2012

Interim Report

Towngas

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

THE HONG KONG AND CHINA GAS COMPANY LIMITED
2012 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 2012 amounted to HK$4,120.3 million, an increase of HK$897.4 million compared with the same period last year. Earnings per share for the first half of 2012 amounted to HK 47.4 cents, an increase of 27.8 per cent compared with the same period last year. Profit growth was mainly due to growth in profit from mainland businesses and a one-off net gain recorded during the first half of 2012.

Highlights of the unaudited results of the Group for the six months ended 30th June 2012, as compared to the same period in 2011, are shown in the following table:

	Unaudited Six months ended 30th June	
	2012	2011
Revenue before Fuel Cost Adjustment, HK million dollars	**11,562.2**	9,681.7
Revenue after Fuel Cost Adjustment, HK million dollars	**12,534.5**	10,470.1
Profit Attributable to Shareholders, HK million dollars	**4,120.3**	3,222.9
Earnings per Share, HK cents	**47.4**	37.1*
Interim Dividend per Share, HK cents	**12.0**	12.0
Town Gas Sold in Hong Kong, million MJ	**15,579**	15,537
Gas Sold in mainland China City-gas Business, ten thousand cubic metres; natural gas equivalent#	**596,107**	520,268
Number of Customers in Hong Kong as at 30th June	**1,763,392**	1,736,923
Number of City-gas Customers in mainland China as at 30th June#	**13,783,560**	12,405,748

* *Adjusted for the bonus issue in 2012*

\# *Inclusive of all mainland city-gas projects of the Group*

The unaudited condensed consolidated interim accounts are provided on pages 8 to 30 of this Interim Report. The unaudited interim accounts have been reviewed by the Company's audit committee and external auditor, PricewaterhouseCoopers.

GAS BUSINESS IN HONG KONG

Local economic growth slowed down during the first half of 2012 compared with the same period last year under the impact of the global economic downturn and unresolved European debt crisis. Though tourism, restaurant and hotel sectors still benefited from a continuous increase in the number of inbound tourists, both local residents and inbound tourists became cautious on spending owing to the slow down in economic growth. Hong Kong's average temperature for the first half of 2012 was also slightly higher than the same period last year. As a result of all these factors, overall gas sales were adversely affected, with the total volume of gas sales in Hong Kong for the first half of 2012 rising slightly by only 0.3 per cent compared to the same period last year. Total number of appliances sold during the period under review increased by approximately 1.7 per cent over the same period last year.

As at 30th June 2012, the number of customers was 1,763,392, an increase of 12,839, as anticipated, since the end of December 2011.

BUSINESS DEVELOPMENTS IN MAINLAND CHINA

The Group's mainland businesses progressed well during the first half of 2012.

The mainland economy continued to grow steadily during the first half of 2012 though the pace was slower compared with the same period last year owing to a difficult domestic and global economy. The Group's city-gas and natural gas businesses, benefiting from both an increase in upstream natural gas supply and economic progress in certain regions on the mainland, 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"), is progressing well with ECO now at various stages of project investment, construction and gradual commissioning. As a result of rising internal demand for consumer goods and progressive urbanisation on the mainland, demand for clean energy is increasing. Upstream natural gas supply is also improving. Therefore 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 145 projects on the mainland, seven more than that at the end of 2011, spread across 21 provinces/municipalities/autonomous regions. These projects encompass upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

Diversification and an increase in the number of projects are rapidly transforming the Group from a locally-based company centred on city-gas businesses into a sizable, nation-wide, multi-business corporation with a focus on environmental protection, energy ventures and utility sectors.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well, with three new projects successfully established by Towngas China so far this year. The Group now has 103 city-gas projects in mainland cities spread across 19 provinces/municipalities/autonomous regions. As at the end of June 2012, the number of the Group's gas customers on the mainland was approximately 13.78 million generating a total volume of gas sales of 5,960 million cubic metres during the period under review. 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. Thus, with access to sufficient gas sources, the Group anticipates its mainland projects will 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, in Hebei province, in Hangzhou, Zhejiang province and in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province; and a new pipeline project in Henan province. Towngas China also added a midstream pipeline project located in Wafangdian, Dalian, Liaoning province to its portfolio during the first half of 2012. These kinds of high-pressure, natural gas pipeline projects generate good returns and help the Group develop and strengthen its downstream city-gas markets.

During the third quarter of 2011, 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 in and operates four water projects, all of which are progressing well.

Operation and management of businesses encompassing city-gas, city-water and midstream natural gas projects create positive synergy and bring increasing benefits to the Group. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Energy and Chemical Businesses and Technology Development

The main focuses of ECO's emerging environmentally-friendly energy businesses are "energy conservation, emission reduction and converting waste into materials of high value". ECO is using innovative methods and technologies to convert waste or materials of low value into energy of high value which can be used as a substitute for conventional fuels. This concept originated from ECO's North East New Territories landfill gas treatment facility which has been successfully operating in Hong Kong for several years. Using purification technology, the facility converts landfill gas on site into substitute natural gas which is then transported to Tai Po gas production plant via a pipeline to partially substitute for naphtha, thereby notably reducing greenhouse gas emissions. Since 2008, ECO has been developing similar kinds of emerging environmentally-friendly energy projects on the mainland with an extended scope of application. ECO's coalbed methane liquefaction facility located in Jincheng, Shanxi province, which is already fully commissioned, is generating good profits for the Group. ECO's coal chemical project, acquired in 2009, in Junger, Erdos, Inner Mongolia, which converts coal into methanol using advanced coal gasification and synthesis technology with an annual production capacity of 200,000 tonnes, is now at the pilot stage of production and is expected to be fully commissioned during the second half of this year.

The preliminary work for ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is also progressing as scheduled; construction is expected to commence within this year for commissioning in mid-2014. By converting coal-mine gas into liquefied methane which can be used as natural gas, this project will provide the Group's downstream city-gas businesses and gas filling stations with a more environmentally-friendly gas source to help conserve energy and reduce gas emissions.

In addition, to capture a competitive edge, ECO set up a new-energy research and development centre in 2010 focusing on application technologies for the utilisation of waste or low-valued materials to produce new energy. The centre has achieved good results in its development of innovative technologies for converting materials of low value, such as non-edible oil and coal tar oil, into clean fuel and substances of high value. ECO is proactively transforming these technologies into ones applicable for industrial use, and is also directly investing in related production projects. These kinds of investments are expected to play an increasingly important part in ECO's new energy businesses.

Energy Resources Development Businesses

ECO is proactively developing upstream resources in tandem with its new-energy chemical businesses. To this end, ECO's Xiaoyugou coal mine, with an annual production of 1.2 million tonnes of long flame coal, which is associated with ECO's methanol production plant, is at the pilot stage of production and is expected to be fully commissioned during the second half of 2012. ECO's operative open-pit coal mine in Inner Mongolia is also operating relatively smoothly although it has been inevitably affected by the downturn in coal sales resulting from mainland China's slowing macro-economy during the first half of this year. Despite this, ECO, anticipating that the downturn is only a temporary market situation, will continue to increase the Group's coal resources reserves when circumstances permit.

Besides coal investments, ECO has sought to leverage the technology and several years' experience accumulated from a small oilfield project in Jilin province, jointly developed by ECO and China Petroleum & Chemical Corporation, by successfully acquiring, in mid-2012, a 60 per cent effective stake in the development of onshore oilfield blocks L33 and L44 in Thailand. Both are operative oilfield blocks covering substantial areas which have not been fully explored but have great potential. ECO has already taken over operational management of the oilfields and is currently proceeding with the next stage – that of formulating a detailed plan for their comprehensive development.

Non-conventional gases such as coalbed methane and shale gas also play an important part in ECO's upstream businesses. ECO is now conducting technical validations with respect to gas control and extraction of coalbed methane in certain areas on the mainland where coal-mine gas resources are abundant but storage conditions are complicated. Concurrently, ECO is also endeavouring to find opportunities to participate in the recent development of shale gas projects on the mainland.

Energy-related Logistics and Facilities Businesses

ECO is continuing to uphold its "energy conservation and emission reduction" strategy in running its energy-related logistics and facilities businesses, originating from its five dedicated liquefied petroleum gas ("LPG") vehicular filling stations in Hong Kong. These stations have been operating steadily for several years and are significantly helping to reduce pollution arising from vehicle emissions. To leverage this business, ECO started a gas filling station business on the mainland in 2008. Since then, a network of compressed and liquefied natural gas filling stations supplying clean fuels has gradually been established 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, is operating smoothly. The facility supplied over 5 million tonnes of aviation fuel to the airport in 2011 and is now a major logistics base for supply of aviation fuel in Hong Kong. In recent years, the aviation sector has been advocating the production of, and logistical arrangements for, environmentally-friendly aviation fuel for which ECO is now proactively conducting forward-looking studies.

In tandem with the development of its coal resources business, ECO has also started a coal logistics business on the mainland in important coal distribution areas such as Qinhuangdao, Hebei province and Dandong, Liaoning province. ECO is also investing in the construction of an inland coal and bulk cargo logistics port in Jining, Shandong province to link an upstream dedicated coal transportation railway with a downstream canal connecting Beijing and Hangzhou. The logistics port, with an expected annual throughput of 10 million tonnes, had its soft opening in June of this year. In order to create a green inland port, ECO also supplies clean and environmentally-friendly fuels for different transport means serving this inland port, and is developing vehicular and marine liquefied natural gas filling stations and gas filling facilities at piers for use by heavy-duty trucks and transport vessels.

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$357 million for the first half of 2012, an increase of approximately 18 per cent over the same period last year. As at the end of June 2012, the Group had an approximately 66.18 per cent interest in Towngas China.

Towngas China acquired three new piped-gas projects during the first half of 2012 located in Wafangdian, Dalian, Liaoning province, in Binhai Science and Technology Industrial Park, Zhaoyuan, Shandong province and in Yifeng county, Yichun, Jiangxi province. It also added a new midstream pipeline project in Wafangdian, Dalian, Liaoning province to its portfolio. Towngas China is focused on developing city-gas businesses in cities with a high proportion of industrial gas consumption. To capture investment opportunities resulting from the country's commitment to promote the utilisation of natural gas during the period of the Twelfth Five-Year Plan, Towngas China will continue to strive for rapid expansion through mergers and acquisitions.

PROPERTY DEVELOPMENTS

Leasing of the commercial area of the Grand Waterfront property development project located at Ma Tau Kok is good. The Group also 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 tandem with the Group's long-term investments on the mainland, the Group continued to issue medium term notes with a total amount equivalent to HK$2.68 billion during the first half of 2012 under its medium term note programme (the "Programme") established through HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Inclusive of the Group's first renminbi-denominated notes in Hong Kong issued in late March 2011 with a total amount of RMB1 billion for a term of five years, the Group has issued medium term notes with, up to now, an aggregate amount equivalent to HK$9.45 billion under the Programme with tenors ranging from 5 to 40 years.

In response to growing demand from investors operating in the Greater China capital markets, Standard & Poor's Ratings Services ("Standard & Poor's"), an international rating agency, launched the first credit rating benchmark developed especially for the region in 2011 to assign credit ratings to borrowers active in mainland China, Hong Kong, and Taiwan (including the fast-growing offshore renminbi debt market). The Company was assigned the highest rating of cnAAA, whilst Towngas China was assigned cnA under this Greater China long-term credit rating scale, demonstrating Standard & Poor's high recognition of the Group's stable financial status and strong credit standing.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2012, the number of employees engaged in the town gas business in Hong Kong was 1,941, the number of customers had increased by 26,469 since the end of June 2011, and each employee served the equivalent of 908 customers, a similar level compared to each employee serving 907 customers as at the end of June 2011. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular filling stations and engineering contractual works, the total number of employees of the Group for Hong Kong businesses was 2,271 as at the end of June 2012 compared with 2,212 for the corresponding period in 2011. Related manpower costs amounted to HK$395 million for the first half of 2012, an increase of HK$28 million compared with the corresponding period in 2011. 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 14th September 2012. To enable our Share Registrar to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 13th September 2012 and Friday, 14th September 2012, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Wednesday, 3rd October 2012.

BUSINESS OUTLOOK FOR 2012

The Company predicts steady growth and an increase of about 25,000 new customers in Hong Kong during 2012. Restaurant, hotel and retail sectors are benefiting from a prospering tourism industry in Hong Kong. However, annual economic growth in Hong Kong for the whole of 2012 is forecasted to be slower than last year. Nevertheless, the Company will continue to enhance its operational efficiency and endeavour to uphold stable revenue from its gas business in Hong Kong.

In line with the gradual implementation of the Twelfth Five-Year Plan, the 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 achieve good growth for the whole of 2012. The combined results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will overtake the results of its Hong Kong gas business in 2012, and will have faster growth momentum than its Hong Kong gas business thereafter given these businesses' good prospects.

The Company is celebrating its 150th Anniversary this year with a series of commemorative activities that kicked off on 5th June 2012. To reward our shareholders, the Company distributed a one-off special dividend on 21st June 2012.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its successful corporate brand names built up there over the last 20 years and an anticipated rising demand for clean energy, the Group predicts good prospects and an even better future for its businesses in the years to come.

LEE Shau Kee
Chairman

Hong Kong, 21st August 2012

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th June

	Note	**2012 HK$M**	2011 HK$M
Revenue	2	**12,534.5**	10,470.1
Total operating expenses	3	**(9,177.6)**	(7,612.1)
		3,356.9	2,858.0
Other gains, net	4	**708.5**	368.8
Interest expense		**(411.9)**	(382.1)
Share of profits less losses of associated companies		**878.4**	706.3
Share of profits less losses of jointly controlled entities		**692.6**	572.3
Profit before taxation	5	**5,224.5**	4,123.3
Taxation	6	**(790.1)**	(636.0)
Profit for the period		**4,434.4**	3,487.3
Attributable to:			
Shareholders of the Company		**4,120.3**	3,222.9
Non-controlling interests		**314.1**	264.4
		4,434.4	3,487.3
Dividend	7	**1,042.9**	948.1
Earnings per share – basic and diluted, HK cents	8	**47.4**	37.1*

* *Adjusted for the bonus issue in 2012*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the six months ended 30th June

	2012 HK$M	2011 HK$M
Profit for the period	**4,434.4**	3,487.3
Other comprehensive income:		
Revaluation surplus of available-for-sale financial assets transferred to equity	**7.8**	63.8
Change in fair value of cash flow hedges	**(33.5)**	(198.7)
Recognition of exchange reserve upon disposal of a subsidiary	**(17.8)**	–
Exchange differences	**(118.7)**	466.4
Other comprehensive (loss)/income for the period, net of tax	**(162.2)**	331.5
Total comprehensive income for the period	**4,272.2**	3,818.8
Total comprehensive income attributable to:		
Shareholders of the Company	**3,977.6**	3,473.0
Non-controlling interests	**294.6**	345.8
	4,272.2	3,818.8

CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30th June 2012

	Note	**At 30th June 2012 HK$M**	At 31st December 2011 HK$M
Assets			
Non-current assets			
Property, plant and equipment	9	**37,011.9**	32,255.1
Investment property		**518.0**	518.0
Leasehold land		**1,294.6**	1,351.2
Intangible assets		**3,453.3**	3,434.8
Associated companies		**14,411.7**	12,706.8
Jointly controlled entities		**8,879.9**	8,964.7
Available-for-sale financial assets		**3,033.3**	3,110.6
Derivative financial instruments		**448.8**	452.3
Retirement benefit assets		**81.4**	81.4
Other non-current assets		**2,256.7**	2,258.9
		71,389.6	65,133.8
Current assets			
Inventories		**2,141.8**	1,622.4
Trade and other receivables	10	**5,628.4**	5,606.7
Loan and other receivables from associated companies		**237.8**	73.3
Loan and other receivables from jointly controlled entities		**1,036.1**	468.1
Loan and other receivables from non-controlling shareholders		**111.7**	135.4
Financial assets at fair value through profit or loss		**321.5**	313.3
Time deposits over three months		**375.6**	493.7
Time deposits up to three months, cash and bank balances		**10,170.0**	11,242.2
		20,022.9	19,955.1
Current liabilities			
Trade and other payables	11	**(8,231.0)**	(7,990.5)
Amounts due to jointly controlled entities		**(53.8)**	(31.7)
Loan and other payables to non-controlling shareholders		**(254.9)**	(282.4)
Provision for taxation		**(1,057.6)**	(878.0)
Borrowings		**(5,043.4)**	(4,220.8)
		(14,640.7)	(13,403.4)
Net current assets		**5,382.2**	6,551.7
Total assets less current liabilities		**76,771.8**	71,685.5

	Note	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Non-current liabilities			
Customers' deposits		**(1,176.0)**	(1,165.7)
Deferred taxation		**(4,272.1)**	(2,444.1)
Borrowings		**(23,880.4)**	(21,628.4)
Loan payable to non-controlling shareholders		**(9.7)**	–
Asset retirement obligations		**(69.9)**	–
Derivative financial instruments		**(173.6)**	(115.1)
		(29,581.7)	(25,353.3)
Net assets		**47,190.1**	46,332.2
Capital and reserves			
Share capital	12	**2,172.6**	1,975.1
Share premium	13	**3,078.3**	3,275.8
Reserves	14	**36,068.2**	33,133.5
Proposed dividend	14	**1,042.9**	3,199.7
Shareholders' funds		**42,362.0**	41,584.1
Non-controlling interests		**4,828.1**	4,748.1
Total equity		**47,190.1**	46,332.2

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the six months ended 30th June

	2012 **HK$M**	2011 HK$M
Net cash from operating activities	**3,123.3**	2,804.9
Net cash used in investing activities	**(3,708.5)**	(1,513.2)
Net cash used in financing activities	**(469.3)**	(579.9)
(Decrease)/increase in cash and cash equivalents	**(1,054.5)**	711.8
Cash and cash equivalents at 1st January	**11,242.2**	9,696.3
Effect of foreign exchange rate changes	**(17.7)**	55.4
Cash and cash equivalents at 30th June	**10,170.0**	10,463.5
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**6,665.4**	4,300.6
Time deposits up to three months	**3,504.6**	6,162.9
	10,170.0	10,463.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June

	Attributable to shareholders of the Company				
	Share capital HK$M	Share premium HK$M	Reserves HK$M	Non-controlling interests HK$M	Total HK$M
Total equity as at 1st January 2012	**1,975.1**	**3,275.8**	**36,333.2**	**4,748.1**	**46,332.2**
Profit for the period	**–**	**–**	**4,120.3**	**314.1**	**4,434.4**
Other comprehensive income:					
Revaluation surplus of available-for-sale financial assets transferred to equity	**–**	**–**	**7.8**	**–**	**7.8**
Change in fair value of cash flow hedges	**–**	**–**	**(31.5)**	**(2.0)**	**(33.5)**
Recognition of exchange reserve upon disposal of a subsidiary	**–**	**–**	**(17.8)**	**–**	**(17.8)**
Exchange differences	**–**	**–**	**(101.2)**	**(17.5)**	**(118.7)**
Total comprehensive income for the period	**–**	**–**	**3,977.6**	**294.6**	**4,272.2**
Capital injection	**–**	**–**	**–**	**10.0**	**10.0**
Dividends paid to shareholders of the Company	**–**	**–**	**(3,199.7)**	**–**	**(3,199.7)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**(143.7)**	**(143.7)**
Bonus issue	**197.5**	**(197.5)**	**–**	**–**	**–**
Disposal of a subsidiary (Note 18)	**–**	**–**	**–**	**(80.9)**	**(80.9)**
Total equity as at 30th June 2012	**2,172.6**	**3,078.3**	**37,111.1**	**4,828.1**	**47,190.1**
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

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 unaudited condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31st December 2011. The Group has adopted Hong Kong Financial Reporting Standard ("HKFRS") 7 (amendment) "Financial Instruments: Disclosure – Transfer of Financial Assets" issued by the HKICPA, which are effective for the Group's financial year beginning 1st January 2012 and relevant to the Group. There is however no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

The HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1st January 2012 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	
	2012	2011
	HK$M	HK$M
Gas sales before fuel cost adjustment	**8,668.7**	7,648.6
Fuel cost adjustment	**972.3**	788.4
Gas sales after fuel cost adjustment	**9,641.0**	8,437.0
Equipment sales	**581.8**	575.0
Maintenance and services	**164.3**	162.9
Water sales	**233.9**	204.2
Coal sales	**599.5**	133.0
Rental income	**18.2**	16.0
Other sales	**1,295.8**	942.0
	12,534.5	10,470.1

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 and loan and other receivables from non-controlling shareholders.

2. Segment information *(continued)*

The segment information for the six months ended 30th June 2012 and 2011 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							
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue	**5,424.4**	5,090.1	**6,448.9**	5,199.6	**18.2**	16.0	**643.0**	164.4	**12,534.5**	10,470.1
Adjusted EBITDA	**2,525.5**	2,424.0	**1,578.4**	1,311.9	**10.2**	9.1	**285.2**	5.5	**4,399.3**	3,750.5
Depreciation and amortisation	**(309.4)**	(296.0)	**(335.3)**	(297.7)	**(0.1)**	(0.1)	**(62.8)**	(2.0)	**(707.6)**	(595.8)
Unallocated corporate expenses									**(334.8)**	(296.7)
									3,356.9	2,858.0
Other gains, net									**708.5**	368.8
Interest expense									**(411.9)**	(382.1)
Share of profits less losses of associated companies	**–**	–	**369.4**	275.4	**509.6**	430.8	**(0.6)**	0.1	**878.4**	706.3
Share of profits less losses of jointly controlled entities	**–**	–	**690.9**	562.8	**2.9**	11.5	**(1.2)**	(2.0)	**692.6**	572.3
Profit before taxation									**5,224.5**	4,123.3
Taxation									**(790.1)**	(636.0)
Profit for the period									**4,434.4**	3,487.3

Share of profits of associated companies includes HK$300.0 million (2011: HK$235.0 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 2012 and 31st December 2011 is as follows:

	Gas, water and energy related business				Property		All other segments		Total	
	Hong Kong		Mainland China							
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Segment assets	**17,116.8**	18,308.3	**41,127.2**	39,652.5	**9,826.7**	8,402.3	**15,496.4**	10,572.2	**83,567.1**	76,935.3
Unallocated corporate assets										
– available-for-sale financial assets									**3,033.3**	3,110.6
– financial assets at fair value through profit and loss									**321.5**	313.3
– time deposits, cash and bank balances excluded from segment assets									**3,569.6**	3,728.7
– others									**921.0**	1,001.0
Total assets	**17,116.8**	18,308.3	**41,127.2**	39,652.5	**9,826.7**	8,402.3	**15,496.4**	10,572.2	**91,412.5**	85,088.9

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six month ended 30th June 2012 is HK$5,473.0 million (2011: HK$5,131.6 million), and the revenue from external customers in the People's Republic of China (the "PRC") is HK$7,061.5 million (2011: HK$5,338.5 million).

At 30th June 2012, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other geographical locations are HK$19,467.1 million and HK$46,102.3 million (31st December 2011: HK$18,431.7 million and HK$40,798.9 million) respectively.

3. Total operating expenses

	Six months ended 30th June	
	2012	2011
	HK$M	HK$M
Stores and materials used	**6,150.5**	5,221.9
Cost of coal purchased	**261.3**	125.6
Manpower costs	**903.2**	760.1
Depreciation and amortisation	**712.8**	599.6
Other operating items	**1,149.8**	904.9
	9,177.6	7,612.1

4. Other gains, net

	Six months ended 30th June	
	2012	2011
	HK$M	HK$M
Net investment gains	**276.0**	370.2
Net gain on acquisition of subsidiaries (Note 19(a))	**600.7**	–
Gain on disposal of a subsidiary (Note 18)	**66.3**	–
Provision for investment in a jointly controlled entity	**(20.0)**	–
Project research and development costs	**(117.2)**	–
Provision for other receivables	**(102.1)**	–
Others	**4.8**	(1.4)
	708.5	368.8

5. Profit before taxation

Profit before taxation is stated after charging cost of inventories sold of HK$7,260.9 million (2011: HK$5,782.6 million).

6. Taxation

	Six months ended 30th June	
	2012	2011
	HK$M	HK$M
Current taxation	**646.8**	555.0
Deferred taxation relating to the origination and reversal of temporary differences	**143.3**	81.0
	790.1	636.0

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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	
	2012	2011
	HK$M	HK$M
2011 Final, paid, of HK 23 cents per ordinary share (2010 Final: HK23 cents per ordinary share)	**1,817.1**	1,651.9
2011 Special, paid, of HK 17.5 cents per ordinary share (2010: nil)	**1,382.6**	–
2012 Interim, proposed, of HK 12 cents per ordinary share (2011 Interim: HK12 cents per ordinary share)	**1,042.9**	948.1
	4,242.6	2,600.0

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$4,120.3 million (2011: HK$3,222.9 million) and the weighted average of 8,690,609,549 shares (2011: 8,690,609,549 shares*) in issue during the period.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the period (2011: nil), the diluted earnings per share for the period ended 30th June 2012 is approximately the same as the basic earnings per share.

* *Adjusted for the bonus issue in 2012.*

9. Property, plant and equipment

	Buildings, plant, mains, mining and exploration rights and other equipment HK$M
Cost	
At 1st January 2012	**42,736.1**
Additions	**2,386.5**
Acquisition of subsidiaries (Note 19)	**3,751.9**
Disposal of a subsidiary (Note 18)	**(609.3)**
Disposals/write off	**(101.7)**
Exchange differences	**(122.9)**
At 30th June 2012	**48,040.6**
Accumulated depreciation	
At 1st January 2012	**10,481.0**
Charge for the period	**708.1**
Disposal of a subsidiary (Note 18)	**(71.5)**
Disposals/write off	**(73.4)**
Exchange differences	**(15.5)**
At 30th June 2012	**11,028.7**
Net book value	
At 30th June 2012	**37,011.9**
At 31st December 2011	**32,255.1**

9. Property, plant and equipment *(continued)*

	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	27.1
Disposals/write off	(78.0)
Exchange differences	405.5
At 30th June 2011	38,178.8
Accumulated depreciation	
At 1st January 2011	9,198.6
Charge for the period	596.6
Disposals/write off	(64.6)
Exchange differences	48.6
At 30th June 2011	9,779.2
Net book value	
At 30th June 2011	28,399.6
At 31st December 2010	26,890.1

10. Trade and other receivables

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Trade receivables (Note)	**2,803.4**	2,851.2
Instalment receivables	**0.5**	0.5
Payments in advance	**1,647.7**	1,482.4
Other receivables	**1,176.8**	1,272.6
	5,628.4	5,606.7

The Group recognised a loss of HK$3.8 million (2011: HK$2.6 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 2012, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
0–30 days	**2,467.5**	2,599.5
31–60 days	**73.7**	63.0
61–90 days	**34.5**	27.6
Over 90 days	**227.7**	161.1
	2,803.4	2,851.2

11. Trade and other payables

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Trade payables (Note a)	**2,038.0**	1,736.7
Other payables and accruals (Note b)	**6,193.0**	6,253.8
	8,231.0	7,990.5

Notes

(a) As at 30th June 2012, the aging analysis of the trade payables is as follows:

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
0–30 days	**1,034.0**	863.5
31–60 days	**152.4**	218.7
61–90 days	**272.3**	146.8
Over 90 days	**579.3**	507.7
	2,038.0	1,736.7

11. Trade and other payables *(continued)*

(b) The balance includes an amount of approximately HK$45.7 million (At 31st December 2011: HK$45.7 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 2012	At 31st December 2011	**At 30th June 2012 HK$M**	At 31st December 2011 HK$M
Authorised:				
Ordinary shares of HK$0.25 each	**10,000,000,000**	10,000,000,000	**2,500.0**	2,500.0
Issued and fully paid:				
At beginning of period/year	**7,900,554,136**	7,182,321,942	**1,975.1**	1,795.6
Bonus issue (Note 13)	**790,055,413**	718,232,194	**197.5**	179.5
At end of period/year	**8,690,609,549**	7,900,554,136	**2,172.6**	1,975.1

13. Share premium

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
At beginning of period/year	**3,275.8**	3,455.3
Less: Bonus issue (Note 12)	**(197.5)**	(179.5)
At end of period/year	**3,078.3**	3,275.8

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 2012	181.3	223.8	378.9	155.5	(12.1)	3,007.7	29,198.4	33,133.5
Profit attributable to shareholders	–	–	–	–	–	–	4,120.3	4,120.3
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	7.8	–	–	–	–	–	–	7.8
Change in fair value of cash flow hedges	–	–	(31.5)	–	–	–	–	(31.5)
Recognition of exchange reserve upon disposal of a subsidiary	–	–	–	–	–	(17.8)	–	(17.8)
Exchange differences	–	–	–	–	–	(101.2)	–	(101.2)
Total comprehensive income for the period	7.8	–	(31.5)	–	–	(119.0)	4,120.3	3,977.6
2011 final dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
2011 final dividend paid	–	–	–	–	–	–	(3,199.7)	(3,199.7)
At 30th June 2012	189.1	223.8	347.4	155.5	(12.1)	2,888.7	33,318.7	37,111.1
Balance after 2012 interim dividend proposed	189.1	223.8	347.4	155.5	(12.1)	2,888.7	32,275.8	36,068.2
2012 interim dividend proposed	–	–	–	–	–	–	1,042.9	1,042.9
	189.1	223.8	347.4	155.5	(12.1)	2,888.7	33,318.7	37,111.1

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 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
	567.8	223.8	139.6	155.5	(12.1)	2,533.8	30,421.0	34,029.4

15. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30th June 2012 (At 31st December 2011: nil).

16. Commitments

(a) Capital expenditures for property, plant and equipment

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Authorised but not brought into the accounts	**2,623.0**	3,092.8
Of which, contracts had been entered into	**2,470.4**	2,751.0

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

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Authorised but not brought into the accounts	**2,929.1**	3,016.8
Of which, contracts had been entered into	**2,151.5**	2,050.4

(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 new energy projects. The directors estimate that as at 30th June 2012, the Group's commitments to these projects would be approximately HK$1,269.0 million (At 31st December 2011: HK$1,180.3 million).

(d) Lease Commitments

Lessee

At 30th June 2012, future aggregate minimum lease payments of land, buildings and equipment under non-cancellable operating leases are as follows:

	At 30th June 2012 HK$M	At 31st December 2011 HK$M
Not later than 1 year	**71.4**	66.7
Later than 1 year and not later than 5 years	**115.3**	114.9
Later than 5 years	**202.3**	209.6
	389.0	391.2

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 and rental of server and equipment 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 2012 HK$M	At 31st December 2011 HK$M
Not later than 1 year	**26.3**	14.2
Later than 1 year and not later than 5 years	**20.5**	10.9
	46.8	25.1

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. Disposal of a subsidiary

On 6th January 2012, the Group disposed its 60 per cent equity interest in Shunde Hong Kong and China Gas Company Limited ("Shunde") to an associated company of the Group for cash consideration of HK$201.4 million. Since the Group lost control on Shunde, relevant assets and liabilities are deconsolidated from the Group's financial statements.

The assets and liabilities disposed of are as follows:

	HK$M
Property, plant and equipment (Note 9)	537.8
Leasehold land	29.9
Available-for-sale investment	24.7
Inventories	4.0
Trade and other receivables	59.5
Bank balances and cash	9.0
Trade and other payables	(184.0)
Bank borrowings	(271.2)
Provision for taxation	(0.6)
Deferred taxation	(6.9)
Net assets	202.2
Non-controlling interests	(80.9)
	121.3
Gain on revaluation of effective retained interest	19.3
Recognition of exchange reserve upon disposal	(17.8)
Transaction related costs	12.3
Gain on disposal (Note 4)	66.3
Consideration	201.4

Analysis of net cash inflow of cash and cash equivalents in respect of disposal of a subsidiary:

	HK$M
Cash consideration, net received	189.1
Cash and cash equivalents disposed	(9.0)
	180.1

19. Business combinations

(a) In June 2012, the Group acquired 100 per cent Pan Orient Energy (Thailand) Limited and its subsidiary, Pan Orient Resources (Thailand) Limited ("Pan Orient Companies"), the companies were incorporated in Bermuda and Thailand respectively, for cash consideration of approximately HK$1,403.8 million. The Pan Orient Companies are engaged in the exploration, production and sale of crude oil, which own 60 per cent participating interest of several petroleum concession rights of 20-year production period from July 2012 in Wichianburi of Thailand.

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:

	HK$M
Purchase consideration	1,403.8
Provisional fair value of net identifiable assets acquired (see below)	(2,031.6)
Provisional negative goodwill	(627.8)
Less: acquisition related cost	27.1
Net gain arising from the acquisition of Pan Orient Companies (Note 4)	(600.7)

The provisional fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Acquirees' provisional fair value at acquisition date HK$M
Property, plant and equipment and exploration rights (Note 9)	3,702.2
Inventories	58.1
Trade and other receivables	28.4
Bank balances and cash	59.2
Time deposits over three months	5.9
Trade and other payables	(21.4)
Provision for taxation	(27.8)
Asset retirement obligations	(69.9)
Deferred taxation	(1,703.1)
Net identifiable assets acquired	2,031.6

19. Business combinations *(continued)*

(a) *(continued)*

	HK$M
Purchase consideration for acquisition of subsidiaries, settled in cash	1,244.2
Cash and cash equivalents in subsidiaries acquired	(59.2)
Cash outflow on acquisition of subsidiaries	1,185.0

As at 30th June 2012, purchase consideration of HK$159.6 million for Pan Orient Companies remained unpaid and included in trade and other payables.

The provisional negative goodwill of HK$627.8 million arising from the acquisition of Pan Orient Companies is mainly due to the recognition of fair value of oil reserve. The reserve levels and its valuation have been assessed and confirmed by international professional petroleum technical expert consultants. The valuation is based on 10 million barrels of 1P oil reserve and 30 million barrels of 2P oil reserve, referenced to probabilistic approach in recommended evaluation practices issued by the Society of Petroleum Evaluation Engineers. Other key assumptions used for the valuation of the exploration rights are as follows:

– Price of crude oil sold for 2012–2017 per barrel	US$84-93
– Discount rate	15%

(b) Business combinations under Towngas China Company Limited ("Towngas China")

In June 2012, a subsidiary of Towngas China acquired a business in Benxi ("Benxi business") for cash consideration of approximately HK$73.6 million.

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

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

	HK$M
Purchase consideration	73.6
Fair value of net identifiable assets acquired (see below)	(48.9)
Goodwill	24.7

The goodwill is attributable to the future profitability of the acquired Benxi business and the synergies expected to arise after the Group's acquisitions.

19. Business combinations *(continued)*

(b) Business combinations under Towngas China Company Limited ("Towngas China") *(continued)*

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

	Acquirees' fair value at acquisition date HK$M
Property, plant and equipment (Note 9)	49.7
Trade and other payables	(0.8)
Net identifiable assets acquired	48.9

	HK$M
Cash outflow on acquisition of a business and purchase consideration paid	24.5

As at 30th June 2012, purchase consideration of HK$49.1 million remained unpaid and included in trade and other payables.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2012, the Group had a net current deposits position of HK$5,502 million (31st December 2011: HK$7,515 million) and long-term borrowings of HK$23,880 million (31st December 2011: HK$21,628 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$322 million (31st December 2011: HK$313 million), net current funds as at 30th June 2012 amounted to HK$5,824 million (31st December 2011: HK$7,828 million). In addition, banking facilities available for use amounted to HK$7,015 million (31st December 2011: HK$6,962 million).

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 May 2012, the Programme was updated with the size increased to US$2 billion. After the update of the Programme, other than Hong Kong dollar and Australian dollar notes, the Group issued two JPY Note of JPY5 billion each at a fixed coupon rate of 1.36 per cent and 1.19 per cent per annum respectively and both in 10-year maturity term. Up to 30th June 2012, the Group issued notes in the total amount of HK$8,536 million (31st December 2011: HK$5,855 million) with maturity terms of 5 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2012 was HK$8,458 million (31st December 2011: HK$5,807 million).

As at 30th June 2012, 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 2011: US$995 million) and the carrying value was HK$7,655 million (31st December 2011: HK$7,660 million).

As at 30th June 2012, the Group's borrowings amounted to HK$28,924 million (31st December 2011: HK$25,849 million). The increase was mainly due to the new issue of MTNs of total equivalent of HK$2,681 million, and net drawn down of bank loans for the rest. The Notes mentioned on above together with the bank and other loans of HK$682 million had fixed interest rate and were unsecured. While the bank and other loans of HK$64 million of two joint ventures were secured by a pledge of certain assets of the joint ventures, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$7,304 million (31st December 2011: HK$7,317 million) were long-term bank loans while HK$4,761 million (31st December 2011: HK$4,188 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2012, the maturity profile of the Group's borrowings was 17 per cent within 1 year, 6 per cent within 1 to 2 years, 25 per cent within 2 to 5 years and 52 per cent over 5 years (31st December 2011: 16 per cent within 1 year, 7 per cent within 1 to 2 years, 29 per cent within 2 to 5 years and 48 per cent over 5 years).

The US dollar Guaranteed Notes, the RMB Note, AUD Note and JPY Note 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 2012 remained healthy at 30 per cent (31st December 2011: 25 per cent).

Contingent liabilities

As at 30th June 2012, 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 2011: 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 2012, the investments in securities amounted to HK$3,355 million (31st December 2011: HK$3,424 million). The performance of the Group's investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

The Company complied with the code provisions as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) during the period from 1st January 2012 to 31st March 2012 and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1st April 2012) during the period from 1st April 2012 to 30th June 2012.

Model code for dealing in securities by Directors

The Company has adopted the model code as set out in Appendix 10 to 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 six months ended 30th June 2012.

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 2012 to review the unaudited interim accounts for the six months ended 30th June 2012. PricewaterhouseCoopers, the Group's external auditor, carried out a review of the unaudited interim accounts for the six months ended 30th June 2012 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 2012.

Disclosure of interests

A. *Directors*

As at 30th June 2012, 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: Personal interests	Interest in shares: Family interests	Interest in shares: Corporate interests	Interest in shares: Other	Interest in underlying shares pursuant to share options	Aggregate interest	%*
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee	5,195,784		3,601,429,693 *(Note 5)*			3,606,625,477	41.50
	Dr. the Hon. David Li Kwok Po	24,224,200					24,224,200	0.28
	Mr. Lee Ka Kit				3,601,429,693 *(Note 4)*		3,601,429,693	41.44
	Mr. Alfred Chan Wing Kin	165,597 *(Note 7)*					165,597	0.00
	Mr. James Kwan Yuk Choi	58,460	66,235				124,695	0.00
	Mr. Lee Ka Shing				3,601,429,693 *(Note 4)*		3,601,429,693	41.44
	Professor Poon Chung Kwong	53,146 *(Note 6)*					53,146	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 *(Note 8)*			9,500	95
	Mr. Lee Ka Kit				9,500 *(Note 8)*		9,500	95
	Mr. Lee Ka Shing				9,500 *(Note 8)*		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 *(Note 9)*			2	100
	Mr. Lee Ka Kit				2 *(Note 9)*		2	100
	Mr. Lee Ka Shing				2 *(Note 9)*		2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee			1,628,172,901 *(Note 10)*			1,628,172,901	66.18
	Mr. Lee Ka Kit				1,628,172,901 *(Note 10)*		1,628,172,901	66.18
	Mr. Lee Ka Shing				1,628,172,901 *(Note 10)*		1,628,172,901	66.18
	Mr. Alfred Chan Wing Kin					3,618,000 *(Note 11)*	3,618,000	0.15
	Mr. James Kwan Yuk Choi					3,015,000 *(Note 11)*	3,015,000	0.12

* *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 scheme 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 2012 were as follows:

Name of company	Director	Date of grant	Exercise period	Exercise price (HK$)	Number of shares subject to outstanding options as at 01.01.2012*	Number of shares subject to outstanding options as at 30.06.2012*
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 2012, 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 2012, 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)*	1,866,620,696	21.48
	Timpani Investments Limited *(Note 1)*	2,646,469,898	30.45
	Faxson Investment Limited *(Note 1)*	3,465,428,197	39.88
	Henderson Land Development Company Limited *(Note 1)*	3,465,428,197	39.88
	Henderson Development Limited *(Note 2)*	3,471,816,238	39.95
	Hopkins (Cayman) Limited *(Note 3)*	3,601,429,693	41.44
	Riddick (Cayman) Limited *(Note 4)*	3,601,429,693	41.44
	Rimmer (Cayman) Limited *(Note 4)*	3,601,429,693	41.44
Persons other than substantial shareholders	Macrostar Investment Limited *(Note 1)*	818,958,299	9.42
	Chelco Investment Limited *(Note 1)*	818,958,299	9.42
	Medley Investment Limited *(Note 1)*	779,849,202	8.97
	Commonwealth Bank of Australia *(Note 12)*	691,414,050	7.96

* *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 2012, 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:

1. These 3,465,428,197 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").

2. Henderson Development Limited ("HD") was taken to be interested in 61.92% of the total issued shares of HLD. Of these 3,471,816,238 shares, 3,465,428,197 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.

3. Of these 3,601,429,693 shares, 3,471,816,238 shares represented the shares described in Notes 1 and 2 and 129,613,455 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").

4. These 3,601,429,693 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.

5. These 3,601,429,693 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 53,146 shares were jointly held by Professor Poon Chung Kwong and his spouse.

7. These 165,597 shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.

8. 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.

9. 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.

10. 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.

11. These options represent personal interests held by the Directors.

12. Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 691,414,050 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Share Option Scheme of Towngas China

Towngas China operates a share option scheme ("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 above scheme. The 2005 Main Board Scheme was approved by its shareholders on 28th November 2005 and has a life of 10 years until 27th November 2015.

Details of specific categories of options of Towngas China are as follows:

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

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

	Option types	Date of grant	Exercise period	Exercise price (HK$)	Outstanding at 01.01.2012	Outstanding at 30.06.2012
Category 1: Directors 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	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					12,663,000	12,663,000
Category 2: Employees of Towngas China	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					3,577,800	3,577,800
All categories					16,240,800	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 exercised, cancelled or had lapsed.
3. During the period, no new option was granted.

Arrangements to purchase shares or debentures

Other than the share option scheme 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.

Changes in the information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

1) **Dr. the Hon. David LI Kwok Po** G.B.M., G.B.S., O.B.E., J.P., Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur, F.C.A., F.C.P.A., F.C.P.A. (Aust.), F.C.I.B., F.H.K.I.B., F.B.C.S., C.I.T.P., F.C.I.Arb., Hon. D.Sc. (Imperial), Hon. D.B.A. (Edinburgh Napier), Hon. D. Hum. Litt. (Trinity, USA), Hon. D.Soc.Sc. (Lingnan), Hon. LL.D. (Hong Kong), Hon. LL.D. (Warwick), Hon. LL.D. (Cantab), Hon. DLitt (Macquarie), M.A. Cantab. (Economics & Law),
Independent Non-executive Director

   Dr. Li ceased to be an independent non-executive director of COSCO Pacific Limited on 17th May 2012 and the Chairman of The Hong Kong Management Association on 25th June 2012.

2) **Mr. LEUNG Hay Man** F.R.I.C.S., F.C.I.Arb., F.H.K.I.S.,
Independent Non-executive Director

   Mr. Leung was re-designated from Non-executive Director to Independent Non-executive Director of each of Henderson Land Development Company Limited and Henderson Investment Limited on 22nd August 2012.

3) The Board appointed Dr. the Hon. David Li Kwok Po (an Independent Non-executive Director) to be the Chairman of the Remuneration Committee on 19th March 2012 to replace Dr. the Hon. Lee Shau Kee who remains as member of the Remuneration Committee.

4) The Nomination Committee was established by the Board on 19th March 2012. It comprises Dr. the Hon. Lee Shau Kee (Chairman of the Nomination Committee), Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong.

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*

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Company's website

www.towngas.com

Share registrar

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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.