Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

港華燃氣有限公司
Towngas China Company Limited

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

2019 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales of the Group surged by 14% to 5,619 million cubic metres.
- Profit after taxation attributable to shareholders of the Company was HK$756 million, a steady increase of 14%.
- Basic earnings per share amounted to HK26.89 cents, an increase of 12% over the corresponding period last year.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019.

The unaudited consolidated results of the Group for the six months ended 30 June 2019 together with the comparative figures of 2018 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*2*	**6,512,354**	5,584,184
Total operating expenses	*3*	**(5,625,207)**	(4,788,522)
		887,147	795,662
Other gains (losses), net		**44,292**	(27,926)
Share of results of associates		**172,443**	178,683
Share of results of joint ventures		**192,211**	193,164
Finance costs	*4*	**(190,187)**	(150,650)
Profit before taxation	*5*	**1,105,906**	988,933
Taxation	*6*	**(253,781)**	(242,149)
Profit for the period		**852,125**	746,784
Profit for the period attributable to:			
Shareholders of the Company		**755,624**	663,445
Non-controlling interests		**96,501**	83,339
		852,125	746,784
		HK cents	*HK cents*
Earnings per share	*7*		
– Basic		**26.89**	23.96

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**852,125**	746,784
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences arising on translation to presentation currency	**(18,338)**	(272,369)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**53,862**	29,238
Income tax relating to items that will not be reclassified to profit or loss	**(13,469)**	(7,310)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**7,958**	-
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(14,299)**	-
	15,714	(250,441)
Total comprehensive income for the period	**867,839**	496,343
Total comprehensive income attributable to:		
Shareholders of the Company	**775,517**	423,058
Non-controlling interests	**92,322**	73,285
Total comprehensive income for the period	**867,839**	496,343

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTES	**30.06.2019** **HK$'000** **(unaudited)**	31.12.2018 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**16,563,423**	15,914,048
Right-of-use assets		**826,836**	-
Leasehold land		**-**	638,502
Intangible assets		**482,872**	492,669
Goodwill		**5,518,483**	5,522,253
Interests in associates		**4,104,087**	4,009,196
Interests in joint ventures		**2,735,626**	2,520,858
Loans to joint ventures		**39,827**	39,854
Loan to an associate		**33,455**	11,159
Equity instruments at fair value through other comprehensive income		**434,476**	381,449
Other financial asset		**11,703**	-
		30,750,788	29,529,988
Current assets			
Inventories		**586,015**	575,250
Leasehold land		**-**	25,629
Loans to joint ventures		**276,383**	240,451
Trade and other receivables, deposits and prepayments	*9*	**1,684,192**	1,833,228
Amounts due from non-controlling shareholders		**107,375**	105,168
Other financial assets		**-**	37,180
Time deposits over three months		**43,331**	56,225
Bank balances and cash		**1,959,517**	1,611,487
		4,656,813	4,484,618
Current liabilities			
Trade and other payables and accrued charges	*10*	**2,345,473**	2,079,926
Contract liabilities		**2,989,721**	3,043,956
Amounts due to non-controlling shareholders		**89,435**	96,629
Taxation		**891,678**	862,740
Borrowings – amounts due within one year		**3,817,600**	2,783,581
Loans from joint ventures		**101,127**	24,642
Lease liabilities		**19,730**	-
Other financial liabilities		**14,260**	114,865
		10,269,024	9,006,339
Net current liabilities		**(5,612,211)**	(4,521,721)
Total assets less current liabilities		**25,138,577**	25,008,267

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

AT 30 JUNE 2019

	30.06.2019	31.12.2018
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Non-current liabilities		
Borrowings – amounts due after one year	**6,399,729**	6,720,751
Deferred taxation	**504,523**	495,900
Lease liabilities	**40,648**	-
Loan from a non-controlling shareholder	**18,878**	-
Other financial liability	**25,417**	22,300
	6,989,195	7,238,951
Net assets	**18,149,382**	17,769,316
Capital and reserves		
Share capital	**281,003**	281,003
Reserves	**16,292,456**	15,948,194
Equity attributable to shareholders of the Company	**16,573,459**	16,229,197
Non-controlling interests	**1,575,923**	1,540,119
Total equity	**18,149,382**	17,769,316

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$83,466,000 and right-of-use assets of HK$740,781,000 at 1 January 2019.

The net impact on retained earnings on 1 January 2019 was a decrease of approximately HK$9,751,000.

Details of changes in reclassification and changes in accounting policies will be set out in the interim report.

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

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

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

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other gains (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.

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products *HK$'000*	**Gas connection** *HK$'000*	**Consolidated** *HK$'000*
Six months ended 30 June 2019			
REVENUE			
External	**5,618,926**	**893,428**	**6,512,354**
Segment results	**548,769**	**415,538**	**964,307**
Other gains, net			**44,292**
Unallocated corporate expenses			**(77,160)**
Share of results of associates			**172,443**
Share of results of joint ventures			**192,211**
Finance costs			**(190,187)**
Profit before taxation			**1,105,906**
Taxation			**(253,781)**
Profit for the period			**852,125**

	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2018			
REVENUE			
External	4,728,376	855,808	5,584,184
Segment results	466,068	405,133	871,201
Other losses, net			(27,926)
Unallocated corporate expenses			(75,539)
Share of results of associates			178,683
Share of results of joint ventures			193,164
Finance costs			(150,650)
Profit before taxation			988,933
Taxation			(242,149)
Profit for the period			746,784

3. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**4,599,623**	3,784,993
Staff costs	**485,578**	470,209
Depreciation, amortisation, and release of leasehold land	**334,660**	308,527
Other expenses	**205,346**	224,793
	5,625,207	4,788,522

4. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**194,405**	158,241
Bank charges	**3,105**	2,952
Interest on lease liabilities	**1,631**	-
	199,141	161,193
Less: amounts capitalised	**(8,954)**	(10,543)
	190,187	150,650

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**9,518**	9,988
Depreciation of right-of-use assets	**25,806**	-
Release of leasehold land	**-**	10,264
Cost of inventories sold	**4,942,081**	4,104,308
Depreciation of property, plant and equipment	**299,336**	288,275
Staff costs	**485,578**	470,209
Exchange loss	**-**	60,741
Net change in fair value of other financial assets/liabilities	**76,470**	41,638
and after crediting:		
Interest income	**7,596**	7,825
Dividend income from equity instruments at fair value through other comprehensive income	**30,051**	53,480
Exchange gain	**68,042**	-

6. 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.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2018: 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.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company	**755,624**	663,445

	Number of shares Six months ended 30 June	
	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,810,028**	2,768,690

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil). During the period, a dividend of HK fifteen cents per ordinary share (2018: HK fifteen cents per ordinary share) amounting to HK$421,504,000 was declared by the Board as the final dividend for 2018 (HK$415,303,000 for 2017).

The final dividend for 2018 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 4 July 2019, the final dividend of HK fifteen cents per ordinary share, which included the scrip dividend option offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2018.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2019	31.12.2018
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**852,358**	871,480
Prepayments	**467,167**	597,090
Other receivables and deposits	**364,667**	364,658
	1,684,192	1,833,228

Trade receivables

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.06.2019	31.12.2018
	HK$'000	*HK$'000*
0 to 90 days	**625,014**	747,436
91 to 180 days	**110,298**	44,553
Over 180 days	**117,046**	79,491
	852,358	871,480

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2019	31.12.2018
	HK$'000	*HK$'000*
Trade payables	**1,169,886**	1,248,393
Consideration payable for acquisitions of businesses	**74,969**	75,019
Other payables and accruals	**1,095,998**	755,590
Amount due to ultimate holding company (note)	**4,620**	924
	2,345,473	2,079,926

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

Trade payables

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

	30.06.2019	31.12.2018
	HK$'000	*HK$'000*
0 to 90 days	**573,433**	819,120
91 to 180 days	**193,548**	127,950
181 to 360 days	**212,281**	128,181
Over 360 days	**190,624**	173,142
	1,169,886	1,248,393

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2019, total gas sales volume of the Group surged by 14% to 5,619 million cubic metres. Total number of customers reached 13.03 million, with 400,000 new customers compared to the end of last year. Industrial gas sales grew by 16% to 3,209 million cubic metres over the corresponding period last year, accounting for 57% of the total volume of gas sold by the Group, while commercial gas sales reached 964 million cubic metres with an increase of 11% over the corresponding period last year, accounting for 17% of the total volume of gas sold by the Group. Residential gas sales increased by 11% to 1,446 million cubic metres over the corresponding period last year and accounted for 26% of the total volume of gas sold by the Group. Profit after taxation attributable to shareholders of the Company amounted to HK$756 million, representing a steady increase of 14% over the corresponding period last year. Basic earnings per share amounted to HK26.89 cents, an increase of 12% over the corresponding period last year.

Revenue

For the six months ended 30 June 2019, revenue from the sales of piped gas and related products rose 19% to HK$5,619 million over the corresponding period last year due to the satisfactory results derived from active promotion of natural gas replacing coal. The total consolidated volume of gas sold in the current period amounted to 1,694 million cubic metres, representing an increase of 15% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK$893 million, up 4% as compared to the corresponding period last year, with approximately 200,000 consolidated new household connections being made during the period.

Development of New Projects

The Group continued to vigorously drive the development of distributed energy projects, adding four such projects to our portfolio during the year. These included initiatives in Maanshan Economic and Technological Development Zone South District in Anhui province; the Chemical Industrial Park in Luanzhou Economic Development Zone of Tangshan city in Hebei province; the Xinmi Yinji International Tourism Resort of Zhengzhou city in Henan province; as well as in Shenzhen, Guangdong province. These projects are expected to generate natural gas consumption of up to 80 million cubic metres in 5 years' time. They will also offer regional synergies for our gas projects and distributed energy projects in neighbouring areas in every aspect of our operations - from markets and gas sourcing to policies and strategies. Together with our 10 previously established projects, the Group currently holds 14 distributed energy projects.

We also established U-Tech (Guang Dong) Engineering Construction Co., Ltd ("U-Tech Guang Dong"), an engineering construction and project management company, during the year. As the Group's platform for developing our project work construction business, U-Tech Guang Dong will be able to swiftly integrate resources from the Group's construction companies and speed up the development of project companies, in addition to enhancing the Group's efficiency in construction management.

Equity Instruments at Fair Value through Other Comprehensive Income

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

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2019.

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 2019, the Group's bank loans and other loans amounted to HK$10,217 million, of which HK$3,818 million represented bank loans and other loans due within 1 year, HK$6,381 million represented bank loans and other loans due between 1 to 5 years, and HK$18 million represented bank loans and other loans due over 5 years. The bank loans and other loans of HK$5,684 million bore interests at fixed rates in the interest arrangement while the remaining HK$4,533 million were arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group recorded an exchange gain of HK$68 million caused by the fluctuations of Renminbi exchange rate in the period. The Group's borrowings denominated in Renminbi amounted to HK$7,815 million and the remaining HK$2,402 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the period. Those non-Renminbi denominated borrowings were hedged against Renminbi so as to reduce foreign currency risk. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$101 million from joint ventures on a fixed interest rate basis. The Group entered into cross currency swap contracts, foreign currency forward contracts and cross currency interest rate swaps contracts to hedge against currency risk for non-Renminbi denominated bank loans in the period. The loss resulting from net change in fair value of other financial assets and liabilities was HK$76 million. As at 30 June 2019, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 33.4%.

As at 30 June 2019, the Group's cash and cash equivalents together with time deposits amounted to HK$2,003 million, of which 99% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2019, the Group's unutilised available facilities amounted to HK$6,657 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and the requirements of operation and business investment.

Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed 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 19 August 2019 not to declare an interim dividend (2018: nil).

Employee and Remuneration Policies

As at 30 June 2019, the Group had 22,101 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Corporate Social Responsibility

In 2019, Towngas China was included as a constituent of the Hang Seng Corporate Sustainability Index Series for the eighth year in a row, in recognition of its excellent performance in the aspects of environment, society and corporate governance, the fulfilment of its responsibilities as a corporate citizen, as well as its contributions to and performance in seeking a balance among the environmental, commercial and social aspects of its operations.

Comprising members of the top management, the Sustainability Committee established last year facilitates all departments' involvement in driving and monitoring the Group's performance in health and safety, community engagement, environmental protection and other aspects. In line with the Group's strategic objective of taking the initiative in the development of environmental projects, Towngas China launched the "Less Plastics" community welfare campaign in the first half of 2019 and called on project companies and staff to reduce the use of disposable plastic items such as drinking straws and takeaway boxes. Tree-planting and energy-conservation activities were also organised to promote a low-carbon lifestyle. As at 30 June, more than 70 project companies and over 2,200 staff volunteers participated in our initiatives, totalling over 11,000 service hours.

Towngas China Gentle Breeze Movement, the Group's signature social welfare programme, extended its outreach activities further to Pingchang county, Bazhong city in Sichuan province. The programme offered assistance to Jianshan Primary School by way of setting up a Towngas China Charity Library, renovating facilities, building rain shelters and purchasing school uniforms and sports shoes for its teachers and students, in a bid to help improve their learning environment. Since the inception of Towngas China Gentle Breeze Movement in 2013, the Group has rolled out charitable schooling aid initiatives in Sichuan, Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Guangdong and Fujian provinces and the Inner Mongolia autonomous region.

To uphold our traditional Chinese culture and foster harmony in neighbourhoods, Towngas China headed the ninth Rice Dumplings for the Community campaign which was supported by more than 70 project companies. Coinciding with the Dragon Boat Festival, the campaign invited staff members and their families to prepare rice dumplings to be distributed to underprivileged groups. This year, close to 1,400 volunteers signed up for the event to make and deliver more than 36,700 rice dumplings.

In support of the national "Safe Production Month", Towngas China organised another "HSE Walk" in June, collaborating with parent company The Hong Kong and China Gas Company Limited ("HKCG") to mobilise more than 140 project companies and over 14,000 colleagues and their family members to join the walk at various operation locations across the country, in a bid to promote the Group's code of conduct in health, safety and environment. This year, our campaign was held under the theme of "Enhancing Operations and Going Far with Integrity", underscoring our "Safety First" principle. The Group's Safety Committee conducts two major safety inspections every year to eliminate safety hazards in business operations through on-site inspection, thereby minimising safety risks. Meanwhile, Towngas China strived to promote the culture of "integrity" with the aim of providing quality service to the public in an open, fair and just manner, thereby enhancing our social reputation.

Outlook

Economic Landscape

The Chinese economy has remained stable since the beginning of 2019 with a growth in the gross domestic product of 6.3% for the first six months of the year. China's economic growth has been put under pressure in view of the United States ("U.S.") government's decision to raise tariffs on Chinese goods, a move announced on 10 May 2019. Increasing volatility has also been seen in the RMB-US dollar exchange rate, in tandem with the changing conditions in Chinese-US economic and trade relations. Nevertheless, in light of anticipated changes in U.S. interest rate policies and the timely implementation of measures by the Chinese government to stabilise the exchange rate, the rate is expected to remain within a reasonable range for the entire year.

At the same time, the Chinese government has continued to step up efforts to open the economy to foreign investment and implement tax cuts and fee reductions for domestic businesses. "The Foreign Investment Law of the People's Republic of China" which was approved by the National People's Congress in March 2019 will come into effect on 1 January 2020. National treatment will be granted prior to access while a negative-list administration system will be implemented in respect of foreign investment. Pursuant to the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2019) which comes into effect on 30 July 2019, the negative list has been cut from 48 items to 40 items. Regarding infrastructure investment, the restriction for gas or heat pipelines for cities with a population of more than 500,000 to be majority-controlled by Chinese shareholders has been abolished, demonstrating the strong commitment being made to open up the market to foreign investment.

Furthermore, the Ministry of Finance of the People's Republic of China, State Taxation Administration and General Administration of Customs jointly published "Relevant Policies for Deepening the Value-Added Tax Reform", reducing the value-added tax rates of 16% and 10% to 13% and 9%, respectively from 1 April 2019.

These measures should be conducive to achieving annual economic growth targets, as they drive economic growth and as their effects become more apparent over time.

Progress of Natural Gas Marketisation Reforms

The Central Commission for the Comprehensive Deepening of Reform passed "The Opinion on the Implementation of Reform of the Mechanism for Petroleum and Natural Gas Pipeline Operation" in March 2019. It also proposed the formation of a national pipeline company to engage mainly in the operation of trunk pipelines for state-owned large-scale oil and gas corporations. The aim is to expedite the building of a unified nationwide network to enhance management and operational efficiencies and maximise the capacity utilisation rate.

The National Development and Reform Commission of the People's Republic of China ("NDRC") and National Energy Administration issued a new version of its "Regulatory Measures for the Fair Availability of Oil and Gas Pipeline Facilities" in May 2019, which proposed the establishment of a thermal value pricing system in two years as well as stronger regulation over service contracts. The measures also call for the fair opening up of facilities such as mid-stream pipelines, liquefied natural gas ("LNG") receiving stations and underground gas storage facilities to third parties, facilitating the development of the entire national natural gas industry chain, alleviating the disparity between regional and seasonal natural gas demand and supply, as well as formulating a more reasonable market-oriented natural gas pricing mechanism.

The Chinese government has been making strong efforts to drive market-oriented reforms for the natural gas industry in recent years. The "Guiding Opinion on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinion on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" published in 2017 and June 2019, respectively, by the NDRC have set out proposed return rates for both gas distribution and gas facilities installation businesses of city-gas enterprises, while the rates of gas prices and installation fees for end users of piped gas are now to be determined by local price bureau. In the future, the Group's city-gas project companies might be subject to the risk of having to adjust their natural gas selling prices and gas facilities installation fees accordingly, thus creating uncertainties to the Group in operational and financial aspects. In view of the above, our management team is actively monitoring and evaluating the changes in policies and will take appropriate measures to address any potential risks.

Even though the policies of installation fees for gas facilities may affect the short-term income of city gas enterprises, it will favour enterprises with a stronger competitive edge in terms of safety management, quality assurance and premium services in the long term, making them the preferred choice of customers. We are confident that the Group is favourably positioned in future market competition as we have always been committed to the optimisation of the gas facilities installation process and the control of installation costs as key management issues. We also believe we have a strong edge in the market in view of our ongoing research and planning.

Market Prospects of the City Gas Business

The State Council of the People's Republic of China's "Government Work Report" delivered in 2019 targetted pollution prevention of as one of the "Three Critical Battles" to be undertaken by the government. It calls for the extension of the "Action Plan to Win the Battle for a Blue Sky" to roll out the treatment of atmospheric pollution in the Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta and the Fenhe and Weihe plains. Its aim is to enhance pollution prevention and treatment measures caused by three major sources: industrial manufacturing, coal burning and motor vehicles. The second cycle of the environmental audit conducted by the central government, which is scheduled to run for a period of four years, has already commenced.

This sustained and intensive implementation of environmental policies has provided a favourable market to further the utilisation of natural gas. Despite the slowdown of the year-on-year growth in national natural gas consumption for the first half of the year, a double-digit growth in natural gas consumption is expected for the full year. As measures for the implementation of environmental policies continue to be rolled out, local regions have shown different characteristics in their demand and market for natural gas use. For example, Jiangsu province has been strongly driving its "Jiangsu Implementation Plan for the Special Initiative of Two Reductions, Six Treatments and Three Upgrades"; Xi'an city in Shaanxi province, has in turn revised its "Rigorous Smog Treatment and Protection of Blue Sky - Three-year Action Plan (2018-2020)", proposing a thorough clean-up as well as the conversion of its centralised coal-fired heat supply terminals by the end of 2019.

Closely monitoring the new changes and opportunities in the domestic natural gas market, the Group has persisted in our strategy to enhance our market penetration, underpinned by the provision of more efficient energy services to customers through the launch of integrated energy services and distributed energy projects. Following the abolition of shareholding percentage restrictions in relation to city gas and heat pipeline investments, foreign companies will enjoy national treatment in many more aspects. At the same time, national development strategies, such as the Guangdong-Hong Kong-Macau Greater Bay Area and Yangtze River Delta Region Integration will present more opportunities for business development, particularly as the city gas market continues to become more vibrant and attractive.

Business Outlook of the Group

In light of the developments in the domestic natural gas market in 2019, our strategic plans are forging ahead. With regard to upstream gas sources, we have been steadily expanding our LNG imports, allowing us to fully leverage the gas storage capacity of the Jintan underground gas storage facilities of our parent company, HKCG, while providing supplementary gas supplies for peak shaving in winter together with the lowering of our gas sourcing costs. In the mid-stream sector, we have been vigorously driving construction to facilitate inter-connection between the Jintan underground gas storage facilities and the Group's pipelines. We have also been identifying potential joint venture LNG receiving terminal projects. Downstream, our industrial and commercial market development strategy has been upgraded to an "integrated energy service" approach, with a view to offering a diverse range of energy consumption services and efficient energy utilisation options to our customers. Our subsidiary, Towngas China Energy Investment Limited also established the "Tsinghua-Towngas China Joint Research Centre for Regional Integrated Energy Planning Technology" in conjunction with Tsinghua University in April 2019. The research centre will help us to maintain our leading position in technology advancement and integrated energy services.

Our residential market business and extended businesses have also enjoyed steady growth. Towngas Lifestyle is advancing our strategic cooperation with third parties to uncover greater customer value and enhance the scale of our business operations. U-Tech Guang Dong, a company established by the Group in May 2019, provides consulting and advisory services to city gas projects both internally and for external customers, strengthening and expanding our related businesses. These strategic initiatives will guide the Group as we move forward, seizing opportunities and embracing challenges to ensure our sound business growth for the year.

OTHER INFORMATION

Purchases, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 June 2019.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") 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 2019.

Board Audit and Risk Committee

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

A Board Audit and Risk Committee meeting was held on 12 August 2019 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2019. Deloitte Touche Tohmatsu, the Company's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Appreciation

On behalf of the Board, I would like to express sincere gratitude to all staff for their dedication and hard work, and to all shareholders and investors for their long-standing support.

By Order of the Board
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 19 August 2019

At the date of this announcement, the Board comprises:

Executive Directors:
Alfred Chan Wing-kin *(Chairman)*
Peter Wong Wai-yee *(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