港華燃氣有限公司
Towngas China Company Limited

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

2018 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales of the Group surged by 18% to 4,949 million cubic metres.
- Profit after taxation attributable to shareholders of the Company was HK$663 million, a steady increase of 10%.
- Basic earnings per share amounted to HK23.96 cents, an increase of 8% 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 2018.

The unaudited consolidated results of the Group for the six months ended 30 June 2018 together with the comparative figures of 2017 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*2*	**5,584,184**	4,036,072
Total operating expenses	*3*	**(4,788,522)**	(3,375,102)
		795,662	660,970
Other losses, net		**(27,926)**	(4,242)
Share of results of associates		**178,683**	182,935
Share of results of joint ventures		**193,164**	153,760
Finance costs	*4*	**(150,650)**	(122,553)
Profit before taxation	*5*	**988,933**	870,870
Taxation	*6*	**(242,149)**	(197,772)
Profit for the period		**746,784**	673,098
Profit for the period attributable to:			
Shareholders of the Company		**663,445**	602,315
Non-controlling interests		**83,339**	70,783
		746,784	673,098
		HK cents	*HK cents*
Earnings per share	*7*		
– Basic		**23.96**	22.21

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**746,784**	673,098
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences arising on translation to presentation currency	**(272,369)**	354,829
Fair value change on investments in equity instruments at fair value through other comprehensive income	**29,238**	-
Income tax relating to items that will not be reclassified to profit or loss	**(7,310)**	-
Item that may be reclassified subsequently to profit or loss		
Fair value change on available-for-sale investment	**-**	(15,668)
	(250,441)	339,161
Total comprehensive income for the period	**496,343**	1,012,259
Total comprehensive income attributable to:		
Shareholders of the Company	**423,058**	906,787
Non-controlling interests	**73,285**	105,472
Total comprehensive income for the period	**496,343**	1,012,259

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	**30.06.2018** HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**15,675,661**	15,059,560
Leasehold land		**651,043**	613,218
Intangible assets		**516,532**	523,472
Goodwill		**5,747,384**	5,824,172
Interests in associates		**4,004,181**	3,935,115
Interests in joint ventures		**2,527,758**	2,407,197
Loan to a joint venture		**23,702**	24,024
Available-for-sale investments		**-**	225,415
Equity instruments at fair value through other comprehensive income		**348,178**	-
		29,494,439	28,612,173
Current assets			
Inventories		**619,897**	636,619
Leasehold land		**29,979**	27,450
Loan to an associate		**11,614**	11,772
Loans to joint ventures		**292,896**	286,298
Loan to a non-controlling shareholder		**-**	17,417
Trade and other receivables, deposits and prepayments	*9*	**1,500,427**	1,393,144
Amounts due from non-controlling shareholders		**57,066**	63,847
Time deposits over three months		**63,109**	120,790
Bank balances and cash		**1,681,825**	1,605,300
		4,256,813	4,162,637
Current liabilities			
Trade and other payables and accrued charges	*10*	**2,238,199**	5,173,019
Contract liabilities		**3,065,119**	-
Amounts due to non-controlling shareholders		**165,963**	115,546
Taxation		**790,743**	800,443
Borrowings – amount due within one year		**5,057,227**	3,707,803
Loans from joint ventures		**29,071**	49,172
Other financial liabilities		**140,551**	76,172
		11,486,873	9,922,155
Net current liabilities		**(7,230,060)**	(5,759,518)
Total assets less current liabilities		**22,264,379**	22,852,655

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

AT 30 JUNE 2018

	30.06.2018	31.12.2017
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Non-current liabilities		
Other financial liabilities	**-**	128,877
Borrowings – amount due after one year	**4,360,412**	5,071,862
Deferred taxation	**493,443**	454,100
	4,853,855	5,654,839
Net assets	**17,410,524**	17,197,816
Capital and reserves		
Share capital	**276,869**	276,869
Reserves	**15,659,419**	15,568,164
Equity attributable to shareholders of the Company	**15,936,288**	15,845,033
Non-controlling interests	**1,474,236**	1,352,783
Total equity	**17,410,524**	17,197,816

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

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

Except as described below, the application of the above new and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of piped gas (mainly natural gas) and gas related household appliances
- Construction of gas pipeline networks under gas connection contracts

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard, if any, recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, receipt in advance of HK$3,092,720,000 previously included in trade and other payables and accrued charges were reclassified to contract liabilities of HK$3,092,720,000.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade and other payables and accrued charges	2,238,199	3,065,119	5,303,318
Contract liabilities	3,065,119	(3,065,119)	-

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and contract assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

At the date of initial application / initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income ("OCI") and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other losses, net" line item in profit or loss.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables, contract asset, amounts due from non-controlling shareholders, time deposits over three months and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on debtors' aging when necessary.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments/receivables.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are presented below.

Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the individual line items affected. Line items that were not affected by the adjustments have not been included.

	31 December 2017	HKFRS 15	HKFRS 9	1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)			*(Restated)*
Non-current assets				
Interests in associates	3,935,115	-	22,106	3,957,221
Interests in joint ventures	2,407,197	-	(7,910)	2,399,287
Available-for-sale investments	225,415	-	(225,415)	-
Equity instruments at fair value through other comprehensive income	-	-	322,859	322,859
Current asset				
Trade and other receivables, deposits and prepayments	1,393,144	-	(5,641)	1,387,503
Current liabilities				
Trade and other payables and accrued charges	5,173,019	(3,092,720)	-	2,080,299
Contract liabilities	-	3,092,720	-	3,092,720
Non-current liability				
Deferred taxation	454,100	-	22,951	477,051
Equity attributable to shareholders of the Company	15,845,033	-	83,500	15,928,533
Non-controlling interests	1,352,783	-	(452)	1,352,331

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 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.

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 2018			
REVENUE			
External	**4,728,376**	**855,808**	**5,584,184**
Segment results	**466,068**	**405,133**	**871,201**
Other losses, net			**(27,926)**
Unallocated corporate expenses			**(75,539)**
Share of results of associates			**178,683**
Share of results of joint ventures			**193,164**
Finance costs			**(150,650)**
Profit before taxation			**988,933**
Taxation			**(242,149)**
Profit for the period			**746,784**

	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2017			
REVENUE			
External	3,272,484	763,588	4,036,072
Segment results	340,416	386,743	727,159
Other losses, net			(4,242)
Unallocated corporate expenses			(66,189)
Share of results of associates			182,935
Share of results of joint ventures			153,760
Finance costs			(122,553)
Profit before taxation			870,870
Taxation			(197,772)
Profit for the period			673,098

3. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**3,784,993**	2,531,624
Staff costs	**470,209**	405,466
Depreciation, amortisation, and release of leasehold land	**308,527**	258,498
Other expenses	**224,793**	179,514
	4,788,522	3,375,102

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**158,241**	130,346
Bank charges	**2,952**	2,695
	161,193	133,041
Less: amounts capitalised	**(10,543)**	(10,488)
	150,650	122,553

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**9,988**	9,231
Release of leasehold land	**10,264**	9,638
Cost of inventories sold	**4,104,308**	2,805,102
Depreciation of property, plant and equipment	**288,275**	239,629
Staff costs	**470,209**	405,466
Change in fair value of other financial assets/liabilities	**41,638**	183,459
and after crediting:		
Interest income	**7,825**	11,490
Dividend income from		
- an available-for-sale investment	**-**	58,883
- equity instruments at fair value through other comprehensive income	**53,480**	-

6. TAXATION

The taxation charge 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.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2017: 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	
	2018	2017
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company	**663,445**	602,315

	Number of shares	
	Six months ended 30 June	
	2018	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,768,690**	2,711,602

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil). During the period, a dividend of HK fifteen cents per ordinary share (2017: HK twelve cents per ordinary share) amounting to HK$415,303,000 was declared by the Board as the final dividend for 2017 (HK$325,392,000 for 2016).

The final dividend for 2017 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 18 July 2018, the final dividend of HK fifteen cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2017.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2018	31.12.2017
	HK$'000	*HK$'000*
Trade receivables	**678,217**	710,349
Prepayments	**544,793**	461,746
Other receivables and deposits	**277,417**	221,049
	1,500,427	1,393,144

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables (net of impairment losses) of HK$678,217,000 (31 December 2017: HK$710,349,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.06.2018	31.12.2017
	HK$'000	*HK$'000*
0 to 90 days	**510,351**	551,597
91 to 180 days	**61,777**	45,781
Over 180 days	**106,089**	112,971
	678,217	710,349

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2018	31.12.2017
	HK$'000	*HK$'000*
Trade payables	**1,047,406**	1,197,993
Receipt in advance	**-**	3,092,720
Consideration payable for acquisitions of businesses	**76,245**	100,591
Other payables and accruals	**1,110,901**	780,852
Amount due to ultimate holding company (note)	**3,647**	863
	2,238,199	5,173,019

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:

	30.06.2018	31.12.2017
	HK$'000	*HK$'000*
0 to 90 days	**565,405**	775,346
91 to 180 days	**160,081**	139,989
181 to 360 days	**184,731**	137,281
Over 360 days	**137,189**	145,377
	1,047,406	1,197,993

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2018, total gas sales volume of the Group surged by 18% to 4,949 million cubic metres. Total number of customers reached 12.21 million, with 440,000 new customers compared to last year. Industrial gas sales grew by 23% to 2,776 million cubic metres over the corresponding period last year, accounting for 56% of the total volume of gas sold by the Group, while commercial gas sales reached 866 million cubic metres with an increase of 11% over the corresponding period last year, accounting for 18% of the total volume of gas sold by the Group. Residential gas sales increased by 14% to 1,307 million cubic metres over the corresponding period last year and accounted for 26% of the total volume of gas sold by the Group. Profit after taxation attributable to shareholders of the Company amounted to HK$663 million, representing a steady increase of 10% over the corresponding period last year. Basic earnings per share amounted to HK23.96 cents, an increase of 8% over the corresponding period last year.

Revenue

For the six months ended 30 June 2018, revenue from the sales of piped gas and related products rose 44% to HK$4,728 million over the corresponding period last year due to the satisfactory results derived from active promotion of natural gas replacing coal. The total consolidated volume of gas sold in the current period amounted to 1,472 million cubic metres, representing an increase of 27% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK$856 million, up 12% as compared to the corresponding period last year, with approximately 190,000 consolidated new household connections made during the period under review.

Development of New Projects

The Group launched two new gas projects this year, a city gas project in Liujiang District, Liuzhou City in the Guangxi Zhuang Autonomous Region and a midstream natural gas pipeline network and city gate station project in Chiping County of Liaocheng City, Shandong Province. The principal industrial activity in Liuzhou City, Guangxi is the manufacturing of automobile parts and components and mechanical equipment. As a wholly-owned, and our third project in Guangxi, we expect to generate regional synergies with the Group’s two other piped gas projects of Guilin and Zhongwei. The midstream natural gas pipeline network and city gate station project in Chiping County of Liaocheng City, Shandong Province is our fourth midstream pipeline transmission project. Under this project, the "Jinan - Liaocheng" natural gas pipeline and Chiping South city gate station will be constructed. The project holds out bright prospects for the future with its ample sources for natural gas supply.

Apart from our focus on the gas business, we also continued to actively identify potential business opportunities for "distributed energy". In addition to the two distributed energy projects established last year, we have added four new distributed energy projects this year - in Jiawang District, Xuzhou City in Jiangsu Province; Jimo Chuangzhi New District, Qingdao City in Shandong Province; Yangxin Economic & Technological Development Zone of Binzhou City in Shandong Province; and Changchun City in Jilin Province. These new projects are expected to generate gas consumption, equivalent of up to 250 million cubic metres in 5 years’ time. These ongoing developments will offer regional synergies to the Group’s gas projects in neighbouring areas in every aspect, from markets and gas sources to policies.

Investments in Equity Instruments at Fair Value through Other Comprehensive Income

Investments in 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"), which contributed dividends to the Group. Chengdu Gas and Nanjing Public were stated at fair value and no impairment provision was required during the period.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2018.

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 2018, the Group's bank loans and other loans amounted to HK$9,418 million, of which HK$5,057 million represented bank loans and other loans due within 1 year, HK$4,340 million represented bank loans and other loans due between 1 to 5 years, and HK$21 million represented bank loans and other loans due over 5 years. Other than HK$4,131 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. As the businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi, the Group bore foreign currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. As at the end of the period, the Group had HK$5,388 million borrowings denominated in Renminbi and the remaining HK$4,030 million borrowings were denominated mainly in Hong Kong dollars. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$29 million from joint ventures on a fixed interest rate basis. The Group held various cross currency swap contracts and foreign currency forward contracts during the period to hedge foreign currency risk for non-Renminbi denominated bank loans. The loss resulting from change in fair value of other financial liabilities was HK$42 million in the period. As at 30 June 2018, 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 32.6%.

As at 30 June 2018, the Group's cash and cash equivalents together with time deposits amounted to HK$1,745 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2018, the Group's unutilised available facilities amounted to HK$3,920 million.

The operating and capital expenditure of the Group is funded by cash flow 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.

Credit Ratings

Moody’s Investors Service maintained 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 long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies’ recognition of the Group’s sound financial position.

Interim Dividend

The Board has resolved not to declare an interim dividend (2017: nil).

Employee and Remuneration Policies

As at 30 June 2018, the Group had 22,072 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 Responsibilities

As a public utility that serves numerous households, Towngas China has always held the interests of our stakeholders and the community in the highest regard. As such, we make every endeavour to achieve excellence in our corporate and business activities, seeking to create multifaceted values while also fulfilling our responsibilities as a corporate citizen. We thus place exceptional focus on operational safety, environmental protection as well as charitable contributions to ensure the sustainable development of our society.

Over the years, due to our consistent adherence to our "Safety First" principle, we have experienced a minimal number of gas incidents. In June this year, in conjunction with our parent company, The Hong Kong and China Gas Company Limited ("HKCG"), we organised a "HSE (Health, Safety & Environment) Walk" in support of the "Production Safety Month" initiative promoted by the State Administration of Work Safety. Under the theme "Travel Far, Uplift Strength and Promote Three Courtesies", we recruited staff members along with their family and friends across Guangdong, Guangxi, Fujian, Jiangxi, Hunan, Guizhou, Yunnan, Sichuan, Chongqing, Hubei, Zhejiang, Anhui, Jiangsu, Shandong, Hebei, Liaoning, Jilin, Inner Mongolia and Heilongjiang to join. Our safety and Three Courtesies cultures were the key to success of Towngas China and through the captioned activity, we promoted these values to the general public and enhanced our staff safety awareness in order to fulfil our goal of "Zero Liability and Zero Incidents".

Furthering our focus on innovation and environmental-friendliness, we continue our drive to implement advanced systems with high-efficiencies and energy conservation facilities in our business development to reduce greenhouse gases and negate the impact on the environment. Under the environmental campaign named "Low Carbon Life", a series of green activities were rolled out, including "Towngas China Plantation Day" and "Earth Hour". During the first half of the year, more than 40 project companies participated in our green initiatives and more than 3,000 saplings were planted.

Guided by the principle of "Actively participating in community services to benefit society, Dedicating efforts to protect the environment and Contributing to the community", we have organised a range of charitable projects to support to the needy in our community. Our annual signature "Rice Dumplings for the Community" campaign has taken place since 2010. On the eve of the Dragon Boat Festival this year, we recruited over 900 volunteers across the Group and project companies along with the support gained from welfare institutions, more than 23,000 rice dumplings were prepared and distributed to the underprivileged from the local community.

Since the inception of the "Gentle Breeze Movement" in 2013, we have established our presence in more than 10 provinces, autonomous regions and municipalities, including Sichuan, Jiangxi, Anhui and Shandong. Our programme aims to improve the learning environment of students in impoverished regions through libraries set up, coupled with material donations and volunteer visits. During the period, we extended our reach to Baotou in the Inner Mongolia autonomous region, with the building of a "Towngas China Library", the renovation of student dormitories as well as the donation of school uniforms, books and other schooling and educational items.

Outlook

Economic Landscape

During the first half of 2018, the Chinese Government continued to drive improvements in China's economic structure. As a result, the country recorded a 6.8% increase in its gross domestic product for the first six months of the year reflecting steady economic growth in general. Nevertheless, the nation's economic growth for this year is experiencing some pressure underpinned by the downside in the Renminbi to the USD rate, a situation caused by a number of factors, ranging from the escalating China/US trade conflicts and US government tax cuts to expectations for interest rate hikes in the US Dollar.

To cope with the increasing volatility in the external environment, the Ministry of Finance of the People's Republic of China and the State Administration of Taxation published the "Notice on Adjustments to Value-added Tax ("VAT") Rates" in April 2018, announcing a 1-percentage-point cut in the existing 17% commodity VAT and 11% service VAT in a bid to reduce the tax burden for businesses. The State Council of the People's Republic of China (the "State Council") also established the Financial Stability and Development Committee which is responsible for ensuring the stability of the domestic financial market and for maintaining Renminbi exchange rate movements within a reasonable range. At the same time to encourage further foreign investment, the National Development and Reform Commission of the People's Republic of China ("NDRC") and the Ministry of Commerce of the People's Republic of China announced their "Special Administrative Measures for Admission of Foreign Investments (Prohibition List) (2018 Edition)" for official implementation from 28 July 2018. These initiatives will help the country to maintain general economic stability while achieving its growth targets.

Natural Gas Marketisation Reforms

With regard to natural gas marketisation reforms, a significant breakthrough was achieved in the establishment of a pricing mechanism. In May 2018, the NDRC published the "Notice on Unifying the Residential City-gate Prices", benchmarking city-gate prices for residential and non-residential gas supply, unifying them from 10 June 2018. The unified benchmark can be adjusted within a 20% range, determined through negotiations between buyers and suppliers. This unified benchmark marks an important move in the natural gas industry's marketisation reforms, providing a positive effect on the healthy development of the industry in the long term.

The construction of gas storage facilities for peak-load shifting has lagged considerably behind the growth in natural gas consumption, a primary reason for the bottleneck in natural gas supplies and demand in the winter of 2017. Dealing with the situation, the NDRC and the National Energy Administration published their "Opinion on Expediting the Construction of Gas Storage Facilities and Improving the Market Mechanism of Auxiliary Services for Peak-load Shifting of Gas Storage". Under this initiative, by 2020 gas suppliers are required to own gas storage capacities equivalent to not less than 10% of their respective contracted annual sales volumes; gas operators in towns must have gas storage capacity equivalent to not less than 5% of the annual gas consumption of the towns they serve; and local governments at county-levels or above must, at a minimum, have available gas storage capacities equivalent to not less than the daily average volume of gas consumed by their respective administrative areas for three days. The document also supports and encourages the relevant parties to fulfill their gas storage obligations by constructing gas storage facilities either as sole or joint ventures, purchasing or leasing gas storage facilities, or by acquiring gas storage services. Gas storage services and peak-load shifting adjustments are subject to market-based pricing and the costs of peak-load shifting and gas storage must be reasonably covered. The document also announced policies to offer central government financial subsidies for the construction of underground gas storage, the relevant purchase costs of cushion gas as well as ensuring the necessary land supply for such projects, in its aim to support the construction of gas storage and peak-load shifting facilities to enhance the nation's future capabilities in natural gas supply.

These marketisation reforms policies are conducive to the long-term development of the natural gas industry hand-in-hand with the expanding growth in the use of natural gas. Acting in tandem with these reforms, the Group has been actively making plans to ensure that we will benefit from the many opportunities presented by the reforms as we bring our competitive strengths into play and enhance our business development.

Market Prospects of the City Gas Business

Given the ongoing progress achieved in the natural gas marketisation reforms, stringent environmental policies and high hopes that the city gas market will maintain its rapid growth in 2018, the use of natural gas as a percentage of primary energy consumption is expected to increase to 7.5%. An environmental protection tax officially came into effect on 1 January 2018. In June 2018, the Central Committee of the Communist Party of China and the State Council announced the "Opinion on Enhancing Protection of the Ecological Environment on All Fronts and Determination to Fight the Battle of Pollution Prevention and Treatment", calling for efforts to enhance protection of the ecological environment in every aspect, during the crucial stages in the country's comprehensive development as a well-off and all-rounded society. It also seeks to develop clean energy substitution projects on an ongoing basis, as well as to overcome obstacles in the prevention and treatment of pollution. The target is to reduce the concentration of fine suspended particulates (PM2.5) by more than 18% against the 2015 figure on a nationwide basis apart from also making sure that by 2020, cities at the prefecture-level or above will enjoy days with excellent air quality for over 80% of the year. The State Council has also formulated the "Action Plan for Winning the Battle of Blue Sky Protection", calling for the increase of gas supply to reduce coal consumption, together with the ongoing advancement of "Coal-to-Gas" projects under this principle of "gas conversion". By 2020, the aim is to decrease nationwide coal usage as a percentage of total energy consumption from 60.4% in 2017 to below 58%. This decrease will essentially be driven by the replacement of bulk coal with natural gas as the primary source of heat supply in key northern regions and during the winter season. In cities at county-level or above, coal-fired boilers with capacities of 10 tons of steam per hour or below will be phased out in developed districts, while coal-fired boilers with capacities of 35 tons of steam per hour or below will be phased out in key districts. The Ministry of Ecology and Environment of the People's Republic of China also announced the "2018-2019 Scheme for Enhancing Supervision and Inspection in Key Regions regarding the Blue Sky Protection Battle", to enhance the supervision of clean heat supplies and coal-to-gas conversions in key regions, including the "2+26" cities and 11 cities in the Fen-Wei Plains and the Yangtze River Delta Region from June 2018 to April 2019. As city gas suppliers are well set up in the prevention and treatment of air pollution, the industry is extremely well-positioned to capitalise on the many opportunities presented in the battle to protect the country's blue skies. We are thus fully confident of our prospects in China's burgeoning city gas market.

Business Outlook of the Group

Looking forward, we are committed to take full advantage of the positive trends and prospects in the development of the domestic natural gas industry to further drive our business growth. We will persist in our efforts to expand in the industrial and commercial market, continue to develop our "Coal-to-Gas" business, multiply our natural gas distributed energy and central heating projects through Towngas China Energy Investment (Shenzhen) Limited, and explore extended services and value-added facilities based on our enormous base of residential customers. Meanwhile, we are also actively planning for our ongoing investment in, and construction of, facilities with capacities for gas storage and peak-load shifting, as well as the development of liquefied natural gas imports and interconnected pipeline networks. These far-reaching projects will enhance our ability to assure gas supplies and provide our customers with safe, reliable and quality services in active response to national regulations on natural gas and city gas, so as to achieving the Group's business growth targets.

OTHER INFORMATION

Purchases, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 June 2018.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

Board Audit and Risk Committee

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

A Board Audit and Risk Committee meeting was held on 9 August 2018 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2018. Deloitte Touche Tohmatsu, the Company's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Appreciation

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

By Order of the Board
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 16 August 2018

At the date of this announcement, the Board comprises:

Executive Directors:
Chan Wing Kin, Alfred *(Chairman)*
Wong Wai Yee, Peter *(Chief Executive Officer)*
Ho Hon Ming, John *(Company Secretary)*
Kee Wai Ngai, Martin *(Chief Operating Officer)*

Independent Non-Executive Directors:
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James