

2016

Interim Report



港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

CORPORATE INFORMATION

Board of Directors

Executive Directors

Chan Wing Kin, Alfred (*Chairman*)
Wong Wai Yee, Peter (*Chief Executive Officer*)
Ho Hon Ming, John (*Company Secretary*)
Kee Wai Ngai, Martin

Independent Non-Executive Directors

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

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Auditor

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

Registered Office

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

Head Office and Principal Place of Business

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar

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

Hong Kong Branch Share Transfer Office

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

Principal Bankers

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



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MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2016, the Group sold 3,551 million cubic metres of gas in total, representing a 5% overall growth. Profit from project companies on the mainland denominated in Renminbi increased 11% to RMB678 million. In view of the continued fluctuations of the exchange rate of Renminbi, the Group increased the percentage of Renminbi borrowings to total borrowings and made use of foreign currency swap contracts to minimise the foreign exchange risks in the period. Benefitted from the above measures, the Group recorded a decrease in net loss to HK\$79 million arising from the drop in the foreign exchange rate of Renminbi, comprising foreign exchange loss of HK\$108 million and gains of HK\$29 million from changes in fair value of other financial assets. Profit after taxation attributable to shareholders of the Company amounted to HK\$564 million, a decrease of 12% as compared to the corresponding period last year. Basic earnings per share amounted to HK21.18 cents, representing a decrease of 13% compared to the corresponding period of 2015.

Turnover

For the six months ended 30 June 2016, turnover from the sales of piped gas and related products declined 16% to HK\$2,693 million over the corresponding period last year due to devaluation of Renminbi and downward adjustments to the natural gas price as made by the Chinese Government in November 2015. The total consolidated volume of gas sold in the current period amounted to 924 million cubic metres, representing an increase of 3% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK\$743 million, an increase of 3% over corresponding period last year. Consolidated new households' connections of 180,000 were made during the period under review.

Development of New Project

During the first half of the year, the Group acquired a 25% equity interest in SCEI Distributed Energy Systems Co., Ltd.. A natural gas "distributed energy project" is one that utilises natural gas as its fuel and aims to achieve energy cascade utilisation through models such as Combined Cooling Heating and Power (CCHP). The comprehensive energy efficiency of such projects can reach 70% or more. At the same time, state-of-the-art power supply methods will be adopted in areas close to load centres in order to achieve efficient natural gas utilisation. This project will primarily focus in regions where major consumption of energy occur, such as metropolitan areas and industrial parks, where the technology of distributed renewable energy utilisation will be widely applied and strongly promoted. General objective of the project company during the "13th five-year strategic plan" period is to cement its leading market position within Sichuan Province and to gain an initial foothold in ex-Sichuan market, as well as to make attempts breaking into overseas markets (2016 to 2017), and to eventually develop itself into a corporation with global presence, with an undisputable dominating position within Sichuan market and a business coverage extended over the entire China, while also delineating steps to expand into overseas (2018 to 2020). As of today, approvals for three distributed energy resources projects have already been granted to the project company.

Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas") and NanJing Public Utilities Development Co., Ltd. ("NanJing Public"), which contributed dividends to the Group. Chengdu Gas was stated at cost while NanJing Public was stated at fair value and no impairment provision was required during the period.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2016.

Financial Position

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

As at 30 June 2016, the Group's total borrowings amounted to HK\$9,094 million, of which HK\$994 million represented loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 1 to 5 years, HK\$5,371 million represented bank loans and other loans due between 1 to 5 years, HK\$2,671 million represented bank loans and other loans due within 1 year, and HK\$58 million represented bank loans and other loans due over 5 years. Other than bank loans and other loans of HK\$4,653 million which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As the businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi, the Group bore foreign currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. Therefore, the Group raised the proportion of borrowings denominated in Renminbi to the total borrowings which amounted to HK\$5,098 million and the remaining HK\$3,996 million borrowings were denominated mainly in Hong Kong dollars and United States dollars. The Group entered into one-year currency swap contracts in the period to hedge foreign currency risk for Hong Kong dollar-denominated bank loans of HK\$1,300 million. As at 30 June 2016, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 28.6%.

As at 30 June 2016, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,718 million, of which 97% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2016, the Group's unutilised available facilities amounted to HK\$2,700 million.

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

Credit Ratings

In July 2016, Standard & Poor's maintained the long-term corporate credit rating of Towngas China at "BBB+", its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". In July 2015, Moody's Investors Service upgraded the issuer rating of Towngas China from "Baa2" to "Baa1" with a "stable" outlook rating. These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of Towngas China's sound financial position.

Interim Dividend

The Board has resolved not to declare an interim dividend (2015: nil).

Employee and Remuneration Policies

As at 30 June 2016, the Group had 21,687 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group also provides on-the-job training as well as generous benefits packages for employees, which include medical welfare, provident funds, bonuses and other incentives. We also encourage employees to seek a sound balance between work and leisure, while also endeavouring to improve the working environment for employees on a continuing basis so that they can realise their full potential for the benefit of the Group.

2016 HKMA Quality Award Grand Award

Towngas China was honoured with the Grand Award presented by The Hong Kong Management Association (HKMA) at its 2016 HKMA Quality Awards, in recognition of our lasting commitment to quality. The award is highly gratifying as it affirms our approach to total quality management and the development of quality products, services and performance across our operations. Our ongoing efforts to improve our customer services, safety, operations, human resources, corporate social responsibilities and financial performance continue to contribute to our enduring business success.

Corporate Social Responsibilities

At Towngas China, the spirit of our corporate citizenship is demonstrated by our efforts to help protect the environment and our commitment to give back to society while, at the same time, pursuing our business development. As such, in the first half of the year, we organised a series of environmental and community programmes to support both our, as well as the community's, sustainable development.

Within the community, our Towngas Gentle Breeze Movement campaign continued to provide teaching and other support materials to impoverished schools in remote and mountainous regions to foster a better educational environment for students. In the first half of the year, we made donations to Huashige School in Liaoning Province and Leyang Elementary School in Sichuan Province. The donations included desks and chairs, beds, books and school uniforms. The Group and its project companies also participated once again in our annual “Towngas Rice Dumplings for the Community” initiative, assembling nearly a thousand volunteers who prepared over 36,000 rice dumplings. These dumplings were then donated to social welfare organisations and low-income groups across the country.

We continued our tree planting activities, one of our major environmental protection initiatives. Together with over 10 project companies, we planted trees that spread out over an area of more than 3,600 square metres. Also taking a proactive approach to promote a low-carbon lifestyle in the community, we initiated our “Contest of Low Carbon Creativity” project this year. An excellent example of this initiative is the “Low-carbon Commute” campaign, which promoted a walk-for-health culture, encouraging staff to adopt a low-carbon lifestyle. Employees were also invited to submit creative ideas that would apply the principles of recycle and reuse in our daily lives — this has resulted in the growing of potted plants using excess polyethylene (PE) pipes in homes. By the end of June, continuing this low carbon journey, we had organised nearly 30 environmental activities in total.

Outlook

Economic Landscape

Tracing the growth trajectory of China’s economic development, it is apparent that the country has commenced its transition to the “new normal”, particularly after the “12th Five-Year Plan” period. Performance has been fair within the overall macro-economic indicators in the “gear-changing phase” for economic growth. Against this backdrop, the start of China’s “13th Five-Year Plan”, and 2016 in particular, will play a crucial role in the comprehensive development to a moderate and prosperous society. With GDP growth currently targeted at 6.5% to 7%, figures published by the National Statistics Bureau reveal that year-on-year growth for the second quarter reached 6.7%, while it was flat in comparison to the first quarter. Overall economic development maintained a mid-to-high rate, entering a period of stable development in line with the economic development patterns under the “new normal”.

China is reaping enormous benefit from its ongoing structural reforms with the market playing a decisive role in resource allocation. Hand-in-hand with these developments, five major objectives have been established for China’s economy in 2016 — “cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas”. The achievement of these strategies will bring China’s economy a step closer to sustainable and quality growth.

The “New Normal” Status of Natural Gas Price Reforms

Last year, ensuring the stable progress of natural gas price reforms, China aligned the price of non-residential “existing” and “incremental” gas usage volumes. In November 2015, the city-gate prices of non-residential natural gas were substantially reduced while a tiered pricing mechanism for residential gas volumes was implemented. These moves marked a significant step, not only in natural gas price reforms but also in market-oriented reforms for the upstream, midstream and downstream natural gas industry.

Since the beginning of market-oriented reforms for natural gas prices in China in 2010, adjustments have mainly focused on the price of non-residential gas usage volumes, while the price of residential gas sales have remained largely unchanged. It is understood that the relevant authorities are holding discussions on “Opinions on Enhancing the Market-oriented Reform for Natural Gas Price” (hereafter referred to as the “Opinion”). The ultimate aim of these reforms is to liberate gas supply as well as sales prices, enabling the government to only regulate gas supply prices with regard to pipelines and networks under a natural monopoly. China has set out to achieve these goals within the “13th Five-Year Plan” period. Based on the current reform plan, any division between residential and non-residential upstream gas prices will cease, with this proposed alignment set to come into effect in 2016. Regulations will gradually be removed entirely and prices will be determined by supply and demand or by market transactions. The “Opinion” advocates that city-gate prices for residential usage be adjusted by increasing the lower benchmark “residential” city-gate prices to the same level as non-residential volumes. On the mainland, the prices of residential volumes have long been lower than that of non-residential volumes, leading to severe cross-subsidy issues. The alignment of gas prices in both categories will therefore be beneficial, in that it will progressively resolve these cross-subsidy issues while also reducing the prices for non-residential gas usage. This in turn will encourage the use of natural gas in the non-residential sector.

The Group has been preparing for these natural gas price reforms. We have conducted widespread research on residential and non-residential products based on the price advantages of natural gas in the energy market. Dedicated teams have also been established to look into market expansion and the additional benefits of natural gas usage to capture the many new opportunities arising from these reforms. The Group encourages our project companies to push the replacement coal-fired boilers and the use of natural gas in the catering sector. In the residential market, the Group leveraged on the newly introduced progressive price level system and the ample supply of gas resources to actively explore the household heating and clothes drying market, which has led to extremely positive business results.

Market Prospects of the City Gas Business

During the “13th Five-Year Plan” period, the substitution of natural gas for traditional energies such as coal and petroleum should be the quickest and most effective measure to deal with the growing smog problem in China. From the perspective of the natural gas industry, its market-oriented transformation progress will accelerate even further in 2016 as both the reforms on the supply side and growth from the demand side are facilitated. Forecasts predict that the share of natural gas in the demand for domestic primary energy will reach 10% in 2020. In the past decade, China’s consumption of natural gas has recorded an average year-on-year growth of over 13%, while the volume of natural gas imported into China in 2015 doubled in comparison to 2011. The development prospects for natural gas thus remain immense in China. Currently, the share of natural gas in the country’s primary energy consumption is a meagre 5.8%. The level of natural gas consumption per capita is also a mere one-third of the international standard. Hence, the Group is optimistic and confident with regard to the future growth and demand of city-gas markets in China.

The Group’s Future Business Development Direction

In accordance with the country’s “13th Five-Year Plan” and in line with its steady and sustainable economic development, China is actively promoting green energy policies. As such, the pace of natural gas reforms is rapidly accelerating. The successive introduction and implementation of complementary policies and programmes have not only improved the demand for natural gas in the market, they have also improved its affordability for users. The Group will thus ride the pace of development of the natural gas industry in China, enabling our expansion in the natural gas market, and to boost our growth and ongoing profitability.

Looking ahead, we will continue to expend our utmost efforts to enhance our management standards with due emphasis on our customer services and corporate social responsibilities. We will also pursue our ongoing growth with a strong focus both on quality and efficiency, as we work to ensure our leading edge against the competition and endeavour to serve as a role model for China’s city gas industry.

OTHER INFORMATION

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

As at 30 June 2016, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and underlying Shares

Name of Company	Name of Director	Capacity	Interest in shares			Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 30.06.2016
			Personal interest	Family interest	Corporate interest		
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,618,000	-	-	3,618,000	0.14%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000	-	-	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,015,000	-	-	1,015,000	0.04%
	Kwan Yuk Choi, James	Beneficial owner	2,515,000	-	-	2,515,000	0.09%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	242,448	-	-	242,448	0.00%
	Ho Hon Ming, John	Beneficial owner	37,967	-	-	37,967	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	85,589	96,972	-	182,561	0.00%

Save as stated above, as at 30 June 2016, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

As at 30 June 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued shares of the Company:

Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's total number of issued shares as at 30.06.2016
Lee Shau Kee	Interest of controlled corporations	1,689,023,813 (Note 1)	63.38%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,689,023,813 (Note 2)	63.38%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,689,023,813 (Note 2)	63.38%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,689,023,813 (Note 2)	63.38%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,689,023,813 (Note 2)	63.38%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,689,023,813 (Note 2)	63.38%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,689,023,813 (Note 2)	63.38%
HKCG	Interest of controlled corporations	1,689,023,813 (Note 3)	63.38%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,619,638,376 (Note 3)	60.77%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,619,638,376 (Note 3)	60.77%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	213,271,451 (Note 4)	8.00%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,689,023,813 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,689,023,813 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,619,638,376 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 66,831,131 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited ("Planwise"); and (2) the 2,554,306 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited ("Superfun").

Subsequent to the allotment of a total of 38,597,433 new shares by the Company pursuant to its scrip dividend scheme on 18 July 2016, HKCG was taken to be interested in a total of 1,727,621,246 shares in the Company which were beneficially owned by HK&CG (China) (as to 1,656,650,221 shares), Planwise (as to 68,358,349 shares) and Superfun (as to 2,612,676 shares). The approximate percentage figures of interest of (i) HKCG and (ii) TICL and HK&CG (China) in the Company's shares were therefore adjusted to 63.71% and 61.09% respectively as at 18 July 2016.

4. Commonwealth Bank was taken to be interested in these 213,271,451 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2016, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short positions in Shares and underlying Shares in the Company

As at 30 June 2016, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Purchases, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2016.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2016.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

Audit Committee

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

An Audit Committee meeting was held on 10 August 2016 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2016. Deloitte Touche Tohmatsu, the Company's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

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

Mr. Chan Wing Kin, Alfred *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*

Chairman and Executive Director, Chairman of the Nomination Committee and member of the Remuneration Committee

- (i) Mr. Chan was appointed an Honorary President of The Hong Kong Management Association and has stepped down from the position of its Chairman.
- (ii) Mr. Chan was elected as an Honorary Fellow of the Energy Institute of the United Kingdom.

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

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

Dr. Cheng was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region.

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

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

Mr. Li was appointed a member of Asian Financial Forum 2017 Steering Committee.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 36, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 August 2016

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Turnover	3	<u>3,435,946</u>	<u>3,931,075</u>
Operating profit before returns on investments	4	556,122	521,518
Other gains, net		2,980	106,195
Share of results of associates		175,911	174,994
Share of results of joint ventures		156,133	152,591
Finance costs	5	<u>(109,958)</u>	<u>(82,903)</u>
Profit before taxation	6	781,188	872,395
Taxation	7	<u>(164,747)</u>	<u>(178,957)</u>
Profit for the period		<u>616,441</u>	<u>693,438</u>
Profit for the period attributable to:			
Shareholders of the Company		564,399	639,166
Non-controlling interests		<u>52,042</u>	<u>54,272</u>
		<u>616,441</u>	<u>693,438</u>
		HK cents	HK cents
Earnings per share	9		
— Basic		<u>21.18</u>	<u>24.24</u>
— Diluted		<u>N/A</u>	<u>24.21</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Profit for the period	<u>616,441</u>	<u>693,438</u>
Other comprehensive (expense) income		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	(341,074)	6,874
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value change on available-for-sale investment	3,751	–
Cash flow hedge:		
Fair value change on cash flow hedge	2,361	903
Reclassification of fair value adjustments to profit or loss	<u>1,239</u>	<u>–</u>
	<u>(333,723)</u>	<u>7,777</u>
Total comprehensive income for the period	<u><u>282,718</u></u>	<u><u>701,215</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	250,677	646,064
Non-controlling interests	<u>32,041</u>	<u>55,151</u>
Total comprehensive income for the period	<u><u>282,718</u></u>	<u><u>701,215</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	12,401,282	12,054,598
Leasehold land		555,555	502,146
Intangible assets		530,165	560,257
Goodwill	11	5,586,372	5,732,259
Interests in associates		2,987,404	2,940,684
Interests in joint ventures		2,131,254	2,071,013
Loans to joint ventures		78,189	92,796
Loan to a non-controlling shareholder		16,921	–
Available-for-sale investments		256,777	259,506
		<u>24,543,919</u>	<u>24,213,259</u>
Current assets			
Inventories		501,509	558,421
Leasehold land		26,229	25,763
Loan to an associate		–	17,912
Loans to joint ventures		96,440	155,845
Trade and other receivables, deposits and prepayments	12	1,360,855	1,506,681
Amounts due from non-controlling shareholders		15,928	16,317
Other financial assets	18	28,994	–
Time deposits over three months		210,703	237,938
Bank balances and cash		2,507,256	2,138,388
		<u>4,747,914</u>	<u>4,657,265</u>
Current liabilities			
Trade and other payables and accrued charges	13	4,343,784	4,159,819
Amounts due to non-controlling shareholders		107,132	151,299
Taxation		666,543	650,428
Borrowings — amount due within one year	14	2,671,320	3,183,174
Other financial liabilities	18	1,239	3,600
		<u>7,790,018</u>	<u>8,148,320</u>
Net current liabilities		<u>(3,042,104)</u>	<u>(3,491,055)</u>
Total assets less current liabilities		<u>21,501,815</u>	<u>20,722,204</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2016

	NOTES	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Non-current liabilities			
Loans from the ultimate holding company	15	993,750	993,750
Borrowings — amount due after one year	14	5,428,938	4,591,433
Deferred taxation		419,789	437,165
		<u>6,842,477</u>	<u>6,022,348</u>
Net assets		<u>14,659,338</u>	<u>14,699,856</u>
Capital and reserves			
Share capital	16	266,506	266,506
Reserves		13,195,749	13,211,578
Equity attributable to shareholders of the Company		<u>13,462,255</u>	<u>13,478,084</u>
Non-controlling interests		<u>1,197,083</u>	<u>1,221,772</u>
Total equity		<u>14,659,338</u>	<u>14,699,856</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to shareholders of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2015 and 1 January 2016 (audited)	266,506	6,349,291	891,289	-	(3,600)	185,335	33,250	5,756,013	13,478,084	1,221,772	14,699,856
Exchange differences arising on translation to presentation currency	-	-	(321,073)	-	-	-	-	-	(321,073)	(20,001)	(341,074)
Fair value change on cash flow hedge and reclassification of fair value adjustments to profit and loss	-	-	-	-	3,600	-	-	-	3,600	-	3,600
Fair value change on available-for-sale investment	-	-	-	-	-	-	3,751	-	3,751	-	3,751
Profit for the period	-	-	-	-	-	-	-	564,399	564,399	52,042	616,441
Total comprehensive (expense) income for the period	-	-	(321,073)	-	3,600	-	3,751	564,399	250,677	32,041	282,718
Transfer	-	-	-	-	-	11,214	-	(11,214)	-	-	-
Capital contributed from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	3,553	3,553
Dividends paid to shareholders of the Company	-	(266,506)	-	-	-	-	-	-	(266,506)	-	(266,506)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(60,283)	(60,283)
	-	(266,506)	-	-	-	11,214	-	(11,214)	(266,506)	(56,730)	(323,236)
At 30 June 2016 (unaudited)	<u>266,506</u>	<u>6,082,785</u>	<u>570,216</u>	<u>-</u>	<u>-</u>	<u>196,549</u>	<u>37,001</u>	<u>6,309,198</u>	<u>13,462,255</u>	<u>1,197,083</u>	<u>14,659,338</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2015

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	NOTE	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Net cash generated from operating activities		<u>667,284</u>	<u>563,759</u>
Investing activities			
Purchases of property, plant and equipment		(792,209)	(933,371)
Consideration paid for acquisition of businesses acquired in prior periods		(3,501)	(188,240)
Acquisition of a business (net of cash and cash equivalents acquired)	19	(98,718)	4,717
Purchase of leasehold land		(39,521)	(24,737)
Purchase of an associate		(39,579)	–
Purchase of a joint venture		–	(58,309)
Capital injection into associates		–	(64,927)
Loan to a joint venture		–	(62,430)
Loan to a non-controlling shareholder		(16,921)	–
Repayment of loan from joint ventures		70,211	8,064
Repayment of loan from an associate		17,482	–
Dividends received from joint ventures		48,515	41,100
Deferred consideration received		–	114,000
Dividends received from an associate		102,114	93,957
Dividends received from available-for-sale investments		62,559	65,136
Decrease in time deposits over three months		27,235	74,919
Other investing cash flows		<u>17,780</u>	<u>16,530</u>
Net cash used in investing activities		<u>(644,553)</u>	<u>(913,591)</u>
Financing activities			
Repayments of bank and other loans		(3,202,065)	(1,194,121)
Dividends paid to non-controlling shareholders of subsidiaries		(60,283)	(40,077)
New bank and other loans raised		3,613,950	1,715,221
Capital contribution from non-controlling shareholders of subsidiaries		3,553	2,744
Issue of shares upon exercise of share options		–	38,454
Net cash generated from financing activities		<u>355,155</u>	<u>522,221</u>
Net increase in cash and cash equivalents		377,886	172,389
Cash and cash equivalents at beginning of the period		2,138,388	1,451,652
Effect of foreign exchange rate changes		(9,018)	1,258
Cash and cash equivalents at end of the period, representing bank balances and cash		<u>2,507,256</u>	<u>1,625,299</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In the opinion of the directors of the Company (“Directors”), the Group’s parent and ultimate holding company is The Hong Kong and China Gas Company Limited (“HKCG”), a company incorporated in Hong Kong with its shares listed on the Stock Exchange.

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People’s Republic of China (the “PRC”) including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”).

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$3,042 million as at 30 June 2016. The Group’s liabilities as at 30 June 2016 included borrowings of approximately HK\$2,671 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the condensed consolidated financial statements, the Group had unutilised facilities (the “Facilities”) amounting to approximately HK\$2,700 million. When considering the Group’s ability to continue as a going concern, the Directors considered that the Group’s bank loans of approximately HK\$2,645 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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

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

The Group has not early applied the new and revised HKFRSs and HKASs that have been issued but are not yet effective. The Directors are currently assessing the impact on the adoption of the above new and revised HKFRS and are yet to quantify the impact.

3. SEGMENT INFORMATION

Operating segments

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

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

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

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

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2016			
TURNOVER			
External	<u>2,693,205</u>	<u>742,741</u>	<u>3,435,946</u>
Segment results	<u>279,316</u>	<u>346,879</u>	626,195
Other gains, net			2,980
Unallocated corporate expenses			(70,073)
Share of results of associates			175,911
Share of results of joint ventures			156,133
Finance costs			<u>(109,958)</u>
Profit before taxation			781,188
Taxation			<u>(164,747)</u>
Profit for the period			<u>616,441</u>
Six months ended 30 June 2015			
TURNOVER			
External	<u>3,212,316</u>	<u>718,759</u>	<u>3,931,075</u>
Segment results	<u>266,849</u>	<u>326,613</u>	593,462
Other gains, net			106,195
Unallocated corporate expenses			(71,944)
Share of results of associates			174,994
Share of results of joint ventures			152,591
Finance costs			<u>(82,903)</u>
Profit before taxation			872,395
Taxation			<u>(178,957)</u>
Profit for the period			<u>693,438</u>

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Turnover	3,435,946	3,931,075
Less expenses:		
Gas fuel, stores and materials used	2,056,175	2,595,902
Staff costs	390,263	385,619
Depreciation, amortisation, and release of leasehold land	246,926	230,479
Other expenses	186,460	197,557
	<u>556,122</u>	<u>521,518</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest on bank and other borrowings	115,434	86,384
Bank charges	<u>3,000</u>	<u>2,234</u>
	118,434	88,618
Less: amounts capitalised	<u>(8,476)</u>	<u>(5,715)</u>
	<u>109,958</u>	<u>82,903</u>

6. PROFIT BEFORE TAXATION

Six months ended 30 June

	2016	2015
	HK\$'000	HK\$'000

Profit before taxation has been arrived at after charging:

Amortisation of intangible assets	10,529	10,268
Release of leasehold land	9,640	7,963
Cost of inventories sold	2,314,392	2,838,587
Depreciation of property, plant and equipment	226,757	212,248
Staff costs	390,263	385,619
Exchange loss	108,203	–
Change in fair value of other financial liabilities	1,239	–

and after crediting:

Interest income	12,778	12,459
Dividend income from available-for-sale investments	62,559	65,136
Exchange gain	–	11,202
Change in fair value of other financial assets	28,994	–

7. TAXATION

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

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

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2015: 15% to 25%).

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

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil). During the period, a dividend of HK ten cents per ordinary share (2015: HK ten cents per ordinary share) amounting to HK\$266,506,000 was declared by the Board as the final dividend for 2015 (HK\$264,291,000 for 2014).

The final dividend for 2015 was payable in cash but shareholders were given the option of electing to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. Subsequent to the reporting period, on 18 July 2016, the final dividend of HK ten cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2015.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to shareholders of the Company	<u>564,399</u>	<u>639,166</u>
	Number of shares	
	Six months ended 30 June	
	2016	2015
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,665,063	2,636,306
Effect of dilutive potential ordinary shares:		
Share options	<u>N/A</u>	<u>3,710</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>2,640,016</u>

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent HK\$800,685,000 (2015: HK\$939,086,000) on additions to property, plant and equipment, including HK\$580,650,000 (2015: HK\$627,909,000) on the construction in progress of gas pipelines and HK\$220,035,000 (2015: HK\$311,177,000) on other plant and equipment.

11. GOODWILL

	HK\$'000
At 31 December 2015	5,732,259
Currency realignment	(186,032)
Provisional amount acquired on acquisition of a business (note 19)	<u>40,145</u>
At 30 June 2016	<u><u>5,586,372</u></u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Trade receivables	645,957	734,598
Prepayments	430,821	502,695
Other receivables and deposits	<u>284,077</u>	<u>269,388</u>
	<u><u>1,360,855</u></u>	<u><u>1,506,681</u></u>

Trade receivables

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

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
0 to 90 days	433,320	544,639
91 to 180 days	84,444	99,045
181 to 360 days	<u>128,193</u>	<u>90,914</u>
	<u><u>645,957</u></u>	<u><u>734,598</u></u>

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2016	31.12.2015
	HK\$'000	HK\$'000
Trade payables	996,480	941,764
Receipt in advance	2,491,233	2,403,811
Consideration payable for acquisitions of businesses	101,199	106,366
Consideration payable to a joint venture	–	1,528
Other payables and accruals	753,707	705,113
Amount due to ultimate holding company (<i>note</i>)	1,165	1,237
	4,343,784	4,159,819

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

Trade payables

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

	30.6.2016	31.12.2015
	HK\$'000	HK\$'000
0 to 90 days	651,733	673,382
91 to 180 days	146,525	100,631
181 to 360 days	106,341	88,848
Over 360 days	91,881	78,903
	996,480	941,764

14. BORROWINGS

	30.6.2016	31.12.2015
	HK\$'000	HK\$'000
Bank loans — unsecured	8,055,933	7,728,519
Other loans — unsecured	44,325	46,088
	<u>8,100,258</u>	<u>7,774,607</u>
Carrying amount repayable:		
On demand or within one year	2,671,320	3,183,174
More than one year but not exceeding two years	1,039,684	910,861
More than two years but not exceeding five years	4,331,466	3,647,523
More than five years	57,788	33,049
	<u>8,100,258</u>	<u>7,774,607</u>
Less: Amount due within one year shown under current liabilities	<u>(2,671,320)</u>	<u>(3,183,174)</u>
Amount due after one year	<u>5,428,938</u>	<u>4,591,433</u>

15. LOANS FROM THE ULTIMATE HOLDING COMPANY

The amounts represent unsecured loans denominated in US dollar and HK dollar which bear interest at Hong Kong Interbank Offered Rate plus a premium ranging from 1% to 3% per annum and are repayable according to the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective Interest rate	Carrying amount	
			30.6.2016	31.12.2015
			HK\$'000	HK\$'000
HK\$300,000,000 (2015: HK\$300,000,000)	June 2019 (2015: June 2017)	2.69% (2015: 2.63%)	300,000	300,000
HK\$500,000,000 (2015: HK\$500,000,000)	February 2018 (2015: February 2018)	2.69% (2015: 2.63%)	500,000	500,000
US\$25,000,000 (2015: US\$25,000,000)	December 2020 (2015: December 2020)	2.23% (2015: 3.84%)	193,750	193,750
			<u>993,750</u>	<u>993,750</u>

16. SHARE CAPITAL

Authorised shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
At 31 December 2015 and 30 June 2016	<u>5,000,000,000</u>	<u>500,000</u>

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

	Number of shares	Share capital HK\$'000
At 31 December 2015 and 30 June 2016	<u>2,665,062,650</u>	<u>266,506</u>

17. CAPITAL COMMITMENTS

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

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	112,474	117,771
— acquisition of businesses	221,263	272,522
— acquisition of an associate	<u>—</u>	<u>39,806</u>

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	30.6.2016	31.12.2015		
Listed equity investment classified as available-for-sale investments in the condensed consolidated statement of financial position	Asset — HK\$101,186,000	Asset — HK\$98,931,000	Level 1	Quoted market price
Cross-currency interest rate swaps classified as other financial assets in the condensed consolidated statement of financial position	Assets — HK\$28,994,000	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.
Interest rate swap classified as other financial liabilities in the condensed consolidated statement of financial position	Liability — HK\$1,239,000	Liability (designated for hedging) — HK\$3,600,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.

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

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

19. ACQUISITION OF A BUSINESS

During the six months ended 30 June 2016, the Group acquired the following business which is principally engaged in the operation of gas fuel automobile refilling stations and related business in the PRC. The primary reason for the below acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combination in:			
Qiqihar Xingqixiang Gas Company Limited ("Xingqixiang")	January 2016	100%	110,222

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

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

	Xingqixiang HK\$'000
Purchase consideration	110,222
Acquirees' provisional fair value of net identifiable assets acquired (see below)	<u>(70,077)</u>
Provisional goodwill	<u>40,145</u>

19. ACQUISITION OF A BUSINESS (CONTINUED)

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

Acquiree' provisional fair values at acquisition date:

	Xingqixiang HK\$'000
Net assets acquired:	
Property, plant and equipment	43,631
Leasehold land	39,108
Inventories	121
Interest in a joint venture	2,048
Trade and other receivables, deposit, and prepayments (<i>note</i>)	2,522
Cash and bank balances	733
Trade and other payables and accrued charges	(17,192)
Deferred taxation	(894)
	<hr/>
	70,077
	<hr/> <hr/>

Note: The trade and other receivables acquired with fair value of HK\$2,522,000 had gross contractual amounts of HK\$2,522,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Net cash outflow arising on acquisition:

	Xingqixiang HK\$'000
Purchase consideration	110,222
Amounts unpaid and included in:	
— consideration payable for acquisitions	(10,771)
Bank balances and cash acquired	(733)
	<hr/>
	98,718
	<hr/> <hr/>

19. ACQUISITION OF A BUSINESS (CONTINUED)

Provisional goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business.

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

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

During the period, acquired business contributed HK\$20,602,000 to the Group's turnover and incurred loss of HK\$293,000 for the period between the date of acquisition and the end of the reporting period.

Had the above acquisition been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2016 would have been HK\$3,435,946,000, and the amount of the profit for the interim period would have been HK\$616,441,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

20. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
HKCG	Interest expense	14,175	14,120
GH — Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	499	227
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	3,064	7,180
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	4,376	2,610

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	33,647	40,606
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	11,939	11,286
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	3,579	3,991
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	1,491	2,087
Shandong Hong Kong and China Gas Training Institute (note a)	Training services	328	589
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	1,687	2,915
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	17,538	15,174
Taizhou Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	–	1,024
Yixing Hong Kong & China Gas Company Limited (note a)	Rental of compressed natural gas vehicles	–	101
Zhuhai S-Tech Technology Limited (note a)	Provision of software	237	66
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	440	–

Notes:

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