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港華燃氣有限公司
Towngas China Company Limited

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

2010 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Basic earnings per share increased by approximately 34.0% to 8.78 HK cents per share.
- Profit after taxation attributable to shareholders rose by approximately 34.2% to HK$172 million.
- Turnover of piped gas business grew by approximately 37.8% to HK$1,240 million.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	Six months ended 30 June **2010** ***HK$'000*** ***(unaudited)***	 2009 *HK$'000* *(unaudited)*
Turnover			
- Continuing operations		**1,239,565**	899,566
- Discontinued operation		**-**	880,471
	3	**1,239,565**	1,780,037
Continuing operations			
Operating profit before returns on investments		**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	*4*	**(69,946)**	(63,572)
Profit before taxation	*5*	**240,675**	168,882
Taxation	*6*	**(48,435)**	(27,229)
Profit for the period from continuing operations		**192,240**	141,653
Discontinued operation			
Profit for the period from discontinued operation		**-**	9,824
Profit for the period		**192,240**	151,477
Profit for the period attributable to:			
Shareholders of the Company		**171,992**	128,151
Non-controlling interests		**20,248**	23,326
		192,240	151,477
		HK cents	*HK cents*
Earnings per share	*7*		
From continuing and discontinued operations			
- Basic		**8.78**	6.55
- Diluted		**8.78**	6.54
Earnings per share	*7*		
From continuing operations			
- Basic		**8.78**	6.57
- Diluted		**8.78**	6.56

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	NOTES	**30.06.2010** **HK$'000** ***(unaudited)***	31.12.2009 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**4,224,728**	4,077,210
Leasehold land		**222,208**	216,759
Intangible assets		**180,444**	182,210
Goodwill		**2,781,292**	2,752,733
Interests in associates		**1,428,048**	1,186,538
Interests 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
		10,205,563	9,755,016
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	*8*	**565,138**	483,817
Amounts due from minority shareholders		**6,720**	14,103
Bank balances and cash		**1,295,143**	963,861
		2,064,089	1,575,401
Current liabilities			
Trade and other payables and accrued charges	*9*	**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		**1,507,309**	562,035
		3,131,233	2,153,032
Net current liabilities		**(1,067,144)**	(577,631)
Total assets less current liabilities		**9,138,419**	9,177,385
Non-current liabilities			
Loans from the ultimate holding company		**471,365**	471,365
Borrowings – amount due after one year		**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		**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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements 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.

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").

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 HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1 January 2010. The Group has not early adopted these new and revised HKFRSs.

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 sales 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.

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	**981,701**	**257,864**	**1,239,565**
Segment results	**73,204**	**98,926**	**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			**(69,946)**
Profit before taxation			**240,675**
Taxation			**(48,435)**
Profit for the period			**192,240**

	Sales and distribution of piped gas and related products	Gas pipeline construction	Total – continuing operations	Discontinued operation – LPG operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2009					
TURNOVER					
External	717,260	182,306	899,566	880,471	1,780,037
Segment results	60,598	62,575	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			(63,572)	(476)	(64,048)
Profit before taxation			168,882	20,270	189,152
Taxation			(27,229)	(10,446)	(37,675)
Profit for the period			141,653	9,824	151,477

4. FINANCE COSTS

	Continuing operations Six months ended 30 June		**Discontinued operation Six months ended 30 June**		**Consolidated 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
	69,023	61,503	-	421	**69,023**	61,924
Bank charges	**923**	2,069	-	55	**923**	2,124
	69,946	63,572	-	476	**69,946**	64,048

5. PROFIT BEFORE TAXATION

	Continuing operations Six months ended 30 June		**Discontinued operation Six months ended 30 June**		**Consolidated 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

6. 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.

7. 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	**171,992**	128,151

	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	**266**	2,726
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,959,840**	1,960,282

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	**171,992**	128,666

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	(0.02)
Diluted	(0.02)

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	(515)

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

8. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2010	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
	565,138	483,817

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:

	30.06.2010	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
	134,292	98,101

9. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2010	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
	1,339,943	1,318,905

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:

	30.06.2010	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
	246,230	214,669

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.

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 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 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 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 potential and their 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.

OTHER INFORMATION

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 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 HKICPA.

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

At the date of this announcement, the Board comprises:

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 Mr. Ou Yaping)

Independent Non-executive Directors:
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David