435)
Profit for the period		**333,788**	192,240
Profit for the period attributable to:			
Shareholders of the Company		**302,475**	171,992
Non-controlling interests		**31,313**	20,248
		333,788	192,240
		HK cents	*HK cents*
Earnings per share	7		
– Basic		**12.32**	8.78
– Diluted		**12.31**	8.78

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2011

	NOTES	**30.06.2011** **HK$'000** **(unaudited)**	31.12.2010 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**5,461,306**	5,073,785
Leasehold land		**281,603**	264,742
Intangible assets		**182,420**	182,107
Goodwill		**3,559,303**	3,380,743
Interests in associates		**2,110,579**	1,989,156
Interests in jointly controlled entities		**1,363,649**	1,247,471
Loans to jointly controlled entities		**125,304**	119,160
Available-for-sale investments		**169,551**	169,372
Deferred consideration receivable		**200,193**	242,481
		13,453,908	12,669,017
Current assets			
Inventories		**183,075**	147,885
Leasehold land		**9,526**	9,016
Loans to jointly controlled entities		**86,643**	84,906
Trade and other receivables, deposits and prepayments	*8*	**669,421**	531,455
Amounts due from minority shareholders		**7,471**	6,579
Bank balances and cash		**1,386,629**	1,433,941
		2,342,765	2,213,782
Current liabilities			
Trade and other payables and accrued charges	*9*	**1,883,655**	1,653,981
Amounts due to minority shareholders		**26,221**	25,630
Taxation		**241,322**	229,192
Borrowings – amount due within one year		**2,384,030**	2,792,403
		4,535,228	4,701,206
Net current liabilities		**(2,192,463)**	(2,487,424)
Total assets less current liabilities		**11,261,445**	10,181,593
Non-current liabilities			
Loans from the ultimate holding company		**472,165**	471,365
Borrowings – amount due after one year		**1,029,011**	432,321
Deferred taxation		**155,186**	142,780
		1,656,362	1,046,466
Net assets		**9,605,083**	9,135,127
Capital and reserves			
Share capital		**246,035**	244,879
Reserves		**8,761,347**	8,318,558
Equity attributable to shareholders of the Company		**9,007,382**	8,563,437
Non-controlling interests		**597,701**	571,690
Total equity		**9,605,083**	9,135,127

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"). In the opinion of the directors, the Group's parent and ultimate holding company is The Hong Kong and China Gas Company Limited ("HKCG"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The functional currency of the Company is Renminbi ("RMB"). The interim financial information are presented in Hong Kong dollars ("HK$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of natural gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

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

In preparing the interim financial information, the directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$2,192 million as at 30 June 2011. The Group's liabilities as at 30 June 2011 included borrowings of HK$2,384 million that are repayable within one year from the end of the reporting period.

As at the end of the reporting period, the Group had un-drawn facilities (the "Facilities") amounted to HK$2,160 million and RMB195 million (approximately HK$235 million). When considering the Group's ability to continue as a going concern, the directors considered that the Group's bank loans of HK$1,230 million that are repayable within one year from the end of the reporting period will be rolled over or renewed as the Group has good relationship with its banks and has good credibility. The guaranteed senior notes of HK$1,121 million, due in September 2011, will be financed by either the Facilities or other financing arrangements.

Taking into account 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 has been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial information has been prepared under the historical cost basis.

The accounting policies used in the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in the condensed consolidated financial statements.

The HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1 January 2011. The Group has not early adopted these new or revised HKFRSs.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Operating segments

Operating segments are 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 executive directors of the Company (the "Executive Directors").

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

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products and gas pipeline construction. They represent two major lines of business engaged by the Group. The principal activities of the reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas and gas related household appliances
Gas pipeline construction	–	Construction of gas pipeline networks under gas connection contracts

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

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products *HK$'000*	**Gas pipeline construction** *HK$'000*	**Consolidated** *HK$'000*
Six months ended 30 June 2011			
TURNOVER			
External	**1,597,085**	**363,100**	**1,960,185**
Segment results	**111,748**	**158,014**	**269,762**
Unallocated other income and gains			**59,046**
Unallocated corporate expenses			**(42,631)**
Share of results of associates			**109,273**
Share of results of jointly controlled entities			**98,711**
Finance costs			**(74,651)**
Profit before taxation			**419,510**
Taxation			**(85,722)**
Profit for the period			**333,788**

	Sales and distribution of piped gas and related products *HK$'000*	Gas pipeline construction *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2010			
TURNOVER			
External	981,701	257,864	1,239,565
Segment results	73,204	98,926	172,130
Unallocated other income and gains			34,404
Unallocated corporate expenses			(42,037)
Share of results of associates			92,859
Share of results of jointly controlled entities			53,265
Finance costs			(69,946)
Profit before taxation			240,675
Taxation			(48,435)
Profit for the period			192,240

4. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Interest on:		
– bank and other borrowings wholly repayable within five years	**25,507**	21,255
– bank and other borrowings not wholly repayable within five years	**675**	683
– guaranteed senior notes	**47,421**	47,085
	73,603	69,023
Bank charges	**1,048**	923
	74,651	69,946

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**3,517**	3,365
Amortisation of leasehold land	**4,827**	4,083
Cost of inventories sold	**1,429,806**	869,135
Depreciation of property, plant and equipment	**107,624**	86,788
Staff costs	**172,785**	128,598

6. 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 was 12.5% (2010: 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.

7. EARNINGS PER SHARE

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	
	2011	2010
	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	**302,475**	171,992

	Number of shares Six months ended 30 June	
	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,455,449**	1,959,574
Effect of dilutive potential ordinary shares:		
Share options	**1,307**	266
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,456,756**	1,959,840

8. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2011	31.12.2010
	HK$'000	*HK$'000*
Trade receivables	**224,028**	173,427
Deferred consideration receivable	**38,250**	39,321
Prepayments	**265,451**	225,043
Other receivables and deposits	**141,692**	93,664
	669,421	531,455

Trade receivables

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

	30.06.2011	31.12.2010
	HK$'000	*HK$'000*
0 to 90 days	**216,374**	168,772
91 to 180 days	**2,609**	1,362
181 to 360 days	**5,045**	3,293
	224,028	173,427

9. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2011	31.12.2010
	HK$'000	*HK$'000*
Trade payables	**383,445**	335,493
Receipt in advance	**1,120,129**	947,491
Consideration payable for acquisitions	**99,021**	67,319
Other payables and accruals	**266,646**	289,251
Amount due to the ultimate holding company (note)	**14,414**	14,427
	1,883,655	1,653,981

Note: The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.06.2011	31.12.2010
	HK$'000	*HK$'000*
0 to 90 days	**256,417**	246,840
91 to 180 days	**41,228**	18,549
181 to 360 days	**42,020**	19,426
Over 360 days	**43,780**	50,678
	383,445	335,493

10. ACQUISITION OF SUBSIDIARIES/BUSINESSES

Acquisition of Wuning Hong Kong and China Gas Co., Ltd. ("Wuning")

In January 2011, the Group acquired 100% equity interest in Wuning, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$80,220,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The consideration transferred:

The consideration of HK$80,220,000 was settled by way of cash.

Acquisition-related costs incurred were insignificant and were recognised as expenses in the current period, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' carrying amount and provisional fair value at acquisition date
	HK$'000
Net assets acquired:	
Property, plant and equipment	8,890
Leasehold land	495
Inventories	947
Trade and other receivables, deposits and prepayments (note)	197
Bank balances and cash	778
Trade and other payables and accrued charges	(8,300)
Net assets acquired	3,007

Note: The trade and other receivables acquired with a fair value of HK$197,000 had gross contractual amounts of HK$197,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	80,220
Less: Net assets acquired	(3,007)
Provisional goodwill arising on acquisition	77,213

Goodwill arose in the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	80,220
Bank balances and cash acquired	(778)
Net outflow of cash and cash equivalents in respect of the acquisition	79,442

During the period, Wuning contributed HK$1,864,000 to the Group's turnover and made a loss of HK$611,000 for the period between the date of acquisition and the end of the reporting period.

Acquisition of Xiushui Hong Kong and China Gas Co., Ltd. (“Xiushui”)

In January 2011, the Group completed the acquisition of 80% equity interest in Xiushui, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$42,503,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The consideration transferred:

The consideration of HK$42,503,000 was settled by way of cash and other payables of HK$12,178,000 and HK$30,325,000 respectively.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current period, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees’ carrying amount and provisional fair value at acquisition date *HK$'000*
Net assets acquired:	
Property, plant and equipment	18,213
Inventories	1,083
Trade and other receivables, deposits and prepayments (note)	686
Bank balances and cash	237
Trade and other payables and accrued charges	(7,740)
Tax payables	(28)
Borrowings	(10,260)
Net assets acquired	2,191

Note: The trade and other receivables acquired with a fair value of HK$686,000 had gross contractual amounts of HK$686,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Non-controlling interests:

The non-controlling interests in Xiushui recognised at the acquisition date was determined with reference to the proportionate share of provisional fair value of the acquiree's net assets at the acquisition date and amounted to HK$438,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	42,503
Plus: Non-controlling interests	438
Less: Net assets acquired	(2,191)
Provisional goodwill arising on acquisition	40,750

Goodwill arose in the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	42,503
Consideration payable for acquisition	(30,325)
Bank balances and cash acquired	(237)
Net outflow of cash and cash equivalents in respect of the acquisition	11,941

During the period, Xiushui contributed HK$2,280,000 to the Group's turnover and made a loss of HK$2,040,000 for the period between the date of acquisition and the end of the reporting period.

The primary reason for the above acquisitions was for the expansion of the Group's business and to generate increase in returns to its shareholders.

The goodwill arising from the above acquisitions is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional basis 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 which shall not exceed one year from the respective acquisition date.

Acquisition of Towngas (BVI) Holdings Limited (“Towngas BVI”)

In July 2010, the Group acquired 100% equity interest in Towngas BVI from a wholly-owned subsidiary of HKCG.

The initial accounting of Towngas BVI was completed during the current interim period. As a result, adjustments have been made to reduce the goodwill arising from acquisition of Towngas BVI by HK$372,550,000 and increase the initial carrying amounts of interest in an associate and interest in a jointly controlled entity by HK$192,356,000 and HK$180,194,000, respectively. The adjusted initial carrying amounts of interest in an associate, interest in a jointly controlled entity and goodwill arising from the acquisition of Towngas BVI amounted to HK$369,219,000, HK$345,874,000 and HK$418,545,000, respectively. Accordingly, the comparative figures in the consolidated statement of financial position for interest in associates, interest in jointly controlled entities and goodwill have been adjusted to HK$1,989,156,000, HK$1,247,471,000 and HK$3,380,743,000, respectively as at 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2011, the Group booked a turnover of HK$1,960 million, a growth of 58.1% over the corresponding period last year. Operating profit before returns on investments grew by 74.6% to HK$227 million. This was mainly due to the significant increase in the sales of piped gas and income from the construction of gas pipelines over the corresponding period last year, as well as enhanced cost controls in corporate expenses. Profit after taxation attributable to shareholders increased by approximately 75.9% to HK$302 million as compared with the corresponding period last year.

The increase in profit after taxation attributable to shareholders was primarily driven by growth in the profit of existing entities as well as the acquisition of six city piped gas projects from HKCG in July 2010.

Turnover

Sales of Piped Gas and Related Products

This business comprises the direct supply of piped natural gas and piped gas to customers. The turnover from the sales of piped gas and related products increased approximately 62.7% to HK$1,597 million over the corresponding period last year, accounting for 81.5% of the Group's total turnover. This growth was primarily attributable to the substantial increase in the volume of overall gas sales and higher average gas sales prices.

Gas Pipeline Construction

The Group's gas pipeline construction business mainly consists of the development and maintenance of piped gas facilities and networks for the provision of piped gas to customers, for which the Group receives a connection fee. For the six months ended 30 June 2011, the Group recorded a connection fee income of HK$363 million, representing an increase of approximately 40.8% over the corresponding period last year and accounting for 18.5% of the Group's total turnover.

Development of New Projects

Operation of New Projects

The new projects in Xiushui County and Wuning Industrial Park of Jiujiang City, Jiangxi Province acquired by the Group in early this year had commenced operation. As at the date of this report, the Group has further acquired a new piped gas project in Miluo City, Hunan Province. The Group will continue to pursue rapid market expansion through mergers and acquisitions. In addition to increasing its share in existing regional markets, the Group also actively seeks opportunities in other regions to expedite its business development.

Piped Gas Project in Xiushui County, Jiujiang City, Jiangxi Province

In January, the Group acquired an 80% equity interest in a piped gas project in Xiushui County, Jiujiang City, Jiangxi Province. Xiushui County is located in northwestern Jiangxi Province, 200 km from Nanchang, the provincial capital city of Jiangxi Province. Given its rich mineral resources, the area is being promoted as the production base for rare metals in Jiangxi Province. With the industries of minerals processing, porcelain and quartz processing being vigorously developed by the local government, it is expected that natural gas consumption for industrial use will constitute over 90% of the total consumption and natural gas consumption will reach 60 million cubic metres per annum in 5 years' time.

Piped Gas Project in Wuning Industrial Park of Jiujiang City, Jiangxi Province

In January, the Group acquired a 100% equity interest in a piped gas project in the Wuning Industrial Park in Jiujiang City, Jiangxi Province. Wuning Industrial Park is a provincial-level development zone in Jiangxi Province, focusing on energy-saving lighting, minerals processing, pharmaceuticals and the chemical industry. With strong demand for natural gas, it is anticipated that natural gas consumption will reach 90 million cubic metres per annum in 5 years' time.

Piped Gas Project in Miluo City, Hunan Province

In July, the Group acquired a 70% equity interest in a piped gas project in Miluo City, Hunan Province, being the Group's first project in Hunan's piped gas market. The project's operation covers the Miluo City Urban Planning District and the Miluo Cyclic Economy Industrial Park, a provincial-level industrial park accommodating enterprises mainly engaged in the processing of recycled copper, aluminium, stainless steel and plastics. With the local government's relevant environmental protection and tax concession policies, which are driving strong growth in natural gas consumption, the project is expected to reach usage of 170 million cubic metres in 5 years' time.

Available-for-sale Investments

Available-for-sale investments mainly comprise of the Group's investment in Chengdu City Gas Co., Ltd., which is accounted for at cost. No provision for impairment was required for the period.

Contingent Liabilities

The Group has no material contingent liabilities as at 30 June 2011.

Financial Position

The Group has adopted a prudent approach in managing its financial resources by maintaining an appropriate level of cash and cash equivalents and adequate facilities for daily operations and business development, and by controlling borrowings at a healthy level.

As at 30 June 2011, the Group's total loans amounted to HK$3,885 million, of which HK$1,121 million representing guaranteed senior notes due in September 2011, HK$472 million representing loans extended by HKCG due between 2 to 5 years, HK$951 million and HK$1,230 million representing bank loans due between 1 to 5 years and within 1 year respectively. Other than the guaranteed senior notes and HK$119 million bank loans and other borrowings which bear interest at fixed rates, the Group's other borrowings were mainly arranged on a floating rate basis. The maturities and interest rates of the loans were arranged as such for the benefit of the Group's development, as they help to stabilise the interest costs of the Group, in addition to providing stable financial resources. As at the end of the period, the Group had a current ratio of 0.5 times and a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 18.4%.

As at 30 June 2011, other than shares in certain subsidiaries pledged as security for the guaranteed senior notes and secured loans of RMB3 million in connection with newly acquired projects, the Group did not have any pledge on its assets.

As at 30 June 2011, the Group had obtained unutilised facilities amounting to HK$2,395 million, while its cash and cash equivalents amounted to HK$1,387 million in aggregate.

The Group's activities are predominantly operated and conducted in Hong Kong and the PRC. Its cash, cash equivalents or borrowings are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As such, exposure to any material foreign exchange risk is not expected.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and its shareholders. The Group maintains a consistently strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities, and has adequate financial resources to meet its contractual obligations and operating requirements.

Interim Dividend

The Board has resolved not to declare an interim dividend (2010: nil).

Employee and Remuneration Policies

As at 30 June 2011, the Group had 16,113 employees, 99% of whom work in mainland China. Employee remuneration is based on individual performance, job nature and the responsibilities involved. The Group also provides on-the-job training as well as generous packages of benefits for employees, including medical welfare, provident funds, bonuses and other incentives. The Group encourages its employees to seek a sound balance between work and leisure, while endeavouring to improve the work environment for employees on a continuing basis so that they can realise their full potentials for the benefit of the Group.

Corporate Social Responsibility

Honouring its responsibilities as a corporate citizen, the Group is committed to the protection of the environment, providing relief to the underprivileged, and extending the community welfare activities in line with the principles of such activities in HKCG, its parent company, in mainland China.

Three years ago, the Group sponsored 30 students from the quake-stricken areas in Sichuan to take up their studies in gas specialisation. In May 2011, these students graduated and started to work for the Group's 15 gas companies in Sichuan. By aiding students from the disaster-stricken areas from education through employment, the Group pioneered in a new approach to education assistance and provided effective support for the sustainable development of disaster-stricken families.

The Group designated March this year as the "Month of Tree Plantation and Carbon Reduction," during which activities were organised to promote water and electricity savings as well as reduction in carbon emission. The initiatives received enthusiastic support from 31 enterprises throughout the nation, who participated in tree plantation and Earth Hour activities. A total of 5,800 trees have been planted and power savings of approximately 19,000 units / kVA have been generated.

On the eve of the Dragon Boat Festival, a "Towngas Rice Dumplings for the Community" campaign was jointly held by the Group and HKCG in association with more than 90 enterprises of the two groups. Volunteers made a total of 16,000 rice dumplings at various local welfare organisations for distribution to students, senior citizens and other needy groups to highlight the community spirit of caring.

Outlook

The National "12th Five-Year Plan"

The upcoming years will see a profound impact on the city gas industry, as China begins the implementation of its "12th Five-Year Plan" in 2011. In March this year, Premier Wen Jiabao made it clear that to assure its sustainable development, China must emphasise the quality and efficiency of its economic growth during the "12th Five-Year Plan" period, as opposed to its past economic activities characterised by excessive resource consumption and waste discharge. As such, the market for clean and environment-friendly energy, in particular the natural gas, is poised for ongoing rapid growth, providing direct benefits for the city gas industry. In addition, domestic demand in China will continue to grow substantially during the "12th Five-Year Plan" period, possibly to an extent where China may become a net importer. Sales growth of the city gas industry will be strongly underpinned by household spending, for which substantial growth is expected.

Gas Supply and Prices during the "12th Five-Year Plan" Period

The National Energy Administration has repeatedly indicated in public that major efforts will be devoted to the development of natural gas during the "12th Five-Year Plan" period. By 2015, total consumption of natural gas is estimated to increase to 8.3% as a percentage of one-off energy consumption in China, as compared to the current level of 3.9%. By 2015, China will have completed over 10 major natural gas pipelines, including phase one, two and three of the West-to-East pipeline; Sichuan-to-East pipeline; phase one, two and three of the Shaanxi-to-Beijing pipeline; the China-Myanmar pipeline and the China-Russia pipeline, while a number of large liquefied natural gas depots will also be built along the coastal regions. By the end of the "12th Five-Year Plan" period, a nationwide natural gas supply pipeline network should have basically been formed in China, with diverse sources of stable supply available for flexible distribution. The past scenario of the city gas industry being restricted by the undersupply of natural gas resources as well as inadequate supply capabilities of pipeline networks will thus come to an end. However, with the increase in imported natural gas, the prices of natural gas supply gateways are bound to rise. Cities that cannot readily afford these rises will face the problem of gas price hikes in the future, which will in turn affect the sales of natural gas. In this regard, the Group enjoys a significant advantage in that most of its gas projects are located in coastal provinces and regions where gas supply is abundant and demand is huge, while these provinces and regions are more capable of affording the increase in prices. Meanwhile, the Group companies maintain close cooperation with its industrial and commercial customers so that whenever there are any adjustments in gateway prices, the Group companies will be able to respond swiftly to effect corresponding price changes for these industrial and commercial clients in a timely manner.

Regulation of the City Gas Industry

China's determination to strengthen regulations over the city gas industry as well as its emphasis on professional management is signified by the promulgation of the "Regulations on Administration of Urban Fuel Gas" by the State Council, which became effective on 1 March 2011. The Group enjoys a positive reputation among government authorities and the general public for its customer service standards and outstanding performance in the safe supply of piped city gas from its gas network. As a moderately affluent society is generally emerging in China, the Group's competitive advantage in terms of safety of gas supply and excellence in customer service will be further enhanced. The Group will firmly grasp the opportunities presented by the "12th Five-Year Plan" period, exhausting every means to continuously enhance management standards as well as customer satisfaction levels both for the Group and its companies, while also seeking to speed up development and improve efficiencies so that its competitive advantage will be sustained.

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 2011.

Corporate Governance

During the six months ended 30 June 2011, 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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules ("Model Code") as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2011.

Audit Committee

The Company has established an audit committee (the "Audit Committee") in accordance with requirements under the Listing Rules for the purposes of reviewing and supervising the Group's financial reporting processes and internal controls.

An Audit Committee meeting was held on 12 August 2011 to review the unaudited interim financial report for the six months ended 30 June 2011. Deloitte Touche Tohmatsu, the Group's external auditor, had carried out a review of the unaudited interim financial report for the six months ended 30 June 2011 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 express sincere gratitude to all staff for their dedication and hard work, and to all shareholders and investors for their long-standing support.

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

Hong Kong, 22 August 2011

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)*
Law Wai Fun, Margaret

Independent Non-executive Directors:
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David