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港華燃氣有限公司
Towngas China Company Limited

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

2020 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales of the Group declined by 3% to 5,506 million cubic metres.
- Under the impact of the epidemic of coronavirus disease causing pneumonia ("COVID-19"), profit after taxation attributable to shareholders of the Company was HK$581 million, a decrease of 23% over the corresponding period last year.
- Basic earnings per share amounted to HK20.23 cents, a decrease of 25% over the corresponding period last year.

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 2020.

The unaudited consolidated results of the Group for the six months ended 30 June 2020 together with the comparative figures of 2019 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*2*	**5,563,286**	6,512,354
Total operating expenses	*3*	**(4,822,578)**	(5,625,207)
		740,708	887,147
Other gains, net		**41,323**	44,292
Share of results of associates		**138,968**	172,443
Share of results of joint ventures		**162,046**	192,211
Finance costs	*4*	**(192,847)**	(190,187)
Profit before taxation	*5*	**890,198**	1,105,906
Taxation	*6*	**(228,959)**	(253,781)
Profit for the period		**661,239**	852,125
Profit for the period attributable to:			
Shareholders of the Company		**580,758**	755,624
Non-controlling interests		**80,481**	96,501
		661,239	852,125
		HK cents	*HK cents*
Earnings per share	*7*		
– Basic		**20.23**	26.89

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTES	**30.06.2020** **HK$'000** **(unaudited)**	31.12.2019 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**17,362,299**	17,219,229
Right-of-use assets		**807,562**	799,774
Intangible assets		**447,417**	465,432
Goodwill		**5,194,186**	5,297,022
Interests in associates		**4,231,479**	4,263,989
Interests in joint ventures		**3,023,313**	2,756,425
Loans to associates		**53,044**	21,924
Equity instruments at fair value through other comprehensive income		**1,764,529**	2,399,044
Other financial assets		**28,378**	24,483
		32,912,207	33,247,322
Current assets			
Inventories		**595,455**	587,262
Loan to an associate		**10,749**	10,962
Loans to joint ventures		**204,046**	215,759
Trade and other receivables, deposits and prepayments	*9*	**1,794,629**	1,940,690
Amounts due from non-controlling shareholders		**188,043**	192,702
Time deposits over three months		**45,081**	62,752
Bank balances and cash		**2,400,623**	1,937,437
		5,238,626	4,947,564
Current liabilities			
Trade and other payables and accrued charges	*10*	**2,551,404**	2,215,160
Contract liabilities		**3,329,661**	3,309,677
Lease liabilities		**25,606**	21,034
Amounts due to non-controlling shareholders		**67,067**	64,140
Taxation payable		**985,266**	962,593
Borrowings – amounts due within one year		**3,768,446**	3,433,529
Loan from a non-controlling shareholder		**19,198**	19,485
Loans from joint ventures		**56,013**	30,370
		10,802,661	10,055,988
Net current liabilities		**(5,564,035)**	(5,108,424)
Total assets less current liabilities		**27,348,172**	28,138,898

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

AT 30 JUNE 2020

	30.06.2020	31.12.2019
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Non-current liabilities		
Lease liabilities	**32,829**	35,572
Borrowings – amounts due after one year	**6,697,252**	6,805,833
Deferred taxation	**847,964**	982,070
Other financial liabilities	**13,447**	15,413
	7,591,492	7,838,888
Net assets	**19,756,680**	20,300,010
Capital and reserves		
Share capital	**287,069**	287,069
Reserves	**17,755,823**	18,324,987
Equity attributable to shareholders of the Company	**18,042,892**	18,612,056
Non-controlling interests	**1,713,788**	1,687,954
Total equity	**19,756,680**	20,300,010

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

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

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

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

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

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

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

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

Accounting policies on hedge accounting

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

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

Assessment of hedging relationship and effectiveness

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

Cash flow hedges

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

Transition and summary of effects

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

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

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, 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 nor 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 2020			
REVENUE			
Revenue recognised at a point in time	**4,809,968**	**562,732**	**5,372,700**
Revenue recognised over time	**-**	**190,586**	**190,586**
External	**4,809,968**	**753,318**	**5,563,286**
Segment results	**493,065**	**316,872**	**809,937**
Other gains, net			**41,323**
Unallocated corporate expenses			**(69,229)**
Share of results of associates			**138,968**
Share of results of joint ventures			**162,046**
Finance costs			**(192,847)**
Profit before taxation			**890,198**
Taxation			**(228,959)**
Profit for the period			**661,239**

	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2019			
REVENUE			
Revenue recognised at a point in time	5,618,926	671,558	6,290,484
Revenue recognised over time	-	221,870	221,870
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

3. TOTAL OPERATING EXPENSES

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

4. FINANCE COSTS

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

5. PROFIT BEFORE TAXATION

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

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 has no assessable profits arising in or derived from Hong Kong for both periods.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2019: 15% to 25%).

Following the "Catalogue of Encouraged Industries in Western Region" which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

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	
	2020	2019
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company	**580,758**	755,624

	Number of shares	
	Six months ended 30 June	
	2020	2019
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,870,687**	2,810,028

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: nil). During the period, a dividend of HK fifteen cents per ordinary share (2019: HK fifteen cents per ordinary share) amounting to HK$430,603,000 was declared by the Board as the final dividend for 2019 (HK$421,504,000 for 2018), which is recognised in trade and other payables and accrued charges as at 30 June 2020.

The final dividend for 2019 was payable in cash but shareholders were given the option of electing to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. Subsequent to the reporting period, on 6 July 2020, the final dividend of HK fifteen cents per ordinary share, which included the scrip dividend option offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2019.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2020	31.12.2019
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**783,123**	886,834
Prepayments	**472,984**	561,195
Other receivables and deposits	**538,522**	492,661
	1,794,629	1,940,690

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:

	30.06.2020	31.12.2019
	HK$'000	*HK$'000*
0 to 90 days	**534,662**	682,276
91 to 180 days	**127,201**	77,053
Over 180 days	**121,260**	127,505
	783,123	886,834

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2020	31.12.2019
	HK$'000	*HK$'000*
Trade payables	**1,181,381**	1,220,225
Consideration payable for acquisitions of businesses	**72,327**	73,724
Other payables and accruals	**1,292,696**	920,205
Amount due to ultimate holding company (note)	**5,000**	1,006
	2,551,404	2,215,160

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:

	30.06.2020	31.12.2019
	HK$'000	*HK$'000*
0 to 90 days	**536,994**	706,935
91 to 180 days	**192,222**	122,759
181 to 360 days	**190,134**	172,570
Over 360 days	**262,031**	217,961
	1,181,381	1,220,225

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

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

Revenue

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

Development of New Projects

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

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

Equity Instruments at Fair Value through Other Comprehensive Income

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

Contingent Liabilities

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

Financial Position

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 30 June 2020, the Group's bank loans and other loans amounted to HK$10,466 million, of which HK$3,768 million represented bank loans and other loans due within 1 year, HK$6,682 million represented bank loans and other loans due between 1 to 5 years, and HK$16 million represented bank loans and other loans due over 5 years. The bank loans and other loans of HK$7,266 million bore interests at fixed rates in the interest arrangement while the remaining HK$3,200 million were arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group's borrowings denominated in Renminbi amounted to HK$8,737 million and the remaining HK$1,729 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the period. The Group entered into cross currency interest rate swaps contracts to hedge against currency risk for non-Renminbi denominated borrowings so as to reduce foreign currency risk. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$56 million from joint ventures on a fixed interest rate basis. As at 30 June 2020, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 30.9%.

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

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

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.

Credit Ratings

Moody's Investors Service affirmed the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also maintained the long-term corporate credit rating of Towngas China at "BBB+" and its rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

Interim Dividend

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

Employee and Remuneration Policies

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

Corporate Social Responsibility

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

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

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

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

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

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

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

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

Outlook

Economic Landscape

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

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

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

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

Progress of Natural Gas Marketisation Reforms

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

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

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

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

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

Market Prospects of the City Gas Business

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

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

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

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

Business Outlook of the Group

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

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

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

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

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

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

OTHER INFORMATION

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 2020.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2020.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 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 2020.

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 6 August 2020 to review the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020. Deloitte Touche Tohmatsu, the Group's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the 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, 13 August 2020

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