

2011

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

Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David (*Chairman*)
Chow Yei Ching
Cheng Mo Chi, Moses

Remuneration Committee

Chow Yei Ching (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chan Wing Kin, Alfred

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

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
Hang Seng Bank Limited



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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

The increase in profit after taxation attributable to shareholders was primarily driven by growth in the profit of existing entities as well as the acquisition of six city piped gas projects from The Hong Kong and China Gas Company Limited (“HKCG”) in July 2010.

Turnover

Sales of Piped Gas and Related Products

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

Gas Pipeline Construction

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

Development of New Projects

Operation of New Projects

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

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

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

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

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

Piped Gas Project in Miluo City, Hunan Province

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

Available-for-sale Investments

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

Contingent Liabilities

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

Financial Position

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

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

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

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

The Group's activities are predominantly operated and conducted in Hong Kong and 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 risk is not expected.

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

Interim Dividend

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

Employee and Remuneration Policies

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

Corporate Social Responsibility

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

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

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

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

Outlook

The National “12th Five-Year Plan”

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

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

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

Regulation of the City Gas Industry

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

Appreciation

On behalf of the Board, I would like to express sincere gratitude to all staff for their dedication and hard work, and to all shareholders and investors for their long-standing support.

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

Hong Kong, 22 August 2011

OTHER INFORMATION

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

As at 30 June 2011, the interests or short positions of the Directors 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 30.06.2011
			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%
	Chow Yei Ching	Beneficial owner	1,600,000	—	—	1,600,000	—	1,600,000	0.07%

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 30.06.2011
			Personal interest	Family interest	Corporate interest				
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	150,543	—	—	150,543	—	150,543	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	53,146	60,214	—	113,360	—	113,360	0.00%
	Ho Hon Ming, John	Beneficial owner	23,577	—	—	23,577	—	23,577	0.00%
	Law Wai Fun, Margaret	Beneficial owner	14,374	—	—	14,374	—	14,374	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 schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2011 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2011	as at 30.06.2011		Approximate percentage of the Company's issued share capital
				Exercise price HK\$	Number of Shares subject to outstanding options	
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. 3,015,000 options were exercised by Mr. Tang Yui Man, Francis, who resigned as an alternate Director to Mr. Ou Yaping (a former Executive Director of the Company resigned on 16 March 2011), with effect from 16 March 2011.
3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2011, 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 schemes of the Group 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 2011, 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 30.06.2011
Lee Shau 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 30.06.2011
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%

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 1,628,172,901 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 1,628,172,901 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 1,585,202,901 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.
4. 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.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2011, 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 2011, 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 2011, 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.

Share Option Schemes of the Company

The Company operates three share option schemes, the Pre-GEM Scheme, 2001 GEM Scheme, and 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 three schemes. The Pre-GEM Scheme and the 2001 GEM Scheme were approved by the shareholder on 4 April 2001 and have a life of 10 years until 3 April 2011. The 2005 Main Board Scheme was approved by the shareholders 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\$
Pre-GEM Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473
	04.04.2001	01.01.2004 – 03.04.2011	0.473
2001 GEM Scheme:			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483
	19.11.2004	31.12.2006 – 30.03.2011	3.483
	19.11.2004	31.12.2007 – 30.03.2011	3.483
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 during the period:

	Option types	Date of grant	Exercise period	Exercise price	Outstanding at 01.01.2011	Exercised during the period	Outstanding at 30.06.2011	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 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	—
Tang Yui Man, Francis (Note 5)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	904,500	—	3.97
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	904,500	—	3.97
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	1,206,000	—	3.97
Total for Directors					15,678,000	3,015,000	12,663,000	
Category 2:								
Employees								
	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,562,750	2,562,750	—	4.03
		19.11.2004	31.12.2006 – 30.03.2011	3.483	2,562,750	2,562,750	—	3.99
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,417,000	3,417,000	—	3.99
	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					12,120,300	8,542,500	3,577,800	
All categories					27,798,300	11,557,500	16,240,800	

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 under any share option schemes.
3. During the period, no new option was granted.
4. There was no outstanding share option at the beginning and at the end of the period under the Pre-GEM Scheme.
5. Mr. Tang Yui Man, Francis resigned as an alternate Director to Mr. Ou Yaping (a former Executive Director of the Company resigned on 16 March 2011) with effect from 16 March 2011.

Purchases, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2011.

Corporate Governance

During the six months ended 30 June 2011, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

Model Code for Securities Transactions by Directors

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

Audit Committee

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

An Audit Committee meeting was held on 12 August 2011 to review the unaudited interim financial report for the six months ended 30 June 2011. Deloitte Touche Tohmatsu, the Group's external auditor, had carried out a review of the unaudited interim financial report for the six months ended 30 June 2011 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the 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 changes on biographical details of Directors since the publication of the Company's 2010 Annual Report up to the date of this report are set out below:

Mr. Kwan Yuk Choi, James *J.P., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., B.Sc. (Eng), M.B.A.*
Executive Director

Mr. Kwan was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology on 24 June 2011.

Ms. Law Wai Fun, Margaret *FHKIHRM, DipEd, BA(Hons), MBA*
Executive Director

Ms. Law was conferred the VTC Honorary Fellowship and has retired as a Council Member of The Hong Kong Institute of Human Resource Management.

Dr. Chow Yei Ching GBS

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

Dr. Chow has been re-designated from a non-executive director to an independent non-executive director of Television Broadcasts Limited, which is a public listed company in Hong Kong, since 10 June 2011.

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

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

Dr. Cheng has retired as an independent non-executive director of China COSCO Holdings Company Limited, which is a public listed company in Hong Kong, with effect from 17 May 2011.

Mr. Li Man Bun, Brian David JP, FCA, MA(Cantab), MBA

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

Mr. Li resigned as an independent director of Xinjiang Goldwind Science & Technology Co., Ltd., which is a listed company on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, in June 2011. He has been appointed as an independent non-executive director of Hopewell Highway Infrastructure Limited, which is a listed company on the Hong Kong Stock Exchange.

Deloitte.

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TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the interim financial information set out on pages 17 to 40, which comprises the condensed consolidated statement of financial position of Towngas China Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of 30 June 2011 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 August 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	NOTES	Six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Turnover	3	1,960,185	1,239,565
Operating profit before returns on investments	4	227,131	130,093
Other income and gains		59,046	34,404
Share of results of associates		109,273	92,859
Share of results of jointly controlled entities		98,711	53,265
Finance costs	5	(74,651)	(69,946)
Profit before taxation	6	419,510	240,675
Taxation	7	(85,722)	(48,435)
Profit for the period		333,788	192,240
Profit for the period attributable to:			
Shareholders of the Company		302,475	171,992
Non-controlling interests		31,313	20,248
		333,788	192,240
Earnings per share	8	HK cents	HK cents
– Basic		12.32	8.78
– Diluted		12.31	8.78

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Profit for the period	333,788	192,240
Other comprehensive income		
Exchange differences arising on translation to presentation currency	<u>176,776</u>	<u>79,130</u>
Total comprehensive income for the period	<u><u>510,564</u></u>	<u><u>271,370</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	467,851	245,946
Non-controlling interests	<u>42,713</u>	<u>25,424</u>
Total comprehensive income for the period	<u><u>510,564</u></u>	<u><u>271,370</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30.6.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	5,461,306	5,073,785
Leasehold land		281,603	264,742
Intangible assets		182,420	182,107
Goodwill	11	3,559,303	3,380,743
Interest in associates		2,110,579	1,989,156
Interest in jointly controlled entities		1,363,649	1,247,471
Loans to jointly controlled entities		125,304	119,160
Available-for-sale investments		169,551	169,372
Deferred consideration receivable		200,193	242,481
		<u>13,453,908</u>	<u>12,669,017</u>
Current assets			
Inventories		183,075	147,885
Leasehold land		9,526	9,016
Loans to jointly controlled entities		86,643	84,906
Trade and other receivables, deposits and prepayments	12	669,421	531,455
Amounts due from minority shareholders		7,471	6,579
Bank balances and cash		1,386,629	1,433,941
		<u>2,342,765</u>	<u>2,213,782</u>
Current liabilities			
Trade and other payables and accrued charges	13	1,883,655	1,653,981
Amounts due to minority shareholders		26,221	25,630
Taxation payable		241,322	229,192
Borrowings – amount due within one year	14	2,384,030	2,792,403
		<u>4,535,228</u>	<u>4,701,206</u>
Net current liabilities		<u>(2,192,463)</u>	<u>(2,487,424)</u>
Total assets less current liabilities		<u>11,261,445</u>	<u>10,181,593</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2011

	NOTES	30.6.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (audited)
Non-current liabilities			
Loans from the ultimate holding company	15	472,165	471,365
Borrowings – amount due after one year	14	1,029,011	432,321
Deferred taxation		155,186	142,780
		<hr/> 1,656,362	<hr/> 1,046,466
Net assets		<hr/> 9,605,083	<hr/> 9,135,127
Capital and reserves			
Share capital	16	246,035	244,879
Reserves		8,761,347	8,318,558
		<hr/> 9,007,382	<hr/> 8,563,437
Equity attributable to shareholders of the Company		9,007,382	8,563,437
Non-controlling interests		597,701	571,690
		<hr/> 9,605,083	<hr/> 9,135,127
Total equity		<hr/> 9,605,083	<hr/> 9,135,127

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	Share option reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)
At 1 January 2010	195,836	4,417,316	678,266	42,859	53,842	1,045,469	6,433,588	454,535	6,888,123
Exchange differences arising on translation to presentation currency	-	-	260,339	-	-	-	260,339	11,722	272,061
Profit for the year	-	-	-	-	-	435,797	435,797	54,009	489,806
Total comprehensive income for the year	-	-	260,339	-	-	435,797	696,136	65,731	761,867
Issue of shares upon exercise of share options	543	9,406	-	(2,353)	-	-	7,596	-	7,596
Issue of shares on acquisition of a subsidiary	48,500	1,416,200	-	-	-	-	1,464,700	-	1,464,700
Recognition of equity-settled share based payments	-	-	-	620	-	-	620	-	620
Transfer	-	-	-	-	17,867	(17,867)	-	-	-
Addition on acquisition of subsidiaries	-	-	-	-	-	-	-	33,770	33,770
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	35,890	35,890
Dividends paid	-	(39,203)	-	-	-	-	(39,203)	-	(39,203)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	(18,236)	(18,236)
	49,043	1,386,403	-	(1,733)	17,867	(17,867)	1,433,713	51,424	1,485,137

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2011

	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	Share option reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 31 December 2010 and 1 January 2011	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	-	(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 CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2011

	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	Share option reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2010	195,836	4,417,316	678,266	42,859	53,842	1,045,469	6,433,588	454,535	6,888,123
Exchange differences arising on translation to presentation currency	-	-	73,954	-	-	-	73,954	5,176	79,130
Profit for the period	-	-	-	-	-	171,992	171,992	20,248	192,240
Total comprehensive income for the period	-	-	73,954	-	-	171,992	245,946	25,424	271,370
Issue of shares upon exercise of share options	543	9,406	-	(2,353)	-	-	7,596	-	7,596
Recognition of equity-settled share based payments	-	-	-	620	-	-	620	-	620
Transfer	-	-	-	-	16,917	(16,917)	-	-	-
Dividends paid	-	(39,203)	-	-	-	-	(39,203)	-	(39,203)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	(14,468)	(14,468)
	543	(29,797)	-	(1,733)	16,917	(16,917)	(30,987)	(14,468)	(45,455)
At 30 June 2010 (unaudited)	196,379	4,387,519	752,220	41,126	70,759	1,200,544	6,648,547	465,491	7,114,038

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	NOTE	Six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Net cash generated from operating activities		186,433	180,464
Investing activities			
Additions to property, plant and equipment		(368,668)	(197,016)
Acquisition of subsidiaries	19	(91,383)	–
Acquisition of leasehold land		(15,759)	(17,804)
Deferred consideration receivables received		40,000	40,000
Dividends received from an associate		30,714	–
Other investing cash flows		5,882	(2,020)
Consideration paid for acquisition of subsidiaries acquired in prior periods		–	(119,800)
Capital contribution to an associate		–	(117,164)
Advance to a jointly controlled entity		–	(59,701)
Investment in an associate		–	(19,820)
Repayment of loan from a jointly controlled entity		–	5,741
Net cash used in investing activities		(399,214)	(487,584)
Financing activities			
Repayment of bank and other loans		(1,050,116)	(82,826)
Dividend paid		(73,810)	(39,203)
Other financing cash flows		(5,992)	148
Dividend paid to minority shareholders of subsidiaries		(1,499)	(14,468)
New bank and other loans raised		1,223,066	755,777
Issue of shares upon exercise of share options		40,255	7,596
Net cash generated from financing activities		131,904	627,024
Net (decrease) increase in cash and cash equivalents		(80,877)	319,904
Cash and cash equivalents at beginning of the period		1,433,941	963,861
Effect of foreign exchange rate changes		33,565	11,378
Cash and cash equivalents at end of the period, representing bank balances and cash		1,386,629	1,295,143

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2011

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of 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 interim financial information have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting.

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

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

Taking into account the internally generated funds and the available 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 interim financial information has been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets ¹
HKFRS 9	Financial instruments ²
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosures of interests in other entities ²
HKFRS 13	Fair value measurement ²
HKAS 1 (Revised in 2011)	Presentation of financial statements – Presentation of items of other comprehensive income ⁴
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ³
HKAS 19 (Revised in 2011)	Employee benefits ²
HKAS 27 (Revised in 2011)	Separate financial statements ²
HKAS 28 (Revised in 2011)	Investments in associates and joint ventures ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2012

⁴ Effective for annual periods beginning on or after 1 July 2012

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

3. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

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

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2011			
TURNOVER			
External	<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
Unallocated other income and gains			59,046
Unallocated corporate expenses			(42,631)
Share of results of associates			109,273
Share of results of jointly controlled entities			98,711
Finance costs			<u>(74,651)</u>
Profit before taxation			419,510
Taxation			<u>(85,722)</u>
Profit for the period			<u><u>333,788</u></u>

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

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

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Turnover	1,960,185	1,239,565
Less expenses:		
Gas fuel, stores and materials used	1,306,594	761,661
Staff costs	172,785	128,598
Depreciation and amortisation	115,968	94,236
Other expenses	137,707	124,977
	<u>227,131</u>	<u>130,093</u>

5. FINANCE COSTS

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

6. PROFIT BEFORE TAXATION

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

and after crediting:

Interest income	5,188	2,528
Imputed interest income on deferred consideration receivable and loans to jointly controlled entities	7,973	8,094

7. TAXATION

The taxation charge comprises of PRC Enterprise Income Tax for both periods.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period was 12.5% (2010: 12.5%). PRC Enterprise Income Tax for the period has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

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	
	2011	2010
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to shareholders of the Company	<u>302,475</u>	<u>171,992</u>
	Number of shares	
	Six months ended 30 June	
	2011	2010
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,455,449	1,959,574
Effect of dilutive potential ordinary shares:		
Share options	<u>1,307</u>	<u>266</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,456,756</u>	<u>1,959,840</u>

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: nil). During the period, a dividend of three HK cents per share (2010: two HK cents per share) amounting to HK\$73,810,000 was paid to the shareholders as the final dividend for 2010 (HK\$39,203,000 for 2009).

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$368,668,000 (2010: HK\$197,016,000) on additions to property, plant and equipment, including approximately HK\$271,016,000 (2010: HK\$140,441,000) on the construction in progress of gas pipelines and other plant and equipment.

11. GOODWILL

	HK\$'000
At 31 December 2010	3,380,743
Currency realignment	60,597
Acquired on acquisition of subsidiaries	117,963
	<u> </u>
At 30 June 2011	<u>3,559,303</u>

As at 31 December 2010, adjustments have been made to reduce the carrying amount of goodwill arising from acquisition of a subsidiary, Towngas (BVI) Holdings Limited ("Towngas BVI"), by HK\$372,550,000, and increase the goodwill included in the initial carrying amounts of interest in an associate and interest in a jointly controlled entity upon completion of initial accounting of the acquisition of Towngas BVI during the current interim period.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2011 HK\$'000	31.12.2010 HK\$'000
Trade receivables	224,028	173,427
Deferred consideration receivable	38,250	39,321
Prepayments	265,451	225,043
Other receivables and deposits	141,692	93,664
	<u> </u>	<u> </u>
	<u>669,421</u>	<u>531,455</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:

	30.6.2011 HK\$'000	31.12.2010 HK\$'000
0 to 90 days	216,374	168,772
91 to 180 days	2,609	1,362
181 to 360 days	5,045	3,293
	<u> </u>	<u> </u>
	<u>224,028</u>	<u>173,427</u>

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2011	31.12.2010
	HK\$'000	HK\$'000
Trade payables	383,445	335,493
Receipt in advance	1,120,129	947,491
Consideration payable for acquisitions	99,021	67,319
Other payables and accruals	266,646	289,251
Amount due to the ultimate holding company (<i>note</i>)	14,414	14,427
	1,883,655	1,653,981

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

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

	30.6.2011	31.12.2010
	HK\$'000	HK\$'000
0 to 90 days	256,417	246,840
91 to 180 days	41,228	18,549
181 to 360 days	42,020	19,426
Over 360 days	43,780	50,678
	383,445	335,493

14. BORROWINGS

	30.6.2011	31.12.2010
	HK\$'000	HK\$'000
Bank loans – secured	3,610	–
Bank loans – unsecured	2,177,386	1,996,917
Other loans – unsecured	110,555	108,338
Guaranteed Senior Notes (<i>note</i>)	1,121,490	1,119,469
	3,413,041	3,224,724

14. BORROWINGS (CONTINUED)

The maturity of the above borrowings is as follows:

	30.6.2011	31.12.2010
	HK\$'000	HK\$'000
Within one year	2,384,030	2,792,403
More than one year but not exceeding two years	24,290	20,856
More than two years but not exceeding five years	957,307	365,002
More than five years	47,414	46,463
	3,413,041	3,224,724
Less: Amount due within one year shown under current liabilities	(2,384,030)	(2,792,403)
Amount due after one year	1,029,011	432,321

Note: The Company issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited and are secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%. At 30 June 2011, Guaranteed Senior Notes with a principal amount of US\$141,000,000 (2010: US\$141,000,000) are still outstanding in the market. At 30 June 2011, the market value of the outstanding Guaranteed Senior Notes amounted to US\$143,291,000 (2010: US\$147,437,000) (equivalent to approximately of HK\$1,115,091,000 (2010: HK\$1,142,634,000)).

15. LOANS FROM THE ULTIMATE HOLDING COMPANY

The amounts represent unsecured loans denominated in US dollar and HK dollar, bears interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and is repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective Interest rate	Carrying amount	
			30.6.2011	31.12.2010
			HK\$'000	HK\$'000
HK\$277,615,000 (2010: HK\$277,615,000)	April 2013 – May 2014 (2010: April 2013 – May 2014) (according to date of draw down)	1.83% (2010: 2.13%)	277,615	277,615
US\$25,000,000 (2010: US\$25,000,000)	December 2012 (2010: December 2012)	2.01% (2010: 1.81%)	194,550	193,750
			472,165	471,365

16. SHARE CAPITAL

At 31 December 2010 and 30 June 2011

	Number of shares	Share capital HK\$'000
Authorised shares of HK\$0.10 each	<u>3,000,000,000</u>	<u>300,000</u>

A summary of the movement in 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 2011	2,448,787,330	244,879
Exercise of share options (<i>note</i>)	<u>11,557,500</u>	<u>1,156</u>
At 30 June 2011	<u>2,460,344,830</u>	<u>246,035</u>

Note: During the period, the Company allotted and issued 11,557,500 shares of HK\$0.10 each for cash at the exercise price of HK\$3.483 per share respectively as a result of the exercise of share options.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

17. SHARE-BASED PAYMENTS

No share option was granted in the current period.

The Group did not recognise any expenses for the six months ended 30 June 2011 (1.1.2010 to 30.6.2010: HK\$620,000) in relation to share options granted by the Company in previous periods.

18. CAPITAL COMMITMENTS

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

	30.6.2011 HK\$'000	31.12.2010 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– acquisition of property, plant and equipment	58,047	57,144
– acquisition of subsidiaries	<u>163,297</u>	<u>61,321</u>
Capital injection contracted for but not provided in the condensed consolidated financial statements in respect of investment in an associate	<u>–</u>	<u>3,774</u>

19. ACQUISITION OF SUBSIDIARIES/BUSINESSES

(a) Acquisition of Wuning Hong Kong and China Gas Company Limited (“Wuning”)

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

The consideration transferred:

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

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

The net assets acquired in the transaction are as follows:

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

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

Goodwill arising on acquisition:

	HK\$’000
Consideration transferred	80,220
Less: Net assets acquired	(3,007)
	<hr/>
Provisional goodwill arising on acquisition	77,213
	<hr/> <hr/>

19. ACQUISITION OF SUBSIDIARIES/BUSINESSES (CONTINUED)

(a) Acquisition of Wuning (continued)

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

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

Net cash outflow arising on acquisition:

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

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

(b) Acquisition of Xiushui Hong Kong and China Gas Company Limited ("Xiushui")

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

The consideration transferred:

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

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

19. ACQUISITION OF SUBSIDIARIES/BUSINESSES (CONTINUED)

(b) Acquisition of Xiushui (continued)

The net assets acquired in the transaction are as follows:

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

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

Non-controlling interests:

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

Goodwill arising on acquisition:

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

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

19. ACQUISITION OF SUBSIDIARIES/BUSINESSES (CONTINUED)

(b) Acquisition of Xiushui (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	42,503
Consideration payable for acquisition	(30,325)
Bank balances and cash acquired	(237)
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	11,941
	<hr/> <hr/>

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

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

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

(c) Acquisition of Towngas BVI

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

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

20. 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	
		2011 HK\$'000	2010 HK\$'000
HKCG	Loan facility (<i>See note 15</i>)	472,165	471,365
	Interest expense	4,450	5,027
	Management fee	486	1,688
GH – Fusion Corporation Limited (<i>note b</i>)	Purchase of construction materials	2,296	1,756
Shanxi Hong Kong & China Coalbed Gas Company Limited (<i>note a</i>)	Purchase of coalbed methane	10,466	–
Hong Kong and China Technology (Wuhan) Limited (<i>note a</i>)	Purchase of computerised customer relations management system	611	246
ECO Environmental Investments Limited (<i>note a</i>)	Office licence income	164	144
Anhui Province Natural Gas Development Company Limited (<i>note b</i>)	Purchase of compressed natural gas	19,964	7,015
Jilin Hong Kong and China Gas Company Limited (<i>note a</i>)	Purchase of compressed natural gas	–	843
Tongling Hong Kong and China Gas Company Limited (<i>note c</i>)	Purchase of compressed natural gas and liquefied petroleum gas	48	21

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.