

2010

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*)
Kwan Yuk Choi, James
Ho Hon Ming, John (*Company Secretary*)
Law Wai Fun, Margaret
Ou Yaping
Tang Yui Man, Francis
(*Alternate Director to Ou Yaping*)

Independent Non-Executive Directors

Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David (*Chairman*)
Chow Yei Ching
Cheng Mo Chi, Moses

Remuneration Committee

Chow Yei Ching (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chan Wing Kin, Alfred

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
Fascimile : (852) 2561 6618
Stock Code : 1083
Website : www.towngaschina.com

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
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
Bank of China, Shenzhen Branch
Hang Seng Bank Limited



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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2010, the Group's piped gas business booked a turnover of HK\$1,240 million, a growth of approximately 37.8% over the corresponding period last year. Operating profit before returns on investments grew by approximately 56.5% to HK\$130 million. This was mainly due to the significant increase in the sales of piped gas and income from the construction of gas pipelines over the corresponding period last year and the enhanced cost control of corporate expenses. Profit after taxation attributable to shareholders increased by approximately 34.2% to HK\$172 million as compared with the corresponding period last year.

Turnover

For the six months ended 30 June 2010, the Group booked a turnover of HK\$1,240 million, representing a decrease of approximately 30.4% as compared with the corresponding period last year. The decrease was due to the disposal of its LPG operations by the Group in June 2009. The turnover was mainly attributable to the following businesses:

Sales of Piped Gas and Related Products

This business mainly comprises the direct supply of piped natural gas and piped fuel gas to customers. Sales of piped gas and related products increased 36.9% to HK\$982 million over the corresponding period last year, accounting for 79.2% of the Group's aggregate turnover. This increase was mainly due to significant increase in overall gas volume sold.

Gas Pipeline Construction

The Group's gas pipeline construction business mainly includes the development and maintenance of piped gas facilities and networks for the provision of piped gas to customers, for which the Group receives a connection fee. Gaining approximately 71,600 new households during the period, the Group recorded a connection fee income of approximately HK\$258 million for the six months ended 30 June 2010. This represents an increase of 41.4% over the corresponding period last year and accounts for 20.8% of the Group's total turnover.

Development of New Projects

Operation of New Projects

During the period, the new projects in Linqu County, Weifang City, Shandong Province, and the New Industrial District of Anshan City, Liaoning Province, which were entered into by the Group in the second half of 2009 and early 2010, both commenced operation. The Group's strategy is to continue this rapid market expansion through mergers and acquisitions. In addition to developing its existing regional markets, the Group is also actively seeking opportunities in other regions to accelerate its business development.

Piped Gas Project in Dalian Lvshun Economic Development Zone, Liaoning Province

The Group established Dalian Lvshun Hong Kong and China Gas Co., Ltd. in early June, with registered capital of US\$15 million. The Group owns a 100% equity interest in the project company, which mainly operates in the Dalian Lvshun Economic Development Zone.

Lvshunkou District in Dalian City is one of the country's national strategic development regions with easy access to both land and sea transportation networks. The development zone's strong base in the ship building and machinery manufacturing industries provides a promising potential for the piped gas market.

Piped Gas Project in Lingui New District, Guilin City, Guangxi Zhuang Autonomous Region

The Group acquired a 95% equity interest in a piped gas project in Lingui New District, Guilin City, Guangxi Zhuang Autonomous Region, in July. The project has a registered capital of RMB10 million.

Guilin City is a famous international tourist destination, known for its beautiful natural scenery. It is the third largest city in Guangxi, after Nanning and Liuzhou. As the focal point for future development in Guilin City, Lingui New District will leverage its existing economic foundations and geographical advantages to explore the enormous growth potential in the area in view of the relocation of industrial and commercial establishments from the urban areas. This project is the Group's first business venture in Guangxi, marking a strategic milestone for the Group in the development of city piped gas projects in the region.

Acquisition of Six City Piped Gas Projects from The Hong Kong and China Gas Company Limited ("HKCG")

On 17 March 2010 and as announced on the same day, the Company entered into a sale and purchase agreement (the "Agreement") with Hong Kong & China Gas (China) Limited ("HK&CG (China)"), a wholly-owned subsidiary of HKCG. Under the terms of the Agreement, the Company agreed to purchase all the issued share capital of Towngas (BVI) Holdings Limited, a target company held by HK&CG (China), and to take assignment of all the outstanding loans and liabilities owed by the target company to HK&CG (China) and its associates. The Agreement and its contemplated transactions, together with the relevant whitewash waiver, were approved at the Extraordinary General Meeting on 29 April 2010. On 15 July 2010 and as announced on the same day, the Company entered into a supplemental agreement with HK&CG (China) pursuant to which part of the reorganisation yet to be fulfilled would become a post-completion obligation. Accordingly, the acquisition was completed on 15 July 2010.

The Company issued 485,000,000 consideration shares credited as fully paid to HK&CG (China) as the consideration for the acquisition. The consideration shares represent approximately 24.76% of the issued share capital of the Company upon the execution of the Agreement and approximately 19.81% of the enlarged share capital of the Company upon completion of the transaction on 15 July 2010.

Upon completion of the acquisition, the Group held 40% to 100% of the equity interest in six city piped gas project companies in Liaoning and Zhejiang Provinces in the PRC through the target company:

Name of Project Companies	Shareholding
Zhejiang Province	
Hangzhou Hong Kong and China Gas Company Limited	50%
Tongxiang Hong Kong and China Gas Company Limited	76%
Huzhou Hong Kong and China Gas Company Limited	98.85%
Liaoning Province	
Yingkou Hong Kong and China Gas Company Limited	100%
Dalian Changxing Hong Kong and China Gas Co. Ltd.	100%
Dalian DETA Hong Kong and China Gas Co., Ltd.	40%

Liaoning and Zhejiang are strategic provinces as they are located on the Northeastern and Eastern coast of China, adjacent to a number of provinces, such as Jilin, Shandong and Anhui, where the Company currently has a significant presence. The Group believes that the acquisition will enhance its financial and cash flow positions. The acquisition also allows the Company to increase its scale by issuing new shares as consideration, without having to raise additional cash to fund the transaction. In addition, HKCG's increased shareholding will bring considerable benefits to the Company in securing new piped gas projects in the PRC as HKCG is widely recognised for its experience and expertise in the piped gas business in the PRC. Furthermore, the Company will have continued support from HKCG's considerable financial resources and continue to benefit from its operational expertise and managerial support at the corporate and regional management levels.

Available-for-sale Investments

Available-for-sale investments are mainly made up of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas"). Chengdu Gas is accounted for at cost. No provision for impairment was necessary during the period.

Contingent Liabilities

The Group has no material contingent liabilities as at 30 June 2010.

Financial Position

The Group has adopted a prudent approach in managing its financial resources by maintaining an appropriate level of cash and cash equivalents and adequate facilities for daily operations and business development, and by controlling borrowings at a healthy level.

As at 30 June 2010, the Group's total loans amounted to HK\$3,442 million, of which HK\$1,112 million consisted of the Guaranteed Senior Notes due in 2011 and HK\$471 million as loans from HKCG. Other than the Guaranteed Senior Notes and HK\$352 million bank loans and other borrowings which bear interest at fixed rates, the Group's other borrowings are mainly arranged on a floating rate basis. In addition to providing stable financial resources, the terms and interest rates of these loans also stabilised interest costs for the Group, benefiting its ongoing growth. The Group ended the period with a current ratio of 0.7 times and a gearing ratio (net debt excluding HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 20.1%.

The Group's activities are predominantly operated and conducted in Hong Kong and the PRC. As such, its cash, cash equivalents or borrowings are mainly denominated in Renminbi, the Hong Kong dollar and the United States dollar. Hence, the Group does not expect any material foreign exchange risk exposure.

As at 30 June 2010, other than pledging shares in certain subsidiaries to secure the Guaranteed Senior Notes, the Group did not have any pledge on its assets.

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 has cash and cash equivalents, together with unutilised banking facilities, which allow the Group to continuously maintain a strong liquidity position and adequate financial resources to meet its contractual obligations and operating needs.

Interim Dividend

The Board has resolved not to declare an interim dividend.

Employee and Remuneration Policies

As at 30 June 2010, the Group had 14,723 employees, representing an increase of 3.3% as compared to 31 December 2009, mainly due to the increase in staff numbers resulting from the acquisition of new projects. Employee remuneration is based on individual performance, job nature and the responsibilities involved. The Group also provides training as well as a comprehensive package of benefits for employees, including medical welfare, provident funds, bonuses and other incentives. The Group encourages its employees to strike a work-life balance. At the same time, it continues to improve the working environment for employees to maximise both their potential and contribution to the Group.

Corporate Social Responsibility

It is a committed policy of the Group to contribute to the community in a number of different ways.

Responding with compassion towards the catastrophic 7.1 scale earthquake in Yushu County, Qinghai Province, on 14 April 2010, HKCG, the Group and over 20,000 staff members from more than 80 group companies raised funds to support the relief work. Under the proactive assistance of the Group's volunteers, relief supplies were delivered to the collection point in Xining City and transferred to Yushu County for the victims soon after the earthquake.

The Group and its group companies organised a nationwide campaign, "Towngas Rice Dumplings for the Community", on the eve of the Dragon Boat Festival. Group volunteers not only delivered these "healthy" rice dumplings, jointly made with local students, community volunteers and members from the Elderly Homes to the elderly living alone and people in need, they also spent the festival with them. As the rice dumplings were all made from healthy ingredients, low in fat and in calories, this campaign also promoted low-carbon living concepts in addition to the rice-dumpling-making traditions.

With regard to the protection of the environment, the Group, in line with its parent company, is fully committed to promoting low-carbon lifestyles in support of the environment. Various environmental protection schemes have thus been launched. These include the “Green Office Scheme” which encourages a low-carbon lifestyle among the Company and its staff members. The Group has also launched a “Carbon Reduction Scheme” to encourage the development of quality and innovative carbon reduction projects among its group companies and to motivate all members of staff to be innovative and persistent in helping the Group to realise its commitment towards environmental protection.

Outlook

In the first half of 2010, phase two of the West-to-East pipeline and “Sichuan-to-East Gas Transmission” project commenced operation, helping to alleviate the gas shortage problems in areas along the pipeline. In light of the increasing natural gas supply in Central Asia, coupled with continuing growth in domestic natural gas supplies, the importation of liquefied natural gas, as well as the completion and operation of the Myanmar to China natural gas pipeline, the capacity for natural gas supply in the PRC is expected to be enhanced significantly in the next few years. The outlook for the city piped gas industry in the PRC is therefore promising.

With the natural gas industry evolving against this backdrop, the Group will grasp every opportunity, responding actively to the changes in the industry to maximise value for shareholders.

Adopting Measures to Resolve Seasonal Shortages in Natural Gas

In November 2009, serious shortages of natural gas occurred in various regions in China. These gas shortages are expected to continue to hit certain regions in the PRC during the peak winter consumption periods over the next two years. In view of this situation, the relevant government authorities are requiring upstream to downstream natural gas enterprises to install gas storage facilities to better regulate these seasonal peaks.

As such, the group companies will, in time, be building small liquefied natural gas storage facilities while also revising market development plans to mitigate against these seasonal shortages in the supply of natural gas.

Establishing a Regulatory Framework for the Natural Gas Industry

The government authorities are formulating promulgations for the administration of midstream natural gas processing as well as the city piped gas operations. The establishment of a regulatory framework for the natural gas industry will remain a key task in the next two years.

As a leading player in the industry, the Group will be reflecting its opinions and suggestions to the relevant government authorities. It will also monitor policy changes in the industry closely, making adjustments in its management strategies as necessary.

Narrowing Price Gap of Natural Gas between Local and International Markets

In June 2010, the ex-factory prices of domestically produced onshore natural gas rose in general. There are further indications that supply prices for natural gas may see frequent adjustments in the next two years. As such, although the traditional absolute competitive edge of natural gas in comparison to alternative energy resources may change, the fundamental advantage of natural gas as a highly efficient source of clean energy over other alternative energy resources remains constant.

To cope with these changes, the Group has accelerated the establishment of regional management teams enhancing communications with both local governments and gas suppliers to ensure more efficient measures to deal with these expected price adjustments. These management teams will formulate strategies in line with the development of local markets by capitalising on the positive synergies that the Group enjoys.

Twelfth Five-year Plan Encourages Development of Natural Gas

The PRC is currently formulating its Twelfth Five-year Plan. The provision of stable, clean and reliable energy for national economic and social development remains the basic principle in the energy development framework under the Twelfth Five-year Plan. Explicitly proposing that the use of clean energy such as natural gas should be increased, the National Energy Administration expects the share of natural gas in the consumption of primary energy to increase from 3.9% at present to 8.3% by the end of the “Twelfth Five-year” period.

Over the years, the Group has established a sound reputation among the relevant governmental authorities and customers through its improvements in customer services and in ensuring the safety of the gas supply through reliable city pipeline networks. Capitalising on the PRC’s determination to establish an affluent society, the Group will be able to substantially sharpen its competitive edge. The Group will thus make every effort to actively benefit from these opportunities by accelerating its development, expanding its business scale and enhancing its efficiencies during the implementation period of the Twelfth Five-year Plan.

Appreciation

On behalf of the Board, I would like to thank all staff for their dedication and hard work, and to thank 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, 23 August 2010

OTHER INFORMATION

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

As at 30 June 2010, 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, 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 30.06.2010
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	—	—	—	—	3,618,000	3,618,000	0.18%
	Wong Wai Yee, Peter	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.15%
	Kwan Yuk Choi, James	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.15%
	Ho Hon Ming, John	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.15%
	Ou Yaping	Interest in controlled corporations	—	—	445,487,245 (Note)	445,487,245	—	445,487,245	22.69%
	Chow Yei Ching	Beneficial owner	1,600,000	—	—	1,600,000	—	1,600,000	0.08%
	Tang Yui Man, Francis (Alternate Director to Ou Yaping)	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.15%

Note: The 445,487,245 Shares represent the aggregate of (i) 259,046,568 Shares held by Kenson Investment Limited ("Kenson") and (ii) 186,440,677 Shares held by Supreme All Investments Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina Holdings Limited ("Enerchina"). As Asia Pacific Promotion Limited ("Asia Pacific") was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 445,487,245 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 30.06.2010
			Personal interest	Family interest	Corporate interest				
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	136,858	—	—	136,858	—	136,858	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	48,315	54,741	—	103,056	—	103,056	0.00%
	Ho Hon Ming, John	Beneficial owner	21,434	—	—	21,434	—	21,434	0.00%
	Law Wai Fun, Margaret	Beneficial owner	13,068	—	—	13,068	—	13,068	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 schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 30 June 2010 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2010	as at 30.06.2010		Approximate percentage of the Company's issued share capital
				Exercise price HK\$	Number of Shares subject to outstanding options	
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,085,400	3.811	1,085,400	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%

as at 30.06.2010

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2010	as at 30.06.2010		Approximate percentage of the Company's issued share capital
				Exercise price HK\$	Number of Shares subject to outstanding options	
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%

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 or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 30 June 2010, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes of the Group 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 2010, the interests and short position of every person, other than the Directors or chief executive of the Company disclosed above, in the Shares and underlying Shares of the Company as notified to the Company and recorded in the register of substantial shareholders required to be kept under section 336 of the SFO were as follows:–

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 30.06.2010
Lee Shau Kee	Interest of controlled corporations	1,378,172,901 (Note 1)	70.18%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,378,172,901 (Note 2)	70.18%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,378,172,901 (Note 2)	70.18%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,378,172,901 (Note 2)	70.18%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,378,172,901 (Note 2)	70.18%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,378,172,901 (Note 2)	70.18%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,378,172,901 (Note 2)	70.18%
HKCG	Interest of controlled corporations	1,378,172,901 (Note 3)	70.18%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,335,202,901 (Note 3)	67.99%
HK&CG (China)	Beneficial owner	1,335,202,901 (Note 3)	67.99%
Asia Pacific	Interest of controlled corporations	445,487,245 (Note 4)	22.69%
Enerchina	Interest of controlled corporations	445,487,245 (Note 4)	22.69%
Kenson	Beneficial owner	259,046,568 (Note 4)	13.19%
Supreme All	Beneficial owner	186,440,677 (Note 4)	9.49%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 1,378,172,901 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 1,378,172,901 Shares which HKCG was deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. HK&CG(China) held 850,202,901 Shares and was also deemed to have acquired 485,000,000 Shares by virtue of its entering into the sale and purchase agreement dated 17 March 2010 with the Company. 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 1,335,202,901 Shares which HK&CG(China) was interested in by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
4. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 259,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by, Kenson, Supreme All, Enerchina and Asia Pacific.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2010, 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 2010, 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 2010, 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.

Share Option Schemes of the Company

The Company operates three share option schemes, the Pre-GEM Scheme, 2001 GEM Scheme, and 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 three schemes. The Pre-GEM Scheme and the 2001 GEM Scheme were approved by the shareholder on 4 April 2001 and have a life of 10 years until 3 April 2011. The 2005 Main Board Scheme was approved by the shareholders 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 type	Date of grant	Exercise period	Exercise price HK\$
Pre-GEM Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473
	04.04.2001	01.01.2004 – 03.04.2011	0.473
2001 GEM Scheme:			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483
	19.11.2004	31.12.2006 – 30.03.2011	3.483
	19.11.2004	31.12.2007 – 30.03.2011	3.483
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

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

Option types	Date of Grant	Exercise Period	Exercise Price	Outstanding at 01.01.2010	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)	
Category 1:									
Directors									
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	—	—	1,085,400	—
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	—	—	1,085,400	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	—	—	1,447,200	—
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	1,206,000	—
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	1,206,000	—
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	—	—	904,500	—
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	—	—	1,206,000	—
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	—	—	904,500	—
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	—	—	904,500	—
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	—	—	1,206,000	—
Total for Directors					<u>15,678,000</u>	<u>—</u>	<u>—</u>	<u>15,678,000</u>	
Category 2:									
Employees									
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	1,809,000	—	—	3.14	
		01.01.2004 – 03.04.2011	0.473	1,809,000	1,809,000	—	—	3.14	
		2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,924,550	361,800	—	2,562,750
2006 Options	03.10.2006	31.12.2006 – 30.03.2011	3.483	2,924,550	361,800	—	2,562,750	3.73	
		31.12.2007 – 30.03.2011	3.483	3,899,400	482,400	—	3,417,000	3.73	
		04.10.2007 – 27.11.2015	2.796	482,400	180,900	—	301,500	3.65	
2007 Options	16.03.2007	04.04.2008 – 27.11.2015	2.796	723,600	180,900	—	542,700	3.65	
		03.10.2006	04.10.2008 – 27.11.2015	2.796	964,800	241,200	—	723,600	3.73
		16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	—	—	603,000	—
2007 Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	—	—	603,000	—	
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	—	—	804,000	—
		Total for Employees					<u>17,547,300</u>	<u>5,427,000</u>	<u>—</u>
All categories					<u>33,225,300</u>	<u>5,427,000</u>	<u>—</u>	<u>27,798,300</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 under any share option schemes.
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 2010.

Corporate Governance

During the six months ended 30 June 2010, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules ("Model Code") as the code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2010.

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 11 August 2010 to review the unaudited interim financial report for the six months ended 30 June 2010. Deloitte Touche Tohmatsu, the Group's external auditor, has carried out a review of the unaudited interim financial report for the six months ended 30 June 2010 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 ("HKICPA").

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 changes on biographical details of Directors since the publication of the Company's 2009 Annual Report up to the date of this report are set out below:

Mr. Wong Wai Yee, Peter *M.B.A., C.M.A., A.C.S., A.C.I.S.*
Executive Director and Chief Executive Officer

Mr. Wong has been re-designated as the Head – Mainland Utilities (previously, the Head – China Business) of HKCG.

Ms. Law Wai Fun, Margaret *FHKIHRM, MBA, DipEd, BA (Hons)*
Executive Director

Ms. Law is elected as a Fellow of the Hong Kong Institute of Human Resource Management.

Dr. Cheng Mo Chi, Moses *GBS, OBE, JP*
Independent Non-Executive Director and member of both the Audit Committee and the Remuneration Committee of the Company

Dr. Cheng is an independent director of ARA Asset Management (Fortune) Limited (formerly known as ARA Asset Management (Singapore) Limited), which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on both the Singapore Stock Exchange and Hong Kong Stock Exchange.

Mr. Li Man Bun, Brian David *MA(Cantab), MBA, FCA*
Independent Non-Executive Director and Chairman of the Audit Committee and member of the Remuneration Committee of the Company

Mr. Li has been appointed as an independent director of Xinjiang Goldwind Science & Technology Co., Ltd., which is a listed company on the Shenzhen Stock Exchange. He is also elected as a Fellow of the Institute of Chartered Accountants in England and Wales.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the interim financial information set out on pages 18 to 40, which comprises the condensed consolidated statement of financial position of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making enquiries, 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June	
		2010	2009
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover			
– Continuing operations		1,239,565	899,566
– Discontinued operation		–	880,471
	3	<u>1,239,565</u>	<u>1,780,037</u>
Continuing operations			
Operating profit before returns on investments	4	130,093	83,128
Other income		34,404	43,080
Share of results of associates		92,859	65,714
Share of results of jointly controlled entities		53,265	40,532
Finance costs	5	(69,946)	(63,572)
Profit before taxation	6	240,675	168,882
Taxation	7	(48,435)	(27,229)
Profit for the period from continuing operations		<u>192,240</u>	<u>141,653</u>
Discontinued operation			
Profit for the period from discontinued operation	8	–	9,824
Profit for the period		<u>192,240</u>	<u>151,477</u>
Profit for the period attributable to:			
Shareholders of the Company		171,992	128,151
Non-controlling interests		20,248	23,326
		<u>192,240</u>	<u>151,477</u>
		HK cents	HK cents
Earnings per share	9		
From continuing and discontinued operations			
– Basic		<u>8.78</u>	<u>6.55</u>
– Diluted		<u>8.78</u>	<u>6.54</u>
Earnings per share	9		
From continuing operations			
– Basic		<u>8.78</u>	<u>6.57</u>
– Diluted		<u>8.78</u>	<u>6.56</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Profit for the period	<u>192,240</u>	<u>151,477</u>
Other comprehensive income		
Exchange differences arising on translation to presentation currency	79,130	1,793
Exchange difference released on disposal of subsidiaries	<u>-</u>	<u>(11,541)</u>
Other comprehensive income (expense) for the period	<u>79,130</u>	<u>(9,748)</u>
Total comprehensive income for the period	<u><u>271,370</u></u>	<u><u>141,729</u></u>
Total comprehensive income attributable to:		
Shareholders of the Company	245,946	117,618
Non-controlling interests	<u>25,424</u>	<u>24,111</u>
Total comprehensive income for the period	<u><u>271,370</u></u>	<u><u>141,729</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	30.6.2010 HK\$'000 (unaudited)	31.12.2009 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	4,224,728	4,077,210
Leasehold land		222,208	216,759
Intangible assets		180,444	182,210
Goodwill	12	2,781,292	2,752,733
Interest in associates		1,428,048	1,186,538
Interest in jointly controlled entities		843,432	779,328
Loans to jointly controlled entities		112,532	108,060
Available-for-sale investments		169,143	168,853
Deferred consideration receivable		243,736	283,325
		<u>10,205,563</u>	<u>9,755,016</u>
Current assets			
Inventories		129,155	101,856
Leasehold land		8,232	6,082
Loans to a jointly controlled entity		59,701	5,682
Trade and other receivables, deposits and prepayments	13	565,138	483,817
Amounts due from minority shareholders		6,720	14,103
Bank balances and cash		1,295,143	963,861
		<u>2,064,089</u>	<u>1,575,401</u>
Current liabilities			
Trade and other payables and accrued charges	14	1,339,943	1,318,905
Amounts due to minority shareholders		79,707	82,617
Taxation payable		204,274	189,475
Borrowings – amount due within one year	15	1,507,309	562,035
		<u>3,131,233</u>	<u>2,153,032</u>
Net current liabilities		<u>(1,067,144)</u>	<u>(577,631)</u>
Total assets less current liabilities		<u>9,138,419</u>	<u>9,177,385</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2010

	NOTES	30.6.2010 HK\$'000 (unaudited)	31.12.2009 HK\$'000 (audited)
Non-current liabilities			
Loans from the ultimate holding company	16	471,365	471,365
Borrowings – amount due after one year	15	1,462,981	1,731,337
Deferred taxation		90,035	86,560
		2,024,381	2,289,262
Net assets		7,114,038	6,888,123
Capital and reserves			
Share capital	17	196,379	195,836
Reserves		6,452,168	6,237,752
Equity attributable to shareholders of the Company		6,648,547	6,433,588
Non-controlling interests		465,491	454,535
Total equity		7,114,038	6,888,123

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2009	195,756	4,433,969	673,956	44,715	1,101	50,877	777,427	6,177,801	735,033	6,912,834
Exchange differences arising on translation to presentation currency	-	-	15,851	-	-	-	-	15,851	785	16,636
Reserve released on disposal of subsidiaries	-	-	(11,541)	-	-	-	-	(11,541)	-	(11,541)
Profit for the year	-	-	-	-	-	-	265,090	265,090	47,053	312,143
Total comprehensive income for the year	-	-	4,310	-	-	-	265,090	269,400	47,838	317,238
Issue of shares	80	2,923	-	(755)	-	-	-	2,248	-	2,248
Recognition of equity-settled share based payments	-	-	-	3,715	-	-	-	3,715	-	3,715
Disposal of subsidiaries	-	-	-	-	(1,101)	(14,321)	15,422	-	(356,160)	(356,160)
Share options forfeited	-	-	-	(4,816)	-	-	4,816	-	-	-
Transfer	-	-	-	-	-	17,286	(17,286)	-	-	-
Addition on acquisition of subsidiaries	-	-	-	-	-	-	-	-	31,682	31,682
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	13,729	13,729
Dividends paid	-	(19,576)	-	-	-	-	-	(19,576)	-	(19,576)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(17,587)	(17,587)
	80	(16,653)	-	(1,856)	(1,101)	2,965	2,952	(13,613)	(328,336)	(341,949)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2010

	Attributable to shareholders of the Company								Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Retained earnings	Total		
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)		
At 31 December 2009 and 1 January 2010	195,836	4,417,316	678,266	42,859	-	53,842	1,045,469	6,433,588	454,535	6,888,123
Exchange differences arising on translation to presentation currency	-	-	73,954	-	-	-	-	73,954	5,176	79,130
Profit for the period	-	-	-	-	-	-	171,992	171,992	20,248	192,240
Total comprehensive income for the period	-	-	73,954	-	-	-	171,992	245,946	25,424	271,370
Issue of shares	543	9,406	-	(2,353)	-	-	-	7,596	-	7,596
Recognition of equity-settled share based payments	-	-	-	620	-	-	-	620	-	620
Transfer	-	-	-	-	-	16,917	(16,917)	-	-	-
Dividends paid	-	(39,203)	-	-	-	-	-	(39,203)	-	(39,203)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(14,468)	(14,468)
	543	(29,797)	-	(1,733)	-	16,917	(16,917)	(30,987)	(14,468)	(45,455)
At 30 June 2010	196,379	4,387,519	752,220	41,126	-	70,759	1,200,544	6,648,547	465,491	7,114,038

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2010

	Attributable to shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Share option reserve	Capital reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2009	195,756	4,433,969	673,956	44,715	1,101	50,877	777,427	6,177,801	735,033	6,912,834
Exchange differences arising on translation to presentation currency	-	-	1,008	-	-	-	-	1,008	785	1,793
Reserve released on disposal of subsidiaries	-	-	(11,541)	-	-	-	-	(11,541)	-	(11,541)
Profit for the period	-	-	-	-	-	-	128,151	128,151	23,326	151,477
Total comprehensive income for the period	-	-	(10,533)	-	-	-	128,151	117,618	24,111	141,729
Recognition of equity-settled share based payments	-	-	-	2,206	-	-	-	2,206	-	2,206
Disposal of subsidiaries	-	-	-	-	(1,101)	(14,321)	15,422	-	(356,160)	(356,160)
Transfer	-	-	-	-	-	7,592	(7,592)	-	-	-
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	28,942	28,942
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	13,729	13,729
Dividends paid	-	(19,576)	-	-	-	-	-	(19,576)	-	(19,576)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(13,581)	(13,581)
	-	(19,576)	-	2,206	(1,101)	(6,729)	7,830	(17,370)	(327,070)	(344,440)
At 30 June 2009	195,756	4,414,393	663,423	46,921	-	44,148	913,408	6,278,049	432,074	6,710,123

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Net cash generated from operating activities	<u>180,464</u>	<u>131,447</u>
Investing activities		
Additions to property, plant and equipment	(197,016)	(140,195)
Capital contribution to an associate	(117,164)	–
Investment in an associate	(19,820)	–
Consideration paid for acquisition of subsidiaries acquired in prior periods	(119,800)	(190,412)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	–	(206,474)
Deferred consideration receivables received	40,000	–
Acquisition of leasehold land	(17,804)	(15,270)
Advance to a jointly controlled entity	(59,701)	–
Repayment of loan from a jointly controlled entity	5,741	84,902
Other investing cash flows	<u>(2,020)</u>	<u>29,964</u>
Net cash used in investing activities	<u>(487,584)</u>	<u>(437,485)</u>
Financing activities		
Dividend paid	(39,203)	(19,576)
Dividend paid to minority shareholders of subsidiaries	(14,468)	(13,581)
New loans from shareholder raised	–	31,001
New bank and other loans raised	755,777	318,292
Repayment of bank and other loans	(82,826)	(49,679)
Other financing cash flows	<u>7,744</u>	<u>13,729</u>
Net cash generated from financing activities	<u>627,024</u>	<u>280,186</u>
Net increase (decrease) in cash and cash equivalents	319,904	(25,852)
Cash and cash equivalents at beginning of the period	963,861	863,882
Effect of foreign exchange rate changes	<u>11,378</u>	<u>1,427</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>1,295,143</u></u>	<u><u>839,457</u></u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

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, 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 interim financial information are presented in Hong Kong dollars ("HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in 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 natural gas and liquefied petroleum gas ("LPG") in The People's Republic of China (the "PRC") including the provision of piped natural gas and LPG, construction of gas pipelines, the operation of city gas pipeline network, the operation of natural gas automobile refilling stations, and the sale of gas household appliances. The Group was also engaged in the sale of LPG in bulk and in cylinders, which was disposed of and discontinued in the prior period (see note 8).

The interim financial information have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 Interim financial reporting.

At 30 June 2010, the Group had net current liabilities of approximately HK\$1,067 million. The Group's liabilities as at 30 June 2010 included borrowings of HK\$1,507 million that are repayable within twelve months from the end of the reporting period. As at the date of this report, the Group has un-drawn but committed unsecured facilities amounting to HK\$802 million and RMB300 million (approximately HK\$344 million). Taking into account the internally generated funds and the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the interim financial information has been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial information has been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendment to HKAS 17 "Leases"

As part of the improvements to Hong Kong Financial Reporting Standards ("HKFRSs") issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and the Group presented the prepayment as leasehold land in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement that leasehold land must be classified as operating leases. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The application of the new and revised HKFRSs has had no effect on the interim financial information of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised HKASs, HKFRSs, amendments or interpretations ("INT") that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)* – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 January 2013.

* IFRIC represents the International Financial Reporting Interpretations Committee.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the 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 segment and to assess its 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 that are used to make strategic decisions.

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

Sales and distribution of piped gas and related products	—	Sales of piped gas and gas related household appliances
Gas pipeline construction	—	Construction of gas pipeline networks under gas connection contracts

In prior period, the Group disposed of its business in the sales of LPG in bulk and in cylinders operation (“LPG operations”).

Segments results represent the profit before taxation earned by each segment, excluding interest income, finance costs, share of results of associates, share of results of jointly controlled entities, unallocated other income and corporate expenses such as central administration costs and directors’ salaries. This is the measure reported to the Group’s Executive Directors for the purposes of resource allocation and assessment of segment performance.

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 pipeline construction HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2010			
TURNOVER			
External	<u>981,701</u>	<u>257,864</u>	<u>1,239,565</u>
Segment results	<u>73,204</u>	<u>98,926</u>	172,130
Unallocated other income			34,404
Unallocated corporate expenses			(42,037)
Share of results of associates			92,859
Share of results of jointly controlled entities			53,265
Finance costs			<u>(69,946)</u>
Profit before taxation			240,675
Taxation			<u>(48,435)</u>
Profit for the period			<u>192,240</u>

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

	Sales and distribution of piped gas and related products HK\$'000	Gas pipeline construction HK\$'000	Total – continuing operations HK\$'000	Discontinued operation – LPG operations HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2009					
TURNOVER					
External	<u>717,260</u>	<u>182,306</u>	<u>899,566</u>	<u>880,471</u>	<u>1,780,037</u>
Segment results	<u>60,598</u>	<u>62,575</u>	123,173	16,121	139,294
Unallocated other income			43,080	3,608	46,688
Gain on disposal of LPG operations			–	458	458
Unallocated corporate expenses			(40,045)	–	(40,045)
Share of results of associates			65,714	–	65,714
Share of results of jointly controlled entities			40,532	559	41,091
Finance costs			<u>(63,572)</u>	<u>(476)</u>	<u>(64,048)</u>
Profit before taxation			168,882	20,270	189,152
Taxation			<u>(27,229)</u>	<u>(10,446)</u>	<u>(37,675)</u>
Profit for the period			<u>141,653</u>	<u>9,824</u>	<u>151,477</u>

4. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Continuing operations		
Turnover	1,239,565	899,566
Less: Expenses		
Gas fuel, stores and materials used	761,661	528,858
Staff costs	128,598	111,049
Depreciation and amortisation	94,236	84,701
Other expenses	124,977	91,830
	<u>130,093</u>	<u>83,128</u>

5. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:						
– bank and other borrowings wholly repayable within five years	21,255	14,391	–	421	21,255	14,812
– bank and other borrowings not wholly repayable within five years	683	652	–	–	683	652
– Guaranteed Senior Notes	47,085	46,460	–	–	47,085	46,460
	<u>69,023</u>	<u>61,503</u>	<u>–</u>	<u>421</u>	<u>69,023</u>	<u>61,924</u>
Bank charges	923	2,069	–	55	923	2,124
	<u>69,946</u>	<u>63,572</u>	<u>–</u>	<u>476</u>	<u>69,946</u>	<u>64,048</u>

6. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:						
Amortisation of intangible assets	3,365	2,539	–	1,559	3,365	4,098
Amortisation of leasehold land	4,083	2,819	–	940	4,083	3,759
Cost of inventories sold	869,135	610,989	–	762,421	869,135	1,373,410
Depreciation of property, plant and equipment	86,788	79,343	–	9,494	86,788	88,837
Staff costs	128,598	111,049	–	63,846	128,598	174,895
and after crediting:						
Dividend income from available-for-sale investments	–	27,548	–	–	–	27,548
Interest income	2,528	7,121	–	964	2,528	8,085
Imputed interest income on deferred consideration receivable and loans to jointly controlled entities	8,094	2,713	–	–	8,094	2,713

7. TAXATION

The taxation charge comprises of PRC Enterprise Income Tax 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.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period was 12.5% (2009: 7.5% to 12.5%). PRC Enterprise Income Tax for the period has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

8. DISCONTINUED OPERATION

On 2 April 2009, the Group entered into a sale agreement to dispose of its LPG operations. The disposal was effected in order to focus resources for the expansion of the Group's other businesses. The disposal was completed on 4 June 2009, on which date control of LPG operations passed to the acquirer.

The profit during the period ended 30 June 2009, from the discontinued operation is analysed as follows:

	HK\$'000
Profit of LPG operations for the period	9,366
Gain on disposal of LPG operations	458
	<u>9,824</u>
(Loss) profit for the period attributable to:	
Shareholders of the Company	(515)
Non-controlling interests	10,339
	<u>9,824</u>

8. DISCONTINUED OPERATION (CONTINUED)

The results of the LPG operations, which have been included in the consolidated income statement for the period ended 30 June 2009, were as follows:

	HK\$'000
Turnover	<u>880,471</u>
Operating profit before returns on investments	16,121
Other income	3,608
Share of results of jointly controlled entities	559
Finance costs	<u>(476)</u>
Profit before taxation	19,812
Taxation	<u>(10,446)</u>
Profit for the period	9,366
Gain on disposal of LPG operations	<u>458</u>
	<u>9,824</u>

No tax charge or credit arose on gain on discontinuance of the operations.

During the period ended 30 June 2009, the LPG operations contributed HK\$45,891,000 to the Group's net operating cash flows, contributed HK\$762,000 in respect of investing activities and paid HK\$11,898,000 in respect of financing activities.

9. EARNINGS PER SHARE

From continuing and discontinued operations

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	
	2010	2009
	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>171,992</u>	<u>128,151</u>

9. EARNINGS PER SHARE (CONTINUED)

From continuing and discontinued operations (Continued)

	Number of shares	
	Six months ended 30 June	
	2010	2009
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,959,574	1,957,556
Effect of dilutive potential ordinary shares: Share options	<u>266</u>	<u>2,726</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,959,840</u>	<u>1,960,282</u>

From continuing operations

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	
	2010	2009
	HK\$'000	HK\$'000
Profit for the period attributable to shareholders of the Company for calculating basic and diluted earnings per share	<u>171,992</u>	<u>128,666</u>

The denominators used are the same as those detailed above for basic and diluted earnings per share.

From discontinued operation

The loss per share for the discontinued operation attributable to shareholders of the Company during the period ended 30 June 2009 is as follows:

	HK cents
Basic	<u>(0.02)</u>
Diluted	<u>(0.02)</u>

9. EARNINGS PER SHARE (CONTINUED)

From discontinued operation (Continued)

The calculation of the loss per share for the discontinued operation attributable to shareholders of the Company during the period ended 30 June 2009 is based on the following data:

	HK\$'000
Loss from discontinued operation attributable to shareholders of the Company	<u><u>(515)</u></u>

The denominators used are the same as those detailed above for basic and diluted loss per share.

10. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: nil). During the period, a dividend of two HK cents per share (2009: one HK cent per share) amounting to HK\$39,203,000 was paid to the shareholders as the final dividend for 2009 (HK\$19,576,000 for 2008).

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$197,016,000 (2009: HK\$140,195,000) on additions to property, plant and equipment, including approximately HK\$140,441,000 (2009: HK\$59,503,000) on the construction in progress of gas pipelines and other plant and equipment.

12. GOODWILL

	HK\$'000
At 1 January 2009	2,491,871
Currency realignment	88
Acquired on acquisition of subsidiaries	<u>260,774</u>
At 31 December 2009 and 1 January 2010	2,752,733
Currency realignment	<u>28,559</u>
At 30 June 2010	<u><u>2,781,292</u></u>

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
Trade receivables	134,292	98,101
Deferred consideration receivable	38,916	39,321
Prepayments	158,825	128,459
Other receivables and deposits	233,105	90,558
Amount due from a related company (note)	–	127,378
	<u>565,138</u>	<u>483,817</u>

Note: The amount was unsecured, interest-free and repayable on demand. The amount was due from a company in which a former director had beneficial interest.

Trade receivables

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
0 to 90 days	123,555	90,784
91 to 180 days	2,279	1,504
181 to 360 days	8,458	5,813
	<u>134,292</u>	<u>98,101</u>

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
Trade payables	246,230	214,669
Receipt in advance	653,353	560,695
Consideration payable for acquisitions	78,679	198,479
Amount due to a related company (note a)	–	127,378
Other payables and accruals	361,257	217,099
Amount due to the ultimate holding company (note b)	424	585
	<u>1,339,943</u>	<u>1,318,905</u>

Notes:

- (a) The amount was unsecured, interest-free and repayable on demand. The amount was due to a company in which a former director had beneficial interest.
- (b) 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:

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
0 to 90 days	169,473	117,864
91 to 180 days	11,635	33,394
181 to 360 days	44,757	35,830
Over 360 days	20,365	27,581
	<u>246,230</u>	<u>214,669</u>

15. BORROWINGS

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
Bank loans – unsecured	1,720,115	1,044,886
Other loans – unsecured	138,511	138,831
Guaranteed Senior Notes (note)	1,111,664	1,109,655
	<u>2,970,290</u>	<u>2,293,372</u>

The maturity of the above borrowings is as follows:

	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
Within one year	1,507,309	562,035
More than one year but not exceeding two years	1,181,983	1,435,843
More than two years but not exceeding five years	232,603	233,784
More than five years	48,395	61,710
	<u>2,970,290</u>	<u>2,293,372</u>
Less: Amount due within one year shown under current liabilities	<u>(1,507,309)</u>	<u>(562,035)</u>
Amount due after one year	<u>1,462,981</u>	<u>1,731,337</u>

Note: The Company issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited and are secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 30 June 2010, the market value of the Guaranteed Senior Notes amounted to US\$150,384,000 (2009: US\$153,338,000) (equivalent to approximately of HK\$1,165,473,000 (2009: HK\$1,188,370,000)). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%. At 30 June 2010, Guaranteed Senior Notes with a principal amount of US\$141,000,000 (2009: US\$141,000,000) are still outstanding in the market.

16. LOANS FROM THE ULTIMATE HOLDING COMPANY

The amounts represent unsecured loans denominated in US dollar and HK dollar, bears interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and is repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Interest rate	Carrying amount	
			30.6.2010 HK\$'000	31.12.2009 HK\$'000
HK\$277,615,000 (2009: HK\$277,615,000)	April 2013 – May 2014 (2009: April 2013 – May 2014) (according to date of draw down)	1.81% (2009: 3.26%)	277,615	277,615
US\$25,000,000 (2009: US\$25,000,000)	December 2012 (2009: December 2012)	1.81% (2009: 3.26%)	193,750	193,750
			<u>471,365</u>	<u>471,365</u>

17. SHARE CAPITAL

At 1 January 2010 and 30 June 2010

	Number of shares	Share capital HK\$'000
Authorised:		
Shares of HK\$0.10 each	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
Shares of HK\$0.10 each	<u>1,963,787,330</u>	<u>196,379</u>

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

	Number of shares	Share capital HK\$'000
At 1 January 2010	1,958,360,330	195,836
Exercise of share options (note)	<u>5,427,000</u>	<u>543</u>
At 30 June 2010	<u>1,963,787,330</u>	<u>196,379</u>

Note: During the period, the Company allotted and issued 3,618,000, 603,000 and 1,206,000 shares of HK\$0.10 each for cash at the exercise price of HK\$0.473, HK\$2.796 and HK\$3.483 per share respectively as a result of the exercise of share options.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

18. SHARE-BASED PAYMENTS

No share option was granted in the current period.

The Group recognised total expenses of HK\$620,000 for the six months ended 30 June 2010 (1.1.2009 to 30.6.2009: HK\$2,206,000) in relation to share options granted by the Company in previous periods.

19. CAPITAL COMMITMENTS

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

	30.6.2010 HK\$'000	31.12.2009 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>42,532</u>	<u>29,083</u>
Capital injection contracted for but not provided in the condensed consolidated financial statements in respect of investment in an associate	<u>–</u>	<u>22,211</u>

20. RELATED PARTY TRANSACTIONS

During the period, the Company has incurred loan interest expenses amounted to HK\$5,027,000 in connection with the HK\$471,365,000 loans from HKCG (note 16).

During the period, the Group has purchased construction materials amounted to HK\$1,756,000 from GH-Fusion Corporation Limited (“GH-Fusion”). HKCG has a beneficial interest in GH-Fusion.

During the period, the Group has purchased compressed natural gas amounted to HK\$7,015,000 and HK\$843,000 from Anhui Province Natural Gas Development Company Limited (“Anhui NG”) and Jilin Hong Kong and China Gas Company Limited (“Jilin HKCG”), respectively. HKCG has a beneficial interest in Anhui NG and Jilin HKCG.

21. EVENT AFTER THE END OF THE INTERIM PERIOD

During the period, the Company entered into a sale and purchase agreement (“Agreement”) with Hong Kong & China Gas (China) Limited (“HK&CG (China)”), a wholly-owned subsidiary of HKCG, pursuant to which the Company agreed to acquire from HK&CG (China) the entire issued share capital of Towngas (BVI) Holdings Limited (“Towngas BVI”) (the “Acquisition”). Towngas BVI indirectly held equity interests varying from 40% – 100% in six PRC entities which operated piped gas assets and related business in various cities in Liaoning and Zhejiang provinces in the PRC. As consideration for the Acquisition, the Company agreed to allot and issue 485,000,000 ordinary shares of the Company of HK\$0.10 each (each credited as fully paid), to HK&CG (China).

The Acquisition was completed on 15 July 2010. Immediately upon the completion, HKCG, through its wholly owned subsidiaries, owns approximately 56.28% of the enlarged issued share capital of the Company. Up to the date of the issuance of the interim financial report, management of the Group is still in the process of determining the financial effect of the Acquisition.