港華燃氣有限公司
Towngas China Company Limited

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

# 2021 INTERIM RESULTS ANNOUNCEMENT

**Financial Highlights:**

- Total gas sales volume of the Group rebounded strongly by 32% to 7,261 million cubic metres.
- Profit after taxation attributable to shareholders of the Company was HK$778 million, a surge of 34%.
- Basic earnings per share amounted to HK26.21 cents, a notable 30% growth 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 2021.

The unaudited consolidated results of the Group for the six months ended 30 June 2021 together with the comparative figures of 2020 are as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**
*FOR THE SIX MONTHS ENDED 30 JUNE 2021*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2021** | 2020 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| | | ***(unaudited)*** | *(unaudited)* |
| Revenue | *2* | **7,772,512** | 5,563,286 |
| Total operating expenses | *3* | **(6,760,707)** | (4,822,578) |
| | | **1,011,805** | 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 | *4* | **(234,598)** | (192,847) |
| Profit before taxation | *5* | **1,219,587** | 890,198 |
| Taxation | *6* | **(315,881)** | (228,959) |
| Profit for the period | | **903,706** | 661,239 |
| Profit for the period attributable to: | | | |
| Shareholders of the Company | | **778,133** | 580,758 |
| Non-controlling interests | | **125,573** | 80,481 |
| | | **903,706** | 661,239 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share | *7* | | |
| – Basic | | **26.21** | 20.23 |

**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 | **903,706** | 661,239 |
| Other comprehensive income (expense) for the period | | |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| 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 |
| *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 | **(30,425)** | 6,024 |
| Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss | **49,512** | (28,158) |
| | **(85,120)** | (776,135) |
| Total comprehensive income (expense) for the period | **818,586** | (114,896) |
| Total comprehensive income (expense) for the period attributable to: | | |
| Shareholders of the Company | **679,649** | (138,561) |
| Non-controlling interests | **138,937** | 23,665 |
| Total comprehensive income (expense) for the period | **818,586** | (114,896) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*AT 30 JUNE 2021*

| | *NOTES* | **30.06.2021** **HK$'000** ***(unaudited)*** | 31.12.2020 *HK$'000* *(audited)* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **20,908,685** | 20,016,653 |
| Right-of-use assets | | **929,430** | 882,716 |
| Intangible assets | | **471,147** | 475,074 |
| Goodwill | | **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 | *9* | **5,651,756** | 415,776 |
| | | **43,541,770** | 37,292,682 |
| 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 | *10* | **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 |
| | | **5,586,850** | 5,600,281 |
| Current liabilities | | | |
| Trade and other payables and accrued charges | *11* | **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 | | **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 |
| | | **18,425,942** | 12,922,296 |
| Net current liabilities | | **(12,839,092)** | (7,322,015) |
| Total assets less current liabilities | | **30,702,678** | 29,970,667 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)***

*AT 30 JUNE 2021*

| | **30.06.2021** | 31.12.2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(audited)* |
| Non-current liabilities | | |
| Lease liabilities | **59,977** | 39,554 |
| Borrowings – amounts due after one year | **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 |
| | **7,775,005** | 7,322,065 |
| Net assets | **22,927,673** | 22,648,602 |
| Capital and reserves | | |
| Share capital | **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 | **22,927,673** | 22,648,602 |

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

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("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 |

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. 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.

Information regarding these segments is presented below.

| | **Sales of piped gas and energy** | **Gas connection** | **Extended business** | **Consolidated** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Six months ended 30 June 2021 | | | | |
| **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 | **6,514,341** | **903,423** | **354,748** | **7,772,512** |
| Segment results | **610,607** | **396,913** | **71,188** | **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 | | | | **(234,598)** |
| Profit before taxation | | | | **1,219,587** |
| Taxation | | | | **(315,881)** |
| Profit for the period | | | | **903,706** |

| | Sales of piped gas and energy | Gas connection | Extended business | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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 | 4,669,412 | 753,318 | 140,556 | 5,563,286 |
| Segment results | 461,364 | 320,113 | 28,460 | 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 | | | | (192,847) |
| Profit before taxation | | | | 890,198 |
| Taxation | | | | (228,959) |
| Profit for the period | | | | 661,239 |

## 3. 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 |
| | **6,760,707** | 4,822,578 |

## 4. 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 |
| | **243,293** | 201,712 |
| Less: amounts capitalised | **(8,695)** | (8,865) |
| | **234,598** | 192,847 |

## 5. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***HK$'000*** | *HK$'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** | - |

## 6. TAXATION

The taxation charge mainly represents Enterprise Income Tax ("EIT") of the People's Republic of China (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.

## 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** | |
|---|---|---|
| | **2021** | 2020 |
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company | **778,133** | 580,758 |

| | **Number of shares** | |
|---|---|---|
| | **Six months ended 30 June** | |
| | **2021** | 2020 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,968,935** | 2,870,687 |

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

## 8. 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.

## 9. PAYMENTS FOR ACQUISITION OF AN ASSOCIATE

On 27 October 2020, the Company entered into a capital increase agreement with Shenergy (Group) Company Limited ("Shenergy Group") 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.

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

| | **30.06.2021** | 31.12.2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables (net of allowance for credit losses) | **1,046,988** | 1,101,251 |
| Prepayments | **504,442** | 631,212 |
| Other receivables and deposits | **505,445** | 504,755 |
| | **2,056,875** | 2,237,218 |

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:

| | **30.06.2021** | 31.12.2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **781,108** | 883,463 |
| 91 to 180 days | **74,308** | 39,115 |
| Over 180 days | **191,572** | 178,673 |
| | **1,046,988** | 1,101,251 |

## 11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | **30.06.2021** | 31.12.2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **1,286,376** | 1,418,051 |
| Consideration payable for acquisitions of businesses | **92,111** | 78,187 |
| Other payables and accruals | **1,483,246** | 1,192,770 |
| Amount due to ultimate holding company (note) | **7,657** | 317 |
| | **2,869,390** | 2,689,325 |

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:

| | **30.06.2021** | 31.12.2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **629,220** | 803,056 |
| 91 to 180 days | **202,631** | 209,887 |
| 181 to 360 days | **211,308** | 142,431 |
| Over 360 days | **243,217** | 262,677 |
| | **1,286,376** | 1,418,051 |

# 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 compared to the corresponding period last year, which mainly due to the increase in the total volume of gas sold.

*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, with approximately 210,000 consolidated new household connections being made during the period.

*Extended Business*

The Group endeavoured to promote our Bauhinia brand. Apart from gas appliances of gas stoves, water heaters, range hoods and gas clothes 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 transaction with 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 subsidiaries 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 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 United States dollars ("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.

**Environment, 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 central 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 initiated a study on interconnection solutions for high-pressure pipelines in Jiangsu, Zhejiang and Shanghai. Currently, both parties have completed the necessary procedures for entry into the underlying capital increase agreement and such completion of capital increase initiative will benefit the Group's annual performance.

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 the many 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

### Purchases, Sale or Redemption of the Company's 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 to 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 2021.

### Board Audit and Risk Committee

The Company has a board audit and risk committee (the "Board Audit and Risk Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls 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 HKICPA.

### Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

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

Hong Kong, 17 August 2021

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