

2011

Interim Report



Towngas

The Hong Kong and China Gas Company Limited
(stock code: 3)

THE HONG KONG AND CHINA GAS COMPANY LIMITED

2011 INTERIM REPORT

To Shareholders

Dear Sir or Madam,

HALF-YEARLY RESULTS

The Directors are pleased to report that the unaudited profit after taxation attributable to shareholders of the Group for the six months ended 30th June 2011 amounted to HK\$3,222.9 million, an increase of HK\$203.5 million compared with the restated profit for the same period last year. Earnings per share for the first half of 2011 amounted to HK 40.8 cents, an increase of 6.8 per cent compared with the same period last year. During the period under review, the Group's businesses in both Hong Kong and the mainland recorded good growth. Exclusive of profit from the sale of properties and a revaluation surplus from an investment property, the Group's profit after taxation increased by approximately 16 per cent compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2011, as compared to the same period in 2010, are shown in the following table:

	Unaudited	
	Six months ended 30th June	
	2011	2010
Revenue before Fuel Cost Adjustment, HK million dollars	9,681.7	9,829.4*
Revenue after Fuel Cost Adjustment, HK million dollars	10,470.1	10,410.8*
Profit Attributable to Shareholders, HK million dollars	3,222.9	3,019.4 [#]
Earnings per Share, HK cents	40.8	38.2 [#]
Interim Dividend per Share, HK cents	12.0	12.0
Town Gas Sold in Hong Kong, million MJ	15,537	15,106
Gas Sold in mainland China City-gas Business, ten thousand cubic metres; natural gas equivalent ^{##}	520,268	428,554
Number of Customers in Hong Kong as at 30th June	1,736,923	1,712,454
Number of City-gas Customers in mainland China as at 30th June ^{##}	12,405,748	11,211,014

* In 2010, revenue included a one-off item arising from the construction of an aviation fuel facility amounting to approximately HK\$1,710 million.

[#] Comparative figures for 2010 have been restated due to the adoption of HKAS 12 (amendment), and earnings per share has been further adjusted for the bonus issue in 2011.

^{##} Inclusive of all mainland city-gas projects of the Group.

The condensed consolidated interim accounts are provided on pages 7 to 26 of this Interim Report. The unaudited interim accounts have been reviewed by the Group's audit committee and external auditor, PricewaterhouseCoopers.

GAS BUSINESS IN HONG KONG

The local economy continued to recover during the first half of 2011. An increase in the number of inbound tourists, prosperous tourism, restaurant and hotel sectors and lower average temperatures compared with the same period last year all helped increase gas sales in residential, commercial and industrial sectors, raising the total volume of gas sales in Hong Kong by 2.9 per cent compared with the same period last year. Overall appliance sales also increased by about 10 per cent compared with the same period last year.

As at 30th June 2011, the number of customers was 1,736,923, an increase of 12,607, as anticipated, since the end of December 2010.

BUSINESS DEVELOPMENTS IN MAINLAND CHINA

The Group's mainland businesses progressed well during the first half of 2011.

The mainland economy continued to maintain relatively rapid growth during the first half of 2011 though the pace of this was slower than last year alongside rising inflation. The Group's city-gas and natural gas businesses benefited from this economic progress and recorded continuous growth during the period under review. The Group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), continues and is progressing well with ECO now at various stages of project investment, construction and gradual commissioning. In the long run, both city-gas and emerging environmentally-friendly energy businesses on the mainland have good prospects and investment value.

Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 127 projects spread across 21 provinces/municipalities/autonomous regions, encompassing upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas filling stations, emerging environmentally-friendly energy and energy resources businesses and telecommunications.

Diversification and an increase in the number of projects are rapidly transforming the Group from a locally-based company centred on a single business into a sizable, nation-wide, multi-business corporation with a focus on environmentally-friendly ventures and the energy sector.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses have progressed well so far this year, with one new project successfully committed in Chaozhou, Guangdong province. The scope of operation of this new project covers Raoping county, the urban district of Chaozhou and the surrounding areas of Chaoan county. Inclusive of three new projects established by Towngas China so far this year, the Group currently has 97 city-gas projects in mainland cities spread across 18 provinces/municipalities/autonomous regions. As at the end of June 2011, the number of gas customers on the mainland reached approximately 12.4 million and total volume of gas sales was 5,200 million cubic metres. The Group is now the largest city-gas enterprise on the mainland.

With gradual completion of large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline, and an increase in the quantity of imported liquefied natural gas, together with domestic sources, the shortfall in natural gas supply in the past few years is now gradually being mitigated. The Group therefore anticipates its mainland projects will have access to sufficient gas resources to enable them to continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province; a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; and a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province. These kinds of high-pressure, natural gas pipeline joint ventures generate good returns and help the Group develop and strengthen its downstream city-gas markets.

During the third quarter of this year, the Group added a second integrated wastewater treatment project, for a special industry, to its existing integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Together with water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, the Group has so far invested and operated four water projects all of which are progressing well.

The Group will keep on looking for opportunities to invest in high-quality utility projects on the mainland.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Coalbed Methane and Non-conventional Methane Utilisation Businesses

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been successfully operating in Hong Kong for several years. The North East New Territories landfill gas treatment facility contributes to improving air quality, minimising the use of fossil fuels and reducing greenhouse gas emissions. Since 2008, ECO has been developing similar clean and environmentally-friendly energy projects on the mainland with an extended scope of application. A phase-two coalbed methane liquefaction facility located in Jincheng, Shanxi province was commissioned during the first quarter of this year, thereby increasing annual production capacity of the whole facility to approximately 250 million standard cubic metres of liquefied coalbed methane. This is now the largest liquefaction and utilisation project of its kind on the mainland and, with its enhanced supply capability, is operating well. The liquefied methane produced is transported by road tankers to downstream markets.

ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is progressing as scheduled; commissioning is expected in the first quarter of 2013. Coal-mine gas, which typically contains about 40 per cent of methane, will be used to produce liquefied methane deploying coal-mine gas deoxidisation and coalbed methane cryogenic liquefaction technologies. With an estimated annual production capacity of 80 million standard cubic metres, this project will provide the Group's city-gas businesses with a more environmentally-friendly gas source to help conserve energy and reduce gas emissions.

Coal Resources and Coal Chemical Processing

ECO started to develop coal resources and coal chemical processing businesses in 2009, focusing mainly on more environmentally-friendly and cleaner technologies for coal resources utilisation. To this end, ECO's construction of a methanol production plant, with an annual production capacity of 200,000 tonnes, in Junger, Erdos, Inner Mongolia, has now been completed; the plant is at the pilot production stage and is expected to be fully commissioned by the end of 2011. Construction of the Xiaoyugou coal mine, which is associated with the methanol production plant, is also progressing well. Pilot commissioning of an associated coal washing plant commenced in June this year. Xiaoyugou coal mine is expected to start pilot production by the fourth quarter of this year. ECO's coking coal mining and plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. This project will utilise coking coal to produce coke for refining steel, and its by-product, coked gas, will provide an additional gas source for the Group's Fengcheng city-gas project. ECO will continue to expand its resources reserves of both thermal coal and coking coal and to endeavour to develop more far-sighted clean coal utilisation technologies so as to produce more clean fuels for use as substitutes for oil products.

Energy-related Logistics and Facilities Businesses

ECO's energy-related logistics and facilities businesses originated from its five dedicated liquefied petroleum gas filling stations in Hong Kong, which have been operating steadily for several years servicing taxis and minibuses. ECO started to develop a gas filling station business on the mainland in 2008. Since then, ECO has gradually established a network of compressed and liquefied natural gas filling stations servicing heavy-duty trucks in Shaanxi, Shandong, Liaoning, Henan and Anhui provinces.

ECO's aviation fuel facility in Area 38, Tuen Mun, servicing Hong Kong International Airport, was completed and commissioned in November 2010. Jetties and facilities are available for berthing tankers of 80,000 tonnes and 50,000 tonnes and for unloading these tankers' aviation fuel into eight large tanks with a total capacity of 264,000 cubic metres. After re-certification, this fuel is then transported to the airport via submarine pipelines. ECO's facility has now become a major logistics base for supply of aviation fuel in Hong Kong.

In tandem with the development of its coal resources business, ECO has also embarked on the development of a coal logistics business and the setting up of trading platforms in important coal distribution areas such as Qinhuangdao, Hebei province. ECO is now searching for more opportunities to continue its investment in coal logistics facilities of strategic importance.

Establishment of Chinese Holding Companies

Alongside the rapid development of its emerging environmentally-friendly energy businesses on the mainland, ECO has established two Chinese holding companies as investment platforms, one in Erdos, Inner Mongolia, at the end of 2009, mainly for its coal related businesses, and another in Xian, Shaanxi province, in early 2011, mainly for its oil and gas related businesses. These platforms help enhance ECO's business management and optimise ECO's financing channels.

The energy market on the mainland has great potential to expand. ECO's development of different emerging environmentally-friendly energy businesses and its conclusion of related agreements are expected to bring good economic benefits and business prospects to the Group.

TOWNGAS CHINA COMPANY LIMITED (STOCK CODE: 1083.HK)

Towngas China, a subsidiary of the Group, continued to record good growth in profit after taxation attributable to its shareholders, amounting to HK\$302 million for the first half of 2011, an increase of approximately 76 per cent over the same period last year. As at the end of June 2011, the Group had an approximately 66.18 per cent interest in Towngas China.

In April 2011, Moody's Investors Service, an international rating agency, upgraded Towngas China's issuer and senior unsecured bond ratings from Baa3 to Baa2 with a stable outlook in view of Towngas China's favourable industry trends offering growth potential. These new ratings demonstrate the increasing credit strength of Towngas China which is helping to lower its cost of capital and widen its channels of financing.

Towngas China has acquired three new projects so far this year located in Xiushui county and Wuning Industrial Park, both in Jiujiang, Jiangxi province, and in Miluo, the latter being the Group's first in Hunan province. Towngas China is focused on developing city-gas businesses in small to medium-sized cities and will continue to strive for rapid expansion through mergers and acquisitions.

PROPERTY DEVELOPMENTS

The entire residential floor area of the Grand Waterfront property development project located at Ma Tau Kok south plant site had been sold by the end of December 2010. Leasing of the commercial area of the project is good. All of the residential units of Grand Promenade were also sold out during the first quarter of this year.

The Group has an approximately 15.8 per cent interest in the International Finance Centre ("IFC") complex. Rental demand for the shopping mall and office towers of IFC continues to be robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

FINANCING PROGRAMMES

In February 2011, the Group concluded a HK\$3.8 billion 5-year syndicated term loan and revolving credit facility, mainly for refinancing a HK\$3.0 billion inaugural syndicated facility, taken up in 2006, and for the Group's business development. This syndicated facility was backed by a total of 11 international and regional financial institutions including Japanese, American, Taiwanese, Spanish and Hong Kong banks. The facility carries an interest margin of 0.49 per cent per annum over HIBOR. The success of this syndicated facility demonstrates the banking community's strong confidence in the Group's business prospects.

In tandem with the Group's long-term investments on the mainland, HKCG (Finance) Limited, a wholly-owned subsidiary of the Group, established a US\$1 billion medium term note programme (the "MTN Programme") in May 2009. Under the MTN Programme, the Group issued its first renminbi-denominated notes in Hong Kong in late March 2011 with a total amount of RMB1 billion for a term of five years at a coupon interest rate of 1.4 per cent (the "RMB Notes"). The RMB Notes are listed on The Stock Exchange of Hong Kong Limited under stock code 86003.HK. Response to these RMB Notes was also overwhelming with an over-subscription of more than five times. This enabled the issue amount to be increased from an initial RMB0.5 billion to RMB1 billion. Two international rating agencies, Moody's Investors Service and Standard and Poor's rating services, assigned high credit ratings of A1 and A+ respectively to the RMB Notes. The Group is the first company among Hang Seng Index Constituent Stocks in Hong Kong to raise funds through the offshore renminbi debt capital market. Inclusive of the RMB Notes, the Group has issued medium term notes with, up to now, an aggregate amount equivalent to HK\$4.2 billion.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2011, the number of employees engaged in the town gas business in Hong Kong was 1,914, the number of customers had increased by 24,469 since the same period last year, and each employee served the equivalent of 907 customers, slightly up compared to each employee serving 905 customers at the end of June 2010. Total manpower costs for employees directly involved in the town gas business amounted to HK\$329 million for the first half of 2011, an increase of HK\$9 million compared with the corresponding period in 2010. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

DIVIDEND

Your Directors have declared an interim dividend of HK 12 cents per share payable to shareholders whose names are on the register of shareholders of the Company as at 16th September 2011. To enable our Share Registrar to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 15th September 2011 and Friday, 16th September 2011, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 3rd October 2011.

BUSINESS OUTLOOK FOR 2011

The Company predicts steady growth and an increase of about 25,000 new customers in Hong Kong during 2011. Hong Kong's economy maintains momentum, with different business sectors, including tourism, restaurant, and hotel sectors, continuing to prosper. The Group expects commercial and industrial gas sales and appliance sales in Hong Kong to increase overall in 2011 compared to 2010. However, due to global economic instability, all business sectors have been impacted by the pressure of inflation, resulting in a surge in operating costs due to rising remuneration and commodity prices. The Company will continue to enhance its operational efficiency and uphold stable revenue from its gas business in Hong Kong.

In line with the gradual implementation of the Twelfth Five-Year Plan, the mainland central government advocates increasing urbanisation, expanding domestic demand, more energy conservation and a reduction of gas emissions. As the mainland economy is sustaining good growth, it is anticipated that there will be rising demand for utility services and clean energy. The Group's city-gas and natural gas businesses on the mainland are therefore expected to continue to achieve good growth. Furthermore, following the mainland government's move towards a policy of energy diversification and environmental protection, the Group predicts good prospects for its emerging environmentally-friendly energy businesses, which will ignite a new light illuminating the way for the Group's long-term development and business growth.

It is projected that the Group's businesses will maintain good growth for the year 2011. The combined results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will overtake that of its Hong Kong gas business in 2012, and will have faster growth momentum than its Hong Kong gas business thereafter given their good prospects.

LEE Shau Kee

Chairman

Hong Kong, 23rd August 2011

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th June

	Note	2011 HK\$M	Restated 2010 HK\$M
Revenue	2	10,470.1	10,410.8
Total operating expenses	3	(7,612.1)	(7,676.8)
		2,858.0	2,734.0
Other gains, net	4	368.8	178.4
Interest expense		(382.1)	(353.5)
Share of profits less losses of associated companies		706.3	719.0
Share of profits less losses of jointly controlled entities		572.3	537.3
		4,123.3	3,815.2
Profit before taxation	5	4,123.3	3,815.2
Taxation	6	(636.0)	(572.0)
		3,487.3	3,243.2
Profit for the period		3,487.3	3,243.2
Attributable to:			
Shareholders of the Company		3,222.9	3,019.4
Non-controlling interests		264.4	223.8
		3,487.3	3,243.2
		948.1	861.9
Dividend – interim proposed	7	948.1	861.9
		40.8	38.2*
Earnings per share – basic and diluted, HK cents	8	40.8	38.2*

* Adjusted for the bonus issue in 2011 and the adoption of HKAS 12 (amendment)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30th June

	2011 HK\$M	Restated 2010 HK\$M
Profit for the period	3,487.3	3,243.2
Other comprehensive income:		
Revaluation surplus/(deficit) of available-for-sale financial assets transferred to equity	63.8	(197.4)
Change in fair value of cash flow hedges	(198.7)	128.7
Exchange differences	466.4	199.6
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	331.5	130.9
	<hr/>	<hr/>
Total comprehensive income for the period	3,818.8	3,374.1
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Shareholders of the Company	3,473.0	3,102.3
Non-controlling interests	345.8	271.8
	<hr/>	<hr/>
	3,818.8	3,374.1
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CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30th June 2011

	Note	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Assets			
Non-current assets			
Property, plant and equipment	9	28,399.6	26,890.1
Investment property		501.0	501.0
Leasehold land		963.2	935.7
Intangible asset		2,698.3	2,575.6
Associated companies		11,240.0	10,802.2
Jointly controlled entities		8,701.7	7,768.8
Available-for-sale financial assets		3,821.6	3,441.2
Derivative financial instruments		158.6	351.8
Retirement benefit assets		68.3	68.3
Other non-current assets		2,573.5	2,371.8
		59,125.8	55,706.5
Current assets			
Inventories		1,326.0	1,303.3
Trade and other receivables	10	3,820.3	3,312.5
Loan and other receivables from associated companies		162.6	70.7
Loan and other receivables from jointly controlled entities		316.3	338.5
Loan and other receivables from non-controlling shareholders		142.4	38.1
Housing loans to staff		22.4	27.5
Financial assets at fair value through profit or loss		381.6	528.7
Time deposits over three months		1,553.4	1,642.0
Time deposits up to three months, cash and bank balances		10,463.5	9,696.3
		18,188.5	16,957.6
Current liabilities			
Trade and other payables	11	(6,170.7)	(5,801.6)
Amounts due to jointly controlled entities		(6.3)	(5.0)
Loan and other payables to non-controlling shareholders		(53.9)	(26.2)
Provision for taxation		(987.8)	(708.2)
Borrowings		(5,349.7)	(9,982.4)
		(12,568.4)	(16,523.4)
Net current assets		5,620.1	434.2
Total assets less current liabilities		64,745.9	56,140.7

		At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Non-current liabilities			
Customers' deposits		(1,146.8)	(1,133.9)
Deferred taxation		(2,107.5)	(2,017.5)
Borrowings		(18,043.3)	(11,745.7)
Loans payable to non-controlling shareholders		(18.7)	(35.0)
		<u>(21,316.3)</u>	<u>(14,932.1)</u>
Net assets		<u>43,429.6</u>	<u>41,208.6</u>
Capital and reserves			
Share capital	12	1,975.1	1,795.6
Share premium	13	3,275.8	3,455.3
Reserves	14	33,081.3	30,561.3
Proposed dividend	14	948.1	1,651.9
		<u>39,280.3</u>	<u>37,464.1</u>
Non-controlling interests		<u>4,149.3</u>	<u>3,744.5</u>
Total equity		<u>43,429.6</u>	<u>41,208.6</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June

	2011 HK\$M	2010 HK\$M
Net cash from operating activities	2,804.9	2,479.8
Net cash used in investing activities	(1,513.2)	(5,671.3)
Net cash used in financing activities	(579.9)	(1,037.5)
Increase/(decrease) in cash and cash equivalents	711.8	(4,229.0)
Cash and cash equivalents at 1st January	9,696.3	12,817.4
Effect of foreign exchange rate changes	55.4	19.2
Cash and cash equivalents at 30th June	<u>10,463.5</u>	<u>8,607.6</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	4,300.6	2,909.7
Time deposits up to three months	6,162.9	5,697.9
	<u>10,463.5</u>	<u>8,607.6</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June

	Attributable to shareholders of the Company			Non- controlling interests HK\$M	Total HK\$M
	Share capital HK\$M	Share premium HK\$M	Reserves HK\$M		
Total equity as at 1st January 2011	1,795.6	3,455.3	32,213.2	3,744.5	41,208.6
Profit for the period	–	–	3,222.9	264.4	3,487.3
Other comprehensive income:					
Revaluation surplus of available-for-sale financial assets transferred to equity	–	–	63.8	–	63.8
Change in fair value of cash flow hedges	–	–	(198.7)	–	(198.7)
Exchange differences	–	–	385.0	81.4	466.4
Total comprehensive income for the period	–	–	3,473.0	345.8	3,818.8
Capital injection	–	–	–	84.2	84.2
Dividends paid to shareholders of the Company	–	–	(1,651.9)	–	(1,651.9)
Dividends paid to non-controlling shareholders	–	–	–	(63.6)	(63.6)
Bonus issue	179.5	(179.5)	–	–	–
Acquisition of a subsidiary	–	–	–	0.4	0.4
Further acquisition of a subsidiary	–	–	6.4	(12.4)	(6.0)
Issue of shares of a subsidiary under share option schemes	–	–	(11.3)	50.4	39.1
Total equity as at 30th June 2011	1,975.1	3,275.8	34,029.4	4,149.3	43,429.6
Total equity as at 1st January 2010	1,632.3	3,618.6	27,594.9	3,942.3	36,788.1
Effect of adoption of HKAS 12 (amendment)	–	–	1,019.2	–	1,019.2
Total equity as at 1st January 2010, as restated	1,632.3	3,618.6	28,614.1	3,942.3	37,807.3
Profit for the period	–	–	3,019.4	223.8	3,243.2
Other comprehensive income:					
Revaluation deficit of available-for-sale financial assets transferred to equity	–	–	(197.4)	–	(197.4)
Change in fair value of cash flow hedges	–	–	128.7	–	128.7
Exchange differences	–	–	151.6	48.0	199.6
Total comprehensive income for the period	–	–	3,102.3	271.8	3,374.1
Capital injection	–	–	–	32.6	32.6
Dividends paid to shareholders of the Company	–	–	(1,501.8)	–	(1,501.8)
Dividends paid to non-controlling shareholders	–	–	–	(48.7)	(48.7)
Bonus issue	163.3	(163.3)	–	–	–
Issue of shares of a subsidiary under share option schemes	–	–	–	8.5	8.5
Others	–	–	(0.8)	–	(0.8)
Total equity as at 30th June 2010	1,795.6	3,455.3	30,213.8	4,206.5	39,671.2

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts, which do not constitute statutory accounts, have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies used in the preparation of these condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31st December 2010. Comparative figures have been restated to reflect the impact of the early adoption of HKAS 12 (amendment) “Deferred Tax: Recovery of Underlying Assets” on 31st December 2010. The Group has applied the following revised standards, interpretations and amendments to Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January 2011. There is however no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies.

- HKAS 24 (revised) “Related Party Disclosures”
- HKAS 32 (amendment) “Classification of Rights Issues”
- HK(IFRIC) 14 “Prepayments of a Minimum Funding Requirement”
- HK(IFRIC) 19 “Extinguishing Financial Liabilities with Equity Instruments”
- HKICPA’s Improvements to HKFRS 2010

Except for the above, the HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1st January 2011 and has not been early adopted by the Group.

2. Segment information

The Group's principal activity is the production, distribution and marketing of gas, water and energy related activities in Hong Kong and mainland China. The revenue comprises the following:

	Six months ended 30th June	
	2011	2010
	HK\$M	HK\$M
Gas sales before fuel cost adjustment	7,648.6	6,221.2
Fuel cost adjustment	788.4	581.4
	<hr/>	<hr/>
Gas sales after fuel cost adjustment	8,437.0	6,802.6
Equipment sales	575.0	524.9
Maintenance and services	162.9	161.0
Water sales	204.2	175.3
Property sales	–	142.5
Rental income	16.0	15.2
Aviation fuel facility construction income	–	1,707.7
Other sales	1,075.0	881.6
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	10,470.1	10,410.8
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The chief operating decision-maker has been identified as the executive committee members (the "ECM"). The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspective. From a product perspective, management assesses the performance of (a) gas, water and energy related business; and (b) property business. Gas, water and energy related business is further evaluated on a geographical basis (Hong Kong and Mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM are measured in a manner consistent with that in the accounts.

Segment assets exclude available-for-sale financial assets, financial assets at fair value through profit or loss, time deposits, cash and bank balances other than those included under segment assets for operation purposes, derivative financial instruments, retirement benefit assets, other non-current assets other than those included under segment assets, loan and other receivables from non-controlling shareholders and housing loans to staff.

2. Segment information (continued)

The segment information for the six months ended 30th June 2011 and 2010 provided to the ECM for the reportable segments is as follows:

	Gas, water and energy related business				Property		All other segments		Total	
	Hong Kong		Mainland China		Restated				Restated	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Revenue	5,090.1	6,381.3	5,199.6	3,843.1	16.0	157.7	164.4	28.7	10,470.1	10,410.8
Adjusted EBITDA	2,424.0	2,402.3	1,311.9	1,032.6	9.1	109.9	5.5	7.8	3,750.5	3,552.6
Depreciation and amortisation	(296.0)	(279.1)	(297.7)	(260.7)	(0.1)	(0.1)	(2.0)	(4.9)	(595.8)	(544.8)
Unallocated corporate expenses									(296.7)	(273.8)
									2,858.0	2,734.0
Other gains, net									368.8	178.4
Interest expense									(382.1)	(353.5)
Share of profits less losses of associated companies	-	-	275.4	225.8	430.8	493.4	0.1	(0.2)	706.3	719.0
Share of profits less losses of jointly controlled entities	-	-	562.8	492.5	11.5	45.3	(2.0)	(0.5)	572.3	537.3
Profit before taxation									4,123.3	3,815.2
Taxation									(636.0)	(572.0)
Profit for the period									3,487.3	3,243.2

Share of profits of associated companies includes HK\$235.0 million (restated 2010: HK\$315.0 million), being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

2. Segment information (continued)

The segment assets at 30th June 2011 and 31st December 2010 is as follows:

	Gas, water and energy related business								Total	
	Hong Kong		Mainland China		Property		All other segments			
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Segment assets	18,368.5	18,312.7	35,542.8	31,782.3	7,868.2	7,743.8	6,440.9	5,404.6	68,220.4	63,243.4
Unallocated corporate assets										
– available-for-sale financial assets									3,821.6	3,441.2
– financial assets at fair value through profit and loss									381.6	528.7
– time deposit, cash and bank balances excluded from segment assets									4,163.6	4,576.3
– others									727.1	874.5
Total assets	18,368.5	18,312.7	35,542.8	31,782.3	7,868.2	7,743.8	6,440.9	5,404.6	77,314.3	72,664.1

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six month ended 30th June 2011 is HK\$5,131.6 million (2010: HK\$6,561.5 million), and the revenue from external customers in the People's Republic of China ("PRC") is HK\$5,338.5 million (2010: HK\$3,849.3 million).

At 30th June 2011, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other countries are HK\$17,500.9 million and HK\$35,002.9 million (2010: HK\$17,331.2 million and HK\$32,142.2 million) respectively.

3. Total operating expenses

	Six months ended 30th June	
	2011 HK\$M	2010 HK\$M
Stores and materials used	5,347.5	3,888.1
Cost of property sold	–	27.2
Manpower costs	760.1	672.9
Depreciation and amortisation	599.6	549.9
Other operating items	904.9	2,538.7
	7,612.1	7,676.8

4. Other gains, net

	Six months ended 30th June	
	2011 HK\$M	2010 HK\$M
Net investment gains	370.2	171.9
Others	(1.4)	6.5
	<u>368.8</u>	<u>178.4</u>

5. Profit before taxation

Profit before taxation is stated after charging cost of inventories sold of HK\$5,782.6 million (2010: HK\$4,293.0 million).

6. Taxation

	Six months ended 30th June	
	2011 HK\$M	2010 HK\$M
Current taxation	555.0	468.5
Deferred taxation relating to the origination and reversal of temporary differences	81.0	103.5
	<u>636.0</u>	<u>572.0</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the period. PRC profits tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

7. Dividends

	Six months ended 30th June	
	2011 HK\$M	2010 HK\$M
2010 Final, paid, of HK 23 cents per share (2009 Final: HK 23 cents per share)	1,651.9	1,501.8
2011 Interim, proposed, of HK 12 cents per share (2010 Interim: HK 12 cents per share)	948.1	861.9
	<u>2,600.0</u>	<u>2,363.7</u>

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$3,222.9 million (restated 2010: HK\$3,019.4 million) and the weighted average of 7,900,554,136 shares (2010: 7,900,554,136 shares*) in issue during the period.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the period (2010: nil), the diluted earnings per share for the period ended 30th June 2011 is approximately the same as the basic earnings per share.

* Adjusted for the bonus issue in 2011.

9. Property, plant and equipment

	Buildings, plant, mains, mining rights and other equipment HK\$M
Cost	
At 1st January 2011	36,088.7
Additions	1,735.5
Acquisition of subsidiaries (Note 18)	27.1
Disposals/write off	(78.0)
Exchange differences	405.5
	<hr/>
At 30th June 2011	38,178.8
	<hr/> <hr/>
Accumulated depreciation	
At 1st January 2011	9,198.6
Charge for the period	596.6
Disposals/write off	(64.6)
Exchange differences	48.6
	<hr/>
At 30th June 2011	9,779.2
	<hr/> <hr/>
Net book value	
At 30th June 2011	28,399.6
	<hr/> <hr/>
At 31st December 2010	26,890.1
	<hr/> <hr/>

9. Property, plant and equipment (continued)

	Buildings, plant, mains, mining rights and other equipment HK\$M
Cost	
At 1st January 2010	31,710.4
Additions	1,646.4
Disposals/write off	(72.5)
Exchange differences	174.5
	<u>33,458.8</u>
At 30th June 2010	<u>33,458.8</u>
Accumulated depreciation	
At 1st January 2010	8,137.1
Charge for the period	542.0
Disposals/write off	(50.2)
Exchange differences	20.3
	<u>8,649.2</u>
At 30th June 2010	<u>8,649.2</u>
Net book value	
At 30th June 2010	<u>24,809.6</u>
At 31st December 2009	<u>23,573.3</u>

10. Trade and other receivables

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Trade receivables (Note)	1,985.5	1,839.3
Instalment receivables	2.4	6.9
Other receivables	977.0	864.4
Payments in advance	855.4	601.9
	<u>3,820.3</u>	<u>3,312.5</u>

The Group recognised a loss of HK\$2.6 million (2010: HK\$3.4 million) for the impairment of its trade and other receivables during the period. The impairment has been included in other operating items (Note 3).

10. Trade and other receivables (continued)

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 30th June 2011, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
0 – 30 days	1,711.2	1,604.1
31 – 60 days	67.4	48.7
61 – 90 days	32.0	19.0
Over 90 days	174.9	167.5
	<u>1,985.5</u>	<u>1,839.3</u>

11. Trade and other payables

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Trade payables (Note a)	1,393.7	1,271.5
Other payables and accruals (Note b)	4,777.0	4,530.1
	<u>6,170.7</u>	<u>5,801.6</u>

Notes

(a) As at 30th June 2011, the aging analysis of the trade payables is as follows :

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
0 – 30 days	663.3	733.5
31 – 60 days	140.1	151.4
61 – 90 days	131.9	91.6
Over 90 days	458.4	295.0
	<u>1,393.7</u>	<u>1,271.5</u>

11. Trade and other payables (continued)

- (b) The balance includes an amount of approximately HK\$37.2 million (At 31st December 2010: HK\$37.2 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront.

12. Share capital

	Number of Shares		Nominal Value	
	At 30th June 2011	At 31st December 2010	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Authorised:				
Ordinary shares of HK\$0.25 each	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>2,500.0</u>	<u>2,500.0</u>
Issued and fully paid:				
At beginning of period/year	<u>7,182,321,942</u>	<u>6,529,383,584</u>	<u>1,795.6</u>	<u>1,632.3</u>
Bonus issue (Note 13)	<u>718,232,194</u>	<u>652,938,358</u>	<u>179.5</u>	<u>163.3</u>
At end of period/year	<u>7,900,554,136</u>	<u>7,182,321,942</u>	<u>1,975.1</u>	<u>1,795.6</u>

13. Share premium

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
At beginning of period/year	<u>3,455.3</u>	<u>3,618.6</u>
Less: Bonus issue (Note 12)	<u>(179.5)</u>	<u>(163.3)</u>
At end of period/year	<u>3,275.8</u>	<u>3,455.3</u>

14. Reserves

	Investment revaluation reserve HK\$M	Capital redemption reserve HK\$M	Hedging reserve HK\$M	Capital reserve HK\$M	Other reserve HK\$M	Exchange reserve HK\$M	Unappro- priated profits HK\$M	Total HK\$M
At 1st January 2011	504.0	223.8	338.3	155.5	(0.8)	2,148.8	27,191.7	30,561.3
Profit attributable to shareholders	-	-	-	-	-	-	3,222.9	3,222.9
Other comprehensive income:								
Revaluation surplus of available-for- sale financial assets transferred to equity	63.8	-	-	-	-	-	-	63.8
Change in fair value of cash flow hedges	-	-	(198.7)	-	-	-	-	(198.7)
Exchange differences	-	-	-	-	-	385.0	-	385.0
Total comprehensive income for the period	63.8	-	(198.7)	-	-	385.0	3,222.9	3,473.0
2010 final dividend proposed	-	-	-	-	-	-	1,651.9	1,651.9
2010 final dividend paid	-	-	-	-	-	-	(1,651.9)	(1,651.9)
Further acquisition of a subsidiary	-	-	-	-	-	-	6.4	6.4
Issue of shares of a subsidiary under share option schemes	-	-	-	-	(11.3)	-	-	(11.3)
At 30th June 2011	567.8	223.8	139.6	155.5	(12.1)	2,533.8	30,421.0	34,029.4
Balance after 2011 interim dividend proposed	567.8	223.8	139.6	155.5	(12.1)	2,533.8	29,472.9	33,081.3
2011 interim dividend proposed	-	-	-	-	-	-	948.1	948.1
At 30th June 2011	567.8	223.8	139.6	155.5	(12.1)	2,533.8	30,421.0	34,029.4

14. Reserves (continued)

	Investment revaluation reserve HK\$M	Capital redemption reserve HK\$M	Hedging reserve HK\$M	Capital reserve HK\$M	Other reserve HK\$M	Exchange reserve HK\$M	Unappro- priated profits HK\$M	Total HK\$M
At 1st January 2010 as previously reported	513.6	223.8	199.7	155.5	-	1,497.6	23,502.9	26,093.1
Effect of adoption of HKAS 12 (amendment)	-	-	-	-	-	-	1,019.2	1,019.2
At 1st January 2010, as restated	513.6	223.8	199.7	155.5	-	1,497.6	24,522.1	27,112.3
Profit attributable to shareholders	-	-	-	-	-	-	3,019.4	3,019.4
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(197.4)	-	-	-	-	-	-	(197.4)
Change in fair value of cash flow hedges	-	-	128.7	-	-	-	-	128.7
Exchange differences	-	-	-	-	-	151.6	-	151.6
Total comprehensive income for the period	(197.4)	-	128.7	-	-	151.6	3,019.4	3,102.3
2009 final dividend proposed	-	-	-	-	-	-	1,501.8	1,501.8
2009 final dividend paid	-	-	-	-	-	-	(1,501.8)	(1,501.8)
Others	-	-	-	-	(0.8)	-	-	(0.8)
At 30th June 2010	<u>316.2</u>	<u>223.8</u>	<u>328.4</u>	<u>155.5</u>	<u>(0.8)</u>	<u>1,649.2</u>	<u>27,541.5</u>	<u>30,213.8</u>
Balance after 2010 interim dividend proposed	316.2	223.8	328.4	155.5	(0.8)	1,649.2	26,679.6	29,351.9
2010 interim dividend proposed	-	-	-	-	-	-	861.9	861.9
	<u>316.2</u>	<u>223.8</u>	<u>328.4</u>	<u>155.5</u>	<u>(0.8)</u>	<u>1,649.2</u>	<u>27,541.5</u>	<u>30,213.8</u>

15. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30th June 2011 (At 31st December 2010: nil).

16. Commitments

(a) Capital expenditures for property, plant and equipment

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Authorised but not brought into the accounts	<u>2,383.9</u>	<u>1,910.1</u>
Of which, contracts had been entered into	<u>2,207.5</u>	<u>1,884.6</u>

(b) Share of capital expenditures for property, plant and equipment of jointly controlled entities

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Authorised but not brought into the accounts	<u>2,096.8</u>	<u>2,626.0</u>
Of which, contracts had been entered into	<u>1,183.8</u>	<u>1,381.4</u>

(c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to certain joint ventures under various joint venture contracts to finance relevant gas and energy projects. The directors estimate that as at 30th June 2011, the Group's commitments to these projects would be approximately HK\$971.0 million (At 31st December 2010: HK\$739.1 million).

(d) Lease Commitments

Lessee

At 30th June 2011, future aggregate minimum lease payments of land, buildings and equipment under non-cancellable operating leases are as follows:

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Not later than 1 year	<u>57.4</u>	53.2
Later than 1 year and not later than 5 years	<u>107.0</u>	89.3
Later than 5 years	<u>215.2</u>	<u>224.1</u>
	<u>379.6</u>	<u>366.6</u>

16. Commitments (continued)

(d) Lease Commitments (continued)

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront under operating leases. Except for certain car parks are rented out on an hourly or a monthly basis, these leases typically run for an initial period of 2 to 3 years. Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 30th June 2011 HK\$M	At 31st December 2010 HK\$M
Not later than 1 year	13.6	14.0
Later than 1 year and not later than 5 years	7.3	12.2
	20.9	26.2

17. Related party transactions

Save as disclosed elsewhere in the accounts, no significant related party transactions were undertaken by the Group at any time during the period.

18. Business combinations

- (a) In January 2011, the Group acquired 100 per cent and 80 per cent of Wuning Hong Kong and China Gas Co., Ltd. ("Wuning") and Xiushui Hong Kong and China Gas Co., Ltd. ("Xiushui") for cash consideration of approximately HK\$80.2 million and HK\$42.5 million respectively.

The inclusion of the acquired businesses do not have a significant impact of the Group's turnover and profit for the period.

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

	Wuning HK\$M	Xiushui HK\$M	Total HK\$M
Purchase consideration	80.2	42.5	122.7
Provisional fair value of net identifiable assets acquired (see below)	<u>(3.0)</u>	<u>(1.8)</u>	<u>(4.8)</u>
Goodwill	<u>77.2</u>	<u>40.7</u>	<u>117.9</u>

18. Business combinations (continued)

(a) (continued)

The identifiable assets and liabilities arising from the acquisition are as follows:

	Acquirees' carrying amount and provisional fair value at acquisition date HK\$M
Property, plant and equipment	27.1
Prepaid lease payments	0.5
Inventories	2.0
Other receivables, deposits and prepayments	0.9
Bank balances and cash	1.0
Trade payables	(2.0)
Other payables and accrued charges	(14.0)
Borrowings	(10.3)
	<hr/>
Net assets	5.2
Non-controlling interests	(0.4)
	<hr/>
Net identifiable assets acquired	<u>4.8</u>
	HK\$M
Purchase consideration for acquisition of subsidiaries, settled in cash	92.4
Cash and cash equivalents in subsidiaries acquired	(1.0)
	<hr/>
Cash outflow on acquisition of subsidiaries	<u>91.4</u>

As at 30th June 2011, purchase consideration of HK\$30.3 million for Xiushui remained unpaid and included in trade and other payables.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2011, the Group had a net current deposits position of HK\$6,667 million (31st December 2010: HK\$1,356 million) and long-term borrowings of HK\$18,043 million (31st December 2010: HK\$11,746 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$382 million (31st December 2010: HK\$529 million), net current funds as at 30th June 2011 amounted to HK\$7,049 million (31st December 2010: HK\$1,885 million). In addition, banking facilities available for use amounted to HK\$7,457 million (31st December 2010: HK\$6,966 million).

In February 2011, the Group concluded a HK\$3.8 billion 5-year syndicated term loan and revolving credit facility, the first syndicated financing transaction for the Group since 2006, for refinancing the HK\$3.0 billion inaugural syndicated facility taken up in 2006. The response to the syndication was overwhelming with an over-subscription of more than 70 per cent. This enabled the facility amount to be increased from an initial HK\$3.0 billion to HK\$3.8 billion backed by a total of 11 international and regional financial institutions including Japanese, American, Taiwanese, Spanish and Hong Kong banks. The success of this syndicated facility demonstrates the banking community's strong confidence in the Group's business development prospects.

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities and debt financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Borrowing structure

In May 2009, the Group established a US\$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favorable terms and timing under the Programme. In late March 2011, the Group issued its first RMB Note of RMB1 billion at a fixed coupon rate of 1.40 per cent per annum and 5-year maturity term in Hong Kong. Up to 30th June 2011, the Group issued notes in the total amount of HK\$4,214 million (31st December 2010: HK\$3,010 million) with maturity terms of 5 years, 10 years, 15 years, 30 years and 40 years in both Renminbi and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2011 was HK\$4,150 million (31st December 2010: HK\$2,951 million).

As at 30th June 2011, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US\$995 million (31st December 2010: US\$995 million) and the carrying value was HK\$7,669 million (31st December 2010: HK\$7,654 million).

As at 30th June 2011, the outstanding principal amount of the 7-year US dollar Guaranteed Senior Notes due 2011 (the "Guaranteed Senior Notes") issued in September 2004 by a subsidiary of the Group, Towngas China Company Limited, was US\$141 million (31st December 2010: US\$141 million) and the carrying value was HK\$1,121 million (31st December 2010: HK\$1,114 million). The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

As at 30th June 2011, the Group's borrowings amounted to HK\$23,393 million (31st December 2010: HK\$21,728 million). The increase was mainly due to the new issue of RMB Note of RMB1 billion, equivalent of HK\$1,204 million, and net drawn down of bank loans for the rest. Other than the Notes mentioned on above which had fixed interest rate while the Guaranteed Senior Notes were secured by a pledge of shares of certain subsidiaries of Towngas China Company Limited, all bank and other loans were unsecured and had a floating interest rate, of which HK\$6,224 million (31st December 2010: HK\$1,141 million) were long-term bank loans while HK\$4,229 million (31st December 2010: HK\$8,868 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2011, the maturity profile of the Group's borrowings was 23 per cent within 1 year, 1 per cent within 1 to 2 years, 25 per cent within 2 to 5 years and 51 per cent over 5 years (31st December 2010: 46 per cent within 1 year, 5 per cent within 2 to 5 years and 49 per cent over 5 years).

The US dollar Guaranteed Notes issued are hedged to Hong Kong dollars by currency swaps and the Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi; thus, the Group has no significant exposure to foreign exchange risk. The gearing ratio [net borrowing / (shareholders' funds + net borrowing)] for the Group as at 30th June 2011 remained healthy at 23 per cent (31st December 2010: 22 per cent). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$382 million as at 30th June 2011 (31st December 2010: HK\$529 million), the net gearing ratio [net debt / (shareholders' funds + net debt)] stood at 22 per cent (31st December 2010: 21 per cent).

Contingent liabilities

As at 30th June 2011, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associated companies, jointly controlled entities or third parties (31st December 2010: Nil).

Currency profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's investments in securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 30th June 2011, the investments in securities amounted to HK\$4,203 million (31st December 2010: HK\$3,970 million). The performance of the Group's investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2011, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained 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 dealing in securities by Directors

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the review period.

Audit committee

An audit committee was formed in May 1996 to review and supervise the financial reporting process and internal controls of the Group. An audit committee meeting was held in August 2011 to review the unaudited interim accounts for the six months ended 30th June 2011. PricewaterhouseCoopers, the Group's external auditor, carried out a review of the unaudited interim accounts for the six months ended 30th June 2011 in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2011.

Disclosure of interests

A. Directors

As at 30th June 2011, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and underlying shares (Long positions)

Name of company	Director	Interest in shares				Interest in underlying shares pursuant to share options	Aggregate interest	%**
		Personal interests	Family interests	Corporate interests	Other			
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee	4,723,440		3,274,026,997 (Note 5)			3,278,750,437	41.50
	Dr. the Hon. David Li Kwok Po	22,022,000					22,022,000	0.28
	Mr. Lee Ka Kit				3,274,026,997 (Note 4)		3,274,026,997	41.44
	Mr. Alfred Chan Wing Kin	150,543*					150,543*	0.00
	Mr. James Kwan Yuk Choi	53,146	60,214				113,360	0.00
	Mr. Lee Ka Shing				3,274,026,997 (Note 4)		3,274,026,997	41.44
	Professor Poon Chung Kwong			48,315 (Note 6)			48,315	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 (Note 7)			9,500	95
	Mr. Lee Ka Kit				9,500 (Note 7)		9,500	95
	Mr. Lee Ka Shing				9,500 (Note 7)		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 (Note 8)			2	100
	Mr. Lee Ka Kit				2 (Note 8)		2	100
	Mr. Lee Ka Shing				2 (Note 8)		2	100
Towngas China Company Limited (“Towngas China”)	Dr. the Hon. Lee Shau Kee			1,628,172,901 (Note 9)			1,628,172,901	66.18
	Mr. Lee Ka Kit				1,628,172,901 (Note 9)		1,628,172,901	66.18
	Mr. Lee Ka Shing				1,628,172,901 (Note 9)		1,628,172,901	66.18
	Mr. Alfred Chan Wing Kin					3,618,000 (Note 10)	3,618,000	0.15
	Mr. James Kwan Yuk Choi					3,015,000 (Note 10)	3,015,000	0.12

* These shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.

** Percentage which the aggregate long position in the shares or underlying shares represents to the issued share capital of the Company or any of its associated corporations.

Options to Subscribe for Shares of Towngas China (Long positions)

Pursuant to the share option schemes of Towngas China, a subsidiary of the Company, certain Directors of the Company have been granted options to subscribe for the shares of Towngas China, details of which as at 30th June 2011 were as follows:

Name of company	Director	Date of grant	Exercise period	Exercise price (HK\$)	Number of shares subject to outstanding options as at 01.01.2011*	Number of shares subject to outstanding options as at 30.06.2011*
Towngas China	Mr. Alfred Chan Wing Kin	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
	Total				3,618,000	3,618,000
	Mr. James Kwan Yuk Choi	16.03.2007	16.03.2008-27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009-27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010-27.11.2015	3.811	1,206,000	1,206,000
	Total				3,015,000	3,015,000

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

Save as mentioned above, as at 30th June 2011, there were no other interests or short positions of the Directors 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 Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

B. Substantial shareholders and others (Long positions)

As at 30th June 2011, the interests and short positions of every person, other than the Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of company	No. of shares in which interested	%*
Substantial shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,696,927,906	21.48
	Timpani Investments Limited (Note 1)	2,405,881,727	30.45
	Faxson Investment Limited (Note 1)	3,150,389,273	39.88
	Henderson Land Development Company Limited (Note 1)	3,150,389,273	39.88
	Henderson Development Limited (Note 2)	3,156,196,583	39.95
	Hopkins (Cayman) Limited (Note 3)	3,274,026,997	41.44
	Riddick (Cayman) Limited (Note 4)	3,274,026,997	41.44
	Rimmer (Cayman) Limited (Note 4)	3,274,026,997	41.44
Persons other than substantial shareholders	Macrostar Investment Limited (Note 1)	744,507,546	9.42
	Chelco Investment Limited (Note 1)	744,507,546	9.42
	Medley Investment Limited (Note 1)	708,953,821	8.97
	Commonwealth Bank of Australia (Note 11)	523,597,235	6.63

* Percentage which the aggregate long position in the shares represents to the issued share capital of the Company.

Save as mentioned above, as at 30th June 2011, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

- These 3,150,389,273 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD").
- Henderson Development Limited ("HD") was taken to be interested in 60.33% of the total issued shares of HLD. Of these 3,156,196,583 shares, 3,150,389,273 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.
- Of these 3,274,026,997 shares, 3,156,196,583 shares represented the shares described in Notes 1 and 2 and 117,830,414 shares were beneficially owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust ("Unit Trust").
- These 3,274,026,997 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
- These 3,274,026,997 shares included the shares described in Notes 1 to 4. Dr. the Hon. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.

6. These 48,315 shares were beneficially owned by a company which was jointly owned by Professor Poon Chung Kwong and his spouse.
7. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
8. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
9. These 1,628,172,901 shares in Towngas China representing 66.18% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,585,202,901 shares), Planwise Properties Limited (as to 40,470,000 shares) and Superfun Enterprises Limited (as to 2,500,000 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
10. These options represent personal interests held by the Directors.
11. Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 523,597,235 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Share Option Schemes of Towngas China

Towngas China operates three share option schemes, the Pre-GEM Scheme, 2001 GEM Scheme, and 2005 Main Board Scheme under which the board of Towngas China may, at its discretion, offer any employee (including any director) of Towngas China or its subsidiaries options to subscribe for shares in Towngas China subject to the terms and conditions stipulated in the three schemes. The Pre-GEM Scheme and the 2001 GEM Scheme were approved by its shareholder on 4 April 2001 and have a life of 10 years until 3 April 2011. The 2005 Main Board Scheme was approved by its shareholders on 28 November 2005 and has a life of 10 years until 27 November 2015.

Details of specific categories of options of Towngas China 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 of Towngas China during the period:

Option types	Date of grant	Exercise period	Exercise price (HK\$)	Outstanding at 01.01.2011	Exercised during the period	Outstanding at 30.06.2011	Weighted average closing price of shares of Towngas China immediately before the date(s) on which options were exercised (HK\$)	
Category 1: Directors of Towngas China								
Mr. Alfred Chan Wing Kin	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	–
Mr. James Kwan Yuk Choi	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	–
Other directors of Towngas China (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
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,809,000	–	1,809,000	–	
	16.03.2007	16.03.2009 – 27.11.2015	3.811	1,809,000	–	1,809,000	–	
	16.03.2007	16.03.2010 – 27.11.2015	3.811	2,412,000	–	2,412,000	–	
Total for Category 1					15,678,000	3,015,000	12,663,000	
Category 2: Employees of Towngas China								
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 Category 2					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. A former alternate director of Towngas China resigned on 16 March 2011.

Arrangements to purchase shares or debentures

Other than the share option schemes of Towngas China disclosed above, at no time during the period was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Update on biographical details of Director under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the update on biographical details of Mr. James Kwan Yuk Choi, Director of the Company, is as follows:

Mr. James KWAN Yuk Choi 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 and Chief Operating Officer*

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

CORPORATE INFORMATION

Board of directors

As at the date of this report, the board of directors of the Company comprises: Dr. the Hon. Lee Shau Kee (Chairman), Mr. Leung Hay Man*, Mr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po*, Mr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi, Mr. Lee Ka Shing and Professor Poon Chung Kwong*.

* *Independent Non-executive Director*

Registered office

23rd Floor, 363 Java Road, North Point,
Hong Kong

Company's website

www.towngas.com

Share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Telephone number: 2862 8555
Fax number: 2865 0990

Investor relations

Corporate Investment and Investor Relations Department
Telephone number: 2963 3189
Fax number: 2911 9005
e-mail address: invrelation@towngas.com

Corporate Communications Department
Telephone number: 2963 3493
Fax number: 2516 7368
e-mail address: ccd@towngas.com

Company Secretarial Department
Telephone number: 2963 3292
Fax number: 2562 6682
e-mail address: compsec@towngas.com

A printed version of this Interim Report is available on request from the Company and the Company's Share Registrar free of charge. The website version of this Interim Report is also available on the Company's website.