

2017

Interim Report



港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

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

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Board Audit and Risk Committee

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

Remuneration Committee

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

Nomination Committee

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

Auditor

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

Registered Office

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

Head Office and Principal Place of Business

23rd Floor, 363 Java Road
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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

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

Hong Kong Branch Share Transfer Office

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

Principal Bankers

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



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MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2017, the Group sold 4,186 million cubic metres of gas in total, surged by 18%. Total number of customers was 11.30 million with an increase of 390,000 customers compared to last year. Profit after taxation attributable to shareholders of the Company amounted to HK\$602 million, representing a strong increase of 7% compared to the corresponding period last year. Basic earnings per share amounted to HK22.21 cents.

Turnover

For the six months ended 30 June 2017, turnover from the sales of piped gas and related products rose 22% to HK\$3,272 million over the corresponding period last year due to the satisfactory results derived from active promotion of natural gas replacing coal. The total consolidated volume of gas sold in the current period amounted to 1,156 million cubic metres, representing an increase of 25% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK\$764 million, an increase of 3% over corresponding period last year. Consolidated new households' connections of 190,000 were made during the period under review.

Development of New Projects

The Group acquired two gas projects during the period, a city gas project in Huji Town, Zhongxiang City, Hubei Province and a midstream natural gas pipeline network project in Guyang County, Baotou City in the Inner Mongolia Autonomous Region. The principal industrial activity of Huji Town of Zhongxiang City in Hubei Province mainly involves the production of phosphate compound fertiliser. This wholly-owned project marks the Group's maiden expansion into Hubei Province. At the same time, we started our active diversification into the midstream pipeline transmission business, rapidly expanding market share and building on the back of our focused efforts in the past to acquire downstream city gas projects. The midstream natural gas pipeline network project in Guyang County, Baotou City in the Inner Mongolia Autonomous Region will supply natural gas to the Group's city gas project in the county to ensure sufficient gas supply and facilitate our efforts towards unified gas supply management.

Available-for-sale Investments

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

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2017.

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 2017, the Group's total borrowings amounted to HK\$8,379 million, of which HK\$3,974 million represented bank loans and other loans due within 1 year, HK\$4,356 million represented bank loans and other loans due between 1 to 5 years, and HK\$49 million represented bank loans and other loans due over 5 years. Other than bank loans and other loans of HK\$4,763 million which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As at the end of the period, the Group had HK\$4,781 million borrowings denominated in Renminbi and the remaining HK\$3,598 million borrowings were denominated mainly in Hong Kong dollars and United States dollars. As the businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi, the Group bore foreign currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group recorded an exchange gain of HK\$91 million caused by the fluctuations of Renminbi exchange rate in the period. The Group entered into cross currency swap contracts and foreign currency forward contracts during the period to hedge foreign currency risk for non-Renminbi denominated bank loans. The loss on fair value change of other financial assets and liabilities was HK\$183 million in the period. As at 30 June 2017, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 32.2%.

As at 30 June 2017, the Group's cash and cash equivalents together with time deposits amounted to HK\$1,684 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2017, the Group's unutilised available facilities amounted to HK\$3,160 million.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks. 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

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

Interim Dividend

The Board has resolved not to declare an interim dividend (2016: nil).

Employee and Remuneration Policies

As at 30 June 2017, the Group had 21,948 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.

Corporate Social Responsibilities

We are committed to providing our customers with a safe and reliable supply of gas while adhering to our principle of corporate social responsibility “Actively participating in charity services to make contributions to society; Striving for environmental protection to give back to the community”. We have set sustainable development as an objective and implemented it in our daily operations. At the same time we provide support and care for the underprivileged as appropriate.

As part of our efforts to preserve, protect and improve the environment, we launched a range of low-carbon environmental initiatives under “Towngas China Environmental Protection” campaign in February this year. The campaign called on all our staff and their family members, customers and the public to participate in environmental activities such as “Towngas China Plantation Day” and “Earth Hour”. During the first half of the year, we also organised tree planting, green walkathon as well as plant exchange activities, in which more than 1,200 saplings were planted, covering a green area of approaching 4,000 square metres.

We have also been working closely with various social welfare associations to provide aid to students in economically backward regions through monetary donations and provision of daily necessities. Since the inception of “Gentle Breeze” education aid programme in 2013, we have helped 22 schools in Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Sichuan and Guangdong, to improve their learning environment. During the period, we extended the reach to Yangjiang City in Guangdong Province where we donated office desks and chairs for teachers, school uniforms as well as teaching equipment to Daba Secondary School in Daba Town and Heliao Primary School in Heshan Town.

Our employees have constantly demonstrated their passion to serve and contribute to society through active participation in social service. We organised the annual “Rice Dumplings for the Community” event, in which over 27,000 rice dumplings were made this year. These, together with festive gifts, were sent to children, senior citizens and the disadvantaged through welfare agencies in different regions on the eve of the Dragon Boat Festival, benefiting more than 7,000 recipients.

Outlook

Economic Landscape

As the Chinese Government continued to drive structural economic reforms, the positive effects of these measures began to bear fruit in the first half of 2017. First quarter gross domestic product (“GDP”) growth hit 6.9%, the highest level in the past six quarters. The balance in foreign exchange reserves amounted to over USD3,000 billion, while the RMB exchange rate remained relatively stable. Overall macro-economic indicators also fared well, with GDP growth maintaining its 6.9% rate into the second quarter, will be continuing the positive development seen in the first quarter.

Enhancing these structural reforms, the Chinese Government also implemented measures allowing businesses and commercial enterprises to share in the success of the reforms. For example, as a result of the “Notice on the Policy relating to the Simplification and Consolidation of Value-added Tax (“VAT”) Rates” issued by the State Administration of Taxation in June 2017, VAT rates have been adjusted with effect from 1 July 2017. The VAT rate for natural gas products was lowered from 13% to 11%, leading to more competitive prices for natural gas. This continuing introduction of favourable measures in the wake of successful reforms helps to alleviate the burdens borne by business enterprises in real terms, which provides yet further impetus for development. In turn, these measures and developments help China to achieve its goal of sustaining moderate to rapid economic growth.

New Progress in Market-based Reforms for the Natural Gas Sector

Since the beginning of the year, market-based reforms for the domestic natural gas sector have gained notable pace. Further progress is being made under the general principle of “enhancing control in the middle and deregulating on both ends” (government regulation of prices over sectors of natural monopoly).

In May 2017, the Central Committee of the Communist Party of China and the State Council promulgated a document entitled “Certain Opinions on Further Structural Reforms of the Oil and Natural Gas Sector”. The document highlights eight reform objectives and establishes the direction and guiding principles for the future market-oriented development of the domestic natural gas industry. It also underpins the State’s determination to implement reforms in the oil and gas sector, to effectively stimulate the domestic natural gas market for its sustainable and future development.

The “Guidance Opinion on Enhanced Regulation over the Pricing of Gas Distribution” (《關於加強配氣價格監管的指導意見》) issued by the National Development and Reform Commission (the “NDRC”) in June 2017 extended the scope of regulation over the pricing of gas transmission and distribution to cover all cross-provincial trunk lines and city/town gas pipelines. It has also stipulated important reform measures, such as the separate determination of prices for gas distribution in cities and towns subject to a maximum yield of 7% in principle for gas distribution businesses, as well as the inclusion of gas installation costs in property prices.

Closely monitoring developments in the country's market-based reforms in the natural gas sector, the Group continues to make timely plans both in response to these developments as well as in anticipation of new business opportunities presented by the reforms. China's current market-based reforms will be conducive to the development of a fair and orderly marketplace for the natural gas business. Based on this increasingly positive environment, we will be able to bring the Group's competitive strengths in the design, construction and operation of pipeline networks, safety management and quality services into full play.

Market Prospects of the City Gas Business

The "13th Five-Year Plan for Energy Development" (《能源發展十三五規劃》) and "13th Five-Year Plan for Natural Gas Development" (《天然氣發展十三五規劃》) announced by the NDRC and National Energy Administration have set a target for natural gas consumption to account for 10% of primary energy consumption by 2020, as compared to approximately 25% for developed countries. Among the provinces and municipalities, Jiangsu, Guangdong, Sichuan, Zhejiang and Shanghai have adopted the "Coal-to-Gas" initiative and other measures for air pollution control. They have also set targets for natural gas consumption as a percentage of primary energy consumption to exceed 10% by 2020. According to the "Plan to Drive the Registration of 100 Million Non-resident Population in Cities" (《推動1億非戶籍人口在城市落戶方案》) announced by the State Council in September 2016, the Government has plans to increase the number of registered citizens in the urban area by 1 percentage point or 13 million people each year during the "13th Five-Year Plan" period. Accordingly, the demand for city gas services will increase in tandem with the annual increment in the rate of urbanisation. We therefore remain both optimistic and confident in the market prospects of the city gas business in China.

Business Outlook of the Group

Given China's stable macro-economic growth and the steady progress in market-based reforms in the natural gas sector, the Group will continue to engage in in-depth customer development in the industrial and commercial sectors. We will also be making a major effort to develop the "Coal-to-Gas" business for coal boilers and furnaces through geographic outreach and expansion. Natural gas application projects, such as distributed energy and central heating will be developed under Towngas China Energy Investment (Shenzhen) Limited. At the same time, we plan to launch centralised liquefied natural gas ("LNG") procurement, leveraging our competitive strengths in pipeline operation, safety management and quality services, to lower gas procurement costs as well as to explore opportunities in LNG import and trade. Moreover, we will continue to expand the market for our extended businesses and value-added businesses on the back of our massive residential customer base via mobile internet technologies, to realise our ongoing goal for stable and quality growth.

OTHER INFORMATION

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

As at 30 June 2017, the interests or short positions of the Directors and chief executive in the shares of the Company, 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

Name of Company	Name of Director	Capacity	Interest in shares			Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 30.06.2017
			Personal interest	Family interest	Corporate interest		
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,618,000 (Note 1)	–	–	3,618,000	0.13%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000	–	–	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,015,000 (Note 2)	–	–	1,015,000	0.04%
	Kwan Yuk Choi, James	Beneficial owner	2,515,000	–	–	2,515,000	0.09%
The Hong Kong and China Gas Company Limited (“HKCG”)	Chan Wing Kin, Alfred	Interest held jointly with spouse	266,692	–	–	266,692	0.00%
	Ho Hon Ming, John	Beneficial owner	41,763	–	–	41,763	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	94,147	106,669	–	200,816	0.00%

Notes:

1. Subsequent to the allotment of 89,776 new shares by the Company pursuant to its scrip dividend scheme on 17 July 2017, Mr. Chan Wing Kin, Alfred had personal interest in 3,707,776 shares, representing approximately 0.13% of the total number of issued shares of the Company as at the date of this report.
2. Subsequent to the allotment of 25,186 new shares by the Company pursuant to its scrip dividend scheme on 17 July 2017, Mr. Ho Hon Ming, John had personal interest in 1,040,186 shares, representing approximately 0.04% of the total number of issued shares of the Company as at the date of this report.

Save as stated above, as at 30 June 2017, 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.

Arrangements to Purchase Shares or Debentures

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 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued shares of the Company:

Long Positions in Shares

Name of Shareholder	Capacity	Aggregate interest in shares	Approximate percentage of the Company's total number of issued shares as at 30.06.2017
Lee Chau Kee	Interest of controlled corporations	1,777,759,246 (Note 1)	65.56%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,777,759,246 (Note 2)	65.56%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,777,759,246 (Note 2)	65.56%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,777,759,246 (Note 2)	65.56%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,777,759,246 (Note 2)	65.56%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,777,759,246 (Note 2)	65.56%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,777,759,246 (Note 2)	65.56%
HKCG	Interest of controlled corporations	1,777,759,246 (Note 3)	65.56%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,656,650,221 (Note 3)	61.09%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,656,650,221 (Note 3)	61.09%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	216,042,785 (Note 4)	7.97%

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 1,777,759,246 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 1,777,759,246 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 1,656,650,221 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 118,496,349 shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited ("Planwise"); and (2) the 2,612,676 shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited ("Superfun"). Subsequent to the reporting period, 2,443,000 shares were further acquired and a total of 43,972,460 new shares were allotted on 17 July 2017 pursuant to the Company's scrip dividend scheme. As of the date of this report, HKCG was taken to be interested in a total of 1,824,174,706 shares which were beneficially owned by HK&CG (China) (as to 1,697,758,166 shares), Planwise (as to 123,739,034 shares) and Superfun (as to 2,677,506 shares). The approximate percentage figures of interest of (i) HKCG and (ii) TICL and HK&CG (China) in the shares of the Company were therefore adjusted to 65.89% and 61.32% respectively.
4. Commonwealth Bank was taken to be interested in these 216,042,785 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2017, 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 2017, 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 2017, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Purchases, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2017.

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 2017.

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 2017.

Board Audit and Risk Committee

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

A Board Audit and Risk Committee meeting was held on 10 August 2017 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2017. 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 2017 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

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

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

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

Mr. Chan was appointed a non-executive director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd., which is a public listed company, on 25 May 2017.

Mr. Kee Wai Ngai, Martin *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*

Executive Director and Chief Operating Officer

Mr. Kee was appointed the Chief Operating Officer of the Company with effect from 1 July 2017.

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

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

Dr. Cheng resigned as an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange, on 20 April 2017.

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

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

- (i) Mr. Li was appointed a member of Asian Financial Forum 2018 Steering Committee on 1 April 2017; and
- (ii) Mr. Li ceased to be a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong on 1 June 2017.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 34, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 August 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Turnover	3	4,036,072	3,435,946
Total operating expenses	4	(3,375,102)	(2,879,824)
		660,970	556,122
Other (losses) gains, net		(4,242)	2,980
Share of results of associates		182,935	175,911
Share of results of joint ventures		153,760	156,133
Finance costs	5	(122,553)	(109,958)
Profit before taxation	6	870,870	781,188
Taxation	7	(197,772)	(164,747)
Profit for the period		673,098	616,441
Profit for the period attributable to:			
Shareholders of the Company		602,315	564,399
Non-controlling interests		70,783	52,042
		673,098	616,441
		HK cents	HK cents
Earnings per share	8		
— Basic		22.21	21.18

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>673,098</u>	<u>616,441</u>
Other comprehensive income (expense)		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	354,829	(341,074)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value change on available-for-sale investment	(15,668)	3,751
Cash flow hedge:		
Fair value change on cash flow hedge	–	2,361
Reclassification of fair value adjustments to profit or loss	–	1,239
	<u>339,161</u>	<u>(333,723)</u>
Total comprehensive income for the period	<u>1,012,259</u>	<u>282,718</u>
Total comprehensive income attributable to:		
Shareholders of the Company	906,787	250,677
Non-controlling interests	<u>105,472</u>	<u>32,041</u>
Total comprehensive income for the period	<u>1,012,259</u>	<u>282,718</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	13,585,983	12,691,896
Leasehold land		579,021	550,847
Intangible assets		510,939	505,499
Goodwill	11	5,515,621	5,349,340
Interests in associates		3,382,028	3,032,771
Interests in joint ventures		2,291,976	2,022,754
Loan to a non-controlling shareholder		–	16,190
Available-for-sale investments		227,859	234,785
Other financial assets		–	80,977
		<u>26,093,427</u>	<u>24,485,059</u>
Current assets			
Inventories		523,485	492,838
Leasehold land		26,628	26,602
Loans to joint ventures		139,304	136,326
Loan to a non-controlling shareholder		16,694	–
Trade and other receivables, deposits and prepayments	12	1,266,465	1,190,407
Amounts due from non-controlling shareholders		30,663	29,738
Other financial assets		11,680	87,511
Time deposits over three months		173,613	227,557
Bank balances and cash		1,510,386	1,351,072
		<u>3,698,918</u>	<u>3,542,051</u>
Current liabilities			
Trade and other payables and accrued charges	13	4,762,365	4,332,932
Amounts due to non-controlling shareholders		143,506	107,662
Taxation		722,647	676,995
Borrowings — amount due within one year	14	3,973,919	2,652,660
Other financial liabilities		13,174	–
		<u>9,615,611</u>	<u>7,770,249</u>
Net current liabilities		<u>(5,916,693)</u>	<u>(4,228,198)</u>
Total assets less current liabilities		<u>20,176,734</u>	<u>20,256,861</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2017

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current liabilities			
Other financial liabilities		34,957	–
Borrowings — amount due after one year	14	4,404,924	5,184,152
Deferred taxation		422,309	408,526
		4,862,190	5,592,678
Net assets		15,314,544	14,664,183
Capital and reserves			
Share capital	15	271,160	271,160
Reserves		13,809,586	13,228,191
Equity attributable to shareholders of the Company		14,080,746	13,499,351
Non-controlling interests		1,233,798	1,164,832
Total equity		15,314,544	14,664,183

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Hedge reserve	General reserves	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2016 and 1 January 2017 (audited)	271,160	6,281,786	5,141	-	218,546	25,919	6,696,799	13,499,351	1,164,832	14,664,183
Exchange differences arising on translation to presentation currency	-	-	320,140	-	-	-	-	320,140	34,689	354,829
Fair value change on available-for-sale investment	-	-	-	-	-	(15,668)	-	(15,668)	-	(15,668)
Profit for the period	-	-	-	-	-	-	602,315	602,315	70,783	673,098
Total comprehensive income (expense) for the period	-	-	320,140	-	-	(15,668)	602,315	906,787	105,472	1,012,259
Transfer	-	-	-	-	5,438	-	(5,438)	-	-	-
Capital contributed from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	11,052	11,052
Dividends paid to shareholders of the Company	-	(325,392)	-	-	-	-	-	(325,392)	-	(325,392)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(47,558)	(47,558)
	-	(325,392)	-	-	5,438	-	(5,438)	(325,392)	(36,506)	(361,898)
At 30 June 2017 (unaudited)	<u>271,160</u>	<u>5,956,394</u>	<u>325,281</u>	<u>-</u>	<u>223,984</u>	<u>10,251</u>	<u>7,293,676</u>	<u>14,080,746</u>	<u>1,233,798</u>	<u>15,314,544</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Net cash generated from operating activities	<u>612,532</u>	<u>667,284</u>
Investing activities		
Purchases of property, plant and equipment	(723,868)	(792,209)
Consideration paid for acquisition of businesses acquired in prior periods	(10,626)	(3,501)
Acquisition of businesses (net of cash and cash equivalents acquired)	–	(98,718)
Prepayment for acquisition of businesses	(64,473)	–
Proceed from disposal of an associate	29,195	–
Proceeds from redemption of derivative financial instruments	34,748	–
Purchase of leasehold land	(23,752)	(39,521)
Acquisition of an associate	–	(39,579)
Capital injection into an associate	(283,938)	–
Capital injection into a joint venture	(45,148)	–
Loan to a non-controlling shareholder	–	(16,921)
Repayment of loan from joint ventures	7,786	70,211
Repayment of loan from an associate	–	17,482
Dividend received from a joint venture	7,956	48,515
Dividends received from associates	176,332	102,114
Dividend received from available-for-sale investments	58,883	62,559
Decrease in time deposits over three months	53,944	27,235
Other investing cash flows	<u>15,559</u>	<u>17,780</u>
Net cash used in investing activities	<u>(767,402)</u>	<u>(644,553)</u>
Financing activities		
Repayments of bank and other loans	(1,763,988)	(3,202,065)
Dividends paid to non-controlling shareholders of subsidiaries	(47,558)	(60,283)
New bank and other loans raised	2,106,628	3,613,950
Capital contribution from non-controlling shareholders of subsidiaries	<u>11,052</u>	<u>3,553</u>
Net cash generated from financing activities	<u>306,134</u>	<u>355,155</u>
Net increase in cash and cash equivalents	151,264	377,886
Cash and cash equivalents at beginning of the period	1,351,072	2,138,388
Effect of foreign exchange rate changes	<u>8,050</u>	<u>(9,018)</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>1,510,386</u></u>	<u><u>2,507,256</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 limited 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\$5,917 million as at 30 June 2017. The Group’s liabilities as at 30 June 2017 included borrowings of approximately HK\$3,974 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\$3,112 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\$3,947 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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and HKAS issued by the HKICPA:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the above new amendments to HKFRSs and HKAS 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 but the application may have impact on disclosures in the consolidated financial statements for the year ending 31 December 2017.

The Group has not early applied the new and revised HKFRSs and HKASs that have been issued but are not yet effective.

3. SEGMENT INFORMATION

Operating segments

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

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

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

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

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

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2017			
TURNOVER			
External	<u>3,272,484</u>	<u>763,588</u>	<u>4,036,072</u>
Segment results	<u>340,416</u>	<u>386,743</u>	727,159
Other losses, net			(4,242)
Unallocated corporate expenses			(66,189)
Share of results of associates			182,935
Share of results of joint ventures			153,760
Finance costs			<u>(122,553)</u>
Profit before taxation			870,870
Taxation			<u>(197,772)</u>
Profit for the period			<u>673,098</u>
Six months ended 30 June 2016			
TURNOVER			
External	<u>2,693,205</u>	<u>742,741</u>	<u>3,435,946</u>
Segment results	<u>279,316</u>	<u>346,879</u>	626,195
Other gains, net			2,980
Unallocated corporate expenses			(70,073)
Share of results of associates			175,911
Share of results of joint ventures			156,133
Finance costs			<u>(109,958)</u>
Profit before taxation			781,188
Taxation			<u>(164,747)</u>
Profit for the period			<u>616,441</u>

4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Gas fuel, stores and materials used	2,531,624	2,056,175
Staff costs	405,466	390,263
Depreciation, amortisation, and release of leasehold land	258,498	246,926
Other expenses	179,514	186,460
	<u>3,375,102</u>	<u>2,879,824</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Interest on bank and other borrowings	130,346	115,434
Bank charges	2,695	3,000
	<u>133,041</u>	<u>118,434</u>
Less: amounts capitalised	<u>(10,488)</u>	<u>(8,476)</u>
	<u>122,553</u>	<u>109,958</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	9,231	10,529
Release of leasehold land	9,638	9,640
Cost of inventories sold	2,805,102	2,314,392
Depreciation of property, plant and equipment	239,629	226,757
Staff costs	405,466	390,263
Exchange loss	–	108,203
Change in fair value of other financial assets/liabilities	183,459	–
and after crediting:		
Interest income	11,490	12,778
Dividend income from available-for-sale investments	58,883	62,559
Exchange gain	91,007	–
Change in fair value of other financial assets/liabilities	–	27,755

7. TAXATION

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

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

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2016: 15% to 25%).

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

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company	<u>602,315</u>	<u>564,399</u>

	Number of shares	
	Six months ended 30 June	
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,711,602</u>	<u>2,665,063</u>

No diluted earnings per share for both periods were presented as there were no potential ordinary shares in issue for both periods.

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil). During the period, a dividend of HK twelve cents per ordinary share (2016: HK ten cents per ordinary share) amounting to HK\$325,392,000 was declared by the Board as the final dividend for 2016 (HK\$266,506,000 for 2015).

The final dividend for 2016 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 17 July 2017, the final dividend of HK twelve cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2016.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent HK\$734,356,000 (2016: HK\$800,685,000) on additions to property, plant and equipment, including HK\$537,398,000 (2016: HK\$580,650,000) on the construction in progress of gas pipelines and HK\$196,958,000 (2016: HK\$220,035,000) on other plant and equipment.

11. GOODWILL

	HK\$'000
At 31 December 2016	5,349,340
Currency realignment	<u>166,281</u>
At 30 June 2017	<u><u>5,515,621</u></u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
Trade receivables	714,030	653,540
Prepayments	383,409	327,267
Other receivables and deposits	<u>169,026</u>	<u>209,600</u>
	<u><u>1,266,465</u></u>	<u><u>1,190,407</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:

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
0 to 90 days	431,565	493,819
91 to 180 days	101,946	45,624
181 to 360 days	<u>180,519</u>	<u>114,097</u>
	<u><u>714,030</u></u>	<u><u>653,540</u></u>

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2017	31.12.2016
	HK\$'000	HK\$'000
Trade payables	1,023,199	1,045,416
Receipt in advance	2,714,398	2,581,508
Consideration payable for acquisition of businesses	54,389	63,055
Other payables and accruals	967,482	642,058
Amount due to ultimate holding company (<i>note</i>)	2,897	895
	<u>4,762,365</u>	<u>4,332,932</u>

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

Trade payables

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

	30.6.2017	31.12.2016
	HK\$'000	HK\$'000
0 to 90 days	569,898	676,711
91 to 180 days	183,691	158,557
181 to 360 days	173,233	111,813
Over 360 days	96,377	98,335
	<u>1,023,199</u>	<u>1,045,416</u>

14. BORROWINGS

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
Bank loans — unsecured	8,334,805	7,793,346
Other loans — unsecured	44,038	43,466
	<u>8,378,843</u>	<u>7,836,812</u>
Carrying amount repayable:		
On demand or within one year	3,973,919	2,652,660
More than one year but not exceeding two years	3,085,984	1,322,299
More than two years but not exceeding five years	1,270,133	3,814,517
More than five years	48,807	47,336
	<u>8,378,843</u>	<u>7,836,812</u>
Less: Amount due within one year shown under current liabilities	<u>(3,973,919)</u>	<u>(2,652,660)</u>
Amount due after one year	<u>4,404,924</u>	<u>5,184,152</u>

15. SHARE CAPITAL

Authorised shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
At 31 December 2016 and 30 June 2017	<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 2016 and 30 June 2017	<u>2,711,601,763</u>	<u>271,160</u>

16. 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:

	30.6.2017	31.12.2016
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	103,458	85,729
— acquisition of businesses	20,723	82,626

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial assets/liabilities	Fair value as at 30.6.2017	Fair value as at 31.12.2016	Fair value hierarchy	Valuation techniques and key inputs
Listed equity investment classified as available-for-sale investment in the condensed consolidated statement of financial position	Asset — HK\$72,225,000	Asset — HK\$85,496,000	Level 1	Quoted market price
Cross currency swaps classified as other financial assets in the condensed consolidated statement of financial position	Assets — HK\$2,725,000	Assets — HK\$87,511,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.
Foreign currency forward contracts classified as other financial assets/liabilities in the condensed consolidated statement of financial position	Assets — HK\$8,955,000 Liabilities — HK\$48,131,000	Assets — HK\$80,977,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward 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.

18. 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	
		2017 HK\$'000	2016 HK\$'000
HKCG	Interest expense	–	14,175
GH — Fusion Corporation Limited (<i>note b</i>)	Purchase of pipeline construction materials and tools	419	499
Shanxi ECO Coalbed Methane Co., Ltd. (<i>note a</i>)	Purchase of coalbed methane	3,667	3,064
Hongkong and China Technology (Wuhan) Company Limited (<i>note a</i>)	System software and supporting services	3,001	4,376
Anhui Province Natural Gas Development Company Limited (<i>note b</i>)	Purchase of compressed natural gas	42,143	33,647
Maanshan Hong Kong and China Gas Company Limited (<i>note c</i>)	Purchase of natural gas	17,514	11,939
Shenyang Sanquan Project Management Consulting Co., Ltd. (<i>note a</i>)	Project management services	3,742	3,579
Towngas Telecommunications (Shenzhen) Limited (<i>note a</i>)	Cloud computing system and supporting services	–	1,491
Shandong Hong Kong and China Gas Training Institute (<i>note a</i>)	Training services	1,319	328
M-Tech Metering Solution (Shenzhen) Co., Ltd. (<i>note a</i>)	Purchase of pipeline construction materials and tools	5,308	1,687

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	41,836	17,538
Zhuhai S-Tech Technology Limited (note a)	Provision of software	83	237
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing services charges of natural gas	363	440
南京港華能源投資發展有限公司 (note b)	Purchase of liquefied natural gas	2,665	–
南京港華棲霞燃氣有限公司 (note b)	Purchase of liquefied natural gas	3,793	–
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	3,497	–
港華國際能源貿易有限公司 (note a)	Purchase of liquefied natural gas	10,416	–

Notes:

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