

2014

Interim Report



Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

CORPORATE INFORMATION

Board of Directors

Executive Directors

Chan Wing Kin, Alfred (*Chairman*)
Wong Wai Yee, Peter (*Chief Executive Officer*)
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

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
Chow Vee Tsung, Oscar

Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)
Li Man Bun, Brian David
Chow Vee Tsung, Oscar
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chow Vee Tsung, Oscar

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

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 The Hong Kong and China Gas Company Limited ("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. Activities encouraged included tree-planting, conserving water, electricity and gas, avoiding the use of disposable items as well as the recycling of processed materials that are still usable. 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 ("NDRC") 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 NDRC adjusted the provincial gate prices upward with effect from July 2013 and planned for further adjustments in September 2014.

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, but 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. As China is still undergoing a period of rapid construction, there is 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

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

As at 30 June 2014, 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 | | | Total interest in shares | Interest in underlying Shares pursuant to share options | Aggregate interest | Approximate percentage of the issued share capital of the Company or its associated corporation as at 30.06.2014 |
|-------------------------------|-----------------------|---|--------------------|-----------------|--------------------|--------------------------|---|--------------------|--|
| | | | 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 | 0.12% |
| | Ho Hon Ming, John | Beneficial owner | - | - | - | - | 3,015,000 | 3,015,000 | 0.12% |
| | Kwan Yuk Choi, James | Beneficial owner | 2,515,000 | - | - | 2,515,000 | - | 2,515,000 | 0.10% |
| HKCG | Chan Wing Kin, Alfred | Interest held jointly with spouse | 200,371 | - | - | 200,371 | - | 200,371 | 0.00% |
| | Ho Hon Ming, John | Beneficial owner | 31,379 | - | - | 31,379 | - | 31,379 | 0.00% |
| | Kwan Yuk Choi, James | Beneficial owner and interest of spouse | 70,736 | 80,143 | - | 150,879 | - | 150,879 | 0.00% |

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2014 were as follows:

| Name of Director | Date of grant | Exercise period | Number of Shares subject to outstanding options as at 01.01.2014 | as at 30.06.2014 | | |
|-----------------------|---------------|-------------------------|--|---------------------|---|--|
| | | | | Exercise price HK\$ | Number of Shares subject to outstanding options | Approximate percentage of the Company's issued share capital |
| Chan Wing Kin, Alfred | 16.03.2007 | 16.03.2008 – 27.11.2015 | 1,085,400 | 3.811 | 1,085,400 | 0.04% |
| | 16.03.2007 | 16.03.2009 – 27.11.2015 | 1,085,400 | 3.811 | 1,085,400 | 0.04% |
| | 16.03.2007 | 16.03.2010 – 27.11.2015 | 1,447,200 | 3.811 | 1,447,200 | 0.06% |
| Wong Wai Yee, Peter | 16.03.2007 | 16.03.2008 – 27.11.2015 | 904,500 | 3.811 | 904,500 | 0.03% |
| | 16.03.2007 | 16.03.2009 – 27.11.2015 | 904,500 | 3.811 | 904,500 | 0.03% |
| | 16.03.2007 | 16.03.2010 – 27.11.2015 | 1,206,000 | 3.811 | 1,206,000 | 0.05% |
| Ho Hon Ming, John | 16.03.2007 | 16.03.2008 – 27.11.2015 | 904,500 | 3.811 | 904,500 | 0.03% |
| | 16.03.2007 | 16.03.2009 – 27.11.2015 | 904,500 | 3.811 | 904,500 | 0.03% |
| | 16.03.2007 | 16.03.2010 – 27.11.2015 | 1,206,000 | 3.811 | 1,206,000 | 0.05% |
| Kwan Yuk Choi, James | 16.03.2007 | 16.03.2008 – 27.11.2015 | – | 3.811 | – | – |
| | 16.03.2007 | 16.03.2009 – 27.11.2015 | 309,000 | 3.811 | – | – |
| | 16.03.2007 | 16.03.2010 – 27.11.2015 | 1,206,000 | 3.811 | – | – |

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no option was granted to the Directors and no option held by the Directors had lapsed or was cancelled. 1,515,000 options had been exercised by Mr. Kwan Yuk Choi, James, a Non-Executive Director of the Company during the period.
3. These options represent personal interests held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2014, there were no other interests or short positions of the Directors and chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of the Company as disclosed herein, at no time during the period was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

| Name of shareholder | Capacity | Aggregate interest in Shares | Approximate percentage of the Company's issued share capital as at 30.06.2014 |
|---|-------------------------------------|------------------------------|---|
| Lee Chau Kee | Interest of controlled corporations | 1,642,489,654 (Note 1) | 62.80% |
| Rimmer (Cayman) Limited ("Rimmer") | Trustee | 1,642,489,654 (Note 2) | 62.80% |
| Riddick (Cayman) Limited ("Riddick") | Trustee | 1,642,489,654 (Note 2) | 62.80% |
| Hopkins (Cayman) Limited ("Hopkins") | Interest of controlled corporations | 1,642,489,654 (Note 2) | 62.80% |
| Henderson Development Limited ("HD") | Interest of controlled corporations | 1,642,489,654 (Note 2) | 62.80% |
| Henderson Land Development Company Limited ("HLD") | Interest of controlled corporations | 1,642,489,654 (Note 2) | 62.80% |
| Faxson Investment Limited ("Faxson") | Interest of controlled corporations | 1,642,489,654 (Note 2) | 62.80% |
| HKCG | Interest of controlled corporations | 1,642,489,654 (Note 3) | 62.80% |
| Towngas International Company Limited ("TICL") | Interest of controlled corporations | 1,599,141,814 (Note 3) | 61.14% |
| Hong Kong & China Gas (China) Limited ("HK&CG (China)") | Beneficial owner | 1,599,141,814 (Note 3) | 61.14% |

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 1,642,489,654 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 1,642,489,654 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 1,599,141,814 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,825,858 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,521,982 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited, upon their submission of election forms with the Company electing to receive new shares in the Company in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 24 June 2014. Subsequent to the allotment of new shares by the Company on 11 July 2014, the approximate percentage figures of interest of (i) HKCG and (ii) TICL and HK&CG (China) in the Company's shares were adjusted to 62.39% and 60.74% respectively as at 11 July 2014.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2014, 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 2014, 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 2014, 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").

Share Option Scheme of the Company

The Company operates a share option scheme (“2005 Main Board Scheme”) under which the Board may, at its discretion, offer any employee (including any director) of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the above scheme. The 2005 Main Board Scheme was approved by the shareholders of the Company on 28 November 2005 and has a life of 10 years until 27 November 2015.

Details of specific categories of options are as follows:

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

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

| | Option type | Date of grant | Exercise period | Exercise price (HK\$) | Number of Shares subject to outstanding options as at 01.01.2014 | Exercised during the period | Number of Shares subject to outstanding options as at 30.06.2014 | Weighted average closing price of Shares immediately before date(s) on which options were exercised (HK\$) | |
|----------------------------|-------------|---------------|-----------------|-------------------------|--|-----------------------------|--|--|------|
| Category 1: | | | | | | | | | |
| Directors | | | | | | | | | |
| Chan Wing Kin, Alfred | Options | 2007 | 16.03.2007 | 16.03.2008 – 27.11.2015 | 3.811 | 1,085,400 | – | 1,085,400 | – |
| | | | 16.03.2007 | 16.03.2009 – 27.11.2015 | 3.811 | 1,085,400 | – | 1,085,400 | – |
| | | | 16.03.2007 | 16.03.2010 – 27.11.2015 | 3.811 | 1,447,200 | – | 1,447,200 | – |
| Wong Wai Yee, Peter | Options | 2007 | 16.03.2007 | 16.03.2008 – 27.11.2015 | 3.811 | 904,500 | – | 904,500 | – |
| | | | 16.03.2007 | 16.03.2009 – 27.11.2015 | 3.811 | 904,500 | – | 904,500 | – |
| | | | 16.03.2007 | 16.03.2010 – 27.11.2015 | 3.811 | 1,206,000 | – | 1,206,000 | – |
| Ho Hon Ming, John | Options | 2007 | 16.03.2007 | 16.03.2008 – 27.11.2015 | 3.811 | 904,500 | – | 904,500 | – |
| | | | 16.03.2007 | 16.03.2009 – 27.11.2015 | 3.811 | 904,500 | – | 904,500 | – |
| | | | 16.03.2007 | 16.03.2010 – 27.11.2015 | 3.811 | 1,206,000 | – | 1,206,000 | – |
| Kwan Yuk Choi, James | Options | 2007 | 16.03.2007 | 16.03.2008 – 27.11.2015 | 3.811 | – | – | – | – |
| | | | 16.03.2007 | 16.03.2009 – 27.11.2015 | 3.811 | 309,000 | 309,000 | – | 9.06 |
| | | | 16.03.2007 | 16.03.2010 – 27.11.2015 | 3.811 | 1,206,000 | 1,206,000 | – | 9.06 |
| Total for Directors | | | | | <u>11,163,000</u> | <u>1,515,000</u> | <u>9,648,000</u> | | |
| Category 2: | | | | | | | | | |
| Employees | | | | | | | | | |
| | Options | 2006 | 03.10.2006 | 04.10.2007 – 27.11.2015 | 2.796 | 301,500 | 180,900 | 120,600 | 9.19 |
| | | | 03.10.2006 | 04.04.2008 – 27.11.2015 | 2.796 | 542,700 | 19,100 | 523,600 | 9.19 |
| | | | 03.10.2006 | 04.10.2008 – 27.11.2015 | 2.796 | 723,600 | – | 723,600 | – |
| | Options | 2007 | 16.03.2007 | 16.03.2008 – 27.11.2015 | 3.811 | 301,500 | 301,500 | – | 9.20 |
| | | | 16.03.2007 | 16.03.2009 – 27.11.2015 | 3.811 | 301,500 | 301,500 | – | 9.20 |
| | | | 16.03.2007 | 16.03.2010 – 27.11.2015 | 3.811 | 402,000 | 402,000 | – | 9.20 |
| Total for Employees | | | | | <u>2,572,800</u> | <u>1,205,000</u> | <u>1,367,800</u> | | |
| All categories | | | | | <u>13,735,800</u> | <u>2,720,000</u> | <u>11,015,800</u> | | |

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no share option was cancelled or had lapsed.
3. During the period, no new option was granted.

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 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 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 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., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc.(Eng), B.Sc.(Eng)*
Chairman and Executive Director

Mr. Chan was appointed the Chairman of The Hong Kong Management Association on 10 July 2014.

Mr. Wong Wai Yee, Peter *C.P.A., C.M.A., A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*
Executive Director and Chief Executive Officer

Mr. Wong was elected a Fellow of The Institution of Gas Engineers & Managers of the United Kingdom on 20 June 2014.

Mr. Ho Hon Ming, John *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A. (Hons.)*
Executive Director and Company Secretary

Mr. Ho was appointed a General Committee member of the Chamber of Hong Kong Listed Companies on 30 June 2014.

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 an Executive Director of The Bank of East Asia, Limited (a listed company on the Hong Kong Stock Exchange) on 1 August 2014 (with effect from 2 August 2014), a Committee Member of the Hong Kong Chapter, The Institute of Chartered Accountants in England and Wales on 21 March 2014, a member of The Asian Financial Forum 2015 Steering Committee on 1 April 2014, a member of The Inaugural Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen on 6 June 2014, and a Council Member of The Hong Kong Management Association 2014/2015 on 23 July 2014.



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 17 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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
21 August 2014

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

| | NOTES | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2014 HK\$'000 (unaudited) | 2013 HK\$'000 (unaudited) |
| Turnover | 3 | <u>3,674,163</u> | <u>2,961,947</u> |
| Operating profit before returns on investments | 4 | 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 | 5 | <u>(82,289)</u> | <u>(72,516)</u> |
| Profit before taxation | 6 | 693,138 | 724,576 |
| Taxation | 7 | <u>(171,485)</u> | <u>(150,413)</u> |
| Profit for the period | | <u>521,653</u> | <u>574,163</u> |
| Profit for the period attributable to: | | | |
| Shareholders of the Company | | 467,968 | 532,758 |
| Non-controlling interests | | <u>53,685</u> | <u>41,405</u> |
| | | <u>521,653</u> | <u>574,163</u> |
| | | HK cents | HK cents |
| Earnings per share | 8 | | |
| — Basic | | <u>17.90</u> | <u>20.51</u> |
| — Diluted | | <u>17.85</u> | <u>20.45</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 HK\$'000 (unaudited) | 2013 HK\$'000 (unaudited) |
| Profit for the period | 521,653 | 574,163 |
| 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 | (254,911) | 193,075 |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | |
| Fair value change on cash flow hedge | <u>1,311</u> | <u>7,952</u> |
| | <u>(253,600)</u> | <u>201,027</u> |
| Total comprehensive income for the period | <u><u>268,053</u></u> | <u><u>775,190</u></u> |
| Total comprehensive income attributable to: | | |
| Shareholders of the Company | 247,861 | 721,633 |
| Non-controlling interests | <u>20,192</u> | <u>53,557</u> |
| Total comprehensive income for the period | <u><u>268,053</u></u> | <u><u>775,190</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

| | NOTES | 30.6.2014 HK\$'000 (unaudited) | 31.12.2013 HK\$'000 (audited) |
|---|-------|--------------------------------------|-------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 9,971,118 | 9,355,245 |
| Leasehold land | | 432,709 | 352,258 |
| Intangible assets | | 166,609 | 174,621 |
| Goodwill | 11 | 6,119,353 | 5,797,674 |
| Interests in associates | | 2,867,996 | 2,809,167 |
| Interests 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 |
| | | <u>21,620,360</u> | <u>20,581,752</u> |
| 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 | 12 | 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 |
| | | <u>5,106,537</u> | <u>5,046,924</u> |
| Current liabilities | | | |
| Trade and other payables and accrued charges | 13 | 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 | 14 | 2,444,993 | 2,418,883 |
| | | <u>7,708,784</u> | <u>7,382,747</u> |
| Net current liabilities | | <u>(2,602,247)</u> | <u>(2,335,823)</u> |
| Total assets less current liabilities | | <u>19,018,113</u> | <u>18,245,929</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2014

| | NOTES | 30.6.2014 HK\$'000 (unaudited) | 31.12.2013 HK\$'000 (audited) |
|--|-------|---|-------------------------------------|
| Non-current liabilities | | | |
| Loans from the ultimate holding company | 15 | 993,750 | 993,750 |
| Borrowings — amount due after one year | 14 | 4,113,097 | 3,487,785 |
| Deferred taxation | | 310,061 | 275,823 |
| Other financial liabilities | | 8,997 | 10,308 |
| | | <u>5,425,905</u> | <u>4,767,666</u> |
| Net assets | | <u>13,592,208</u> | <u>13,478,263</u> |
| Capital and reserves | | | |
| Share capital | 16 | 261,558 | 261,286 |
| Reserves | | 12,318,523 | 12,270,017 |
| | | <u>12,580,081</u> | <u>12,531,303</u> |
| Equity attributable to shareholders of the Company | | 12,580,081 | 12,531,303 |
| Non-controlling interests | | 1,012,127 | 946,960 |
| | | <u>13,592,208</u> | <u>13,478,263</u> |
| Total equity | | <u>13,592,208</u> | <u>13,478,263</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

| | Attributable to shareholders of the Company | | | | | | | | | Non-controlling interests | Total |
|---|---|------------------|------------------|----------------------|----------------|------------------|-------------------|-------------------|------------------|---------------------------|-------|
| | Share capital | Share premium | Exchange reserve | Share option reserve | Hedge reserve | General reserves | Retained earnings | Total | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 31 December 2013 and 1 January 2014 (audited) | 261,286 | 6,434,633 | 1,745,259 | 20,316 | (10,308) | 102,281 | 3,977,836 | 12,531,303 | 946,960 | 13,478,263 | |
| Exchange differences arising on translation to presentation currency | - | - | (221,418) | - | - | - | - | (221,418) | (33,493) | (254,911) | |
| Fair value change on cash flow hedge | - | - | - | - | 1,311 | - | - | 1,311 | - | 1,311 | |
| Profit for the period | - | - | - | - | - | - | 467,968 | 467,968 | 53,685 | 521,653 | |
| Total comprehensive (expense) income for the period | - | - | (221,418) | - | 1,311 | - | 467,968 | 247,861 | 20,192 | 268,053 | |
| Issue of shares upon exercise of share options | 272 | 14,101 | - | (4,210) | - | - | - | 10,163 | - | 10,163 | |
| Transfer | - | - | - | - | - | 11,181 | (11,181) | - | - | - | |
| Addition on acquisition of businesses | - | - | - | - | - | - | - | - | 44,690 | 44,690 | |
| Capital contributed from non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | 36,722 | 36,722 | |
| Dividends paid to shareholders of the Company | - | (209,246) | - | - | - | - | - | (209,246) | - | (209,246) | |
| Dividends paid to non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | (36,437) | (36,437) | |
| | 272 | (195,145) | - | (4,210) | - | 11,181 | (11,181) | (199,083) | 44,975 | (154,108) | |
| At 30 June 2014 (unaudited) | <u>261,558</u> | <u>6,239,488</u> | <u>1,523,841</u> | <u>16,106</u> | <u>(8,997)</u> | <u>113,462</u> | <u>4,434,623</u> | <u>12,580,081</u> | <u>1,012,127</u> | <u>13,592,208</u> | |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2014

| | Attributable to shareholders of the Company | | | | | | | | | Non-controlling interests | Total |
|---|---|---------------|------------------|----------------------|---------------|------------------|-------------------|------------|-----------|---------------------------|-------|
| | Share capital | Share premium | Exchange reserve | Share option reserve | Hedge reserve | General reserves | Retained earnings | Total | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 31 December 2012 and 1 January 2013 (audited) | 246,035 | 5,663,096 | 1,475,413 | 24,021 | (18,992) | 95,011 | 2,997,132 | 10,481,716 | 805,245 | 11,286,961 | |
| Exchange differences arising on translation to presentation currency | - | - | 180,923 | - | - | - | - | 180,923 | 12,152 | 193,075 | |
| Fair value change on cash flow hedge | - | - | - | - | 7,952 | - | - | 7,952 | - | 7,952 | |
| Profit for the period | - | - | - | - | - | - | 532,758 | 532,758 | 41,405 | 574,163 | |
| Total comprehensive income for the period | - | - | 180,923 | - | 7,952 | - | 532,758 | 721,633 | 53,557 | 775,190 | |
| Issue of shares upon share placement | 15,000 | 915,308 | - | - | - | - | - | 930,308 | - | 930,308 | |
| Issue of shares upon exercise of share options | 251 | 13,000 | - | (3,705) | - | - | - | 9,546 | - | 9,546 | |
| Transfer | - | - | - | - | - | 7,507 | (7,507) | - | - | - | |
| Addition on acquisition of businesses | - | - | - | - | - | - | - | - | 52,678 | 52,678 | |
| Capital contributed from non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | 29,319 | 29,319 | |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | (107,004) | (107,004) | |
| Partial disposal of a subsidiary | - | - | - | - | - | - | (21,766) | (21,766) | 21,766 | - | |
| Dividends paid to shareholders of the Company | - | (156,771) | - | - | - | - | - | (156,771) | - | (156,771) | |
| Dividends paid to non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | (17,738) | (17,738) | |
| | 15,251 | 771,537 | - | (3,705) | - | 7,507 | (29,273) | 761,317 | (20,979) | 740,338 | |
| At 30 June 2013 (unaudited) | 261,286 | 6,434,633 | 1,656,336 | 20,316 | (11,040) | 102,518 | 3,500,617 | 11,964,666 | 837,823 | 12,802,489 | |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

| | NOTE | Six months ended 30 June | |
|---|------|--------------------------|--------------------|
| | | 2014 | 2013 |
| | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Net cash generated from operating activities | | <u>372,096</u> | <u>322,336</u> |
| Investing activities | | | |
| Purchases of property, plant and equipment | | (710,708) | (514,093) |
| Consideration paid for acquisition of businesses acquired in prior periods | | (241,091) | (319,246) |
| Acquisition of businesses (net of cash and cash equivalents acquired) | 19 | (304,538) | (678,092) |
| Disposal of a subsidiary (net of cash and cash equivalents disposed) | | – | 1,839 |
| Purchase of leasehold land | | (27,299) | (23,003) |
| Dividends received from joint ventures | | 53,780 | 111,864 |
| Repayment of loan from an associate | | – | 2,488 |
| Deferred consideration received | | 40,000 | 40,000 |
| Dividends received from an associate | | 80,565 | 79,347 |
| Dividends received from an available-for-sale investment | | 65,368 | – |
| Increase in time deposits over three months | | (4,871) | (111,582) |
| Other investing cash flows | | <u>(10,451)</u> | <u>(14,332)</u> |
| Net cash used in investing activities | | <u>(1,059,245)</u> | <u>(1,424,810)</u> |
| Financing activities | | | |
| Repayments of bank and other loans | | (1,600,087) | (1,571,056) |
| Dividends paid to shareholders of the Company | | – | (156,771) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (36,437) | (17,738) |
| New bank and other loans raised | | 2,277,736 | 1,601,389 |
| Capital contribution from non-controlling shareholders of subsidiaries | | 36,722 | 29,319 |
| Issue of shares upon exercise of share options | | 10,163 | 9,546 |
| Issue of shares upon share placement | | – | 930,308 |
| Net cash generated from financing activities | | <u>688,097</u> | <u>824,997</u> |
| Net increase (decrease) in cash and cash equivalents | | 948 | (277,477) |
| Cash and cash equivalents at beginning of the period | | 2,230,363 | 2,479,484 |
| Effect of foreign exchange rate changes | | <u>(59,985)</u> | <u>33,368</u> |
| Cash and cash equivalents at end of the period, representing bank balances and cash | | <u>2,171,326</u> | <u>2,235,375</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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. 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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("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.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The following amendments have been issued after the date the consolidated financial statements for the year ended 31 December 2013 were authorised for issuance and are not yet effective:

| | |
|--------------------------------------|--|
| Amendments to HKFRS 11 | Accounting to Acquisitions of Interests in Joint Operations ¹ |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation ¹ |
| HKFRS 15 | Revenue from Contracts with Customers ² |

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

The Directors anticipate that the application of the above amendments may have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the 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.

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 2014 | | | |
| TURNOVER | | | |
| External | <u>3,029,584</u> | <u>644,579</u> | <u>3,674,163</u> |
| Segment results | <u>272,504</u> | <u>293,831</u> | 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 | | | <u>(82,289)</u> |
| Profit before taxation | | | 693,138 |
| Taxation | | | <u>(171,485)</u> |
| Profit for the period | | | <u>521,653</u> |
| Six months ended 30 June 2013 | | | |
| TURNOVER | | | |
| External | <u>2,393,619</u> | <u>568,328</u> | <u>2,961,947</u> |
| Segment results | <u>221,779</u> | <u>278,142</u> | 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 | | | <u>(72,516)</u> |
| Profit before taxation | | | 724,576 |
| Taxation | | | <u>(150,413)</u> |
| Profit for the period | | | <u>574,163</u> |

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Turnover | 3,674,163 | 2,961,947 |
| Less expenses: | | |
| Gas fuel, stores and materials used | 2,437,676 | 1,881,949 |
| Staff costs | 332,449 | 281,551 |
| Depreciation, amortisation, and release of leasehold land | 193,388 | 164,839 |
| Other expenses | 214,654 | 198,950 |
| | <u>495,996</u> | <u>434,658</u> |

5. FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2014 HK\$'000 | 2013 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 |
| | <u>85,532</u> | <u>72,228</u> |
| Bank charges | 1,804 | 1,388 |
| | <u>87,336</u> | <u>73,616</u> |
| Less: amounts capitalised | (5,047) | (1,100) |
| | <u>82,289</u> | <u>72,516</u> |

6. 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 |

7. 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%.

8. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|--|---------------------------------|------------------|
| | 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 | <u>467,968</u> | <u>532,758</u> |
| | 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 | <u>7,651</u> | <u>7,432</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>2,621,529</u> | <u>2,605,438</u> |

9. 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.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent HK\$715,755,000 (2013: HK\$515,193,000) on additions to property, plant and equipment, including HK\$527,837,000 (2013: HK\$367,336,000) on the construction in progress of gas pipelines and HK\$187,918,000 (2013: HK\$147,857,000) on other plant and equipment.

11. GOODWILL

| | HK\$'000 |
|--|-------------------------|
| At 31 December 2013 | 5,797,674 |
| Currency realignment | (150,586) |
| Provisional amount acquired on acquisition of businesses (note 19) | <u>472,265</u> |
| At 30 June 2014 | <u><u>6,119,353</u></u> |

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 30.6.2014 HK\$'000 | 31.12.2013 HK\$'000 |
|-----------------------------------|-------------------------|-------------------------|
| Trade receivables | 607,956 | 644,465 |
| Deferred consideration receivable | 116,039 | 39,321 |
| Prepayments | 627,284 | 566,302 |
| Other receivables and deposits | <u>329,282</u> | <u>330,291</u> |
| | <u><u>1,680,561</u></u> | <u><u>1,580,379</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:

| | 30.6.2014 HK\$'000 | 31.12.2013 HK\$'000 |
|-----------------|-----------------------|------------------------|
| 0 to 90 days | 536,259 | 579,840 |
| 91 to 180 days | 21,704 | 27,747 |
| 181 to 360 days | <u>49,993</u> | <u>36,878</u> |
| | <u><u>607,956</u></u> | <u><u>644,465</u></u> |

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | 30.6.2014 | 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 acquisition 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 (<i>note</i>) | 628 | 729 |
| | <u>4,192,779</u> | <u>4,151,637</u> |

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

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

| | 30.6.2014 | 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 |
| | <u>820,126</u> | <u>870,155</u> |

14. BORROWINGS

| | 30.6.2014 | 31.12.2013 |
|-------------------------|-------------------------|------------------|
| | HK\$'000 | HK\$'000 |
| Bank loans — secured | 12,491 | — |
| Bank loans — unsecured | 6,490,619 | 5,849,467 |
| Other loans — unsecured | 54,980 | 57,201 |
| | <u>6,558,090</u> | <u>5,906,668</u> |

14. BORROWINGS (CONTINUED)

The maturity of the above borrowings is as follows:

| | 30.6.2014 | 31.12.2013 |
|---|--------------------|-------------|
| | HK\$'000 | HK\$'000 |
| On demand or within one year | 2,444,993 | 2,418,883 |
| More than one year but not exceeding two years | 1,391,632 | 1,244,095 |
| More than two years but not exceeding five years | 2,690,945 | 2,212,404 |
| More than five years | 30,520 | 31,286 |
| | 6,558,090 | 5,906,668 |
| Less: Amount due within one year shown under current liabilities | (2,444,993) | (2,418,883) |
| Amount due after one year shown under non-current liabilities | 4,113,097 | 3,487,785 |

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 1.5% 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 | |
|--|---|----------------------------|-----------------|------------|
| | | | 30.6.2014 | 31.12.2013 |
| | | | HK\$'000 | HK\$'000 |
| HK\$800,000,000 (2013: HK\$800,000,000) | June 2017 – February 2018 (according to date of draw down) (2013: June 2017 – February 2018) (according to date of draw down) | 2.62% (2013: 2.93%) | 800,000 | 800,000 |
| US\$25,000,000 (2013: US\$25,000,000) | December 2016 (2013: December 2016) | 3.86% (2013: 3.86%) | 193,750 | 193,750 |
| | | | 993,750 | 993,750 |

16. SHARE CAPITAL

Authorised shares of HK\$0.10 each

| | Number of shares | Share capital HK\$'000 |
|--------------------------------------|----------------------|------------------------------|
| At 31 December 2013 and 30 June 2014 | <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 2013 | 2,612,849,830 | 261,286 |
| Issue of shares upon exercise of share options | <u>2,720,000</u> | <u>272</u> |
| At 30 June 2014 | <u>2,615,569,830</u> | <u>261,558</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:

| | 30.6.2014 HK\$'000 | 31.12.2013 HK\$'000 |
|---|-----------------------|------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of: | | |
| — acquisition of property, plant and equipment | 102,541 | 103,817 |
| — acquisition of businesses (<i>note</i>) | 11,466 | 589,417 |
| — acquisition of an associate | <u>—</u> | <u>4,609</u> |

Note: Amount represented consideration contracted for but not provided in the condensed consolidated financial statements for the acquisition of a business operating gas business in the PRC. As at 30 June 2014, the acquisition was not yet completed and subject to certain conditions before completion.

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Some of the Group's 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 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 liabilities | Fair value as at | | Fair value hierarchy | Valuation techniques and key inputs |
|---|---|--|----------------------|---|
| | 30.6.2014 | 31.12.2013 | | |
| Interest rate swaps classified as other financial liabilities in the condensed consolidated statement of financial position | Liabilities (designated for hedging) — HK\$8,997,000 | Liabilities (designated for hedging) — HK\$10,308,000 | 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 BUSINESSES

During the six months ended 30 June 2014, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions 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 combinations in: | | | |
| Xingyi Hong Kong & China Gas Company Limited ("Xingyi") | January 2014 | 70% | 118,385 |
| Jiajiang Hong Kong & China Gas Company Limited ("Jiajiang") | January 2014 | 70% | 66,368 |
| Songyang Hong Kong & China Gas Company Limited ("Songyang") | January 2014 | 51% | 56,807 |
| Siping Hong Kong & China Gas Company Limited ("Siping") | January 2014 | 80% | 61,380 |
| Baotou Hong Kong & China Gas Company Limited ("Baotou") | February 2014 | 85% | 227,244 |
| Qianxinanzhou Ruiyang Compressed Natural Gas Company Limited ("Ruiyang") | April 2014 | 70% | 26,317 |
| Luliang Hong Kong & China Gas Company Limited ("Luliang") | May 2014 | —* | 116,019 |

* During the period, the Group acquired the identifiable assets and liabilities associated with the business of sales and distribution of piped gas from the former owners.

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

19. ACQUISITION OF BUSINESSES (CONTINUED)

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

| | Xingyi HK\$'000 | Jiajiang HK\$'000 | Songyang HK\$'000 | Siping HK\$'000 | Baotou HK\$'000 | Ruiyang HK\$'000 | Luliang HK\$'000 | Total HK\$'000 |
|---|--------------------|----------------------|----------------------|--------------------|--------------------|---------------------|---------------------|-------------------|
| Purchase consideration | 118,385 | 66,368 | 56,807 | 61,380 | 227,244 | 26,317 | 116,019 | 672,520 |
| Non-controlling interests | 1,445 | 13,835 | 16,475 | 543 | 2,668 | 9,724 | - | 44,690 |
| Acquiree's provisional fair value of net identifiable assets acquired (see below) | <u>3,973</u> | <u>(46,117)</u> | <u>(33,864)</u> | <u>(2,717)</u> | <u>(17,789)</u> | <u>(32,412)</u> | <u>(116,019)</u> | <u>(244,945)</u> |
| Provisional goodwill | <u>123,803</u> | <u>34,086</u> | <u>39,418</u> | <u>59,206</u> | <u>212,123</u> | <u>3,629</u> | <u>-</u> | <u>472,265</u> |

The non-controlling interests recognised at the acquisition dates were measured by reference to the proportionate share of provisional fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$42,053,000.

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

Acquirees' provisional fair values at acquisition dates:

| | Xingyi HK\$'000 | Jiajiang HK\$'000 | Songyang HK\$'000 | Siping HK\$'000 | Baotou HK\$'000 | Ruiyang HK\$'000 | Luliang HK\$'000 | Total HK\$'000 |
|--|--------------------|----------------------|----------------------|--------------------|--------------------|---------------------|---------------------|-------------------|
| Net assets acquired: | | | | | | | | |
| Property, plant and equipment | 15,288 | 54,931 | 104,089 | 2,421 | 25,742 | 12 | 115,969 | 318,452 |
| Leasehold land | 1,663 | 573 | 14,305 | 1,481 | 7,543 | 44,917 | - | 70,482 |
| Inventories | 2,198 | 3,817 | 869 | - | 1,880 | - | 6 | 8,770 |
| Trade and other receivables, deposit, and prepayments (note) | 14,580 | 1,713 | 3,163 | 2,127 | 9,684 | 13,025 | 52 | 44,344 |
| Cash and bank balances | 430 | 7,174 | 9,185 | 829 | 103 | 96 | - | 17,817 |
| Trade and other payables and accrued charges | (24,121) | (12,876) | (85,106) | (4,093) | (19,700) | (18,945) | (8) | (164,849) |
| Taxation | (1,200) | (1,852) | 4,669 | (48) | (2,232) | - | - | (663) |
| Borrowing | (12,811) | - | (6,406) | - | (3,661) | - | - | (22,878) |
| Deferred taxation | - | (7,363) | (10,904) | - | (1,570) | (6,693) | - | (26,530) |
| | <u>(3,973)</u> | <u>46,117</u> | <u>33,864</u> | <u>2,717</u> | <u>17,789</u> | <u>32,412</u> | <u>116,019</u> | <u>244,945</u> |

Note: The trade and other receivables acquired with a fair value of HK\$44,344,000 had gross contractual amounts of HK\$44,344,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

19. ACQUISITION OF BUSINESSES (CONTINUED)

Net cash outflow arising on acquisitions:

| | Xingyi HK\$'000 | Jiajiang HK\$'000 | Songyang HK\$'000 | Siping HK\$'000 | Baotou HK\$'000 | Ruiyang HK\$'000 | Luliang HK\$'000 | Total HK\$'000 |
|---|--------------------|----------------------|----------------------|--------------------|--------------------|---------------------|---------------------|-------------------|
| Purchase consideration | 118,385 | 66,368 | 56,807 | 61,380 | 227,244 | 26,317 | 116,019 | 672,520 |
| Amounts unpaid and included in: | | | | | | | | |
| — consideration payable for acquisitions | (44,517) | - | (16,428) | - | - | - | (81,751) | (142,696) |
| — amounts due to non-controlling shareholders | (24,731) | (51,761) | (12,432) | (28,612) | (89,933) | - | - | (207,469) |
| Bank balances and cash acquired | <u>(430)</u> | <u>(7,174)</u> | <u>(9,185)</u> | <u>(829)</u> | <u>(103)</u> | <u>(96)</u> | <u>-</u> | <u>(17,817)</u> |
| | <u>48,707</u> | <u>7,433</u> | <u>18,762</u> | <u>31,939</u> | <u>137,208</u> | <u>26,221</u> | <u>34,268</u> | <u>304,538</u> |

Provisional goodwill arose from the above acquisitions 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 these acquisitions is expected to be deductible for tax purposes.

The provisional goodwill arising from the above acquisitions is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent 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 businesses contributed HK\$41,804,000 to the Group's turnover and incurred loss of HK\$13,320,000 for the period between the date of acquisition and the end of the reporting period.

Had the above acquisitions been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2014 would have been HK\$3,683,537,000, and the amount of the profit for the interim period would have been HK\$518,626,000. 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 acquisitions 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 | |
|---|---|--------------------------|------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 |
| HKCG | Interest expense | 14,108 | 15,388 |
| GH — Fusion Corporation Limited (note b) | Purchase of pipeline construction materials and tools | 540 | 2,053 |
| Shanxi ECO Coalbed Methane Co., Ltd. (note a) | Purchase of coalbed methane | 19,365 | 30,823 |
| Hongkong and China Technology (Wuhan) Company Limited (note a) | System software and supporting services | 753 | 434 |
| Anhui Province Natural Gas Development Company Limited (note b) | Purchase of compressed natural gas | 49,608 | 35,588 |
| Jilin Province Natural Gas Limited Company (note c) | Purchase of compressed natural gas vehicles | – | 3,974 |
| | Consideration for the acquisition of remaining 50% equity interest of Gongzhuling Gangtian Compressed Natural Gas Co., Ltd. | – | 6,143 |
| Shenyang Sanquan Project Management Consulting Co., Ltd. (note a) | Project management services | 3,407 | 3,482 |
| Towngas Telecommunications (Shenzhen) Limited (note a) | Cloud computing system and supporting services | 3,840 | 4,224 |

20. RELATED PARTY TRANSACTIONS (CONTINUED)

| Name of related party | Nature of transactions | Six months ended 30 June | |
|---|---|--------------------------|------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 |
| Shandong Hong Kong and China Gas Training Institute (<i>note a</i>) | Training services | 266 | 370 |
| Gongzhuling Gangtian Compressed Natural Gas Co., Ltd. (<i>note b</i>) | Sale of compressed natural gas | – | 795 |
| M-Tech Metering Solution (Shenzhen) Co., Ltd. (<i>note a</i>) | Purchase of pipeline construction materials and tools | 1,998 | 618 |
| G-Tech Piping Tech (Zhongshan) Ltd. (<i>note a</i>) | Purchase of pipeline construction materials and tools | 7,539 | 836 |
| Tongling Hong Kong and China Gas Company Limited (<i>note c</i>) | Purchase of compressed natural gas | 15 | 68 |
| | Sale of compressed natural gas | 105 | – |
| Taizhou Hong Kong and China Gas Company Limited (<i>note a</i>) | Purchase of compressed natural gas | 2,845 | – |
| Pingxiang Hong Kong & China Gas Company Limited (<i>note a</i>) | Provision of management services | 49 | – |
| Yixing Hong Kong & China Gas Company Limited (<i>note a</i>) | Rental of compressed natural gas vehicles | 230 | – |

Notes:

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