

2020

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

Alfred Chan Wing-kin (*Chairman*)
Peter Wong Wai-ye (*Chief Executive Officer*)
John Ho Hon-ming (*Company Secretary*)
Martin Kee Wai-ngai (*Chief Operating Officer*)

Independent Non-Executive Directors

Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

Authorised Representatives

Alfred Chan Wing-kin
John Ho Hon-ming

Company Secretary

John Ho Hon-ming

Board Audit and Risk Committee

Brian David Li Man-bun (*Chairman*)
Moses Cheng Mo-chi
James Kwan Yuk-choi

Remuneration Committee

Moses Cheng Mo-chi (*Chairman*)
Brian David Li Man-bun
James Kwan Yuk-choi
Alfred Chan Wing-kin

Nomination Committee

Alfred Chan Wing-kin (*Chairman*)
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

Environmental, Social and Governance Committee

Peter Wong Wai-ye (*Chairman*)
John Ho Hon-ming
Martin Kee Wai-ngai

Auditor

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

Registered Office

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Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

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North Point, Hong Kong
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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
The Hongkong and Shanghai Banking
Corporation Limited



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MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The epidemic of coronavirus disease causing pneumonia (“COVID-19”) has continued to spread since its outbreak at the end of January 2020. Various levels of lockdown and quarantine measures have been adopted around the world, which has severely affected the global economy. Industrial and commercial gas sales in mainland China have also been affected to varying degrees of impact. During the first half of 2020, total gas sales volume of the Group declined by 3% to 5,506 million cubic metres compared to the corresponding period last year. Industrial gas sales grew by 1% to 3,249 million cubic metres over the corresponding period last year, accounting for 59% of the total volume of gas sold by the Group, while commercial gas sales reached 701 million cubic metres with a decrease of 27% over the corresponding period last year, accounting for 13% of the total volume of gas sold by the Group. Residential gas sales increased by 4% to 1,510 million cubic metres over the corresponding period last year and accounted for 27% of the total volume of gas sold by the Group and the equivalent of 46 million cubic metres of natural gas sales was recorded for distributed energy projects, accounting for 1% of the total volume of gas sold by the Group. Total number of customers reached 13.72 million, with 280,000 new customers compared to the end of last year. Profit after taxation attributable to shareholders of the Company amounted to HK\$581 million, representing a decrease of 23% over the corresponding period last year. Basic earnings per share amounted to HK20.23 cents, a decrease of 25% over the corresponding period last year.

Revenue

For the six months ended 30 June 2020, revenue from the sales of piped gas and related products declined 14% to HK\$4,810 million over the corresponding period last year mainly due to the decrease in the volume of gas sold and lower average gas sale prices. The total consolidated volume of gas sold in the current period amounted to 1,687 million cubic metres, representing a deduction of 2% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK\$753 million, declined 16% as compared to the corresponding period last year, with approximately 180,000 consolidated new household connections being made during the period.

Development of New Projects

We continued to advance the development of our distributed energy projects. During the period, the Group added a new distributed energy project located in the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province. This project is our fourth distributed energy project in Anhui province. Together with our previously established projects, we currently hold 19 distributed energy projects in the country.

In addition, we established Towngas Cosy Home (Chengdu) Technological Services Co., Ltd. (“Towngas Cosy Home”), which provides a platform for our extended businesses in the southwestern regions. With the continuous growth of the middle-class and increasing consumer spending in China, Towngas Cosy Home will be engaged in extended businesses relating to growing expectations in the art of living a comfortable life, in tandem with changing and escalating customer demand. We are doing so by integrating our corporate resources in the southwestern regions. The aim is to enhance overall profit growth in the region by encouraging general engagement among our regional companies in extended business in the residential market, and thus drive the development of the Group’s extended businesses.

Equity Instruments at Fair Value through Other Comprehensive Income

Equity instruments at fair value through other comprehensive income mainly consisted of the Group’s investments in Chengdu Gas Group Corporation Ltd. (“Chengdu Gas”) and Nanjing Public Utilities Development Co., Ltd. (“Nanjing Public”). Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised to other comprehensive income during the period.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2020.

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 2020, the Group’s bank loans and other loans amounted to HK\$10,466 million, of which HK\$3,768 million represented bank loans and other loans due within 1 year, HK\$6,682 million represented bank loans and other loans due between 1 to 5 years, and HK\$16 million represented bank loans and other loans due over 5 years. The bank loans and other loans of HK\$7,266 million bore interests at fixed rates in the interest arrangement while the remaining HK\$3,200 million were arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group’s borrowings denominated in Renminbi amounted to HK\$8,737 million and the remaining HK\$1,729 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the period. The Group entered into cross currency interest rate swaps contracts to hedge against currency risk for non-Renminbi denominated borrowings so as to reduce foreign currency risk. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK\$56 million from joint ventures on a fixed interest rate basis. As at 30 June 2020, 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 30.9%.

As at 30 June 2020, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,446 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2020, the Group's unutilised available credit facilities amounted to HK\$6,092 million.

The operating and capital expenditure of the Group is funded by cash flows 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 operational requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.

Credit Ratings

Moody's Investors Service affirmed 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 rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

Interim Dividend

The board of directors (the "Board") has taken account of the Company's dividend policy and resolved in the Board meeting on 13 August 2020 not to declare an interim dividend (2019: nil).

Employee and Remuneration Policies

As at 30 June 2020, the Group had 22,303 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Corporate Social Responsibility

The nationwide COVID-19 epidemic at the beginning of 2020 seriously affected every aspect of life across the board. Uniting in efforts to fight the virus, work and school were suspended in various provinces and municipalities to reduce the number of people moving around or gathering in large numbers.

As a socially responsible energy supplier, Towngas China has closely monitored the gas supply situation in the many regions that we serve throughout the most difficult times of the epidemic outbreak. In line with our management principle — “preventing risks and assuring safety”, we set up a dedicated steering team for epidemic prevention and operation control at the onset of the outbreak. The team’s role is to coordinate and supervise anti-epidemic measures throughout our project companies across the country.

With careful planning and management as well as flexible staff deployment across both Towngas China and our project companies, we were able to ensure the safety of our staff and customers and to maintain uninterrupted gas supply to our customers as we worked in tandem with the nation’s anti-epidemic measures.

At the same time, true to our commitment to providing a safe and stable gas supply, we dealt with default cases with flexibility and compassion when industrial, commercial and residential customers, impacted by the epidemic, were unable to settle bill payments in a timely manner.

To assist in the swift resumption of business and production operations as well as to protect people’s health, Towngas China has actively provided manpower and resource support to organisations in need. In addition to donations in cash and in kind, our corporate volunteers also came together to offer solid care and assistance to the community, helping to distribute medical masks, protective clothing, gloves, goggles and other protective supplies across various regions.

The Chinese Government has implemented a range of epidemic control measures aimed at minimising social contact. As a result, a number of major events in the country have been cancelled or postponed. In support of the Chinese Government’s measures, we have rescheduled a series of activities that would have involved gatherings. This includes our signature social welfare programme, Towngas China Gentle Breeze Movement. In the meantime, however, we are working in close liaison with the programme’s beneficiary groups to relaunch our community support initiatives where circumstances permit.

For Dragon Boat Festival this year, we once again organised our annual “Rice Dumplings for the Community” event, mobilising over a thousand of our volunteers, including staff members and their loved ones, to source for ingredients and make rice dumplings for the underprivileged. This initiative is carried out every year in collaboration with local education groups, welfare organisations and our Towngas China community. Our efforts this year resulted in more than 20,000 rice dumplings being distributed to the community.

By the middle of the year, the epidemic in China was largely under control, with the economy showing signs of improvement. According to the latest figures published by the National Bureau of Statistics of China, gross domestic product (“GDP”) for the second quarter beat market expectations with a growth of 3.2%. With strong gas reserves, Towngas China stands ready to support the full recovery of the national economy.

Outlook

Economic Landscape

The world has been subject to enormous pressures with global economies shrinking since the beginning of 2020, in view of the epidemic caused by COVID-19. China's economy was hard hit, resulting in the rare development of 6.8% negative growth for the first quarter, the first instance of negative growth since 1993, when the country adopted GDP as the principal indicator for its economic calculations.

The epidemic has since been effectively contained in China, thanks to the swift and resolute measures adopted by the Chinese Government coupled with the concerted efforts of all sectors across the board. At the same time, more effective macroeconomic policies have been announced, with a view to stabilising the economy. Since April, there have been signs that China's economy is picking up with month-on-month improvements in major economic indicators. As of now, industrial manufacturing and commercial activities have generally resumed full-scale operations and a 3.2% GDP growth has been reported for the second quarter. Nevertheless, the domestic economy has registered a negative growth of 1.6% for the first half of the year, as the country has yet to fully shrug off the impact of the epidemic.

In view of increased uncertainties arising from the epidemic, both within the internal and external economic landscape, the Chinese Government has not specified target GDP growth rates for 2020. Instead, it has focused on fundamental economic measures to relieve the heavy burdens borne by businesses, safeguard employment and peoples' livelihoods, as well as to improve the business environment. As such, it increased the central fiscal deficit ratio to 3.6% while also issuing anti-epidemic special treasury bonds and local government bonds with a total amount of RMB4.75 trillion. The Government also directed the reduction of interest rates and granted interest subsidies to key enterprise projects, particularly supporting the construction of novel infrastructure and the renovation of old residential communities in cities and townships; increased the scale of tax and fee reductions to RMB2.5 trillion with the cutting of non-urgent government expenditure by more than 50%; and lowered the price of public utility products and services during the epidemic. Additionally, more free trade zones and bonded areas, such as the Hainan Free Trade Port, were established, and the number of items on the "Negative List" of the "Special Administrative Measures for Foreign Investment Access" was reduced from 40 to 33, to maximise foreign investment and stabilise the Renminbi exchange rate at a reasonable level.

China will continue to endure a complex and challenging economic landscape in 2020. The measures adopted by the Chinese Government will help to keep risks under control and sustain stable economic development. In its World Economic Outlook Update for June, the International Monetary Fund forecasts that China will be the only nation registering growth in 2020 among major global economies, underlining the international community's confidence in the Chinese economy and expectations for its speedy recovery.

Progress of Natural Gas Marketisation Reforms

In the “Opinions of the Central Committee of the CPC and The State Council on Accelerating the Improvement of the Socialist Market Economy System in the New Era” promulgated by the State Council of China in May 2020, the Government called for faster market-oriented developments to promote competition in natural monopolies, such as power, oil and gas, together with solid action to break up administrative monopolies. This will not only open up oil and gas pipe networks to market operators in a fair and impartial manner, it will also deregulate the natural gas market in terms of supply sources and sale prices. Underlining the Chinese Government’s determination to implement market-oriented reforms in the natural gas sector, the opinion will drive more effective implementation of the reform policy to “regulate the core and relaxing the ends”.

The National Development and Reform Commission implemented the new “Central Pricing Catalog” on 1 May 2020, the city-gate natural gas price has been officially removed as an item in the catalogue. Apart from the city-gate prices of domestic land-piped natural gas and imported piped gas commissioned prior to the end of 2014, which are still fixed by the Government, market prices now apply to gas from all other sources.

Additionally, according to the “Implementation Opinions for Expediting the Development of Natural Gas Storage Capacity” jointly promulgated by four ministries and commissions, including the National Development and Reform Commission, in April 2020, independently operated gas storage facilities, providing gas storage services and purchasing and selling natural gas shall do so at market prices. Enterprises operating gas storage facilities can also recoup their investment and earn profit through market-oriented means such as the leasing of storage capacities and the adoption of differentiated pricing on a seasonable basis. At the same time, key gas storage facilities fulfilling certain conditions will receive grants equivalent to not more than 30% of their total investment from central financial authorities. City and township gas companies operating as a group may be appraised as a whole, based on the gas storage indicators of the group company, provided that inter-connection is in place.

China Oil & Gas Piping Network Corporation has also started an asset integration process with the commencement of major work construction and operation projects.

As market-based reforms in the domestic natural gas sector continue their in-depth progress, we believe that current bottlenecks, as well as issues such as the cumbersome operation of gas pricing and the price transmission mechanism, technical obstacles to the deregulation of pipeline network facilities in a fair and impartial manner, and lack of clarity in the gas storage service and sale and import gas pricing mechanism, will gradually be alleviated or solved. Accordingly, there should be improvements in the performance of our related business operations, established in recent years.

Market Prospects of the City Gas Business

To provide long-term legal protection for natural gas development in China, legislation is expected to sanction the principle of “optimising the mix of natural gas consumption and increasing the weighting of natural gas in one-off energy consumption”. To this end, the “Energy Law of the People’s Republic of China (Draft for Solicitation of Comments)” was published by the National Energy Administration in April 2020.

The “Guiding Opinions on Energy-related Work in 2020”, published by the National Energy Administration in June 2020, calls for persistence in the use of low-carbon clean energy, together with the transition to low-carbon green energy, as a strategic approach. A total area of 1.5 billion square metres of clean heating area will be made available during the year. Furthermore, improvements will be made to the mechanism for grants and subsidies, as the Government continues to drive the “coal-to-gas” reforms in key regions in Northern China. With an annual domestic production target volume of 181 billion cubic metres, the construction of natural gas pipeline networks and inter-connection facilities, liquefied natural gas receiving station and gas storage facilities will be expedited to enhance the capacity for natural gas supply.

Domestic natural gas consumption sustained modest growth for the first half of the year, though at a substantially slower pace compared to the same period last year owing to the impact of the epidemic. This steady growth reflects the ongoing stability and potential demand in the national natural gas market. With the full-scale resumption of business and manufacturing operations in China and with daily life returning to normal, we expect natural gas consumption to rebound in the second half of the year. This will allow the country to maintain growth for the full year, attaining our goal for natural gas to account for 8.3% to 10% of one-off energy consumption.

The Chinese Government is currently preparing for its 14th Five Year Plan (“FYP”) for national economic and social development. The aim is to accomplish the goal proposed in the “Strategy for Energy Production and Consumption Revolution (2016–2030)”, that is, for natural gas to account for approximately 15% of total energy consumption by 2030. To this end, China will need to increase natural gas consumption on an ongoing basis during the next FYP period and formulate policies to support this drive to natural gas consumption. These developments will thus present many opportunities for the long-term growth and development of the city gas sector.

Business Outlook of the Group

Actively responding to the sudden onslaught of epidemic caused by COVID-19 at the start of 2020, we were able to assure safe gas supply apart from also fulfilling customers' requirements for gas services during the epidemic. Working in concert to overcome the many challenges, the Group focused on epidemic prevention issues, while continuing to engage in active business development. Despite our efforts, however, the low demand for gas from the industrial and commercial sectors, in view of the suspension of industrial and business operations during the epidemic, coupled with the Government's call for fee reductions and payment deferrals, as well as delays in customers' construction projects owing to anti-epidemic control measures among others, all came together to create a certain impact on our business. With the easing of the epidemic in China, the Group's business has basically resumed normal operations and we are seeing positive progress.

In connection with our integrated green energy services, the Group is currently working to upgrade and transform a number of our services, in addition to provision of natural gas to industrial and commercial customers. Examples include our diversification into cooling, heating, steam and hot water, together with other energy-saving, value-added services. A laundry business, under the C-Tech brand, has been commissioned, and efforts are being made to develop the industrial and commercial applications in this market to further gas usage.

In line with this extended services strategy, we continue to expand the scope of services available on the cloud platform of our online service centre under the Group's Towngas Lifestyle initiative. Further to gas insurance and e-commerce sales services, a brand known as "Towngas Home" has been launched to offer premium household services to residential users. Premium domestic services relating to kitchenware, heat supply and water purification are also being provided to residential users under the "Cosy Home" brand.

U-Tech (Guang Dong) Engineering Construction Co., Ltd, our engineering services arm, continues to establish its regional business presence, providing premium engineering services to our internal and external customers across China's many different regions into the future.

Towngas China Energy Investment Limited ("TCEI"), another Group subsidiary, is actively engaged in business development in the three major segments of regional heat supply, energy interconnection and smart energy for industrial and commercial customers. Accordingly it has achieved several breakthroughs, acquiring projects in connection with distributed photovoltaic applications and further underpinning our progress in power-related businesses. TCEI is developing extensive cooperations with professional associations and businesses in the industry, enhancing our expertise and technical abilities, while also fostering solid foundations for the business development of our energy business.

The Group is confident that the short-term impact of epidemic caused by COVID-19 on business growth will be shrugged off relatively quickly, as we persist in our in-depth exploration of city gas markets together with our development of innovative energy and extended businesses. As ever, our goal is to achieve stable business growth for the year, with solid and ongoing growth into the future.

OTHER INFORMATION

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

As at 30 June 2020, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”); (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in Shares

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 30.06.2020
			Personal interest	Family interest	Corporate interest		
Towngas China Company Limited	Alfred Chan Wing-kin	Beneficial owner	4,041,693 (Note 1)	–	–	4,041,693	0.14%
	Peter Wong Wai-ye	Beneficial owner	3,201,000 (Note 2)	–	–	3,201,000	0.11%
	John Ho Hon-ming	Beneficial owner	1,133,862 (Note 3)	–	–	1,133,862	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	2,265,000	0.08%
The Hong Kong and China Gas Company Limited (“HKCG”)	Alfred Chan Wing-kin	Interest held jointly with spouse	338,831	–	–	338,831	0.00%
	John Ho Hon-ming	Beneficial owner	53,058	–	–	53,058	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	115,500	135,523	–	251,023	0.00%

Notes:

1. Upon his submission of an election form with the Company electing to receive new shares in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 22 June 2020 and the subsequent allotment of 159,792 new shares by the Company on 6 July 2020, Mr. Alfred Chan Wing-kin had personal interest of 4,041,693 shares of the Company, representing approximately 0.14% of the number of issued shares of the Company as at the date of this report.
2. Upon his submission of an election form with the Company electing to receive new shares in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 22 June 2020 and the subsequent allotment of 126,000 new shares by the Company on 6 July 2020, Mr. Peter Wong Wai-yee had personal interest of 3,201,000 shares of the Company, representing approximately 0.11% of the number of issued shares of the Company as at the date of this report.
3. Upon his submission of an election form with the Company electing to receive new shares in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 22 June 2020 and the subsequent allotment of 44,828 new shares by the Company on 6 July 2020, Mr. John Ho Hon-ming had personal interest of 1,133,862 shares of the Company, representing approximately 0.04% of the number of issued shares of the Company as at the date of this report.

Save as stated above, as at 30 June 2020, 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 2020, 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 (the “Shares”):

Long Positions in Shares

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares as at 30.06.2020
Lee Chau-kee	Interest of controlled corporations	2,025,099,415 (Note 1)	70.54%
Rimmer (Cayman) Limited (“Rimmer”)	Trustee	2,025,099,415 (Note 2)	70.54%
Riddick (Cayman) Limited (“Riddick”)	Trustee	2,025,099,415 (Note 2)	70.54%
Hopkins (Cayman) Limited (“Hopkins”)	Interest of controlled corporations	2,025,099,415 (Note 2)	70.54%
Henderson Development Limited (“HD”)	Interest of controlled corporations	2,025,099,415 (Note 2)	70.54%
Henderson Land Development Company Limited (“HLD”)	Interest of controlled corporations	2,025,099,415 (Note 2)	70.54%
Faxson Investment Limited (“Faxson”)	Interest of controlled corporations	2,025,099,415 (Note 2)	70.54%
HKCG	Interest of controlled corporations	2,025,099,415 (Note 3)	70.54%
Towngas International Company Limited (“TICL”)	Interest of controlled corporation	1,850,656,677 (Note 3)	64.47%
Hong Kong & China Gas (China) Limited (“HK&CG (China)”)	Beneficial owner	1,850,656,677 (Note 3)	64.47%
Towngas Investment Company Limited (“TICL-HK”)	Interest of controlled corporations	174,442,738 (Note 3)	6.08%
Planwise Properties Limited (“Planwise”)	Beneficial owner	171,524,099 (Note 3)	5.98%
Mitsubishi UFJ Financial Group, Inc. (“Mitsubishi UFJ”)	Interest of controlled corporations	171,796,652 (Note 4)	5.98%

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 2,025,099,415 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 2,025,099,415 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 1,850,656,677 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("Superfun") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 174,442,738 Shares, which included (a) the 171,524,099 Shares held by Planwise; and (b) the 2,918,639 Shares held by Superfun, the aforesaid including the entitlement to new Shares upon their submission of election forms with the Company electing to receive new Shares in lieu of cash dividend pursuant to the Company's scrip dividend scheme on 22 June 2020. Subsequent to the allotment of a total of 80,064,551 new Shares to HK&CG (China), Planwise and Superfun by the Company on 6 July 2020, the approximate percentage figures of interest of (i) HKCG, (ii) TICL and HK&CG (China), (iii) TICL-HK and (iv) Planwise in the Shares were therefore adjusted to (i) 68.21%, (ii) 62.33%, (iii) 5.88% and (iv) 5.78% respectively as at 6 July 2020.
4. Mitsubishi UFJ was taken to be interested in these 171,796,652 Shares which were held by wholly-owned subsidiaries of Mitsubishi UFJ.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2020, 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

As at 30 June 2020, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares.

Other Persons

Save as disclosed above, as at 30 June 2020, the Company had not been notified of any other person who had interest or short position in the Shares or underlying Shares, 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 (the “Listing Rules”).

Purchases, Sale or Redemption of the Company’s 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 2020.

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 2020.

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 2020.

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 meeting of the Board Audit and Risk Committee was held on 6 August 2020 to review the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020. Deloitte Touche Tohmatsu, the Group’s external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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. Alfred Chan Wing-kin *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 retired as an Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd. on 22 June 2020.

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

Mr. Ho was elected as the Vice Chairman of the General Committee of the Chamber of Hong Kong Listed Companies on 24 June 2020.



TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Towngas China Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 17 to 46, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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
13 August 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	NOTES	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Revenue	3	5,563,286	6,512,354
Total operating expenses	4	<u>(4,822,578)</u>	<u>(5,625,207)</u>
		740,708	887,147
Other gains, net		41,323	44,292
Share of results of associates		138,968	172,443
Share of results of joint ventures		162,046	192,211
Finance costs	5	<u>(192,847)</u>	<u>(190,187)</u>
Profit before taxation	6	890,198	1,105,906
Taxation	7	<u>(228,959)</u>	<u>(253,781)</u>
Profit for the period		<u>661,239</u>	<u>852,125</u>
Profit for the period attributable to:			
Shareholders of the Company		580,758	755,624
Non-controlling interests		<u>80,481</u>	<u>96,501</u>
		<u>661,239</u>	<u>852,125</u>
		HK cents	HK cents
Earnings per share	8		
— Basic		<u>20.23</u>	<u>26.89</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Profit for the period	<u>661,239</u>	<u>852,125</u>
Other comprehensive (expense) income for the period		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Exchange differences on translation from functional currency to presentation currency	(315,268)	(18,338)
Fair value change on investments in equity instruments at fair value through other comprehensive income	(586,011)	53,862
Income tax relating to items that will not be reclassified to profit or loss	147,278	(13,469)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	6,024	7,958
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	<u>(28,158)</u>	<u>(14,299)</u>
	<u>(776,135)</u>	<u>15,714</u>
Total comprehensive (expense) income for the period	<u>(114,896)</u>	<u>867,839</u>
Total comprehensive (expense) income for the period attributable to:		
Shareholders of the Company	(138,561)	775,517
Non-controlling interests	<u>23,665</u>	<u>92,322</u>
Total comprehensive (expense) income for the period	<u>(114,896)</u>	<u>867,839</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTES	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	17,362,299	17,219,229
Right-of-use assets	10	807,562	799,774
Intangible assets		447,417	465,432
Goodwill	11	5,194,186	5,297,022
Interests in associates		4,231,479	4,263,989
Interests in joint ventures		3,023,313	2,756,425
Loans to associates		53,044	21,924
Equity instruments at fair value through other comprehensive income		1,764,529	2,399,044
Other financial assets		28,378	24,483
		<u>32,912,207</u>	<u>33,247,322</u>
Current assets			
Inventories		595,455	587,262
Loan to an associate		10,749	10,962
Loans to joint ventures		204,046	215,759
Trade and other receivables, deposits and prepayments	12	1,794,629	1,940,690
Amounts due from non-controlling shareholders		188,043	192,702
Time deposits over three months		45,081	62,752
Bank balances and cash		2,400,623	1,937,437
		<u>5,238,626</u>	<u>4,947,564</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020

	NOTES	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Current liabilities			
Trade and other payables and accrued charges	14	2,551,404	2,215,160
Contract liabilities		3,329,661	3,309,677
Lease liabilities		25,606	21,034
Amounts due to non-controlling shareholders		67,067	64,140
Taxation payable		985,266	962,593
Borrowings — amounts due within one year	15	3,768,446	3,433,529
Loan from a non-controlling shareholder		19,198	19,485
Loans from joint ventures		56,013	30,370
		<u>10,802,661</u>	<u>10,055,988</u>
Net current liabilities		<u>(5,564,035)</u>	<u>(5,108,424)</u>
Total assets less current liabilities		<u>27,348,172</u>	<u>28,138,898</u>
Non-current liabilities			
Lease liabilities		32,829	35,572
Borrowings — amounts due after one year	15	6,697,252	6,805,833
Deferred taxation		847,964	982,070
Other financial liabilities		13,447	15,413
		<u>7,591,492</u>	<u>7,838,888</u>
Net assets		<u>19,756,680</u>	<u>20,300,010</u>
Capital and reserves			
Share capital	16	287,069	287,069
Reserves		17,755,823	18,324,987
Equity attributable to shareholders of the Company		18,042,892	18,612,056
Non-controlling interests		1,713,788	1,687,954
Total equity		<u>19,756,680</u>	<u>20,300,010</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 1 January 2020 (audited)	287,069	6,033,632	(78,964)	(16,680)	343,067	1,630,961	10,412,971	18,612,056	1,687,954	20,300,010
Exchange differences on translation from functional currency to presentation currency	-	-	(258,452)	-	-	-	-	(258,452)	(56,816)	(315,268)
Fair value change on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	(586,011)	-	(586,011)	-	(586,011)
Income tax relating to items that will not be reclassified to profit or loss	-	-	-	-	-	147,278	-	147,278	-	147,278
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	-	-	-	6,024	-	-	-	6,024	-	6,024
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	-	-	-	(28,158)	-	-	-	(28,158)	-	(28,158)
Profit for the period	-	-	-	-	-	-	580,758	580,758	80,481	661,239
Total comprehensive (expenses) income for the period	-	-	(258,452)	(22,134)	-	(438,733)	580,758	(138,561)	23,665	(114,896)
Transfer	-	-	-	-	22,644	-	(22,644)	-	-	-
Acquisition of a subsidiary (note 19)	-	-	-	-	-	-	-	-	18,709	18,709
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	22,529	22,529
Dividends declared to shareholders of the Company	-	(430,603)	-	-	-	-	-	(430,603)	-	(430,603)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(39,069)	(39,069)
	-	(430,603)	-	-	22,644	-	(22,644)	(430,603)	2,169	(428,434)
At 30 June 2020 (unaudited)	<u>287,069</u>	<u>5,603,029</u>	<u>(337,416)</u>	<u>(38,814)</u>	<u>365,711</u>	<u>1,192,228</u>	<u>10,971,085</u>	<u>18,042,892</u>	<u>1,713,788</u>	<u>19,756,680</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Hedge reserve	General reserves	Investment revaluation reserve	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2019 (audited)	281,003	6,114,717	230,514	(16,277)	302,208	158,148	9,149,133	16,219,446	1,540,119	17,759,565
Exchange differences on translation from functional currency to presentation currency	-	-	(14,159)	-	-	-	-	(14,159)	(4,179)	(18,338)
Fair value change on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	53,862	-	53,862	-	53,862
Income tax relating to items that will not be reclassified to profit or loss	-	-	-	-	-	(13,469)	-	(13,469)	-	(13,469)
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	-	-	-	7,958	-	-	-	7,958	-	7,958
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	-	-	-	(14,299)	-	-	-	(14,299)	-	(14,299)
Profit for the period	-	-	-	-	-	-	755,624	755,624	96,501	852,125
Total comprehensive (expenses) income for the period	-	-	(14,159)	(6,341)	-	40,393	755,624	775,517	92,322	867,839
Transfer	-	-	-	-	7,872	-	(7,872)	-	-	-
Dividends declared to shareholders of the Company	-	(421,504)	-	-	-	-	-	(421,504)	-	(421,504)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(56,518)	(56,518)
	-	(421,504)	-	-	7,872	-	(7,872)	(421,504)	(56,518)	(478,022)
At 30 June 2019 (unaudited)	281,003	5,693,213	216,355	(22,618)	310,080	198,541	9,896,885	16,573,459	1,575,923	18,149,382

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	NOTE	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Net cash generated from operating activities		898,278	717,102
Investing activities			
Purchases of property, plant and equipment		(795,165)	(962,445)
Purchase of right-of-use assets		(31,434)	(122,559)
Advances to joint ventures		(7,667)	(36,664)
Advances to associates		(32,253)	(22,635)
Dividends received from associates		118,706	109,119
Dividends received from joint ventures		–	35,545
Dividends received from equity instruments at fair value through other comprehensive income		28,079	30,051
Net settlement of other financial assets/liabilities		–	(119,704)
Decrease in time deposits over three months		16,564	12,856
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	19	18,179	–
Repayment of loans to joint ventures		15,241	–
Capital injection to joint ventures		(144,763)	(67,854)
Capital injection to an associate		(10,749)	–
Other investing cash flows		11,011	10,188
Net cash used in investing activities		(814,251)	(1,134,102)
Financing activities			
New bank and other loans raised		1,500,162	7,366,646
Repayments of bank and other loans		(1,097,437)	(6,613,613)
Advances from joint ventures		26,762	77,704
Advance from a non-controlling shareholder		92	18,586
Repayment of lease liabilities		(14,875)	(11,155)
Capital contribution from non-controlling shareholders of subsidiaries		22,529	–
Dividends paid to non-controlling shareholders of subsidiaries		(39,069)	(56,518)
Net cash generated from financing activities		398,164	781,650
Net increase in cash and cash equivalents		482,191	364,650
Cash and cash equivalents at beginning of the period		1,937,437	1,611,487
Effect of foreign exchange rate changes		(19,005)	(16,620)
Cash and cash equivalents at end of the period, representing bank balances and cash		2,400,623	1,959,517

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL AND 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 holding company and the ultimate controlling shareholder is The Hong Kong and China Gas Company Limited (“HKCG”), a company incorporated in Hong Kong with its shares listed on the Stock Exchange.

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

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

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“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.

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\$5,564 million as at 30 June 2020. The Group’s current liabilities as at 30 June 2020 included borrowings of approximately HK\$3,768 million that are repayable within one year from the end of the reporting period.

As at 30 June 2020, the Group had unutilised credit facilities amounting to approximately HK\$6,092 million and as of the date of approval for issuance of the condensed consolidated financial statements, the Group had unutilised credit facilities amounting to approximately HK\$5,983 million (the “Facilities”). When considering the Group’s ability to continue as a going concern, the Directors considered that the Group’s borrowings of approximately HK\$3,768 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.

1. GENERAL AND BASIS OF PREPARATION (CONTINUED)

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.

1A. SIGNIFICANT EVENTS IN THE CURRENT INTERIM PERIOD

The outbreak of coronavirus disease causing pneumonia (“COVID-19”) during the period had a negative impact on the operations of the Group in the PRC. The Group faced with a decrease in demand for gas from the industrial and commercial sectors in view of the suspension of industrial and business operations during the epidemic, as well as delays in gas connection construction projects owing to anti-epidemic control measures. The Group dealt with payment deferrals from certain industrial and commercial customers with flexibility during the period. These all had certain impact on the Group’s business including temporary suspension of operations, decrease in revenue and longer aging of certain account receivables balances as disclosed in the relevant notes.

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, as appropriate.

Other than accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to HKFRSs (continued)

2.2 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”

2.2.1 Accounting policies on hedge accounting

For the purpose of determining whether a forecast transaction (or a component thereof) in a cash flow hedge is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Under the on-going interest rate benchmark reform, there is uncertainty over the negotiation with the counterparties on the introduction of fall back clauses. The amendments modify certain hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty.

Assessment of hedging relationship and effectiveness

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Cash flow hedges

For the purpose of reclassifying the amount accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to HKFRSs (continued)

2.2 *Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”(continued)*

2.2.2 *Transition and summary of effects*

The application of the amendments in the current interim period has had no impact on the condensed consolidated financial statements. The Group has bank borrowings carrying interest at floating rate which were determined with reference to the USD London Interbank Offered Rate (“LIBOR”). Interest rate swaps were utilised and designated as cash flow hedges to manage its exposure to interest rate movements.

The amendments will continue to be applied until the uncertainty arising from the interest rate benchmark reform ends.

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 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 resources allocation and assessment of segment performance.

Amounts 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 2020			
REVENUE			
Revenue recognised at a point in time	4,809,968	562,732	5,372,700
Revenue recognised over time	–	190,586	190,586
	<u>4,809,968</u>	<u>753,318</u>	<u>5,563,286</u>
External	<u>4,809,968</u>	<u>753,318</u>	<u>5,563,286</u>
Segment results	<u>493,065</u>	<u>316,872</u>	809,937
Other gains, net			41,323
Unallocated corporate expenses			(69,229)
Share of results of associates			138,968
Share of results of joint ventures			162,046
Finance costs			<u>(192,847)</u>
Profit before taxation			890,198
Taxation			<u>(228,959)</u>
Profit for the period			<u>661,239</u>

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2019			
REVENUE			
Revenue recognised at a point in time	5,618,926	671,558	6,290,484
Revenue recognised over time	–	221,870	221,870
	<u>5,618,926</u>	<u>893,428</u>	<u>6,512,354</u>
External	<u>5,618,926</u>	<u>893,428</u>	<u>6,512,354</u>
Segment results	<u>548,769</u>	<u>415,538</u>	964,307
Other gains, net			44,292
Unallocated corporate expenses			(77,160)
Share of results of associates			172,443
Share of results of joint ventures			192,211
Finance costs			<u>(190,187)</u>
Profit before taxation			1,105,906
Taxation			<u>(253,781)</u>
Profit for the period			<u>852,125</u>

4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Gas fuel, stores and materials used	3,844,872	4,599,623
Staff costs	432,073	485,578
Depreciation and amortisation	359,140	334,660
Other expenses	186,493	205,346
	<u>4,822,578</u>	<u>5,625,207</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest on bank and other borrowings	197,411	194,405
Bank charges	2,754	3,105
Interest on lease liabilities	1,547	1,631
	<u>201,712</u>	<u>199,141</u>
Less: amounts capitalised	<u>(8,865)</u>	<u>(8,954)</u>
	<u>192,847</u>	<u>190,187</u>

6. PROFIT BEFORE TAXATION

Six months ended 30 June

	2020	2019
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	9,094	9,518
Depreciation of right-of-use assets	26,775	25,806
Cost of inventories sold	4,201,427	4,942,081
Depreciation of property, plant and equipment	323,271	299,336
Staff costs	432,073	485,578
Exchange loss, net	66	–
Change in fair value of other financial assets and liabilities	–	76,470
and after crediting:		
Interest income	10,345	7,596
Dividend income from equity instruments at fair value through other comprehensive income	28,079	30,051
Exchange gain, net	–	68,042

7. TAXATION

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

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in or derived from Hong Kong for both periods.

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2019: 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	
	2020	2019
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share, being profit for the period attributable to shareholders of the Company	<u>580,758</u>	<u>755,624</u>
	Number of shares	
	Six months ended 30 June	
	2020	2019
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,870,687</u>	<u>2,810,028</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 2020 (2019: nil). During the period, a dividend of HK fifteen cents per ordinary share (2019: HK fifteen cents per ordinary share) amounting to HK\$430,603,000 was declared by the Board as the final dividend for 2019 (HK\$421,504,000 for 2018) which is recognised in trade and other payables and accrued charges as at 30 June 2020.

The final dividend for 2019 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 6 July 2020, the final dividend of HK fifteen 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 2019.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group spent HK\$804,030,000 (2019: HK\$971,399,000) on additions to property, plant and equipment, including HK\$503,783,000 (2019: HK\$736,227,000) on the construction in progress of gas pipelines and HK\$300,247,000 (2019: HK\$235,172,000) on other plant and equipment.

Furthermore, during the current interim period, additions to right-of-use assets amounted to HK\$43,737,000 (2019: HK\$128,000,000), of which HK\$31,434,000 (2019: HK\$122,000,000) relates to acquisition of leasehold land.

11. GOODWILL

	HK\$'000
At 1 January 2020	5,297,022
Currency realignment	<u>(102,836)</u>
At 30 June 2020	<u><u>5,194,186</u></u>

As disclosed in note 1A about the impact of outbreak of COVID-19 to the Group, it indicates that goodwill may be impaired. The Group performed impairment assessment tests during the period by determining the recoverable amounts of the relevant cash-generating units based on value in use approach using the discounted cash flow method. Possible impacts of COVID-19 pandemic to current economic environment were considered in the assessment. As the Group's business has basically resumed normal operations and gas consumption is expected to rebound in the second half of the year, it is concluded that no impairment provision is recognised during the six months ended 30 June 2020 as the recoverable amounts exceed their carrying amounts.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2020 HK\$'000	31.12.2019 HK\$'000
Trade receivables (net of allowance for credit losses)	783,123	886,834
Prepayments	472,984	561,195
Other receivables and deposits	<u>538,522</u>	<u>492,661</u>
	<u><u>1,794,629</u></u>	<u><u>1,940,690</u></u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK\$943,464,000 (2019: HK\$1,032,384,000) and allowance for credit losses of HK\$160,341,000 (2019: HK\$145,550,000). 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:

	30.6.2020	31.12.2019
	HK\$'000	HK\$'000
0 to 90 days	534,662	682,276
91 to 180 days	127,201	77,053
Over 180 days	121,260	127,505
	<u>783,123</u>	<u>886,834</u>

Details of the impairment assessment are set out in note 13.

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward looking information and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. The Group used estimated loss rates for trade receivables not credit impaired based on aging for classes with different credit risk characteristics and exposures, and the loss rates are estimated based on historical observed default rates over the expected life of the debtors. After considering forward-looking information that is available without undue cost or effort, including but not limited to the expected economic conditions in the PRC and macroeconomic factors affecting the ability of the customers to settle the debtors, the Group concluded there is no significant impact to the amount of credit losses when similar range of estimated loss rates as those used for the year ended 31 December 2019 were applied.

During the six months ended 30 June 2020, the Group provided HK\$17,616,000 (2019: HK\$4,513,000) impairment allowance, net of reversal, for trade receivables.

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2020	31.12.2019
	HK\$'000	HK\$'000
Trade payables	1,181,381	1,220,225
Consideration payable for acquisitions of businesses	72,327	73,724
Other payables and accruals	1,292,696	920,205
Amount due to ultimate holding company (<i>note</i>)	5,000	1,006
	2,551,404	2,215,160

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

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES (CONTINUED)

Trade payables

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

	30.6.2020	31.12.2019
	HK\$'000	HK\$'000
0 to 90 days	536,994	706,935
91 to 180 days	192,222	122,759
181 to 360 days	190,134	172,570
Over 360 days	262,031	217,961
	<u>1,181,381</u>	<u>1,220,225</u>

15. BORROWINGS

	30.6.2020	31.12.2019
	HK\$'000	HK\$'000
Bank loans — unsecured	10,431,010	10,203,172
Other loans — unsecured	34,688	36,190
	<u>10,465,698</u>	<u>10,239,362</u>
Carrying amounts repayable:		
On demand or within one year	3,768,446	3,433,529
More than one year but not exceeding two years	5,200,594	1,430,955
More than two years but not exceeding five years	1,481,147	5,359,060
More than five years	15,511	15,818
	<u>10,465,698</u>	<u>10,239,362</u>
Less: Amounts due within one year shown under current liabilities	<u>(3,768,446)</u>	<u>(3,433,529)</u>
Amounts due after one year shown under non-current liabilities	<u>6,697,252</u>	<u>6,805,833</u>

16. SHARE CAPITAL

Authorised shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	<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 1 January 2019 and 30 June 2019	2,810,027,892	281,003
Issue of shares upon scrip dividend scheme (<i>note</i>)	<u>60,659,116</u>	<u>6,066</u>
At 31 December 2019 and 30 June 2020	<u>2,870,687,008</u>	<u>287,069</u>

Note: On 19 March 2019, a scrip dividend scheme was proposed by the Board, which offers the shareholders of the Company a scrip alternative whereby shareholders may elect to receive the final dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 21 May 2019. On 4 July 2019, 60,659,116 shares of HK\$0.10 each were allotted and issued at HK\$5.712 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2018 final dividend under the scrip dividend scheme. All the shares which were issued upon the scrip dividend scheme rank pari passu with the then existing shares in all respects.

17. COMMITMENTS

At the end of the reporting period, the Group has the following significant capital commitments:

	30.6.2020 HK\$'000	31.12.2019 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>275,091</u>	<u>281,362</u>

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair values 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).

Financial assets/financial liabilities	30.6.2020	Fair value as at 31.12.2019	Fair value hierarchy	Valuation techniques and key inputs
Listed equity investments classified as fair value through other comprehensive income in the condensed consolidated statement of financial position	Assets — HK\$1,669,405,000	Assets — HK\$2,304,042,000	Level 1	Quoted market price
Cross currency interest rate swaps classified as other financial assets/ financial liabilities in the condensed consolidated statement of financial position	Assets — HK\$28,378,000 Liability — HK\$13,447,000	Asset — HK\$24,483,000 Liabilities — HK\$15,413,000	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 various counterparties.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial assets/ financial liabilities	30.6.2020	Fair value as at 31.12.2019	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Unquoted equity investments	Assets — HK\$95,124,000	Assets — HK\$95,002,000	Level 3	Market comparable approach	Market multiples ranging from 1.0 to 1.6 (31.12.2019: 1.0 to 1.6) and discount for lack of marketability ranging from 0% to 30% (31.12.2019: 0% to 30%) (note)

Note: The higher the market multiples, the higher the fair value, and vice versa. The higher the discount, the lower the fair value, and vice versa. A reasonably possible change in the unobservable inputs used would not result in a significantly higher or lower fair value measurement.

Reconciliation of Level 3 fair value measurements of financial assets

	HK\$'000
Balance at 1 January 2019	337,708
Currency realignment	(3,166)
Fair value change recognised to other comprehensive income	<u>53,875</u>
Balance at 30 June 2019	<u><u>388,417</u></u>
Balance at 1 January 2020	95,002
Currency realignment	(1,858)
Fair value change recognised to other comprehensive income	<u>1,980</u>
Balance at 30 June 2020	<u><u>95,124</u></u>

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs to the model. The management reports the findings to the Directors half yearly to explain the cause of fluctuations in the fair value of the assets and liabilities.

There were no transfers between Level 1, 2 and 3 during both periods.

Fair values of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

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.

19. ACQUISITION OF A SUBSIDIARY

During the six months ended 30 June 2020, the Group acquired 45% interest in 常州港華天合智慧能源有限公司 (“常州天合”) which is principally engaged in the operation of energy supply and other related business in the PRC from an independent third party for a consideration of HK\$15,309,000. Management considered that the Group has control over 常州天合 as the relevant activities such as the approval of the operation plan and budget, appointing, remunerating and terminating the key management personnel are approved by a simple majority of the board of directors and the Group is able to appoint more than half of the board of directors of 常州天合. Accordingly, 常州天合 is accounted for as a subsidiary. The primary reason for the acquisition is for the expansion of the Group's business and to increase returns to its shareholders.

19. ACQUISITION OF A SUBSIDIARY (CONTINUED)

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

Acquiree's provisional fair values at acquisition date:

	HK\$'000
Net assets acquired:	
Property, plant and equipment	438
Other receivables	92
Bank balances and cash	<u>33,488</u>
	<u>34,018</u>

	HK\$'000
Result on the acquisition:	
Acquiree's provisional fair values of net identifiable assets	34,018
Consideration paid	(15,309)
Non-controlling interests	<u>(18,709)</u>
	<u>—</u>

	HK\$'000
Net cash inflow arising on acquisition:	
Consideration paid	(15,309)
Bank balances and cash acquired	<u>33,488</u>
	<u>18,179</u>

No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020 is presented as the contributions are insignificant.

20. MAJOR NON-CASH TRANSACTIONS

During the period ended 30 June 2020, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 1–18 years. On the lease commencement, the Group recognised HK\$12,303,000 (2019: HK\$5,844,000) of right-of-use assets and HK\$12,303,000 (2019: HK\$5,844,000) of lease liabilities.

21. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the condensed consolidated financial statements, the Group has the following transactions with related parties:

Name of related party	Nature of transactions	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Anhui Province Natural Gas Development Company Limited (<i>note b</i>)	Purchase of compressed natural gas	69,187	70,463
常州東利港華氣體有限公司 (<i>note b</i>)	Purchase of natural gas	26,464	21,756
Chaozhou Hong Kong and China Gas Company Limited (<i>note a</i>)	Processing service charges of natural gas	483	–
	Purchase of pipeline construction materials and tools	622	472
卓通管道系統(中山)有限公司 (<i>note a</i>)	Purchase of pipeline construction materials and tools	47,064	53,124
GH — Fusion Corporation Limited (<i>note b</i>)	Purchase of pipeline construction materials and tools	837	164
Guangzhou Hong Kong and China Gas Company Limited (<i>note a</i>)	Sale of natural gas	13,718	20,235
港華國際能源貿易有限公司 (<i>note a</i>)	Purchase of natural gas	47,825	3,577

21. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Hong Kong & China Gas Investment Limited (note a)	Charges paid for expatriate service	4,394	5,560
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of pipeline construction materials and tools	929	1,596
	Purchase of liquefied natural gas	765	–
卓度計量技術(深圳)有限公司 (note a)	Purchase of gas meters	7,847	5,591
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	19,588	35,594
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	4,641	5,414
S-Tech Smart Technology (Wuhan) Company Limited (note a)	Charges paid for system software, cloud computing system and safety inspection supporting services	2,784	3,797
山東港華培訓學院 (note a)	Charges paid for training services	604	1,297
瀋陽三全工程監理諮詢有限公司 (note a)	Charges paid for project management services	3,028	3,520
四川空港燃氣有限公司 (note d)	Sale of natural gas	3,407	12,828
	Provision of gas pipeline installation	–	6,532
名氣家(深圳)信息服務有限公司 (note a)	Purchase of food ingredients and materials, and charges paid for Virtual Customer Centre (VCC) service	146	240

21. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Xuzhou Hong Kong and China Gas Company Limited (<i>note a</i>)	Purchase of natural gas	6,682	8,625
	Sale of natural gas	302	584
	Charges paid for maintenance service of high-pressure pipeline	849	–
徐州港華能源科技有限公司 (<i>note a</i>)	Purchase of natural gas	1,481	11,589
珠海卓銳高科信息技術有限公司 (<i>note a</i>)	Charges paid for system software, cloud computing system and safety inspection supporting services	–	283
Zhuojia Public Engineering (Maanshan) Co., Ltd. (<i>note b</i>)	Charges paid for processing service of pipeline materials	6,325	7,478

Notes:

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