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港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

2014 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Turnover rose significantly to HK$3,674 million, increased by 24.0%.
- Profit after taxation attributable to shareholders of the Company excluding the unrealised exchange loss surged by 33.4% to HK$612 million.
- Profit after taxation attributable to shareholders of the Company amounted to HK$468 million.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014.

The unaudited consolidated results of the Group for the six months ended 30 June 2014 together with the comparative figures of 2013 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Turnover	*3*	**3,674,163**	2,961,947
Operating profit before returns on investments		**495,996**	434,658
Other (losses) gains, net		**(42,407)**	78,170
Share of results of associates		**183,477**	163,495
Share of results of joint ventures		**138,361**	120,769
Finance costs	*4*	**(82,289)**	(72,516)
Profit before taxation	*5*	**693,138**	724,576
Taxation	*6*	**(171,485)**	(150,413)
Profit for the period		**521,653**	574,163
Profit for the period attributable to:			
Shareholders of the Company		**467,968**	532,758
Non-controlling interests		**53,685**	41,405
		521,653	574,163
		HK cents	*HK cents*
Earnings per share	*7*		
– Basic		**17.90**	20.51
– Diluted		**17.85**	20.45

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	30.06.2014 HK$'000 (unaudited)	31.12.2013 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**9,971,118**	9,355,245
Leasehold land		**432,709**	352,258
Intangible assets		**166,609**	174,621
Goodwill		**6,119,353**	5,797,674
Interest in associates		**2,867,996**	2,809,167
Interest in joint ventures		**1,815,089**	1,787,730
Loans to joint ventures		**76,838**	11,743
Available-for-sale investments		**170,648**	170,248
Deferred consideration receivable		**-**	123,066
		21,620,360	20,581,752
Current assets			
Inventories		**658,488**	588,281
Leasehold land		**13,347**	11,663
Loan to an associate		**18,736**	19,206
Loans to joint ventures		**167,137**	224,514
Trade and other receivables, deposits and prepayments	*9*	**1,680,561**	1,580,379
Amounts due from non-controlling shareholders		**17,800**	18,247
Time deposits over three months		**379,142**	374,271
Bank balances and cash		**2,171,326**	2,230,363
		5,106,537	5,046,924
Current liabilities			
Trade and other payables and accrued charges	*10*	**4,192,779**	4,151,637
Amounts due to non-controlling shareholders		**498,564**	248,843
Taxation		**572,448**	563,384
Borrowings – amount due within one year		**2,444,993**	2,418,883
		7,708,784	7,382,747
Net current liabilities		**(2,602,247)**	(2,335,823)
Total assets less current liabilities		**19,018,113**	18,245,929
Non-current liabilities			
Loans from the ultimate holding company		**993,750**	993,750
Borrowings – amount due after one year		**4,113,097**	3,487,785
Deferred taxation		**310,061**	275,823
Other financial liabilities		**8,997**	10,308
		5,425,905	4,767,666
Net assets		**13,592,208**	13,478,263
Capital and reserves			
Share capital		**261,558**	261,286
Reserves		**12,318,523**	12,270,017
Equity attributable to shareholders of the Company		**12,580,081**	12,531,303
Non-controlling interests		**1,012,127**	946,960
Total equity		**13,592,208**	13,478,263

1. BASIS OF PREPARATION

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

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

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

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

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$2,602 million as at 30 June 2014. The Group's liabilities as at 30 June 2014 included borrowings of approximately HK$2,445 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$2,058 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$2,420 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to HKFRSs issued by the HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

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

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.

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 losses, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

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 2014			
TURNOVER			
External	**3,029,584**	**644,579**	**3,674,163**
Segment results	**272,504**	**293,831**	**566,335**
Other losses, net			**(42,407)**
Unallocated corporate expenses			**(70,339)**
Share of results of associates			**183,477**
Share of results of joint ventures			**138,361**
Finance costs			**(82,289)**
Profit before taxation			**693,138**
Taxation			**(171,485)**
Profit for the period			**521,653**

	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2013			
TURNOVER			
External	2,393,619	568,328	2,961,947
Segment results	221,779	278,142	499,921
Other gains, net			78,170
Unallocated corporate expenses			(65,263)
Share of results of associates			163,495
Share of results of joint ventures			120,769
Finance costs			(72,516)
Profit before taxation			724,576
Taxation			(150,413)
Profit for the period			574,163

4. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Interest on:		
– bank and other borrowings wholly repayable within five years	**85,064**	71,614
– bank and other borrowings not wholly repayable within five years	**468**	614
	85,532	72,228
Bank charges	**1,804**	1,388
	87,336	73,616
Less: amounts capitalised	**(5,047)**	(1,100)
	82,289	72,516

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**3,714**	3,680
Release of leasehold land	**6,405**	5,484
Cost of inventories sold	**2,651,563**	2,073,123
Depreciation of property, plant and equipment	**183,269**	155,675
Staff costs	**332,449**	281,551
Exchange loss	**144,044**	-
Loss on disposal of a subsidiary	**-**	34,712
and after crediting:		
Interest income	**12,161**	16,246
Interest income on loans to associates and joint ventures	**3,846**	5,228
Imputed interest income on deferred consideration receivable and loans to joint ventures	**5,888**	7,274
Exchange gain	**-**	73,886

6. TAXATION

The taxation charge represents PRC Enterprise Income Tax ("EIT") 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.

Certain subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to EIT at concessionary rate of 15%. Save as aforesaid, the applicable tax rate for the current interim period is 25%.

7. 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	
	2014	2013
	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	**467,968**	532,758

	Number of shares Six months ended 30 June	
	2014	2013
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,613,878**	2,598,006
Effect of dilutive potential ordinary shares:		
Share options	**7,651**	7,432
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,621,529**	2,605,438

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: nil). During the period, a dividend of eight HK cents per share (2013: six HK cents per share) amounting to HK$209,246,000 was declared by the Board as the final dividend for 2013 (HK$156,771,000 for 2012).

The final dividend for 2013 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 11 July 2014, the final dividend of eight HK cents per share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2013.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2014	31.12.2013
	HK$'000	*HK$'000*
Trade receivables	**607,956**	644,465
Deferred consideration receivable	**116,039**	39,321
Prepayments	**627,284**	566,302
Other receivables and deposits	**329,282**	330,291
	1,680,561	1,580,379

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:

	30.06.2014	31.12.2013
	HK$'000	*HK$'000*
0 to 90 days	**536,259**	579,840
91 to 180 days	**21,704**	27,747
181 to 360 days	**49,993**	36,878
	607,956	644,465

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2014	31.12.2013
	HK$'000	*HK$'000*
Trade payables	**820,126**	870,155
Receipt in advance	**2,283,743**	2,185,799
Consideration payable for acquisitions of businesses	**293,453**	212,519
Consideration payable to a joint venture	**24,187**	73,034
Other payables and accruals	**770,642**	809,401
Amount due to ultimate holding company (note)	**628**	729
	4,192,779	4,151,637

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

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

	30.06.2014	31.12.2013
	HK$'000	*HK$'000*
0 to 90 days	**545,846**	685,272
91 to 180 days	**79,275**	74,035
181 to 360 days	**126,838**	46,564
Over 360 days	**68,167**	64,284
	820,126	870,155

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2014, the Group recorded a turnover of HK$3,674 million, a growth of 24.0% over the corresponding period of 2013. Profit after taxation attributable to shareholders of the Company excluding the unrealised exchange loss amounted to HK$612 million, an increase of 33.4% as compared to the corresponding period last year. Profit after taxation attributable to shareholders of the Company amounted to HK$468 million, a decrease of 12.2% as compared to the corresponding period last year. Basic earnings per share amounted to 17.90 HK cents, representing a decrease of 12.7% compared to the corresponding period of 2013.

Turnover

For the six months ended 30 June 2014, turnover from the sales and distribution of piped gas and related products increased 26.6% to HK$3,030 million over the corresponding period last year, accounting for 82.5% of the Group's total turnover. This growth was primarily attributable to the steady increase in the volume of overall gas sales and higher average gas sales prices. The Group recorded an income of HK$645 million on connection fees, representing an increase of 13.4% over the corresponding period last year. A total of 130,000 new households' connections were made by our subsidiaries during the period under review.

New Project Development

As of the date of this report, the Group had secured eight gas projects since the beginning of the year. These include city gas projects located in Jiajiang County in Leshan City, Sichuan Province; Songyang County in Lishui City, Zhejiang Province; Siping City in Jilin Province; Xingyi City in Guizhou Province; Guyang County in Baotou City, Inner Mongolia Autonomous Region; Tongshan District in Xuzhou City, Jiangsu Province and Luliang County in Qujing City, Yunnan Province, as well as a vehicle gas refilling station project at Qiqihar City, Heilongjiang Province. The Group will continue to seek rapid market expansion through mergers and acquisitions and in addition to increasing our share in existing regional markets, the Group also actively seeks opportunities to step up with its business development in other regions.

	Project	Shareholding of the Group	Major Industries in the Operating Regions
1.	Jiajiang County, Leshan City, Sichuan Province	70%	Ceramics
2.	Songyang County, Lishui City, Zhejiang Province	51.35% (*)	Manufacturing of stainless steel pipes and copper metallurgy
3.	Siping City, Jilin Province	80%	Manufacturing of machinery, special-purpose vehicles
4.	Xingyi City, Guizhou Province	70%	Construction materials, pharmaceuticals and wine-making
5.	Guyang County, Baotou City, Inner Mongolia Autonomous Region	85%	Magnesium metal processing
6.	Tongshan District, Xuzhou City, Jiangsu Province	100%	Equipment and automobile manufacturing
7.	Luliang County, Qujing City, Yunnan Province	100%	Chemical industry
8.	Vehicle gas refilling station project, Qiqihar City, Heilongjiang Province	55%	Vehicle gas refilling station

(*) The Group directly holds a 65% equity interest in its holding company which holds a 79% equity interest in the project. As a result, the effective shareholding in the project by the Group is 51.35%.

Available-for-sale Investments

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

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2014.

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 2014, the Group's total borrowings amounted to HK$7,552 million, of which HK$994 million represented loans from HKCG due between 2 to 5 years, HK$4,083 million represented bank loans and other loans due between 1 to 5 years, HK$2,445 million represented bank loans and other loans due within 1 year, and HK$30 million represented bank loans and other loans due over 5 years. The Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowing of HK$350 million to the fixed-rate borrowing in 2011. Other than the HK$680 million in bank loans and other borrowings which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The Group's borrowings are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As at the end of the period, the Group had a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 24.2%.

As at 30 June 2014, a recently acquired project of the Group had a secured bank loan of HK$12 million pledged by its assets with carrying value of HK$60 million. This arrangement, the bank loan and pledge of assets, existed before the acquisition of the project. Apart from this aforesaid pledge of assets, the Group did not provide any pledge of assets.

As at 30 June 2014, the Group's cash and cash equivalents together with time deposits amounted to HK$2,550 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2014, the Group's unutilised available facilities amounted to HK$2,241 million. Subsequently, the Group drew loans amounting to HK$220 million and made a loan repayment of HK$37 million. As such, as at the date of approval for issuance of the condensed consolidated financial statements, unutilised facilities available to the Group amounted to HK$2,058 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 May 2014, Standard & Poor's upgraded the Greater China credit rating of the Company from "cnA" to "cnA+" and maintained its long-term corporate credit rating at "BBB", while the rating outlook rose from "stable" to "positive". In July 2014, Moody's Investor Service maintained an issuer rating of "Baa2" for the Company and upgraded the rating outlook from "stable" to "positive", reflecting the credit rating agencies' recognition of the Group's sound financial conditions and its improving credit standing.

Interim Dividend

The Board has resolved not to declare an interim dividend (2013: nil).

Employee and Remuneration Policies

As at 30 June 2014, the Group had 20,602 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.

Company of the Year Award

The Group won the "Company of the Year Award" organised by the Institution of Gas Engineers & Managers (IGEM) of the United Kingdom and the Energy and Utilities Alliance (EUA). The Award aims to recognise enterprises which make an outstanding contribution to the advancement of the gas industry. The Group won the Award on the back of our outstanding performance in view of the safety and reliability of our gas supply together with our contributions in promoting the development of industry standards. We are the first gas operator in mainland China to have received this honour.

Corporate Social Responsibility

In fulfilment of our corporate social responsibilities, the Group is committed both to environmental protection and to the help and support of the underprivileged. Our aim is to bring the traditions of devoting to charity from our parent company, HKCG, to mainland China.

Towngas China employees visited the impoverished mountain areas in Wuxi County, Chongqing, serving as volunteers at the Home of Happiness and Peace (樂和之家) as part of the Companionship for Resident Children's Programme (留守兒童陪護計劃). In addition to homework tutorials and spiritual education in music, art and sports, the volunteers also helped with the everyday life of the resident children, lending a helping hand when needed to relieve any emotional distress. The Home of Happiness and Peace is a welfare project launched by the Beijing Global Village Environmental Education Center to not only care for children living in agricultural villages, but also to remould their village communities.

The Group launched an environmental protection campaign known as "Unlimited Recycling of Limited Resources". Publicising our "Towngas China Environmental Watchword", we called on staff and their families, customers and the public to reduce their consumption of resources and alleviate air pollution with the recycling of processed materials that are still usable. Activities encouraged included tree-planting, conserving water, electricity and gas as well as avoiding the use of disposable items. We also encouraged employees of our Group and its companies, their families and the public to actively participate in "Earth Hour", to contribute to the environmental protection of our planet.

The Group's traditional welfare initiative, "Towngas Rice Dumplings for the Community", was held repeatedly. Together with local students, community volunteers and senior citizens at welfare homes, Towngas China volunteers across the country made "Charity Rice Dumplings", and shared the joy of the Dragon Boat Festival with less-privileged groups such as orphans, senior citizens living on their own and rural-to-urban migrants by delivering "Charity Rice Dumplings" to them.

A "Firefly Paradise" was built in Hangzhou, Zhejiang. Since 2009, the Group has funded the building of "Firefly Paradise" at schools in Sichuan and Shandong under the "Firefly Program" run by the Shanghai Soong Ching Ling Foundation – BEA Charity Fund.

Outlook

Economic Landscape

The Chinese government has set the economic growth target for 2014 at 7.5%. This represents a target growth rate of below 8% for the third year in a row, as the government seeks to provide a suitable window to help facilitate the transition of the Chinese economy from an investment-driven development model into a consumption-driven one. While China's export growth for the first half of 2014 was rather low and national economic growth for the first six months was at 7.4%, due to the impact of neighbouring economies and exchange rates, it is generally believed that the approximate 7.5% economic growth target for the full year should be achievable.

During the first six months of 2014, the Chinese government published the "National New-type Urbanisation Plan (2014－2020)" (《國家新型城鎮化規劃(2014－2020年)》) and organised the implementation of "Action Plan for the National Energy Development Strategy (2014-2020)" (《國家能源發展戰略行動計劃（2014-2020）》), calling for revolutionary reforms in four aspects – "energy consumption, energy supply, energy-related technologies and energy system". The move underpins the government's strong determination to roll out an energy strategy for a modern society. In the "Proposal for Enhancing Prevention of Air Pollution in the Energy Sector" (《能源行業加強大氣污染防治工作方案》) issued in May 2014, targets have been set for the national natural gas supply capacity to reach 250 billion cubic metres by 2015 and 330 billion cubic metres by 2017.

According to the "China-Russia Purchase and Sales Contract on the National Gas Supply of the East Line" signed between China and Russia in May 2014, Russia will supply gas to China from 2018 onwards through the east line of the China-Russia Natural Gas Pipelines. The volume of gas transmitted will increase year-on-year to eventually reach a total of 38 billion cubic meters per annum over a term of 30 years. China and Russia have also signed the "Purchase and Sales Contract for the Yamal Liquefied Natural Gas Project", under which 3 million tonnes of liquefied natural gas will be supplied to China from northern Russia annually for a period of 20 years.

These national policies and industry developments will augur well for the core business of the Towngas China Group.

Natural Gas Price Reforms

Driven by favourable national policies in the highly emphasised development of natural gas, the natural gas market has expanded rapidly with increasing demand for imported natural gas. As imports of natural gas continue to grow, natural gas city-gate prices are set to rise. The National People's Congress meeting, held in March 2013, called for the steady advance of energy pricing reforms. In June the same year, the National Development and Reform Commission announced a detailed plan for natural gas price reforms, which included the introduction of progressive price levels for residential gas supply in the provinces and municipalities. Subsequently, the National Development and Reform Commission adjusted the provincial gate prices upward with effect from July 2013 and there is such a plan in September 2014 as well.

The Group's project companies will continue to engage in close communication with local governments, industry associations and industrial and commercial customers regarding the implementation of linked price changes. We will also work with local governments to commence prices reforms relating to the progressive price levels for residential gas supply.

Reasonable upward adjustments in natural gas city-gate prices will attract more domestic and international suppliers to supply natural gas to China. This will not only alleviate the persistent undersupply of natural gas in the country during the winter season, it will also assure sufficient sources of gas supply for the healthy long-term development of China's natural gas industry. The Towngas China Group is thus pleased to see the positive results achieved in China's natural gas pricing reforms. We will continue to strengthen the technical strengths of our companies in the application of natural gas to ensure that the benefits of natural gas, in contrast to other forms of alternative energy, is clearly visible to customers.

Direction of the Group's Business Development

The Group holds a cautiously optimistic view of China's economic performance in 2014. We are positive about the development of the city gas business in China, given the country's escalating demand for energy conservation and environmental protection coupled with its increasingly specific policies.

Reforms in natural gas prices and the natural gas industry that have taken place so far suggest that the government has been both cautious and pragmatic in the direction and momentum of its reforms. The Group will closely monitor the progress of these reforms, maintaining ongoing and sound communications with the relevant authorities and industry associations. China continues to enjoy rapid growth and construction, resulting in robust demand for investments in natural gas and city gas. We believe that China's reforms in the natural gas sector will encourage investors to step up investment in the country's natural gas industry, speeding up its development.

Looking ahead, the Group will continue to enhance management standards with due emphasis on customer services and corporate social responsibility. We will continue to pursue our ongoing growth, based on both quality and efficiency, to ensure our leading edge against the competition whilst also seeking to serve as a role model for China's city gas industry.

OTHER INFORMATION

Purchases, Sale or Redemption of 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 30 June 2014.

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 2014.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") 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 2014.

Audit Committee

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

An Audit Committee meeting was held on 12 August 2014 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2014. 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 2014 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 HKICPA.

Appreciation

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

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

Hong Kong, 21 August 2014

At the date of this announcement, the Board comprises:

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

Non-executive Director:
Kwan Yuk Choi, James

Independent Non-executive Directors:
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chow Vee Tsung, Oscar