

2012

Interim Report



Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

CORPORATE INFORMATION

Board of Directors

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

Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chow Vee Tsung, Oscar

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David (*Chairman*)
Cheng Mo Chi, Moses
Chow Vee Tsung, Oscar

Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)
Li Man Bun, Brian David
Chow Vee Tsung, Oscar
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chow Vee Tsung, Oscar

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

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North Point, Hong Kong
Telephone : (852) 2963 3298
Facsimile : (852) 2561 6618
Stock Code : 1083
Website : www.towngaschina.com

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
China Merchants Bank, Shenzhen Branch



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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2012, the Group booked a turnover of HK\$2,437 million, a growth of 24.3% over the corresponding period of 2011. Profit after taxation attributable to shareholders of the Company amounted to HK\$357 million, an increase of 18.1% as compared to the corresponding period last year. Basic earnings per share amounted to 14.51 HK cents, representing an increase of 17.8% compared to the corresponding period of 2011.

Turnover

Sales of Piped Gas and Related Products

Turnover from the sales and distribution of piped gas and related products increased 20.8% to HK\$1,929 million over the corresponding period last year, accounting for 79.1% of the Group's total turnover. This growth was primarily attributable to the steady increase in the volume of overall gas sales and higher average gas sales prices.

Gas Connection

For the six months ended 30 June 2012, the Group recorded a connection fee income of HK\$508 million, representing an increase of 40.0% over the corresponding period last year. This growth is attributable to the connections made by our subsidiaries for 107,000 new households during the first six months of 2012, as compared to 74,000 new households in the corresponding period last year.

New Project Development

As at the date of this report, the Group had acquired 4 gas projects since the beginning of the year. These include a city piped gas project and a midstream gas pipeline project at Wafangdian City in Dalian, Liaoning Province, as well as city piped gas projects at the Binhai Science and Technology Industrial Park in Zhaoyuan City, Shandong Province and at Yifeng County in Yichun City, Jiangxi Province. The Group will continue to seek 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 step up with its business development.

City Piped Gas Project and Midstream Gas Pipeline Project at Wafangdian City in Dalian, Liaoning Province

At the beginning of the year, the Group acquired a 60% equity interest in a city piped gas project and a 30% equity interest in a midstream gas pipeline project at Wafangdian City in Dalian. Situated 100 km to the northeast of Dalian, Wafangdian City is a well-established industrial centre with a long history in the production of bearings. The city is one of China's three major bearings manufacturing centres. According to the nation's relevant industrial policies, the bearings industry at Wafangdian City is set for further expansion, which will give rise to enormous potential gas consumption estimated at approximately 150 million cubic metres per annum in five years' time.

City Piped Gas Project at the Binhai Science and Technology Industrial Park, Zhaoyuan City, Shandong Province

In March, the Group acquired a 100% equity interest in a city piped gas project at the Binhai Science and Technology Industrial Park in Zhaoyuan City, Shandong Province. The project company has a registered capital of approximately RMB22 million and operates at the Binhai Science and Technology Industrial Park in Zhaoyuan City, which is an important part in the development of Zhaoyuan City and a new hot spot for the city's economic growth. With a focus on three pillar industries — tourism development, advanced technologies and modern logistics, gas consumption will reach 10 million cubic metres per annum in five years' time.

City Piped Gas Project at Yifeng County, Yichun City, Jiangxi Province

Yifeng Hong Kong & China Gas Co., Ltd. was established in June. It has a registered capital of RMB32 million and the Group holds a 100% equity interest in this project. Yifeng County is located in the northwestern region of Jiangxi Province, 120 km from the provincial capital of Nanchang City. Serving as a hub for enterprises in the region featuring large-scale manufacturers of ceramics and building materials, the Yifeng County Industrial Park presents enormous potential in the demand for natural gas. Annual gas consumption in five years' time is estimated to be approximately 57 million cubic metres.

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 and such investment is accounted for as long-term investment.

Contingent Liabilities

The Group has no material contingent liabilities as at 30 June 2012.

Financial Position

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 30 June 2012, the Group's total loans amounted to HK\$5,031 million, comprising loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 1 to 5 years in the amount of HK\$472 million; bank loans and other loans due within 1 year in the amount of HK\$1,730 million; bank loans and other loans due between 1 to 5 years in the amount of HK\$2,787 million and other loans due over 5 years in the amount of HK\$42 million. Bank loans and other loans in the amount of HK\$682 million bear interest at fixed rates, of which, HK\$350 million was swapped from a 5 year variable-rate bank borrowings through an interest rate contract which was entered into by the Group last year. Save as mentioned, the Group's borrowings were mainly arranged on a floating rate basis. The maturities and interest rates of the loans were arranged to provide the Group with sound financial resources and stable interest costs. As at the end of the period, the Group had a current ratio of 0.8 times and a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders plus Net Debt) of 20.6%.

As at 30 June 2012, the Group did not have any pledge on its assets.

As at 30 June 2012, the Group's cash and cash equivalents amounted to HK\$1,855 million in aggregate and unutilised available facilities amounted to HK\$1,552 million. Subsequently, the Group utilised loans amounting to HK\$415 million and made a loan repayment of HK\$192 million. As such, as at the date of approval for issuance of the condensed consolidated financial statements, unutilised facilities available to the Group amounted to HK\$1,329 million.

The Group's activities are predominantly operated and conducted in Hong Kong and mainland China. 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 risks is not anticipated.

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 (2011: nil).

Employee and Remuneration Policies

As at 30 June 2012, the Group had 17,553 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and responsibilities involved. The Group also provides on-the-job training as well as generous benefits packages for employees, which include medical welfare, provident funds, bonuses and other incentives. The Group also encourages employees to seek a sound balance between work and leisure, while endeavouring to improve the working environment for employees on a continuing basis so that they can realise their full potential for the benefit of the Group.

Corporate Social Responsibility

The Group is committed to the fulfillment of its responsibilities as a corporate citizen as it endeavours to contribute to the cause of environmental protection, offer relief and assistance to the underprivileged, and promote in mainland China the tradition of participation in community welfare activities championed by HKCG, its parent company.

In March 2012, the Group organised a grand plantation activity at Daifushan Forest Park in Guangzhou under the theme of "Towngas China Forest Invites You to Create a Greener World". The Group has planted 6,800 trees over a green area of 12,000 square metres in the first half of 2012. Meanwhile, our call to over 100 enterprises of the Group and HKCG to participate in eco-friendly activities, such as the tree plantation and Earth Hour, was met with enthusiastic response.

The Group and HKCG in association with more than 100 enterprises once again worked together to organise the "Towngas Rice Dumplings for the Community" campaign on the eve of the Dragon Boat Festival. Under this initiative, Towngas China volunteers visited local welfare institutions to distribute 75,000 rice dumplings and gifts, to senior citizens living on their own, orphans and other underprivileged groups who warranted our care. The dumpling-making sessions also included fun contests and performances that added to the festive occasion, enabling the old and the young alike to share in the heartwarming spirit and mutual care of the community.

In July 2012, a "Summit Forum on the Social Responsibility of Chinese Corporate Citizens" organised by the Group in association with the China Corporate Citizenship Committee of the Ministry of Civil Affairs and the China City Gas Association was held in Beijing to provide a platform for leading enterprises to share their insights and experiences in the performance and promotion of corporate social responsibility and to investigate possibilities for more effective implementation. The Group also officially introduced its internal regime for corporate social responsibility report on the occasion of this Forum.

Outlook

China's Economic and Investment Landscape

Looking to the years ahead, ongoing volatility is expected in global economic and financial markets, and China will be among the few nations tipped to sustain strong economic growth. At a time when Western countries are still struggling with the Eurozone's debt crisis, China seems to have identified a unique growth model of its own in relation to the global economy. China's economy is expected to bottom out in 2012, and experts are optimistic that the nation will sustain GDP growth at approximately 8% annually.

The participation of private capital in the municipal development and energy sectors was encouraged by the government in its policy document entitled "Certain Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment" which was issued in 2010 to address the international financial crisis. The government reiterated its position to encourage private investment in the municipal development and energy sectors at the State Council Executive Meeting held in May 2012. At the same time, the Standing Committee of the National People's Congress highlighted the importance of rigorous regulation of local debt when it reviewed the revised financial budget bill in June. These new developments in government policy, coupled with its stated policy of focusing on the development of natural gas in the "12th Five-Year Plan" period, are set to benefit the city gas industry. The Group will also continue to increase its investment in China's city gas industry in active support of the national policy.

Development of the Natural Gas Market during the "12th Five-Year Plan" Period

According to figures announced by the National Bureau of Statistics in January 2012, China's urbanisation ratio had reached 51.3%, suggesting that the size of the urban population had, for the first time, surpassed that of the rural population. Experts' estimates have put the annual growth rate of China's urbanisation ratio at 1%, which promises potential growth opportunities for the city gas market. China's total natural gas consumption is expected to maintain its rapid growth during the "12th Five-Year Plan" period, reaching 260 billion cubic metres by 2015, and city gas operators can expect to serve a natural gas market of over 130 billion cubic metres, about half of China's total consumption of natural gas for that year. Capitalising on this favourable trend, all Group companies have drawn up 5-year development plans looking into accelerated investment in pipeline networks during the "12th Five-Year Plan" period, in order to catch up with this rapid growth in local gas markets.

In other developments, the commencement of the trial reform in the natural gas pricing mechanism in Guangdong and Guangxi, as proposed by the government in December 2011, is having little impact on the Group's business targets for 2012, as detailed rules for the trials have yet to be announced. With China's increasing importation of natural gas, however, natural gas city gate prices are set to rise. The Group is monitoring the situation closely and will furnish opinions to industry associations and governing authorities to improve the reform proposition as appropriate. Meanwhile, the Group companies will continue to maintain close working relationships with their industrial and commercial customers, so as to ensure swift response in the implementation of linked price changes, in the event of any adjustments in natural gas city gate prices.

Underpinning Towngas China's Quality and Management Excellence

Our superiority in gas supply safety and customer service constitutes an increasingly important competitive edge as China grows into an affluent society. While leveraging the opportunities presented by the "12th Five-Year Plan" to accelerate business development and improve efficiency with full efforts, the Group will also seek to enhance management standards and customer satisfaction in the Group companies, in a bid to cement its pole position in the market.

In the midst of rapid development during the "12th Five-Year Plan" period, the Towngas China Group is committed to the pursuit of growth that promises quality and effectiveness. In addition to marketing and financial targets, Towngas China Group companies have also established benchmarks in gas supply safety, customer service, human resources and corporate social responsibility, working incessantly to showcase the model of an outstanding enterprise in China's city gas industry.

OTHER INFORMATION

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2012, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and underlying Shares

Name of Company	Name of Director	Capacity	Interest in Shares			Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the Company or its associated corporation as at 30.06.2012
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	—	—	—	—	3,618,000	3,618,000	0.15%
	Wong Wai Yee, Peter	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%
	Kwan Yuk Choi, James	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%
	Ho Hon Ming, John	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%

Name of Company	Name of Director	Capacity	Interest in Shares			Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the Company or its associated corporation as at 30.06.2012
			Personal interest	Family interest	Corporate interest				
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	165,597	—	—	165,597	—	165,597	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	58,460	66,235	—	124,695	—	124,695	0.00%
	Ho Hon Ming, John	Beneficial owner	25,934	—	—	25,934	—	25,934	0.00%
	Law Wai Fun, Margaret	Beneficial owner	15,811	—	—	15,811	—	15,811	0.00%

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2012 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2012	as at 30.06.2012		
				Exercise price HK\$	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.06%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no option was granted to the Directors and no option held by the Directors had lapsed or was cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2012, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of the Company as disclosed herein, at no time during the period was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 30.06.2012
Lee Chau Kee	Interest of controlled corporations	1,628,172,901 (Note 1)	66.18%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 (Note 2)	66.18%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 (Note 2)	66.18%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 30.06.2012
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
HKCG	Interest of controlled corporations	1,628,172,901 (Note 3)	66.18%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 (Note 3)	64.43%
Hong Kong & China Gas (China) Limited ("HK&CG(China)")	Beneficial owner	1,585,202,901 (Note 3)	64.43%
Ou Yaping	Interest of controlled corporations	195,487,245 (Note 4)	7.95%
Asia Pacific Promotion Limited ("Asia Pacific")	Interest of controlled corporations	195,487,245 (Note 4)	7.95%
Enerchina Holdings Limited ("Enerchina")	Interest of controlled corporations	195,487,245 (Note 4)	7.95%
Supreme All Investments Limited ("Supreme All")	Beneficial owner	186,440,677 (Note 4)	7.58%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	144,438,900 (Note 5)	5.87%

Notes:

- The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,628,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
- Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,628,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
- As HK&CG(China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,585,202,901 Shares held by HK&CG(China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
- Enerchina is interested in the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 9,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson, Supreme All, Enerchina and Asia Pacific.
- Commonwealth Bank was taken to be interested in these 144,438,900 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2012, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short positions in Shares and underlying Shares in the Company

As at 30 June 2012, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

Save as disclosed above, as at 30 June 2012, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Share Option Scheme of the Company

The Company operates a share option scheme ("2005 Main Board Scheme") under which the Board may, at its discretion, offer any employee (including any director) of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the above scheme. The 2005 Main Board Scheme was approved by the shareholders of the Company on 28 November 2005 and has a life of 10 years until 27 November 2015.

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

The following table discloses movements in the share options of the Company during the period:

	Option types	Date of grant	Exercise period	Exercise price (HK\$)	Outstanding at 01.01.2012	Outstanding at 30.06.2012
Category 1:						
Directors						
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
Total for Directors					<u>12,663,000</u>	<u>12,663,000</u>
Category 2:						
Employees						
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	301,500	301,500
		03.10.2006	04.04.2008 – 27.11.2015	2.796	542,700	542,700
		03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	723,600
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	603,000
		16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	603,000
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	804,000
Total for Employees					<u>3,577,800</u>	<u>3,577,800</u>
All categories					<u>16,240,800</u>	<u>16,240,800</u>

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no share option was exercised, cancelled or had lapsed.
3. During the period, no new option was granted.

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 2012.

Corporate Governance

Save as disclosed below, the Company had complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2012. In respect of code provision A.6.7 of the CG Code, one of the independent non-executive directors was unable to attend the annual general meeting of the Company held on 4 June 2012 due to other engagement overseas.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules 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 2012.

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 13 August 2012 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2012. Deloitte Touche Tohmatsu, the Company's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Updates on Biographical Details of Directors under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the updates on biographical details of Directors are as follows:

Dr. Cheng Mo Chi, Moses *GBS, OBE, JP*

Independent Non-Executive Director, Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee

Dr. Cheng retired as an independent non-executive director of Hong Kong Exchanges and Clearing Limited, which is a public listed company in Hong Kong, on 23 April 2012.

Mr. Chow Vee Tsung, Oscar

Independent Non-Executive Director and member of the Audit Committee, the Remuneration Committee and the Nomination Committee

Mr. Chow was appointed as the Council Member of The Hong Kong University of Science and Technology.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 38, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	NOTES	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Turnover	3	<u>2,437,459</u>	<u>1,960,185</u>
Operating profit before returns on investments	4	341,914	227,131
Other gains, net		1,966	59,046
Share of results of associates		138,442	109,273
Share of results of jointly controlled entities		112,885	98,711
Finance costs	5	<u>(75,740)</u>	<u>(74,651)</u>
Profit before taxation	6	519,467	419,510
Taxation	7	<u>(119,192)</u>	<u>(85,722)</u>
Profit for the period		<u>400,275</u>	<u>333,788</u>
Profit for the period attributable to:			
Shareholders of the Company		357,086	302,475
Non-controlling interests		<u>43,189</u>	<u>31,313</u>
		<u>400,275</u>	<u>333,788</u>
		HK cents	HK cents
Earnings per share	8		
— Basic		<u>14.51</u>	<u>12.32</u>
— Diluted		<u>14.49</u>	<u>12.31</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Profit for the period	400,275	333,788
Other comprehensive income		
Exchange differences arising on translation to presentation currency	(30,223)	176,776
Fair value change on cash flow hedge	(5,794)	—
Total comprehensive income for the period	<u>364,258</u>	<u>510,564</u>
Total comprehensive income attributable to:		
Shareholders of the Company	323,846	467,851
Non-controlling interests	<u>40,412</u>	<u>42,713</u>
Total comprehensive income for the period	<u>364,258</u>	<u>510,564</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	30.6.2012 HK\$'000 (unaudited)	31.12.2011 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	6,354,463	6,127,967
Leasehold land		282,399	296,226
Intangible assets		178,411	182,910
Goodwill	11	3,853,931	3,848,101
Interest in associates		2,345,576	2,243,599
Interest in jointly controlled entities		1,513,543	1,481,514
Loans to jointly controlled entities		135,756	131,532
Available-for-sale investments		169,805	169,893
Deferred consideration receivable		159,494	203,682
		<u>14,993,378</u>	<u>14,685,424</u>
Current assets			
Inventories		558,446	387,702
Leasehold land		9,522	9,786
Loans to associates		33,129	30,826
Loans to jointly controlled entities		87,723	140,127
Trade and other receivables, deposits and prepayments	12	914,603	852,188
Amounts due from minority shareholders		6,272	6,267
Time deposits over three months		156,758	148,583
Bank balances and cash		1,855,087	1,922,503
		<u>3,621,540</u>	<u>3,497,982</u>
Current liabilities			
Trade and other payables and accrued charges	13	2,312,999	2,262,579
Amounts due to minority shareholders		167,725	194,894
Taxation		338,956	320,622
Borrowings — amount due within one year	14	1,730,307	1,512,629
		<u>4,549,987</u>	<u>4,290,724</u>
Net current liabilities		<u>(928,447)</u>	<u>(792,742)</u>
Total assets less current liabilities		<u>14,064,931</u>	<u>13,892,682</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2012

	NOTES	30.6.2012 HK\$'000 (unaudited)	31.12.2011 HK\$'000 (audited)
Non-current liabilities			
Loans from the ultimate holding company	15	471,640	471,790
Borrowings — amount due after one year	14	2,829,356	2,902,121
Deferred taxation		218,570	205,900
Other financial liabilities		19,100	13,616
		<u>3,538,666</u>	<u>3,593,427</u>
Net assets		<u>10,526,265</u>	<u>10,299,255</u>
Capital and reserves			
Share capital	16	246,035	246,035
Reserves		9,570,108	9,369,279
		<u>9,816,143</u>	<u>9,615,314</u>
Equity attributable to shareholders of the Company		9,816,143	9,615,314
Non-controlling interests		710,122	683,941
		<u>10,526,265</u>	<u>10,299,255</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to shareholders of the Company									Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Retained earnings	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 31 December 2011 and 1 January 2012 (audited)	246,035	5,786,113	1,320,493	24,021	(12,693)	90,102	2,161,243	9,615,314	683,941	10,299,255	
Exchange differences arising on translation to presentation currency	—	—	(27,446)	—	—	—	—	(27,446)	(2,777)	(30,223)	
Fair value change on cash flow hedge	—	—	—	—	(5,794)	—	—	(5,794)	—	(5,794)	
Profit for the period	—	—	—	—	—	—	357,086	357,086	43,189	400,275	
Total comprehensive income for the period	—	—	(27,446)	—	(5,794)	—	357,086	323,846	40,412	364,258	
Transfer	—	—	—	—	—	3,655	(3,655)	—	—	—	
Dividends paid to shareholders of the Company	—	(123,017)	—	—	—	—	—	(123,017)	—	(123,017)	
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(14,231)	(14,231)	
	—	(123,017)	—	—	—	3,655	(3,655)	(123,017)	(14,231)	(137,248)	
At 30 June 2012 (unaudited)	<u>246,035</u>	<u>5,663,096</u>	<u>1,293,047</u>	<u>24,021</u>	<u>(18,487)</u>	<u>93,757</u>	<u>2,514,674</u>	<u>9,816,143</u>	<u>710,122</u>	<u>10,526,265</u>	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2012

	Attributable to shareholders of the Company								Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Share option reserve	General reserves	Retained earnings	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2011 (audited)	244,879	5,803,719	938,605	41,126	71,709	1,463,399	8,563,437	571,690	9,135,127	
Exchange differences arising on translation to presentation currency	—	—	165,376	—	—	—	165,376	11,400	176,776	
Profit for the period	—	—	—	—	—	302,475	302,475	31,313	333,788	
Total comprehensive income for the period	—	—	165,376	—	—	302,475	467,851	42,713	510,564	
Issue of shares upon exercise of share options	1,156	56,204	—	(17,105)	—	—	40,255	—	40,255	
Addition on acquisition of subsidiaries	—	—	—	—	—	—	—	438	438	
Acquisition of additional interest in a subsidiary	—	—	—	—	—	9,649	9,649	(15,641)	(5,992)	
Transfer	—	—	—	—	2,054	(2,054)	—	—	—	
Dividends paid to shareholders of the Company	—	(73,810)	—	—	—	—	(73,810)	—	(73,810)	
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	(1,499)	(1,499)	
	1,156	(17,606)	—	(17,105)	2,054	7,595	(23,906)	(16,702)	(40,608)	
At 30 June 2011 (unaudited)	246,035	5,786,113	1,103,981	24,021	73,763	1,773,469	9,007,382	597,701	9,605,083	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	NOTE	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Net cash generated from operating activities		<u>186,493</u>	<u>186,433</u>
Investing activities			
Purchase of property, plant and equipment		(350,835)	(368,668)
Consideration paid for acquisition of subsidiaries acquired in prior periods		(71,062)	—
Acquisition of business/subsidiaries	18	(24,540)	(91,383)
Purchase of leasehold land		(3,103)	(15,759)
Dividend received from a jointly controlled entity		77,133	—
Repayment of loans from jointly controlled entities		51,453	—
Deferred consideration received		40,000	40,000
Dividend received from an associate		—	30,714
Other investing cash flows		<u>20,310</u>	<u>5,882</u>
Net cash used in investing activities		<u>(260,644)</u>	<u>(399,214)</u>
Financing activities			
Repayment of bank and other loans		(919,893)	(1,050,116)
Dividends paid to shareholders of the Company		(123,017)	(73,810)
Dividends paid to minority shareholders of subsidiaries		(14,231)	(1,499)
New bank and other loans raised		1,069,180	1,223,066
Issue of shares upon exercise of share options		—	40,255
Other financing cash flows		<u>—</u>	<u>(5,992)</u>
Net cash generated from financing activities		<u>12,039</u>	<u>131,904</u>
Net decrease in cash and cash equivalents		(62,112)	(80,877)
Cash and cash equivalents at beginning of the period		1,922,503	1,433,941
Effect of foreign exchange rate changes		<u>(5,304)</u>	<u>33,565</u>
Cash and cash equivalents at end of the period, representing bank balances and cash		<u>1,855,087</u>	<u>1,386,629</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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 of the Company ("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 condensed consolidated financial statements 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 piped 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the 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").

In preparing the condensed consolidated financial statements, 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\$928 million as at 30 June 2012. The Group's current liabilities as at 30 June 2012 included borrowings of approximately HK\$1,730 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the condensed consolidated financial statements, the Group had un-drawn facilities (the "Facilities") amounting to approximately HK\$1,329 million of which approximately HK\$522 million of the Facilities were from the ultimate holding company. When considering the Group's ability to continue as a going concern, the Directors considered that approximately HK\$1,692 million of the Group's bank loans that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

Taking into account of the internally generated funds and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The application of the above amendments to 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 these condensed consolidated financial statements.

The Group has not early applied the following new and revised Hong Kong Accounting Standards ("HKAS"s), HKFRSs and amendments that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle ¹
Amendments to HKFRS 1	Government loans ¹
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities ¹
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures ²
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance ¹
HKFRS 9	Financial instruments ²
HKFRS 10	Consolidated financial statements ¹
HKFRS 11	Joint arrangements ¹
HKFRS 12	Disclosure of interests in other entities ¹
HKFRS 13	Fair value measurement ¹
Amendments to HKAS 1	Presentation of items of other comprehensive income ³
HKAS 19 (as revised in 2011)	Employee benefits ¹
HKAS 27 (as revised in 2011)	Separate financial statements ¹
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ¹
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ⁴
HK(IFRIC) - Int 20	Stripping costs in the production phase of a surface mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2015.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2014.

The Directors anticipate that the application of the new and revised standards and amendments will have no material impact on the results and 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 segments and to assess their 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 sale and distribution of piped gas and related products and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	—	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	—	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contribute to less than 5% of the Group's total turnover.

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

Amount of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2012			
TURNOVER			
External	<u>1,929,127</u>	<u>508,332</u>	<u>2,437,459</u>
Segment results	<u>148,428</u>	<u>243,555</u>	391,983
Other gains, net			1,966
Unallocated corporate expenses			(50,069)
Share of results of associates			138,442
Share of results of jointly controlled entities			112,885
Finance costs			<u>(75,740)</u>
Profit before taxation			519,467
Taxation			<u>(119,192)</u>
Profit for the period			<u>400,275</u>

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2011			
TURNOVER			
External	<u>1,597,085</u>	<u>363,100</u>	<u>1,960,185</u>
Segment results	<u>111,748</u>	<u>158,014</u>	269,762
Other gains, net			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			<u>(74,651)</u>
Profit before taxation			419,510
Taxation			<u>(85,722)</u>
Profit for the period			<u>333,788</u>

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Turnover	2,437,459	1,960,185
Less expenses:		
Gas fuel, stores and materials used	1,583,452	1,306,594
Staff costs	220,341	172,785
Depreciation and amortisation	140,187	115,968
Other expenses	151,565	137,707
	<u>341,914</u>	<u>227,131</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	73,153	25,507
— bank and other borrowings not wholly repayable within five years	713	675
— guaranteed senior notes	—	47,421
	<u>73,866</u>	<u>73,603</u>
Bank charges	<u>1,874</u>	<u>1,048</u>
	<u>75,740</u>	<u>74,651</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	3,639	3,517
Amortisation of leasehold land	5,018	4,827
Cost of inventories sold	1,738,230	1,429,806
Depreciation of property, plant and equipment	131,530	107,624
Staff costs	220,341	172,785
Exchange loss	16,608	—
and after crediting:		
Interest income	10,024	5,188
Imputed interest income on deferred consideration receivable and loans to jointly controlled entities	7,884	7,973
Exchange gain	—	42,446

7. TAXATION

The taxation charge comprises of PRC Enterprise Income Tax ("EIT") 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 EIT 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 EIT for the following three years. The reduced tax rate for the relief period was 12.5% (2011: 12.5%). EIT for the period has been provided for after taking these tax incentives into account. These tax incentives will be expired by the end of 2012.

8. 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	
	2012 HK\$'000	2011 HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to shareholders of the Company	<u>357,086</u>	<u>302,475</u>
	Number of shares	
	Six months ended 30 June	
	2012 '000	2011 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,460,345	2,455,449
Effect of dilutive potential ordinary shares: Share options	<u>4,412</u>	<u>1,307</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,464,757</u>	<u>2,456,756</u>

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: nil). During the period, a dividend of five HK cents per share (2011: three HK cents per share) amounting to HK\$123,017,000 was paid to the shareholders as the final dividend for 2011 (HK\$73,810,000 for 2010).

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent approximately HK\$350,835,000 (2011: HK\$368,668,000) on additions to property, plant and equipment, including approximately HK\$192,939,000 (2011: HK\$271,016,000) on the construction in progress of gas pipelines and other plant and equipment.

11. GOODWILL

	HK\$'000
At 31 December 2011	3,848,101
Currency realignment	(18,887)
Acquired on acquisition of business (<i>note 18</i>)	<u>24,717</u>
At 30 June 2012	<u><u>3,853,931</u></u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Trade receivables	302,250	314,965
Deferred consideration receivable	38,916	39,321
Prepayments	320,057	301,182
Other receivables and deposits	<u>253,380</u>	<u>196,720</u>
	<u><u>914,603</u></u>	<u><u>852,188</u></u>

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:

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
0 to 90 days	271,058	301,311
91 to 180 days	18,179	4,675
181 to 360 days	<u>13,013</u>	<u>8,979</u>
	<u><u>302,250</u></u>	<u><u>314,965</u></u>

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Trade payables	511,420	507,091
Receipt in advance	1,346,717	1,291,474
Consideration payable for acquisitions	92,521	88,137
Other payables and accruals	358,831	375,114
Amount due to ultimate holding company (<i>note</i>)	3,510	763
	<u>2,312,999</u>	<u>2,262,579</u>

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:

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
0 to 90 days	339,283	374,361
91 to 180 days	36,455	39,171
181 to 360 days	78,317	39,599
Over 360 days	57,365	53,960
	<u>511,420</u>	<u>507,091</u>

14. BORROWINGS

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Bank loan — secured	—	72,750
Bank loans — unsecured	4,467,040	4,247,740
Other loans — unsecured	92,623	94,260
	<u>4,559,663</u>	<u>4,414,750</u>

14. BORROWINGS (CONTINUED)

The maturity of the above borrowings is as follows:

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
On demand or within one year	1,730,307	1,512,629
More than one year but not exceeding two years	1,235,529	908,723
More than two years but not exceeding five years	1,551,586	1,948,373
More than five years	42,241	45,025
	4,559,663	4,414,750
Less: Amount due within one year shown under current liabilities	(1,730,307)	(1,512,629)
Amount due after one year	2,829,356	2,902,121

15. LOANS FROM THE ULTIMATE HOLDING COMPANY

The amounts represent unsecured loans denominated in US dollar and HK dollar which bear interest at Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and are repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount	
			30.6.2012	31.12.2011
			HK\$'000	HK\$'000
HK\$277,615,000 (2011: HK\$277,615,000)	June 2017 (2011: April 2013 – May 2014) (according to date of draw down)	1.96% (2011: 1.84%)	277,615	277,615
US\$25,000,000 (2011: US\$25,000,000)	December 2016 (2011: December 2016)	3.88% (2011: 2.02%)	194,025	194,175
			471,640	471,790

16. SHARE CAPITAL

Authorised shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
At 31 December 2011	3,000,000,000	300,000
Increase	<u>2,000,000,000</u>	<u>200,000</u>
At 30 June 2012	<u>5,000,000,000</u>	<u>500,000</u>

A summary of the issued and fully paid capital of the Company is as follows:

	Number of shares	Share capital HK\$'000
Issued and fully paid shares of HK\$0.10 each: At 1 January 2012 and 30 June 2012	<u>2,460,344,830</u>	<u>246,035</u>

Pursuant to an ordinary resolution passed at the annual general meeting on 4 June 2012, the authorised share capital of the Company was increased from HK\$300 million to HK\$500 million by creation of additional 2,000 million shares of HK\$0.10 each.

17. CAPITAL COMMITMENTS

Except as disclosed elsewhere in the condensed consolidated financial statements, the Group has the following significant capital commitments at the end of the reporting period:

	30.6.2012 HK\$'000	31.12.2011 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	73,604	78,084
— acquisitions of subsidiaries (<i>note</i>)	<u>396,687</u>	<u>106,042</u>
Capital injection contracted for but not provided in the condensed consolidated financial statements in respect of:		
— investment in an associate	<u>—</u>	<u>51,826</u>

Note: Amount represented consideration contracted for but not provided in the condensed consolidated financial statements for the acquisitions of four subsidiaries operating gas business in the PRC. As at 30 June 2012, the acquisitions were not yet completed and subject to certain conditions before completion.

18. ACQUISITION OF BUSINESS

Acquisition of a business in Benxi (“Benxi business”)

In June 2012, the Group completed the acquisition of Benxi business from an independent vendor, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK\$73,620,000. This transaction has been accounted for using the acquisition method of accounting.

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

The net assets acquired in the transaction are as follows:

	Acquiree's fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	49,671
Inventories	30
Trade and other payables and accrued charges	<u>(798)</u>
Net assets acquired	<u><u>48,903</u></u>
Goodwill arising on acquisition:	
	HK\$'000
Consideration transferred	73,620
Less: Net assets acquired	<u>(48,903)</u>
Goodwill arising on acquisition	<u><u>24,717</u></u>

Goodwill arose from the above acquisition 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 business. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

18. ACQUISITION OF BUSINESS (CONTINUED)

Acquisition of Benxi business (continued)

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	73,620
Amounts unpaid and included in consideration payable for acquisition	<u>(49,080)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of business	<u>24,540</u>

During the period, Benxi business contributed insignificant amount to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

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

19. RELATED PARTY TRANSACTIONS

During the period, the following related party transactions took place:

Name of related party	Nature of transactions	Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000
HKCG	Outstanding loan balances (See note 15)	471,640	472,165
	Interest expense	6,332	4,450
	Management fee	—	486
GH — Fusion Corporation Limited (note b)	Purchase of construction materials	3,331	2,296
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	22,847	10,466

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000
Hongkong and China Technology (Wuhan) Company Limited (<i>note a</i>)	System software and supporting services	1,124	611
ECO Environmental Investments Limited (<i>note a</i>)	Office licence income	168	164
Anhui Province Natural Gas Development Company Limited (<i>note b</i>)	Purchase of compressed natural gas	30,072	19,964
Jilin Hong Kong and China Gas Company Limited (<i>note a</i>)	Purchase of compressed natural gas	1,485	—
Shenyang Sanquan Project Management Consulting Co., Ltd. (<i>note a</i>)	Project management	461	—
Towngas Telecommunications (Shenzhen) Limited (<i>note a</i>)	Cloud computing system and supporting service	3,001	—
Tongling Hong Kong and China Gas Company Limited (<i>note c</i>)	Purchase of compressed natural gas	—	48

Notes:

- (a) HKCG had controlling interests in these companies.
- (b) HKCG had significant influences in these companies.
- (c) HKCG jointly controlled this company with another party.