

# 2021

# 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 and  
Registered Public Interest Entity Auditor*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

### Registered Office

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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](http://www.towngaschina.com)

### Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited  
Suite 3204, Unit 2A  
Block 3, Building D  
P.O. Box 1586  
Gardenia Court  
Camana Bay  
Grand Cayman, KY1-1100  
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 COVID-19 pandemic of mainland China was controlled effectively which in turn recovered economic growth and sharply increased in energy demand. For the six months ended 30 June 2021, total revenue of the Group rose with a notable 40% growth to HK\$7,772 million, compared to the corresponding period last year. The gross profit margin of the Group's main businesses was similar to that in the corresponding period last year. Profit after taxation attributable to shareholders of the Company surged by 34% to HK\$778 million over the corresponding period last year. Basic earnings per share amounted to HK26.21 cents, a significant growth of 30% over the corresponding period last year.

### *Sales of Piped Gas and Energy*

The growth of Chinese economy has resumed steadily and drove a rapid recovery in energy demand. During the first half of 2021, total gas sales volume of the Group rebounded strongly by 32% to 7,261 million cubic metres compared to the corresponding period last year. Industrial gas sales increased by 41% to 3,592 million cubic metres from 2,542 million cubic metres over the corresponding period last year, accounting for 50% of the total volume of gas sold by the Group, while commercial gas sales reached 918 million cubic metres from 720 million cubic metres with an increase of 28% over the corresponding period last year, accounting for 13% of the total volume of gas sold by the Group. Wholesale gas sales recorded 1,025 million cubic metres with an increase of 49%, compared to a record of 690 million cubic metres over the corresponding period last year, representing 14% of the Group's total volume of gas sales. Residential gas sales grew by 8% to 1,559 million cubic metres from 1,449 million cubic metres over the corresponding period last year and accounted for 21% of the total volume of gas sold by the Group. The equivalent of 167 million cubic metres of natural gas sales was recorded for distributed energy projects while 105 million cubic metres was recorded for the corresponding period last year, accounting for 2% of the total volume of gas sold by the Group.

For the six months ended 30 June 2021, revenue from sales of piped gas and energy increased significantly by 40% to HK\$6,514 million, representing a total consolidated volume of gas sold of 2,068 million cubic metres and an increase of 23% over the corresponding period last year.

### *Gas Connection*

In the gas connection business, income from connection fees for the period amounted to HK\$903 million, rose 20% as compared to the corresponding period last year, representing approximately 210,000 consolidated new household connections.

## ***Extended Business***

The Group endeavoured to promote our Bauhinia brand. Apart from gas appliances of gas stoves, water heaters, range hoods and gas dryers, the Group also provided customers with personalisation services for kitchen design and smart kitchen equipment so as to meet the different needs of customers. The Group has a strong customer base which reached 14.56 million as at 30 June 2021, with 420,000 new customers compared to the end of last year. The customer base will be extended with 6.40 million upon the completion of capital increase in Shanghai Gas Co., Ltd. (“Shanghai Gas”). The Group offers customer-oriented services and, apart from usual gas supply, the Group gained insights about various needs of customers through our customer service centres and staff so as to formulate value-added products and services. The Group’s revenue from extended business rose by 152% to HK\$355 million compared with the corresponding period last year.

## **New Projects Development**

With the reinvestment projects of its project companies taken into account, the Group had two new city-gas projects in the first half of the year, namely 長春燃氣公主嶺豐瑞能源發展有限公司 (Changchun Gas Gongzhuling Fengrui Energy Development Co., Ltd.) in Jilin province and 杭州余杭港華燃氣有限公司 (Hangzhou Yuhang Hong Kong and China Gas Co., Ltd.) in Zhejiang province. These two projects are expected to bring the Group an annual gas consumption of 35 million cubic metres of natural gas equivalent in the next five years.

Additionally, in July 2021, we completed the capital increase of RMB4.7 billion in Shanghai Gas, a company in which Towngas China holds a 25% equity interest. Shanghai Gas is currently one of the largest comprehensive city gas operators in China, with activities ranging from the investment, construction and operation of natural gas pipeline networks to gas procurement, transmission and distribution, allocation, sales and services. With a market share of over 90% in Shanghai, it serves approximately 6.4 million natural gas customers with an annual gas sales volume of over 9 billion cubic metres. At Towngas China, we will thus be extending our city-gas business into Shanghai with this in-depth cooperation. It will enable us to tap into the huge market and development potential of our extended business in view of Shanghai Gas’ huge customer base. Looking to the future, both parties will gain maximum synergies from each other’s strengths and resource advantages while further deepening cooperation. Seizing the opportunities brought about by the establishment of the national pipeline network, we will both benefit from our multi gas sources and international resource channels, particularly in the context of the nation’s “X+1+X” energy strategic reform and the primary principle of “regulating the core and relaxing the ends”.

## **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”). Investments in 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 2021.

## 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 2021, the Group's bank loans and other loans amounted to HK\$17,004 million (31 December 2020: HK\$11,493 million), of which HK\$10,164 million (31 December 2020: HK\$5,137 million) represented bank loans and other loans due within 1 year, HK\$6,827 million (31 December 2020: HK\$6,343 million) represented bank loans and other loans due between 1 to 5 years, and HK\$13 million (31 December 2020: HK\$13 million) represented bank loans and other loans due over 5 years. Other than the HK\$9,992 million (31 December 2020: HK\$8,147 million) in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group 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\$15,251 million (31 December 2020: HK\$9,749 million) and the remaining HK\$1,753 million (31 December 2020: HK\$1,744 million) borrowings were denominated mainly in Hong Kong dollars and United States dollars ("USD") as at the end of the period. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-Renminbi denominated loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi loans amounted to approximately HK\$83 million (31 December 2020: nil), approximately HK\$45 million (31 December 2020: HK\$5 million) and approximately HK\$34 million (31 December 2020: HK\$21 million) from our parent company, The Hong Kong and China Gas Company Limited ("HKCG"), joint ventures and non-controlling shareholders of the Group on a fixed interest rate basis respectively. As at 30 June 2021, 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 total equity plus net debt) of 39.0% (31 December 2020: 28.9%). The notable increase in the gearing ratio of the Group during the period was mainly due to the bridging loans drawn from banks for fulfilling the capital increase obligation of Shanghai Gas.

As at 30 June 2021, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,514 million (31 December 2020: HK\$2,335 million), of which 99% (31 December 2020: 99%) are Renminbi-denominated and the rest are mainly denominated in Hong Kong dollars and USD.

As at 30 June 2021, the Group's unutilised available credit facilities amounted to HK\$8,643 million from banks and HKCG. The Group established a USD2 Billion Medium Term Note Programme ("MTN Programme") which helps strengthen financial position of the Group and expands sources of funding.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks and the MTN Programme. The Group maintains a strong liquidity position with its cash and cash equivalents on hand, unutilised credit facilities and funds available under the MTN Programme. We have adequate financial resources to meet our contractual obligations and operating requirements and are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. 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 has taken account of the Company's dividend policy and resolved in the Board meeting on 17 August 2021 not to declare an interim dividend (2020: nil).

### **Employee and Remuneration Policies**

As at 30 June 2021, the Group had 22,808 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.

### **Environmental, Social and Governance**

At the present moment, the global focus is to actively promote the green and low-carbon transformation of global development, as the world aims to achieve zero carbon emissions. Living up to its commitment as a major world power, the Chinese government established decisive and aggressive carbon reduction targets last year. Drawing upon these new opportunities and development goals, at Towngas China, we proactively integrated sustainable development principles into our business operations. Building on our established platforms, we were able to achieve stellar progress in our environmental, social and governance ("ESG") programmes.

Towngas China has been chosen and listed as a constituent company of the Hang Seng Corporate Sustainability Index since 2011. Building on this positive recognition, our unremitting efforts over the years have resulted in notable performances and highly encouraging achievements in seven major areas. These range from corporate governance, environmental governance and community engagement and development to consumer issues, fair operating practices, labour practices, and human rights. Towngas China has thus earned a rating upgrade to AA-, attaining a leading position among our peers.

During the first half of the year, both Towngas China and our parent company, HKCG, have won multiple ESG-related industry awards in recognition of our outstanding contributions to sustainable social development. Notably, based on the assessment results on business sustainability issued in June by the Centre for Business Sustainability of the Business School, The Chinese University of Hong Kong, HKCG, including Towngas China, ranked first among 200 enterprises in Greater China, in addition to topping the “Greater Bay Area Business Sustainability Index” for the second consecutive year. At the same time, Towngas China was honoured by *China Newsweek* published by China News Service as the “2021 Low-carbon Model” in mainland China for our commitment and dedication to a low-carbon society.

Following the outbreak of the COVID-19 pandemic, thanks to the vigorous and effective prevention measures adopted by the authorities, the pandemic was rapidly brought under control in mainland China. Businesses reopened smoothly and people’s lives returned to normal, enabling China to take a global lead in its economic recovery. Towngas China, as a socially conscious public utility, has focused significant human and economic resources since the outbreak of the pandemic to fulfil our social responsibilities. For example, in a bid to provide frontline medical staff with the strongest possible support, we donated gas stoves, water heaters, gas dryers and other equipment together with free-of-charge installation services. In view of the sporadic pandemic cases still breaking out, Group volunteers delivered more than 300 boxes of supplies to nearly 100 frontline pandemic prevention workers in Luohu district, Shenzhen. This initiative, which took place in June, sought to ensure that our contributions to society took a practical turn.

To lend a helping hand to the disadvantaged and those in need, we launched our landmark community programme, the Gentle Breeze Movement, in 2013. This initiative seeks to support schools suffering from scarce resources through school renovation projects as well as book and school supplies donations. It also aims to alleviate the burden for underprivileged families by improving the learning environment for students while also helping to satisfy their equipment needs. Since the start of the programme, we have donated more than RMB3.15 million in cash and in kind to help support 30 schools in areas including Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Guangdong, Inner Mongolia, Fujian, Sichuan, Heilongjiang and Chongqing.

During Dragon Boat Festival this year, we once again held our Rice Dumplings for the Community programme, one of our annual social charity events. We called upon over 1,000 volunteers from more than 50 project companies to participate and make rice dumplings for the community, in an effort to share the warmth with those in need. The project aims to create positive social energy, while also seeking to ensure that a major tradition in our Chinese culture continues forward into the future.



## Outlook

### *Economic Landscape*

In the first half of 2021, the global economy showed signs of recovery even though the COVID-19 pandemic continued unabated. According to the World Bank's Global Economic Prospects report, issued in June this year, global economic growth is projected at a desired level of 5.6% in 2021, while China's economy is expected to grow at 8.5%, making a significant contribution to the world's overall economic growth.

Since 2021, COVID-19 has been well under control in mainland China, enabling a steady uptrend in the country's economic recovery. Major economic indicators, such as industrial production, social consumption and the export of goods, have fully recovered to pre-COVID-19 levels. Although commodity prices increased substantially, overall price levels and employment data remained stable. The economy thus grew by 12.7% in the first half of the year. With the improvement in China's economy, the Renminbi ("RMB") is showing ongoing strength against other currencies. However, given the Chinese government's exchange rate control policy and the foreseeable USD rate hike, it is unlikely that the RMB will see any appreciation or depreciation for a long time.

Considering that the COVID-19 risk has not been eliminated and in view of increasing external uncertainties, the Chinese government will continue to implement a proactive fiscal, robust and effective monetary policy in 2021. While reducing the burden on the real economy through "cutting taxes and fees", the government will focus more on implementing targeted preferential policies to support small and micro enterprises, to consolidate the industrial foundations and enhance the resilience of its economic development. In the short term, the government will not be withdrawing its policies to consolidate economic recovery. With the growing vaccination take up rate in mainland China, the risk of any further negative impact to China's economy from the virus will be increasingly reduced. China's annual economic growth rate is expected to exceed the 6% target set in the Government Work Report delivered at the beginning of the year, giving the country a modest start under its 14th Five-Year Plan.

## ***Progress of Natural Gas Marketisation Reforms***

### *Strengthening Price Mechanism Reforms*

In May 2021, the National Development and Reform Commission issued its “Action Plan on Strengthening the Reform of Price Mechanisms During the 14th Five-Year Plan Period”. The Action Plan proposes to accelerate the standardisation of urban water, electricity, gas and heating tariffs, steady promotion of the marketisation of natural gas station prices and sales prices to end users, together with cost-price linkages, the strict regulation of gas distribution prices, as well as the active facilitation of the fair opening of city gas distribution networks. The foundation for these domestic natural gas market reforms were laid down during the 13th Five-Year Plan period. Looking forward, the strengthening of these reforms will be focused on the reform mechanisms and the effective implementation of relevant policies. The aim is to enhance adequate competition in both the upstream and downstream markets.

### *Accelerated Integration of “One Network Across the Country” under New Policies for Pricing and Cost Regulation*

Since the establishment of China Oil & Gas Pipeline Network Corporation (“PipeChina”), six provinces including Guangdong and Hubei have signed agreements with PipeChina to integrate their provincial pipeline networks into PipeChina’s network in a market-oriented manner. In the first half of 2021, PipeChina had 7 liquefied natural gas (“LNG”) terminals with a total receiving capacity of 27.6 million tonnes per year together with over 47,500 kilometres of natural gas trunk and branch pipelines. Its infrastructure and operational capacity continue to improve, and its surplus capacity is opening up in a market-oriented way. The new measures for inter-provincial pricing and cost supervision and review will come into force on 1 January 2022, after which the inter-provincial natural gas pipelines operated by PipeChina will be divided into four regions — Northwest, Southwest, Northeast and Central & East China for separate pricing under the “one region, one price” policy. The depreciation period for natural gas pipeline assets will also be extended from 30 to 40 years. These policies will help to promote a fair and open environment for natural gas pipeline facilities and reduce the prices of pipeline distribution services, while also facilitating the diversification of gas sources as well as the development of the national production, supply, storage and sales system.

### *Tightening Market Regulation*

In January, 2021, the National Energy Administration issued its “Energy Regulation Highlights for 2021”, proposing the formulation of a list of key tasks for energy administration together with their legal implementation. The State Administration for Market Regulation has also introduced remedial measures to regulate the level of charges for public utilities. On the one hand, the above policies and measures demonstrate the government’s intention to strictly regulate the public utility industry; while on the other, they will play a positive role in regulating the industry and establishing a fair and reasonable market order.

## ***Prospects of the City Gas Business***

China's economic recovery has driven a rapid rebound in domestic energy demand. In the first half of the year, China's natural gas market witnessed strong supply and demand. The domestic gas volume, imported gas volume, and gas consumption are expected to record double-digit growth. The acceleration of industrial production, the goal to reach the 70% clean heating rate within the year in North China as stated in the Government Work Report, as well as the increasing rate of urbanisation, which will continue to drive the increase in the demand for city gas. As such, the city gas industry is expected to enjoy rapid growth this year.

While demand is on the rise, domestic natural gas supply capacities are also improving. In April, the National Energy Administration issued the "Guiding Opinions on Energy Work in 2021", suggesting that domestic natural gas production will reach 202.5 billion cubic metres in 2021, an increase of 13.7 billion cubic metres over the previous year's output. With growing capacities resulting from imported LNG facilities, the increase of gas sources, the double increase of pipeline gas supply from Russia over the previous year, and the promotion of pipeline interconnection will further guarantee the supply capacity of natural gas and provide favourable conditions for the ongoing development of city gas.

China's 14th Five-Year Plan aims to achieve a carbon peak by 2030, with carbon neutrality following in 2060. The goal is to build low-carbon cities, to achieve an overall green transformation both in the economy and society. These objectives provide new development opportunities for city gas companies together with new directions for development. The Group believes that natural gas, as a clean energy source, will play a major role in promoting China's carbon peaking and carbon neutrality goals, and will continue to replace high-carbon energy in key areas. As a result, natural gas consumption will continue to increase. On the other hand, natural gas will be used in conjunction with new energy sources to enhance overall efficiency and promote the mitigation of emissions, making a new contribution to green development.

## ***Business Outlook of the Group***

In the first half of 2021, while implementing routine measures for epidemic prevention and control, the Group provided customers with safe and quality gas supply services to meet increasing gas demand, in view of the economic recovery and the pick-up in natural gas usage. We therefore achieved desirable growth in our gas business.

The Group continued to promote the development of the natural gas industry chain, accelerating the construction of gas supply and peak shaving capacities. The Jintan Gas Storage (owned by our parent company, HKCG) has developed a working gas capacity of more than 130 million cubic metres, and is stepping up the construction of the first phase of extension works. We were also active in coordinating and promoting the building of regional gas capacities: HKCG's Tangshan LNG terminal started construction of storage tanks, which, when operations commence will enhance the gas storage and peak shaving capacities of our gas companies in China's North and Northeast China regions. The gas operating system in North China is expected to be completed within the year. The Group's "Towngas China Emergency Peak Shaving Storage and Distribution Base Project" in Weiyuan County, Sichuan province in Southwest China has been listed as a key project in the province in 2021. The venture has not only established extensive collaboration with upstream and downstream partners, it has also received strong support from the local government. These efforts will help the Group better prepare for peak gas demand this winter and next spring in Southwest China. It also improves our gas supply capacity during the 14th Five-Year Plan period, while reducing the cost of gas supply and enhancing our competitive advantage.

In terms of our smart energy business and in line with China's carbon peak and carbon neutrality goals, Towngas China Energy Investment Limited, a Group subsidiary, fully promotes a "zero-carbon city" smart energy scheme based on the development of photovoltaic and energy storage projects. We have established our Green Technology Innovation Research Institute to enhance our smart energy technology capabilities, while also establishing extensive cooperation with sizeable energy companies to build a smart energy ecosystem. In addition, the Group continued to facilitate the development of comprehensive green energy services among our gas companies. These include commercial hot water, heating, cooling, warming and electricity-related businesses, which are emerging as significant growth drivers for the Group.

Amongst our extended business, Towngas China continued to maintain its strategy of “seeking progress while maintaining stability”. Towngas China delved into the enhancement of “healthy”, “cosy” and “vegetarian” lifestyle offerings together with hip products under the brand of “Towngas Lifestyle”, actively preparing for the construction and promotion of the “Towngas Home” community lifestyle centre. Towngas China also developed the mobile apps such as “Moment+” and “Moment+ Assistant” to empower the extended businesses of its gas companies and promote their digital transformation. During the first half of this year, sales of Towngas China Bauhinia safe appliances and gas insurance products resumed considerable growth, with an increase exceeding pre-epidemic levels.

Progress was made in the cooperation between the Group and Shanghai Gas for developing energy and extended business in Shanghai. In April 2021, the Group signed a gas source collaborative framework agreement with Shanghai Gas, promoting the solid integration of their advantageous natural gas resources in the Yangtze River Delta. The Group has also initiated a study on interconnection solutions for high-pressure pipelines in Jiangsu, Zhejiang and Shanghai.

In the first half of the year, the Group made a positive start in our business development, actively ramping up and implementing various business plans. Looking forward to the entire year, we will fully grasp numerous opportunities available in China’s economic recovery. Our aim is to grow clean energy demand and transform the city gas industry to achieve our main goals as we move towards a “Smart Innovation” year. In addition, we will scale up our business development plans while at the same time, improving the quality of this business development.

## OTHER INFORMATION

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

As at 30 June 2021, the interests or short positions of the directors (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 30.06.2021
			Personal interest	Family interest	Corporate interest		
Towngas China Company Limited	Alfred Chan Wing-kin	Beneficial owner	4,161,034 (Note)	–	–	4,161,034	0.14%
	Peter Wong Wai-yee	Beneficial owner	3,201,000	–	–	3,201,000	0.11%
	John Ho Hon-ming	Beneficial owner	1,133,862	–	–	1,133,862	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	2,265,000	0.08%
HKCG	Alfred Chan Wing-kin	Interest held jointly with spouse	355,772	–	–	355,772	0.00%
	John Ho Hon-ming	Beneficial owner	55,710	–	–	55,710	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	121,275	142,299	–	263,574	0.00%

Note:

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 29 June 2021 and the subsequent allotment of 119,341 new shares by the Company on 13 July 2021, Mr. Alfred Chan Wing-kin had personal interest of 4,161,034 shares of the Company, representing approximately 0.14% of the number of issued shares of the Company as at the date of this report.

Save as stated above, as at 30 June 2021, 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 2021, 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 30.06.2021
Lee Shau-kee	Interest of controlled corporations	2,084,895,656 (Note 1)	70.22%
Rimmer (Cayman) Limited (“Rimmer”)	Trustee	2,084,895,656 (Note 2)	70.22%
Riddick (Cayman) Limited (“Riddick”)	Trustee	2,084,895,656 (Note 2)	70.22%
Hopkins (Cayman) Limited (“Hopkins”)	Interest of controlled corporations	2,084,895,656 (Note 2)	70.22%
Henderson Development Limited (“HD”)	Interest of controlled corporations	2,084,895,656 (Note 2)	70.22%
Henderson Land Development Company Limited (“HLD”)	Interest of controlled corporations	2,084,895,656 (Note 2)	70.22%
Faxson Investment Limited (“Faxson”)	Interest of controlled corporations	2,084,895,656 (Note 2)	70.22%
HKCG	Interest of controlled corporations	2,084,895,656 (Note 3)	70.22%
Towngas International Company Limited (“TICL”)	Interest of controlled corporation	1,905,302,051 (Note 3)	64.17%
Hong Kong & China Gas (China) Limited (“HK&CG (China)”)	Beneficial owner	1,905,302,051 (Note 3)	64.17%
Towngas Investment Company Limited (“TICL-HK”)	Interest of controlled corporations	179,593,605 (Note 3)	6.05%
Planwise Properties Limited (“Planwise”)	Beneficial owner	176,588,786 (Note 3)	5.95%



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 2,084,895,656 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 2,084,895,656 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 1,905,302,051 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 179,593,605 Shares, which included (a) the 176,588,786 Shares held by Planwise; and (b) the 3,004,819 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 29 June 2021. Subsequent to the allotment of a total of 59,796,241 new Shares to HK&CG (China), Planwise and Superfun by the Company on 13 July 2021, 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) 68.51%, (ii) 62.61%, (iii) 5.90% and (iv) 5.80% respectively as at 13 July 2021.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2021, 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 2021, 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 2021, 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").

### **Purchase, 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 2021.

## **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 2021.

### **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 2021.

### **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 10 August 2021 to review the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021. 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 2021 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.

## Changes in the information of Directors

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

**Mr. Peter Wong Wai-ye** *C.P.A.(CANADA), C.M.A., C.P.A.(HK), A.C.G., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*  
*Executive Director and Chief Executive Officer*

Mr. Wong was appointed as Deputy Managing Director of HKCG on 1 April 2021 and was elected as a council member of the Vocational Training Council on 1 July 2021.

Mr. Wong ceased to be the member of the Advisory Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University on 31 March 2021.

**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 resigned as the director of Changchun Gas Co., Ltd. on 24 June 2021 and was elected as a member of the Accountancy Training Board of the Vocational Training Council on 1 April 2021.

**Mr. Martin Kee Wai-ngai** *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*  
*Executive Director and Chief Operating Officer*

Mr. Kee was appointed as a director of Changchun Gas Co., Ltd. on 24 June 2021.

**Mr. James Kwan Yuk-choi** *J.P., R.P.E.(Gas), C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc.(Eng)*  
*Independent Non-Executive Director, Member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee*

Mr. Kwan retired as the independent non-executive director of MTR Corporation Limited on 26 May 2021.



**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 19 to 50, which comprise the condensed consolidated statement of financial position as of 30 June 2021 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 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  
17 August 2021

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	NOTES	Six months ended 30 June	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Revenue	3	7,772,512	5,563,286
Total operating expenses	4	<u>(6,760,707)</u>	<u>(4,822,578)</u>
		<b>1,011,805</b>	740,708
Other income		74,707	54,340
Other losses, net		(4,985)	(13,017)
Share of results of associates		186,635	138,968
Share of results of joint ventures		186,023	162,046
Finance costs	5	<u>(234,598)</u>	<u>(192,847)</u>
Profit before taxation	6	<b>1,219,587</b>	890,198
Taxation	7	<u>(315,881)</u>	<u>(228,959)</u>
Profit for the period		<u><b>903,706</b></u>	<u>661,239</u>
Profit for the period attributable to:			
Shareholders of the Company		778,133	580,758
Non-controlling interests		<u>125,573</u>	<u>80,481</u>
		<u><b>903,706</b></u>	<u>661,239</u>
		<b>HK cents</b>	HK cents
Earnings per share	8		
— Basic		<u><b>26.21</b></u>	<u>20.23</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>903,706</u>	<u>661,239</u>
Other comprehensive income (expense) 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	118,442	(315,268)
Fair value change on investments in equity instruments at fair value through other comprehensive income	(299,016)	(586,011)
Income tax relating to items that will not be reclassified to profit or loss	76,367	147,278
<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	(30,425)	6,024
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	<u>49,512</u>	<u>(28,158)</u>
	<u>(85,120)</u>	<u>(776,135)</u>
Total comprehensive income (expense) for the period	<u><u>818,586</u></u>	<u><u>(114,896)</u></u>
Total comprehensive income (expense) for the period attributable to:		
Shareholders of the Company	679,649	(138,561)
Non-controlling interests	<u>138,937</u>	<u>23,665</u>
Total comprehensive income (expense) for the period	<u><u>818,586</u></u>	<u><u>(114,896)</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	NOTES	30.6.2021 HK\$'000 (unaudited)	31.12.2020 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	20,908,685	20,016,653
Right-of-use assets	10	929,430	882,716
Intangible assets		471,147	475,074
Goodwill	11	5,694,493	5,625,492
Interests in associates		4,886,023	4,887,677
Interests in joint ventures		3,517,041	3,198,329
Loans to associates		46,368	69,090
Equity instruments at fair value through other comprehensive income		1,436,827	1,721,875
Payments for acquisition of an associate	22	5,651,756	415,776
		<u>43,541,770</u>	<u>37,292,682</u>
Current assets			
Inventories		630,398	643,117
Loans to associates		54,719	16,398
Loans to joint ventures		191,519	198,212
Trade and other receivables, deposits and prepayments	12	2,056,875	2,237,218
Amounts due from non-controlling shareholders		139,001	170,092
Time deposits over three months		28,860	109,290
Bank balances and cash		2,485,478	2,225,954
		<u>5,586,850</u>	<u>5,600,281</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2021

	NOTES	30.6.2021 HK\$'000 (unaudited)	31.12.2020 HK\$'000 (audited)
<b>Current liabilities</b>			
Trade and other payables and accrued charges	14	2,869,390	2,689,325
Contract liabilities		3,633,656	3,733,570
Lease liabilities		24,368	22,562
Amounts due to non-controlling shareholders		77,045	54,876
Taxation payable		1,455,149	1,224,176
Borrowings — amounts due within one year	15	10,163,657	5,136,717
Loan from ultimate holding company		83,419	—
Loans from joint ventures		44,768	5,231
Other financial liabilities		74,490	55,839
		<u>18,425,942</u>	<u>12,922,296</u>
Net current liabilities		<u>(12,839,092)</u>	<u>(7,322,015)</u>
Total assets less current liabilities		<u>30,702,678</u>	<u>29,970,667</u>
<b>Non-current liabilities</b>			
Lease liabilities		59,977	39,554
Borrowings — amounts due after one year	15	6,840,730	6,356,041
Deferred taxation		801,197	848,342
Loans from non-controlling shareholders		34,264	20,890
Other financial liabilities		38,837	57,238
		<u>7,775,005</u>	<u>7,322,065</u>
Net assets		<u>22,927,673</u>	<u>22,648,602</u>
<b>Capital and reserves</b>			
Share capital	16	296,893	296,893
Reserves		20,618,001	20,426,006
Equity attributable to shareholders of the Company		20,914,894	20,722,899
Non-controlling interests		2,012,779	1,925,703
Total equity		<u>22,927,673</u>	<u>22,648,602</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 2021 (audited)	296,893	5,951,219	1,259,620	(27,734)	413,900	1,039,750	11,789,251	20,722,899	1,925,703	22,648,602
Exchange differences on translation from functional currency to presentation currency	-	-	105,078	-	-	-	-	105,078	13,364	118,442
Fair value change on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	(299,016)	-	(299,016)	-	(299,016)
Income tax relating to items that will not be reclassified to profit or loss	-	-	-	-	-	76,367	-	76,367	-	76,367
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	-	-	-	(30,425)	-	-	-	(30,425)	-	(30,425)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	-	-	-	49,512	-	-	-	49,512	-	49,512
Profit for the period	-	-	-	-	-	-	778,133	778,133	125,573	903,706
Total comprehensive income (expense) for the period	-	-	105,078	19,087	-	(222,649)	778,133	679,649	138,937	818,586
Transfer	-	-	-	-	18,882	-	(18,882)	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	(42,314)	(42,314)	(6,700)	(49,014)
Acquisition of a subsidiary (note 19)	-	-	-	-	-	-	-	-	3,496	3,496
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	26,777	26,777
Disposal of a subsidiary (note 19)	-	-	-	-	-	-	-	-	(13,549)	(13,549)
Dividends declared to shareholders of the Company (note 9)	-	(445,340)	-	-	-	-	-	(445,340)	-	(445,340)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(61,885)	(61,885)
	-	(445,340)	-	-	18,882	-	(61,196)	(487,654)	(51,861)	(539,515)
At 30 June 2021 (unaudited)	296,893	5,505,879	1,364,698	(8,647)	432,782	817,101	12,506,188	20,914,894	2,012,779	22,927,673

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

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 (expense) 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 (note 9)	-	(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)	287,069	5,603,029	(337,416)	(38,814)	365,711	1,192,228	10,971,085	18,042,892	1,713,788	19,756,680

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	NOTE	Six months ended 30 June	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Net cash generated from operating activities		<b>830,029</b>	898,278
Investing activities			
Purchases of property, plant and equipment		<b>(1,174,585)</b>	(795,165)
Payments for acquisition of an associate		<b>(5,230,880)</b>	–
Payment for right-of-use assets		<b>(29,001)</b>	(31,434)
Advances to joint ventures		<b>(57,962)</b>	(7,667)
Advances to associates		<b>(16,941)</b>	(32,253)
Dividends received from associates		<b>254,548</b>	118,706
Dividends received from equity instruments at fair value through other comprehensive income		<b>30,882</b>	28,079
Decrease in time deposits over three months		<b>82,924</b>	16,564
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	19	<b>(26,779)</b>	18,179
Disposal of a subsidiary (net of cash and cash equivalents disposed)	19	<b>(2,030)</b>	–
Repayment of loans by joint ventures		<b>67,066</b>	15,241
Repayment of loans by associates		<b>2,424</b>	–
Capital contribution to joint ventures		<b>(30,002)</b>	(144,763)
Capital contribution to an associate		–	(10,749)
Other investing cash flows		<b>19,722</b>	11,011
Net cash used in investing activities		<b>(6,110,614)</b>	(814,251)
Financing activities			
New bank and other loans raised		<b>7,991,592</b>	1,500,162
Repayments of bank and other loans		<b>(2,544,139)</b>	(1,097,437)
Advances from joint ventures		<b>39,318</b>	26,762
Advance from a non-controlling shareholder		<b>14,163</b>	92
Acquisition of additional interest in a subsidiary		<b>(49,014)</b>	–
Repayment of lease liabilities		<b>(14,896)</b>	(14,875)
Capital contribution from non-controlling shareholders of subsidiaries		<b>26,777</b>	22,529
Loan from ultimate holding company		<b>83,419</b>	–
Dividends paid to non-controlling shareholders of subsidiaries		<b>(61,885)</b>	(39,069)
Net cash generated from financing activities		<b>5,485,335</b>	398,164
Net increase in cash and cash equivalents		<b>204,750</b>	482,191
Cash and cash equivalents at beginning of the period		<b>2,225,954</b>	1,937,437
Effect of foreign exchange rate changes		<b>54,774</b>	(19,005)
Cash and cash equivalents at end of the period, representing bank balances and cash		<b>2,485,478</b>	2,400,623

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In the opinion of the directors of the Company (“Directors”), the Group’s parent holding company and the ultimate controlling shareholder is The Hong Kong and China Gas Company Limited (“HKCG”), a limited company incorporated in Hong Kong with its shares listed on the Stock Exchange.

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales of piped gas and other types of energy, construction of gas pipelines, the sales of gas appliances and related products, and other value-added services in the People’s Republic of China (the “PRC”).

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\$12,839 million as at 30 June 2021. The Group’s liabilities as at 30 June 2021 included borrowings of approximately HK\$10,164 million that are repayable within one year from the end of the reporting period.

## **1. BASIS OF PREPARATION (CONTINUED)**

As at 30 June 2021, the Group has unutilised source of fund from a USD2 Billion Medium Term Note Programme (“MTN Programme”) amounting to approximately HK\$15,530 million and unutilised facilities from banks and ultimate controlling shareholder amounting to approximately HK\$8,643 million (“Facilities”). As of the date of approval for issuance of the condensed consolidated financial statements, the Group had unutilised source of fund from MTN Programme and the Facilities amounting to approximately HK\$15,544 million and HK\$8,644 million, respectively. When considering the Group’s ability to continue as a going concern, the Directors considered that the Group’s borrowings of approximately HK\$4,933 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

Taking into account of the internally generated funds, unutilised source of fund from MTN Programme and those available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Other than accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described below, the application of the amendments to HKFRSs in the current interim 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 and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4, and HKFRS 16 “Interest Rate Benchmark Reform — Phase 2”**

#### *2.1.1 Accounting policies*

##### Financial instruments

#### **Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform**

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Application of amendments to HKFRSs (continued)

#### **2.1 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4, and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2” (continued)**

##### 2.1.1 Accounting policies (continued)

###### Financial instruments (continued)

###### **Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform (continued)**

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 “Financial Instruments” on modification of a financial asset or financial liability to the additional changes to which the practical expedient does not apply.

###### **Hedge accounting**

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relation nor the designation of a new hedging relationship.

###### *Cash flows hedges*

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve after the transition is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Application of amendments to HKFRSs (continued)

#### 2.1 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4, and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2” (continued)

##### 2.1.2 Transition and summary of effects

As at 1 January 2021, the Group has several financial liabilities and derivatives, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	<b>HKD</b> <b>Hong Kong Interbank</b> <b>Offered Rate</b> HK\$'000	<b>USD</b> <b>London Interbank</b> <b>Offered Rate</b> HK\$'000
<b>Financial liabilities</b>		
Bank loans	575,000	1,164,750
<b>Derivatives</b>		
Cross currency interest rate swaps	92,805	20,522

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the reporting period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2021.



### 3. SEGMENT INFORMATION

#### Operating segments

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

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

The Group currently organises its operations into three operating divisions, which also represent the operating segments of the Group for financial reporting purposes. The principal activities of the operating and reportable segments are as follows:

- |                               |   |                                                                                                        |
|-------------------------------|---|--------------------------------------------------------------------------------------------------------|
| Sales of piped gas and energy | – | Sales of piped gas (mainly natural gas) and other types of energy                                      |
| Gas connection                | – | Construction of gas pipeline networks under gas connection contracts                                   |
| Extended business             | – | Sales of gas related household appliances and related products, and other related value-added services |

In prior years, the Executive Directors assessed the Group's businesses by two operating segments, namely (a) sales and distribution of piped gas and related products and (b) gas connection. During the six months ended 30 June 2021, the Executive Directors have reassessed and restructured its businesses into (i) sales of piped gas and energy (ii) gas connection and (iii) extended business. The comparative information has been restated to conform with the current period's presentation.

Segment 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 income, other losses, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors. Therefore, segment assets and liabilities are not presented.

### 3. SEGMENT INFORMATION (CONTINUED)

#### Operating segments (continued)

Information regarding these segments is presented below.

	Sales of piped gas and energy HK\$'000	Gas connection HK\$'000	Extended business HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 June 2021</b>				
REVENUE				
Revenue recognised at a point in time	6,514,341	674,337	354,748	7,543,426
Revenue recognised over time	–	229,086	–	229,086
External	<u>6,514,341</u>	<u>903,423</u>	<u>354,748</u>	<u>7,772,512</u>
Segment results	<u>610,607</u>	<u>396,913</u>	<u>71,188</u>	1,078,708
Other income				74,707
Other losses, net				(4,985)
Unallocated corporate expenses				(66,903)
Share of results of associates				186,635
Share of results of joint ventures				186,023
Finance costs				<u>(234,598)</u>
Profit before taxation				1,219,587
Taxation				<u>(315,881)</u>
Profit for the period				<u>903,706</u>

### 3. SEGMENT INFORMATION (CONTINUED)

#### Operating segments (continued)

	Sales of piped gas and energy HK\$'000	Gas connection HK\$'000	Extended business HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2020 (restated)				
REVENUE				
Revenue recognised at a point in time	4,669,412	562,732	140,556	5,372,700
Revenue recognised over time	–	190,586	–	190,586
External	<u>4,669,412</u>	<u>753,318</u>	<u>140,556</u>	<u>5,563,286</u>
Segment results	<u>461,364</u>	<u>320,113</u>	<u>28,460</u>	809,937
Other income				54,340
Other losses, net				(13,017)
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>

#### 4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Gas fuel, stores and materials used	5,542,926	3,844,872
Staff costs	568,690	432,073
Depreciation and amortisation	436,163	359,140
Other expenses	212,928	186,493
	<u>6,760,707</u>	<u>4,822,578</u>

#### 5. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interest on bank and other borrowings	238,573	197,411
Bank charges	2,496	2,754
Interest on lease liabilities	2,224	1,547
	<u>243,293</u>	<u>201,712</u>
Less: amounts capitalised	<u>(8,695)</u>	<u>(8,865)</u>
	<u>234,598</u>	<u>192,847</u>

## 6. PROFIT BEFORE TAXATION

### Six months ended 30 June

	2021 HK\$'000	2020 HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	9,842	9,094
Depreciation of right-of-use assets	26,229	26,775
Cost of inventories sold	5,978,625	4,201,427
Depreciation of property, plant and equipment	400,092	323,271
Staff costs	568,690	432,073
Exchange loss, net	–	66
Loss on disposal of property, plant and equipment	5,675	–
Loss on disposal of a subsidiary	405	–
and after crediting:		
Interest income	17,764	10,345
Dividend income from equity instruments at fair value through other comprehensive income	30,882	28,079
Exchange gain, net	1,095	–

## 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’s income neither arises in, nor is derived from, Hong Kong for both periods.

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2020: 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:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings for the purpose of basic earnings per share, being profit for the period attributable to shareholders of the Company	<u>778,133</u>	<u>580,758</u>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,968,935</u>	<u>2,870,687</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 2021 (2020: nil). During the period, a dividend of HK fifteen cents per ordinary share (2020: HK fifteen cents per ordinary share) amounting to HK\$445,340,000 was declared by the Board as the final dividend for 2020 (HK\$430,603,000 for 2019) which is recognised in trade and other payables and accrued charges as at 30 June 2021.

The final dividend for 2020 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 13 July 2021, the final dividend of HK fifteen cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders whose names appear on the register of members of the Company on 4 June 2021 as the final dividend in respect of the financial year ended 31 December 2020.

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

During the current interim period, the Group spent HK\$1,174,585,000 (2020: HK\$804,030,000) on additions to property, plant and equipment, including HK\$894,492,000 (2020: HK\$503,783,000) on the construction in progress of gas pipelines and HK\$280,093,000 (2020: HK\$300,247,000) on other plant and equipment.

Furthermore, during the current interim period, additions to right-of-use assets amounted to HK\$63,058,000 (2020: HK\$43,737,000), of which HK\$29,001,000 (2020: HK\$31,434,000) related to acquisition of leasehold land.

## 11. GOODWILL

	HK\$'000
At 1 January 2021	5,625,492
Currency realignment	69,865
Acquisition of a subsidiary (note 19)	82,485
Disposal of a subsidiary (note 19)	(83,349)
	<hr/>
At 30 June 2021	<u>5,694,493</u>

## 12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
Trade receivables (net of allowance for credit losses)	<b>1,046,988</b>	1,101,251
Prepayments	<b>504,442</b>	631,212
Other receivables and deposits	<b>505,445</b>	504,755
	<hr/>	<hr/>
	<b><u>2,056,875</u></b>	<u>2,237,218</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\$1,210,840,000 (31 December 2020: HK\$1,269,048,000) and allowance for credit losses of HK\$163,852,000 (31 December 2020: HK\$167,797,000). 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:

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
0 to 90 days	<b>781,108</b>	883,463
91 to 180 days	<b>74,308</b>	39,115
Over 180 days	<b>191,572</b>	178,673
	<u><b>1,046,988</b></u>	<u>1,101,251</u>

## 13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSSES MODEL

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Impairment loss (reversed) recognised in respect of trade receivables, net	<u><b>(5,989)</b></u>	<u>17,616</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.



#### 14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>1,286,376</b>	1,418,051
Consideration payable for acquisitions of businesses	<b>92,111</b>	78,187
Other payables and accruals	<b>1,483,246</b>	1,192,770
Amount due to ultimate holding company ( <i>note</i> )	<b>7,657</b>	317
	<u><b>2,869,390</b></u>	<u>2,689,325</u>

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

#### Trade payables

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

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
0 to 90 days	<b>629,220</b>	803,056
91 to 180 days	<b>202,631</b>	209,887
181 to 360 days	<b>211,308</b>	142,431
Over 360 days	<b>243,217</b>	262,677
	<u><b>1,286,376</b></u>	<u>1,418,051</u>

## 15. BORROWINGS

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
Bank loans — unsecured	<b>16,968,284</b>	11,456,239
Other loans — unsecured	<b>36,103</b>	36,519
	<u><b>17,004,387</b></u>	<u>11,492,758</u>
Carrying amounts repayable:		
On demand or within one year	<b>10,163,657</b>	5,136,717
More than one year but not exceeding two years	<b>126,211</b>	4,823,258
More than two years but not exceeding five years	<b>6,701,053</b>	1,519,480
More than five years	<b>13,466</b>	13,303
	<u><b>17,004,387</b></u>	<u>11,492,758</u>
Less: Amounts due within one year shown under current liabilities	<u><b>(10,163,657)</b></u>	<u>(5,136,717)</u>
Amounts due after one year shown under non-current liabilities	<u><b>6,840,730</b></u>	<u>6,356,041</u>

## 16. SHARE CAPITAL

### Authorised shares of HK\$0.10 each

	<b>Number of shares</b>	HK\$'000
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	<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:

	<b>Number of shares</b>	HK\$'000
At 1 January 2020 and 30 June 2020	2,870,687,008	287,069
Issue of shares upon scrip dividend scheme ( <i>note</i> )	<u>98,247,825</u>	<u>9,824</u>
At 31 December 2020 and 30 June 2021	<u>2,968,934,833</u>	<u>296,893</u>

*Note:* On 16 March 2020, a scrip dividend scheme was proposed by the Board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the Company's annual general meeting held on 21 May 2020. On 6 July 2020, 98,247,825 shares of HK\$0.10 each were allotted and issued at HK\$3.644 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2019 final dividend under the scrip dividend scheme. All the shares which were issued 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:

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>419,521</b>	346,691
Capital contribution to an associate ( <i>note 22</i> )	–	5,167,498
	<u><b>419,521</b></u>	<u>5,514,189</u>

## 18. FAIR VALUE MEASUREMENT 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).

## 18. FAIR VALUE MEASUREMENT 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	30.6.2021	Fair value as at 31.12.2020	Fair value hierarchy	Valuation techniques and key inputs
Listed equity investments classified as fair value through other comprehensive income	Assets — HK\$1,323,521,000	Assets — HK\$1,609,942,000	Level 1	Quoted market price
Cross currency interest rate swaps classified as other financial liabilities	Liabilities — HK\$113,327,000	Liabilities — HK\$113,077,000	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.

  

Financial assets	30.6.2021	Fair value as at 31.12.2020	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Unquoted equity investments	Assets — HK\$113,306,000	Assets — HK\$111,933,000	Level 3	Market comparable approach	Market multiples ranging from 0.6 to 1.7 (31 December 2020: 0.6 to 1.7) and discount for lack of marketability ranging from 0% to 30% (31 December 2020: 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 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>
Balance at 1 January 2021	111,933
Currency realignment	<u>1,373</u>
Balance at 30 June 2021	<u><u>113,306</u></u>

## 18. FAIR VALUE MEASUREMENT 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/DISPOSAL OF SUBSIDIARIES

### **For the six months ended 30 June 2021**

For the six months ended 30 June 2021, U-Tech (Guang Dong) Engineering Construction Co., Ltd ("U-Tech (Guang Dong)"), an indirect wholly-owned subsidiary of the Company, acquired 80% interest in Jiangsu Jinzhuo Construction Engineering Co., Ltd. ("Jiangsu Jinzhuo"), which is principally engaged in businesses of municipal engineering, civil construction work, pipeline installation and non-excavation pipeline reconstruction work in the PRC from an independent third party, for a consideration of RMB80,000,000 (equivalent to HK\$96,467,000).

## 19. ACQUISITION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2021 (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	13,574
Inventories	35,008
Trade and other receivables	45,598
Taxation receivables	1,073
Bank balances and cash	69,688
Trade and other payables	<u>(147,463)</u>
	<u>17,478</u>
Provisional goodwill arising on acquisition:	
Acquiree's provisional fair values on net identifiable assets	(17,478)
Consideration paid	96,467
Non-controlling interests	<u>3,496</u>
	<u>82,485</u>
Net cash outflow on acquisition:	
Consideration paid	(96,467)
Bank balances and cash acquired	<u>69,688</u>
	<u>(26,779)</u>

The fair value of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable intangible assets and valuation of the identifiable assets and liabilities.

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 2021 is presented as contributions are insignificant.

## 19. ACQUISITION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

### For the six months ended 30 June 2021 (continued)

After the completion of acquisition, U-Tech (Guang Dong) and the non-controlling shareholder, 湖州鼎昌工程設計合夥企業(普通合夥) (“Huzhou Dingchang”) have made an additional capital contribution to Jiangsu Jinzhuo in the amount of RMB32,000,000 (equivalent to HK\$38,991,000) and RMB8,000,000 (equivalent to HK\$9,748,000), respectively in proportion to their shareholding percentages.

Subsequently, the Group disposed 29.9% and 0.2% equity interests in Jiangsu Jinzhuo to an indirectly wholly-owned subsidiary of HKCG and Huzhou Dingchang for a consideration of RMB41,860,000 (equivalent to HK\$51,005,000) and RMB280,000 (equivalent to HK\$341,000) in cash, respectively, resulting in loss of control. Except for the capital contribution as mentioned above, there is no material change in the net assets of Jiangsu Jinzhuo since the acquisition. The net assets disposed amounted to HK\$151,093,000 and resulted in an insignificant loss on disposal. Details of the disposals were disclosed in the announcement of the Company dated 7 May 2021.

### For the six months ended 30 June 2020

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 was for the expansion of the Group’s business and to increase returns to its shareholders.



## 19. ACQUISITION/DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2020 (continued)

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

Acquiree's 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>
Result on the acquisition:	
Acquiree's fair values on net identifiable assets	34,018
Consideration paid	(15,309)
Non-controlling interests	<u>(18,709)</u>
	<u>—</u>
Net cash inflow 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 was presented as the contributions are insignificant.

## 20. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2021, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 2 years to 18 years. On the lease commencement, the Group recognised HK\$34,057,000 (2020: HK\$12,303,000) of right-of-use assets and HK\$34,057,000 (2020: HK\$12,303,000) of lease liabilities.

## 21. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
Anhui Province Natural Gas Development Co., Ltd (note b)	Purchase of compressed natural gas	54,543	69,187
安徽皖能清潔能源有限公司 (note b)	Purchase of natural gas	24,609	100
常州東利港華氣體有限公司 (note b)	Purchase of natural gas	16,676	26,464
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	1,261	483
	Purchase of pipeline construction materials and tools	1,053	622
Guangzhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	13,734	13,718
港華國際能源貿易有限公司 (note a)	Purchase of natural gas	16,131	47,825
Hong Kong & China Gas Investment Limited (note a)	Charges paid for expatriate service	1,404	4,394
GH-Fusion Corporation Ltd. (note b)	Purchase of pipeline construction materials and tools	1,403	837
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of pipeline construction materials and tools	1,935	929
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	26,695	19,588
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	1,695	146

## 21. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
Nanjing Hong Kong and China Gas Company Limited ( <i>note b</i> )	Purchase of pipeline construction materials and tools	2,369	–
南京市燃氣工程設計院有限公司 ( <i>note b</i> )	Design fee	2,387	–
南京燃氣輸配有限公司 ( <i>note b</i> )	Charges paid for construction services	6,696	–
清遠卓佳公用工程材料有限公司 ( <i>note b</i> )	Purchase of pipeline construction materials and tools	5,170	4,641
S-Tech Smart Technology (Wuhan) Company Limited ( <i>note a</i> )	Charges paid for system software, cloud computing system and safety inspection supporting services	3,822	2,784
山東港華培訓學院 ( <i>note a</i> )	Charges paid for training services	1,063	604
山東港燃經貿有限公司 ( <i>note d</i> )	Purchase of natural gas	99,546	30,062
瀋陽三全工程監理諮詢有限公司 ( <i>note a</i> )	Charges paid for project management services	3,083	3,028
四川空港燃氣有限公司 ( <i>note d</i> )	Sale of natural gas	5,907	3,407
唐山皓華貿易有限公司 ( <i>note a</i> )	Rental paid for liquefied natural gas storage	1,584	–
徐州港華能源科技有限公司 ( <i>note a</i> )	Purchase of natural gas	–	1,481
Xuzhou Hong Kong and China Gas Company Limited ( <i>note a</i> )	Purchase of natural gas	9,273	6,682
Yangxin Hong Kong & China Gas Company Limited ( <i>note b</i> )	Purchase of natural gas	3,503	–

## 21. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
卓度計量技術(深圳)有限公司 (note a)	Purchase of gas meters	20,122	7,847
Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b)	Charges paid for processing service of pipeline materials	6,312	6,325
卓通管道系統(中山)有限公司 (note a)	Purchase of pipeline construction materials and tools	53,239	47,064

Notes:

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

## 22. EVENT AFTER THE END OF THE REPORTING PERIOD

On 27 October 2020, the Company entered into a capital increase agreement with Shenergy (Group) Company Limited and Shanghai Gas Co., Ltd. ("Shanghai Gas"), pursuant to which the Company agreed to increase the registered capital and capital reserves of Shanghai Gas by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to HK\$5,651,756,000). Upon completion, the Company directly holds 25% of the equity interest in Shanghai Gas. Shanghai Gas is therefore treated as an associate of the Company. The capital contribution has been fully paid to Shanghai United Assets and Equity Exchange as payments for such acquisition as at 30 June 2021. The above transaction has been completed on 9 July 2021. Details of the transaction were disclosed in the circular of the Company dated 25 January 2021 and the announcement of the Company dated 12 July 2021.