

2015

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*)
Ho Hon Ming, John (*Company Secretary*)
Kee Wai Ngai, Martin

Independent Non-Executive Directors

Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

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
Kwan Yuk Choi, James

Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)
Li Man Bun, Brian David
Kwan Yuk Choi, James
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

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

23rd Floor, 363 Java Road
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

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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



CONTENTS

	Page
Management Discussion and Analysis	2
Other Information	8
Report on Review of Condensed Consolidated Financial Statements	16
Condensed Consolidated Income Statement	17
Condensed Consolidated Statement of Comprehensive Income	18
Condensed Consolidated Statement of Financial Position	19
Condensed Consolidated Statement of Changes in Equity	21
Condensed Consolidated Statement of Cash Flows	23
Notes to the Condensed Consolidated Financial Statements	24

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2015, the Group recorded a turnover of HK\$3,931 million, a growth of HK\$257 million over the corresponding period of 2014. Profit after taxation attributable to shareholders of the Company amounted to HK\$639 million, an increase of 37% as compared to the corresponding period last year. Basic earnings per share amounted to 24.24 HK cents, representing an increase of 35% compared to the corresponding period of 2014.

Turnover

For the six months ended 30 June 2015, turnover from the sales and distribution of piped gas and related products increased 6% to HK\$3,212 million from HK\$3,030 million over the corresponding period last year. This growth was primarily attributable to the steady increase in the volume of gas sales and higher gas sales prices. The total consolidated volume of gas sold in the current period amounted to 899 million cubic metres, an increase of 4% compared to corresponding period in 2014. For the connection business, the Group recorded an income of HK\$719 million on connection fees in the current period, representing an increase of 12% over the corresponding period last year. Consolidated new households' connections of 160,000 were made during the period under review.

Development of New Projects

As at the date of this report, the Group acquired three gas projects during the year. They consist of a city gas project in Wulian County in Rizhao City, Shandong Province, with automobile parts and accessories, machinery manufacturing and stone supply being the major industries of the region; the Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project, Anhui Province; and the Taigang Gas mid-stream long-haul pipeline project in Taian City, Shandong Province. While the Group has been focusing on the development of downstream city gas projects through mergers and acquisitions in the past to achieve rapid expansion in market share, we have also started to actively develop our mid-stream piped transmission business. The Xuancheng-Huangshan natural gas sub-stream project, Anhui Province will ensure the stable development of our business in the region by providing a complementary operation to our city gas businesses, while the Taigang Gas mid-stream long-haul pipeline project in Taian City, Shandong Province is proving its enormous strategic significance due to its location at the hub of China National Petroleum Corporation's gas supply in Shandong Province, offering strong assurance in gas supply for the Group's downstream city gas projects covered by the pipe network.

Available-for-sale Investments

Available-for-sale investments mainly consisted 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 had no material contingent liabilities as at 30 June 2015.

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 2015, the Group's total borrowings amounted to HK\$8,072 million, of which HK\$994 million represented loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 1 to 5 years, HK\$4,783 million represented bank loans and other loans due between 1 to 5 years, HK\$2,194 million represented bank loans and other loans due within 1 year, and HK\$101 million represented bank loans and other loans due over 5 years. The Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowing of HK\$350 million to the fixed-rate borrowing in 2011. Other than HK\$688 million of bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The Group's borrowings are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As at the end of the period, the Group had a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 27.5%.

As at 30 June 2015, the Group's cash and cash equivalents together with time deposits amounted to HK\$1,895 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2015, the Group's unutilised available facilities amounted to HK\$2,249 million.

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 strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and operating requirements.

Credit Ratings

In June 2015, Standard & Poor's upgraded the long-term corporate credit rating of Towngas China from "BBB" to "BBB+", while maintaining its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". In July 2015, Moody's Investors Service upgraded the issuer rating of Towngas China from "Baa2" to "Baa1" with a "stable" outlook rating. These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of Towngas China's sound financial position.

Interim Dividend

The Board has resolved not to declare an interim dividend (2014: nil).

Employee and Remuneration Policies

As at 30 June 2015, the Group had 21,215 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant 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. We also encourage employees to seek a sound balance between work and leisure, while also 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.

Mr. Chan Wing Kin, Alfred Honoured with “Leadership Award” at the “Gas Industry Awards 2015”

Mr. Chan Wing Kin, Alfred, Managing Director of HKCG and Chairman of the Group, was honoured with the “Leadership Award” at the “Gas Industry Awards 2015” jointly organised by the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, making him the first Chinese business leader to earn this award. The “Gas Industry Awards 2015” was held to honour the enterprises and individuals who have made outstanding contributions to the development of the gas industry. Mr. Chan won this award in recognition of his outstanding achievements in driving the rapid development of the city gas business in China together with his strong leadership of a team of professionals recognised for its performance excellence in gas safety, customer services and operating efficiencies.

Corporate Social Responsibilities

In fulfillment of our corporate social responsibilities, we are committed to environmental protection, together with help and support for the less privileged. Our aim is to uphold and promote the tradition of philanthropic involvement, long held by our parent company, HKCG, in mainland China.

Under the charitable campaign named “Towngas China Gentle Breeze Movement”, the Group donated school uniforms, computers, sporting items, musical instruments, painting tools as well as canteen facilities and the building of the “Towngas China Charity Library” to Pingshang Primary School in Lubuge Town, Xingyi City, Guizhou Province. Since the commencement of this campaign in 2013, we have helped 18 schools in Xiushui in Jiangxi, Wenchuan in Sichuan, Maanshan in Anhui, Chizhou in Anhui, Weifang in Shandong and Xingyi in Guizhou with the renovation of teaching blocks, construction of e-classrooms as well as donations for teaching equipment, learning tools, stationery and sporting items, significantly improving the learning environment for local students.

The Group launched a campaign called “A Date with Towngas China Forest” as project companies all over the nation invited the local media and customers to participate in the environmental protection activity of tree planting with Towngas China volunteers. A total of 4,000 trees have been planted, forming a green zone of 8,000 square metres.

Towngas China volunteers also visited Bailu Primary School in Wuxi County, Chongqing as part of the “Companionship for Resident Children’s Programme”. In addition to homework tutorials and cultivation in music, art and sports, they also assisted in the day care and mental guidance of the children.

Recognising our outstanding performance in operational safety, service quality and social contributions, the Group was named the “2015 Chinese Corporate Responsibility Brand — Most Influential Enterprise” at the “2015 Chinese Corporation Responsibility Brand Conference”. This event is jointly organised by the Corporate Citizenship Committee of China Federation of Social Work, CCTV Channel for Finance and Economics and Tencent Charity Foundation to facilitate comprehensive harmony and sustainable development throughout the business community and society by identifying and honouring brands that lead the way in corporate social responsibility.

Outlook

Economic Landscape

The Chinese government has set the GDP growth target for 2015 at approximately 7%, with plans to drive national economic development through proactive fiscal policies and prudent monetary policies, facilitating the transition to a consumption-driven growth model from the investment-driven model in the past.

The launch of the policies for this new normal economic status coincided with a period of global economic weakness and exchange rate fluctuations. As a result, China experienced an economic downturn during the first half of 2015, evidenced by a significant slowdown in export growth together with increasing caution in real estate development and investment. Responding to the situation, the government increased the scale of its proactive fiscal policy, leading to successive cuts both in benchmark lending and deposit interest rates and the deposit reserve ratio by the central bank. In view of these developments, we believe that the target GDP growth rate of 7% for the full year can be achievable.

The New Normal Status of Natural Gas Price Reforms

Following two upward adjustments of non-residential natural gas city-gate prices across the nation in July 2013 and September 2014, the Chinese government converged the prices of non-residential existing gas and incremental gas in April 2015 by slightly raising the natural gas city-gate price for existing gas and substantially lowering the natural gas city-gate price for incremental gas, resulting in a slight decrease in the overall natural gas city-gate price for non-residential gas for the Group in 2015, as compared to 2014.

At the same time, the significant decline in international oil prices since 2014, coupled with a slackening in energy demand due to lacklustre global economic conditions, resulted in an oversupply of natural gas in China in 2015. During the months of April and May, the country reported a rare year-on-year decrease in the domestic production of natural gas, while the total volume demand for natural gas in May was also lower than that for the same period in 2014. As a result of the oversupply, liquefied natural gas (“LNG”) suppliers in some regions even resorted to price cuts to enhance sales and compete with piped city gas suppliers for industrial customers.

While the establishment of the new normal status for natural gas price reforms has caused some repercussions in the natural gas industry, it has also expedited the marketisation and internationalisation of China’s natural gas industry. This will benefit the city gas sector in the long term. Towngas China Group has planned ahead to deal with the possible repercussions of these natural gas price reforms. With the adoption of the “Year of Marketing Strategy” as our annual management theme in early 2014, our project companies have achieved highly positive results in developing the commercial and industrial gas consumption markets over the past two years. Our staffs have also been gearing up their technical capabilities in the natural gas applications in order to demonstrate the superiority of natural gas as an alternative energy to customers. As such, the Towngas China Group is confident that we will sustain rapid development in the natural gas market under the new normal status environment.

The official commencement of the trial operation of the Shanghai Petroleum and Natural Gas Exchange on 1 July 2015 represents an important step for the National Development and Reform Commission to advance natural gas trading and price reforms. This will lead to fairer competition as it expedites the move towards opening up natural gas transmission facilities and LNG receiving terminals, whilst also allowing China to get more natural gas supplies from the international market at competitive prices. The Natural Gas Exchange thus signifies a new chapter in China’s natural gas reform, which will create a profound, positive impact on the development of the city gas sector.

Market Prospects of the City Gas Business

Despite the recent weakness experienced in the natural gas market, the natural gas market will sustain sound development in the long term given the national policy to enhance the development of the natural gas industry. Since 2014, the Chinese government has announced a number of important development plans that will be carried out into 2020. These include the “National New-type Urbanisation Plan (2014–2020)”, “Action Plan for the National Energy Development Strategy (2014–2020)”, as well as the “Proposal for Enhancing Prevention and Mitigation of Air Pollution in the Energy Sector”, which call for revolutionary reforms in the four aspects of “energy consumption, energy supply, energy-related technologies and energy systems”, showcasing a strong determination of the Chinese government to roll out energy strategies for a modern society. Furthermore, with the support of large-scale import gas projects, such as the Central Asian natural gas pipeline D and the East line of the China-Russia natural gas pipeline, scheduled for operation in 2016 and 2018, respectively, the size of China’s natural gas market is expected to exceed 300 billion cubic metres by 2020. This figure represents growth in excess of 100 billion cubic metres during the five-year-plan (“FYP”) period of 2016–2020. With the city gas sector benefitting the most from this development, the Group is seizing every opportunity to act vigorously and rapidly in the development of new projects.

Direction of the Group’s Business Development

The Group holds an optimistic view for China’s long-term economic development. Demand for investments in natural gas and city gas will remain robust, as urbanisation will continue to provide a strong driving force for development during the nation’s 13th FYP period. At the same time there will be escalating demand for energy conservation and environmental protection throughout the country. The Group’s city gas business on the mainland will therefore continue to benefit from the rapid development of China’s natural gas industry.

Looking ahead, we will continue to spend utmost efforts on enhancing management standards with due emphasis on customer services and corporate social responsibility. We will also be pursuing our ongoing growth with focuses both on quality and efficiency, working to ensure our leading edge against the competition and endeavoring to serve as a role model for China’s city gas industry.

OTHER INFORMATION

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

As at 30 June 2015, 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 number of issued shares of the Company or its associated corporation as at 30.06.2015
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,618,000	-	-	3,618,000	-	3,618,000	0.14%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000	-	-	3,015,000	-	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,015,000	-	-	1,015,000	-	1,015,000	0.04%
	Kwan Yuk Choi, James	Beneficial owner	2,515,000	-	-	2,515,000	-	2,515,000	0.10%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	220,408	-	-	220,408	-	220,408	0.00%
	Ho Hon Ming, John	Beneficial owner	34,516	-	-	34,516	-	34,516	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	77,809	88,157	-	165,966	-	165,966	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 2015 were as follows:

Name of Director	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding options as at 01.01.2015	Exercised during the period	as at 30.06.2015	
						Number of Shares subject to outstanding options	Approximate percentage of the Company's issued shares
Chan Wing Kin, Alfred	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	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	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	–	–

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 interests held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2015, there were no other interests or short positions of the Directors and 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 2015, 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 shares 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 total number of issued shares as at 30.06.2015
Lee Shau Kee	Interest of controlled corporations	1,663,541,813 (Note 1)	62.94%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,663,541,813 (Note 2)	62.94%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,663,541,813 (Note 2)	62.94%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,663,541,813 (Note 2)	62.94%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,663,541,813 (Note 2)	62.94%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,663,541,813 (Note 2)	62.94%
Faxon Investment Limited ("Faxon")	Interest of controlled corporations	1,663,541,813 (Note 2)	62.94%
HKCG	Interest of controlled corporations	1,663,541,813 (Note 3)	62.94%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,619,638,376 (Note 3)	61.28%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,619,638,376 (Note 3)	61.28%

Notes:

1. 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 1,663,541,813 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. 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 1,663,541,813 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. 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 1,619,638,376 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 41,349,131 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,554,306 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited, upon their submission of election forms with the Company electing to receive new shares in the Company in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 26 June 2015. Subsequent to the allotment of new shares by the Company on 10 July 2015, the approximate percentage figures of interest of (i) HKCG and (ii) TICL and HK&CG (China) in the Company's shares were adjusted to 62.44% and 60.79% respectively as at 10 July 2015.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2015, 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 2015, 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 2015, 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 types	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\$)	Number of Shares subject to outstanding options as at 01.01.2015	Exercised during the period	Number of Shares subject to outstanding options as at 30.06.2015	Weighted average closing price of Shares immediately before the date(s) on which options were exercised (HK\$)
Category 1:								
Directors								
Chan Wing Kin, Alfred	2007	16.03.2007	16.03.2008–27.11.2015	3.811	1,085,400	1,085,400	–	8.73
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	1,085,400	1,085,400	–	8.73
		16.03.2007	16.03.2010–27.11.2015	3.811	1,447,200	1,447,200	–	8.73
Wong Wai Yee, Peter	2007	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	904,500	–	8.54
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	1,206,000	–	8.54
Ho Hon Ming, John	2007	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	904,500	–	8.54
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	1,206,000	–	8.54
Total for Directors					<u>9,648,000</u>	<u>9,648,000</u>	<u>–</u>	
Category 2:								
Employees								
	2006	03.10.2006	04.10.2007–27.11.2015	2.796	120,600	120,600	–	6.92
	Options	03.10.2006	04.04.2008–27.11.2015	2.796	523,600	241,200	282,400	8.13
		03.10.2006	04.10.2008–27.11.2015	2.796	723,600	241,200	482,400	8.73
Total for Employees					<u>1,367,800</u>	<u>603,000</u>	<u>764,800</u>	
All categories					<u>11,015,800</u>	<u>10,251,000</u>	<u>764,800</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 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 2015.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2015.

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 2015.

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 5 August 2015 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2015. 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 2015 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:

Mr. Chan Wing Kin, Alfred *B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc.(Eng), B.Sc.(Eng)*
Chairman and Executive Director, Chairman of the Nomination Committee and member of the Remuneration Committee

Mr. Chan was honoured with the Leadership Award in Gas Industry Awards 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom and has resigned as an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.

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 was appointed the Chairman of the Process Review Panel for the Securities and Futures Commission and has ceased to be the Chairman of the Committee on Free Kindergarten Education established by the Education Bureau.

Mr. Li Man Bun, Brian David *JP, FCA, MBA, MA (Cantab)*
Independent Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration Committee and the Nomination Committee

Mr. Li was appointed a member of Market Development Committee of the Financial Services Development Council of the Government of the Hong Kong Special Administrative Region (“HKSARG”) and a member of Asian Financial Forum 2016 Steering Committee and has ceased to be a member of the HKSARG Harbourfront Commission.



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 40, which comprise the condensed consolidated statement of financial position as of 30 June 2015 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
12 August 2015

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2015

	NOTES	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Turnover	3	<u>3,931,075</u>	<u>3,674,163</u>
Operating profit before returns on investments	4	521,518	495,996
Other gains (losses), net		106,195	(42,407)
Share of results of associates		174,994	183,477
Share of results of joint ventures		152,591	138,361
Finance costs	5	<u>(82,903)</u>	<u>(82,289)</u>
Profit before taxation	6	872,395	693,138
Taxation	7	<u>(178,957)</u>	<u>(171,485)</u>
Profit for the period		<u>693,438</u>	<u>521,653</u>
Profit for the period attributable to:			
Shareholders of the Company		639,166	467,968
Non-controlling interests		<u>54,272</u>	<u>53,685</u>
		<u>693,438</u>	<u>521,653</u>
		HK cents	HK cents
Earnings per share	8		
— Basic		<u>24.24</u>	<u>17.90</u>
— Diluted		<u>24.21</u>	<u>17.85</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Profit for the period	<u>693,438</u>	<u>521,653</u>
Other comprehensive income (expense)		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	6,874	(254,911)
<i>Item that may be reclassified subsequently to profit or loss</i>		
Fair value change on cash flow hedge	<u>903</u>	<u>1,311</u>
	<u>7,777</u>	<u>(253,600)</u>
Total comprehensive income for the period	<u><u>701,215</u></u>	<u><u>268,053</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	646,064	247,861
Non-controlling interests	<u>55,151</u>	<u>20,192</u>
Total comprehensive income for the period	<u><u>701,215</u></u>	<u><u>268,053</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	30.6.2015 HK\$'000 (unaudited)	31.12.2014 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	11,745,087	11,026,351
Leasehold land		464,261	449,682
Intangible assets		598,196	608,608
Goodwill	11	6,002,263	5,890,298
Interests in associates		2,973,390	2,836,497
Interests in joint ventures		2,099,561	1,936,057
Loans to joint ventures		46,215	56,012
Available-for-sale investments		170,813	170,763
		24,099,786	22,974,268
Current assets			
Inventories		584,265	565,951
Leasehold land		23,855	23,827
Loan to an associate		18,749	18,745
Loans to joint ventures		230,912	166,245
Trade and other receivables, deposits and prepayments	12	1,771,859	1,788,086
Amounts due from non-controlling shareholders		17,061	16,551
Time deposits over three months		269,995	344,914
Bank balances and cash		1,625,299	1,451,652
		4,541,995	4,375,971
Current liabilities			
Trade and other payables and accrued charges	13	4,441,711	4,136,399
Amounts due to non-controlling shareholders		171,477	188,092
Taxation		610,295	582,078
Borrowings — amount due within one year	14	2,193,523	2,482,814
		7,417,006	7,389,383
Net current liabilities		(2,875,011)	(3,013,412)
Total assets less current liabilities		21,224,775	19,960,856

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2015

	NOTES	30.6.2015 HK\$'000 (unaudited)	31.12.2014 HK\$'000 (audited)
Non-current liabilities			
Loans from the ultimate holding company	15	993,750	993,750
Borrowings — amount due after one year	14	4,884,829	4,075,077
Deferred taxation		447,762	440,603
Other financial liabilities	18	6,045	6,948
		<u>6,332,386</u>	<u>5,516,378</u>
Net assets		<u>14,892,389</u>	<u>14,444,478</u>
Capital and reserves			
Share capital	16	264,291	263,266
Reserves		<u>13,409,887</u>	<u>12,990,685</u>
Equity attributable to shareholders of the Company		13,674,178	13,253,951
Non-controlling interests		<u>1,218,211</u>	<u>1,190,527</u>
Total equity		<u>14,892,389</u>	<u>14,444,478</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2014 and 1 January 2015 (audited)	263,266	6,393,246	1,453,975	16,106	(6,948)	130,259	5,004,047	13,253,951	1,190,527	14,444,478
Exchange differences arising on translation to presentation currency	-	-	5,995	-	-	-	-	5,995	879	6,874
Fair value change on cash flow hedge	-	-	-	-	903	-	-	903	-	903
Profit for the period	-	-	-	-	-	-	639,166	639,166	54,272	693,438
Total comprehensive income for the period	-	-	5,995	-	903	-	639,166	646,064	55,151	701,215
Issue of shares upon exercise of share options	1,025	52,814	-	(15,385)	-	-	-	38,454	-	38,454
Transfer	-	-	-	-	-	14,469	(14,469)	-	-	-
Addition on acquisition of businesses	-	-	-	-	-	-	-	-	9,866	9,866
Capital contributed from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	2,744	2,744
Dividends paid to shareholders of the Company	-	(264,291)	-	-	-	-	-	(264,291)	-	(264,291)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(40,077)	(40,077)
	1,025	(211,477)	-	(15,385)	-	14,469	(14,469)	(225,837)	(27,467)	(253,304)
At 30 June 2015 (unaudited)	<u>264,291</u>	<u>6,181,769</u>	<u>1,459,970</u>	<u>721</u>	<u>(6,045)</u>	<u>144,728</u>	<u>5,628,744</u>	<u>13,674,178</u>	<u>1,218,211</u>	<u>14,892,389</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2015

	Attributable to shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2013 and 1 January 2014 (audited)	261,286	6,434,633	1,745,259	20,316	(10,308)	102,281	3,977,836	12,531,303	946,960	13,478,263
Exchange differences arising on translation to presentation currency	-	-	(221,418)	-	-	-	-	(221,418)	(33,493)	(254,911)
Fair value change on cash flow hedge	-	-	-	-	1,311	-	-	1,311	-	1,311
Profit for the period	-	-	-	-	-	-	467,968	467,968	53,685	521,653
Total comprehensive (expense) income for the period	-	-	(221,418)	-	1,311	-	467,968	247,861	20,192	268,053
Issue of shares upon exercise of share options	272	14,101	-	(4,210)	-	-	-	10,163	-	10,163
Transfer	-	-	-	-	-	11,181	(11,181)	-	-	-
Addition on acquisition of businesses	-	-	-	-	-	-	-	-	44,690	44,690
Capital contributed from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	36,722	36,722
Dividends paid to shareholders of the Company	-	(209,246)	-	-	-	-	-	(209,246)	-	(209,246)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(36,437)	(36,437)
	272	(195,145)	-	(4,210)	-	11,181	(11,181)	(199,083)	44,975	(154,108)
At 30 June 2014 (unaudited)	261,558	6,239,488	1,523,841	16,106	(8,997)	113,462	4,434,623	12,580,081	1,012,127	13,592,208

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	NOTE	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Net cash generated from operating activities		<u>563,759</u>	<u>372,096</u>
Investing activities			
Purchases of property, plant and equipment		(933,371)	(710,708)
Consideration paid for acquisition of businesses acquired in prior periods		(188,240)	(241,091)
Acquisition of businesses (net of cash and cash equivalents acquired)	19	4,717	(304,538)
Purchase of leasehold land		(24,737)	(27,299)
Purchase of a joint venture		(58,309)	–
Capital injection into associates		(64,927)	(20,422)
Loan to a joint venture		(62,430)	(9,807)
Dividends received from joint ventures		41,100	53,780
Deferred consideration received		114,000	40,000
Dividends received from an associate		93,957	80,565
Dividends received from an available-for-sale investment		65,136	65,368
Decrease (increase) in time deposits over three months		74,919	(4,871)
Other investing cash flows		<u>24,594</u>	<u>19,778</u>
Net cash used in investing activities		<u>(913,591)</u>	<u>(1,059,245)</u>
Financing activities			
Repayments of bank and other loans		(1,194,121)	(1,600,087)
Dividends paid to non-controlling shareholders of subsidiaries		(40,077)	(36,437)
New bank and other loans raised		1,715,221	2,277,736
Capital contribution from non-controlling shareholders of subsidiaries		2,744	36,722
Issue of shares upon exercise of share options		<u>38,454</u>	<u>10,163</u>
Net cash generated from financing activities		<u>522,221</u>	<u>688,097</u>
Net increase in cash and cash equivalents		172,389	948
Cash and cash equivalents at beginning of the period		1,451,652	2,230,363
Effect of foreign exchange rate changes		<u>1,258</u>	<u>(59,985)</u>
Cash and cash equivalents at end of the period, representing bank balances and cash		<u><u>1,625,299</u></u>	<u><u>2,171,326</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 the 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 ("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\$2,875 million as at 30 June 2015. The Group's liabilities as at 30 June 2015 included borrowings of approximately HK\$2,194 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 unutilised facilities (the "Facilities") amounting to approximately HK\$2,249 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK\$2,164 million 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, except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and HKAS issued by the HKICPA:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

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

The Group has not early applied the new and revised HKFRSs and HKASs that have been issued but are not yet effective.

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 to facilitate strategic decision making.

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

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 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 revenue.

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other gains (losses), net and unallocated corporate expenses such as central administration costs and directors' salaries. These are 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 2015			
TURNOVER			
External	<u>3,212,316</u>	<u>718,759</u>	<u>3,931,075</u>
Segment results	<u>266,849</u>	<u>326,613</u>	593,462
Other gains, net			106,195
Unallocated corporate expenses			(71,944)
Share of results of associates			174,994
Share of results of joint ventures			152,591
Finance costs			<u>(82,903)</u>
Profit before taxation			872,395
Taxation			<u>(178,957)</u>
Profit for the period			<u>693,438</u>
Six months ended 30 June 2014			
TURNOVER			
External	<u>3,029,584</u>	<u>644,579</u>	<u>3,674,163</u>
Segment results	<u>272,504</u>	<u>293,831</u>	566,335
Other losses, net			(42,407)
Unallocated corporate expenses			(70,339)
Share of results of associates			183,477
Share of results of joint ventures			138,361
Finance costs			<u>(82,289)</u>
Profit before taxation			693,138
Taxation			<u>(171,485)</u>
Profit for the period			<u>521,653</u>

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Turnover	3,931,075	3,674,163
Less expenses:		
Gas fuel, stores and materials used	2,595,902	2,437,676
Staff costs	385,619	332,449
Depreciation, amortisation, and release of leasehold land	230,479	193,388
Other expenses	197,557	214,654
	<u>521,518</u>	<u>495,996</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	85,963	85,064
— bank and other borrowings not wholly repayable within five years	421	468
	<u>86,384</u>	<u>85,532</u>
Bank charges	2,234	1,804
	<u>88,618</u>	<u>87,336</u>
Less: amounts capitalised	(5,715)	(5,047)
	<u>82,903</u>	<u>82,289</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	10,268	3,714
Release of leasehold land	7,963	6,405
Cost of inventories sold	2,838,587	2,651,563
Depreciation of property, plant and equipment	212,248	183,269
Staff costs	385,619	332,449
Exchange loss	–	144,044
and after crediting:		
Interest income	12,459	12,161
Interest income on loans to associates and joint ventures	5,865	3,846
Imputed interest income on deferred consideration receivable and loans to joint ventures	3,847	5,888

7. TAXATION

The taxation charge represents Enterprise Income Tax (“EIT”) of the PRC 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.

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2014: 15% to 25%).

Following the Catalogue of Encouraged Industries in Western Region which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

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	
	2015	2014
	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	<u>639,166</u>	<u>467,968</u>
	Number of shares	
	Six months ended 30 June	
	2015	2014
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,636,306	2,613,878
Effect of dilutive potential ordinary shares:		
Share options	<u>3,710</u>	<u>7,651</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,640,016</u>	<u>2,621,529</u>

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: nil). During the period, a dividend of ten HK cents per share (2014: eight HK cents per share) amounting to HK\$264,291,000 was declared by the Board as the final dividend for 2014 (HK\$209,246,000 for 2013).

The final dividend for 2014 was payable in cash but shareholders were given the option of electing to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. Subsequent to the reporting period, on 10 July 2015, the final dividend of ten HK cents per share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2014.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent HK\$939,086,000 (2014: HK\$715,755,000) on additions to property, plant and equipment, including HK\$627,909,000 (2014: HK\$527,837,000) on the construction in progress of gas pipelines and HK\$311,177,000 (2014: HK\$187,918,000) on other plant and equipment.

11. GOODWILL

	HK\$'000
At 31 December 2014	5,890,298
Currency realignment	1,933
Provisional amount acquired on acquisition of businesses (note 19)	<u>110,032</u>
At 30 June 2015	<u><u>6,002,263</u></u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2015 HK\$'000	31.12.2014 HK\$'000
Trade receivables	774,625	743,444
Deferred consideration receivable	–	112,011
Prepayments	632,954	668,718
Other receivables and deposits	<u>364,280</u>	<u>263,913</u>
	<u><u>1,771,859</u></u>	<u><u>1,788,086</u></u>

Trade receivables

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.6.2015 HK\$'000	31.12.2014 HK\$'000
0 to 90 days	677,345	671,721
91 to 180 days	41,912	21,240
181 to 360 days	<u>55,368</u>	<u>50,483</u>
	<u><u>774,625</u></u>	<u><u>743,444</u></u>

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2015	31.12.2014
	HK\$'000	HK\$'000
Trade payables	1,056,066	1,028,183
Receipt in advance	2,399,089	2,354,328
Consideration payable for acquisitions of businesses	119,264	127,861
Consideration payable to a joint venture	–	23,490
Other payables and accruals	866,082	600,433
Amount due to ultimate holding company (<i>note</i>)	1,210	2,104
	4,441,711	4,136,399

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

Trade payables

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

	30.6.2015	31.12.2014
	HK\$'000	HK\$'000
0 to 90 days	713,552	754,712
91 to 180 days	142,654	123,977
181 to 360 days	111,272	79,586
Over 360 days	88,588	69,908
	1,056,066	1,028,183

14. BORROWINGS

	30.6.2015	31.12.2014
	HK\$'000	HK\$'000
Bank loans — unsecured	7,027,486	6,506,249
Other loans — unsecured	50,866	51,642
	7,078,352	6,557,891

14. BORROWINGS (CONTINUED)

	30.6.2015 HK\$'000	31.12.2014 HK\$'000
Carrying amount repayable:		
On demand or within one year	2,193,523	2,482,814
More than one year but not exceeding two years	1,310,555	1,719,160
More than two years but not exceeding five years	3,472,715	2,329,250
More than five years	101,559	26,667
	<u>7,078,352</u>	<u>6,557,891</u>
Less: Amount due within one year shown under current liabilities	<u>(2,193,523)</u>	<u>(2,482,814)</u>
Amount due after one year	<u><u>4,884,829</u></u>	<u><u>4,075,077</u></u>

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 according to the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective Interest rate	Carrying amount	
			30.6.2015 HK\$'000	31.12.2014 HK\$'000
HK\$800,000,000 (2014: HK\$800,000,000)	June 2017–February 2018 (according to date of draw down) (2014: June 2017–February 2018) (according to date of draw down)	2.62% (2014: 2.62%)	800,000	800,000
US\$25,000,000 (2014: US\$25,000,000)	December 2016 (2014: December 2016)	3.86% (2014: 3.86%)	193,750	193,750
			<u>993,750</u>	<u>993,750</u>

16. SHARE CAPITAL

Authorised shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
At 31 December 2014 and 30 June 2015	<u>5,000,000,000</u>	<u>500,000</u>

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

	Number of shares	Share capital HK\$'000
At 31 December 2014	2,632,657,769	263,266
Issue of shares upon exercise of share options	<u>10,251,000</u>	<u>1,025</u>
At 30 June 2015	<u>2,642,908,769</u>	<u>264,291</u>

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:

	30.6.2015 HK\$'000	31.12.2014 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	108,371	112,824
— acquisition of business	—	11,472
— acquisition of an associate	<u>41,620</u>	<u>41,656</u>

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	30.6.2015	31.12.2014		
Interest rate swaps classified as other financial liabilities in the condensed consolidated statement of financial position	Liabilities (designated for hedging) — HK\$6,045,000	Liabilities (designated for hedging) — HK\$6,948,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There were no transfers between Level 1 and 2 in the period.

19. ACQUISITION OF BUSINESSES

During the six months ended 30 June 2015, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combinations in:			
Yangxin Hong Kong & China Gas Company Limited ("Yangxin")	January 2015	51%	11,360
Wulian Hong Kong & China Gas Company Limited ("Wulian")	March 2015	70%	110,041

The acquisition-related costs were insignificant and were recognised as expenses in the current period, within other expenses of note 4.

Details of provisional fair value of net identifiable assets acquired and provisional goodwill arising on acquisition are as follows:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Purchase consideration	11,360	110,041	121,401
Non-controlling interests	9,016	850	9,866
Acquirees' provisional fair value of net identifiable assets acquired (see below)	<u>(18,400)</u>	<u>(2,835)</u>	<u>(21,235)</u>
Provisional goodwill	<u>1,976</u>	<u>108,056</u>	<u>110,032</u>

19. ACQUISITION OF BUSINESSES (CONTINUED)

The non-controlling interests recognised at the acquisition dates were measured by reference to the proportionate share of provisional fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$9,866,000.

The net identifiable assets acquired in the transactions are as follows:

Acquirees' provisional fair values at acquisition dates:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Net assets acquired:			
Property, plant and equipment	2,604	2,384	4,988
Inventories	5	–	5
Trade and other receivables, deposit, and prepayments (<i>note</i>)	1,647	676	2,323
Cash and bank balances	16,032	45	16,077
Trade and other payables and accrued charges	<u>(1,888)</u>	<u>(270)</u>	<u>(2,158)</u>
	<u>18,400</u>	<u>2,835</u>	<u>21,235</u>

Note: The trade and other receivables acquired with fair value of HK\$2,323,000 had gross contractual amounts of HK\$2,323,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

19. ACQUISITION OF BUSINESSES (CONTINUED)

Net cash inflow arising on acquisitions:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Purchase consideration	11,360	110,041	121,401
Amounts unpaid and included in:			
— consideration payable for acquisitions	—	(34,584)	(34,584)
— amounts due to non-controlling shareholders	—	(75,457)	(75,457)
Bank balances and cash acquired	<u>(16,032)</u>	<u>(45)</u>	<u>(16,077)</u>
	<u>(4,672)</u>	<u>(45)</u>	<u>(4,717)</u>

Provisional goodwill arose from the above acquisitions 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.

None of the provisional goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The provisional goodwill arising from the above acquisitions is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the valuation to assess the provisional fair value of the identifiable assets acquired. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

During the period, acquired businesses contributed HK\$856,000 to the Group's turnover and incurred loss of HK\$1,448,000 for the period between the date of acquisition and the end of the reporting period.

Had the above acquisitions been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2015 would have been HK\$3,931,075,000, and the amount of the profit for the interim period would have been HK\$692,630,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the following related party transactions took place during the period:

Name of related party	Nature of transactions	Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000
HKCG	Interest expense	14,120	14,108
GH — Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	227	540
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	7,180	19,365
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	2,610	753
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	40,606	49,608
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	3,991	3,407
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	2,087	3,840
Shandong Hong Kong and China Gas Training Institute (note a)	Training services	589	266
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	2,915	1,998
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	15,174	7,539

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000
Tongling Hong Kong and China Gas Company Limited (<i>note c</i>)	Purchase of compressed natural gas	–	15
	Sale of compressed natural gas	–	105
Taizhou Hong Kong and China Gas Company Limited (<i>note a</i>)	Purchase of compressed natural gas	1,024	2,845
Pingxiang Hong Kong & China Gas Company Limited (<i>note a</i>)	Provision of management services	–	49
Yixing Hong Kong & China Gas Company Limited (<i>note a</i>)	Rental of compressed natural gas vehicles	101	230
Zhuhai S-Tech Technology Limited (<i>note a</i>)	Provision of software	66	–
		<u> </u>	<u> </u>

Notes:

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