香 港 中 華 煤 氣 有 限 公 司
THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong under the Companies Ordinance with limited liability)
(Stock Code: 3)

PRELIMINARY ANNOUNCEMENT OF 2017 ANNUAL RESULTS

CHAIRMAN'S STATEMENT

THE YEAR'S RESULTS

The Group's town gas business in Hong Kong maintained stable growth in 2017. Concurrently, the Group's city-gas businesses in mainland China and emerging environmentally-friendly energy businesses progressed well, thus bringing good growth to the Group's overall recurrent businesses during the year.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$8,225 million, an increase of HK$884 million compared to 2016. Earnings per share for the year amounted to HK58.8 cents, an increase of 12.1 per cent compared to 2016. Exclusive of the Group's share of a revaluation surplus from the International Finance Centre complex, the Group's profit after taxation for the year was HK$7,008 million, an increase of approximately 14 per cent compared to 2016 mainly attributable to a rise in profit from the Group's local and mainland businesses.

During the year under review, the Group invested HK$6,141 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

TOWN GAS BUSINESS IN HONG KONG

The global economy recovered steadily in 2017, and concurrently, the local economy grew well. Favourable employment conditions and growth in the number of inbound visitors helped stimulate local consumer spending. Benefiting from a rise in commercial and industrial gas sales, total volume of gas sales in Hong Kong for 2017 reached 29,049 million MJ, an increase of 0.8 per cent compared to 2016 whilst total number of appliances sold in 2017 was over 275,000 units, a similar level to 2016.

As at the end of 2017, the number of customers was 1,883,407, an increase of 23,993 compared to 2016, up slightly by 1.3 per cent.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during 2017. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 245 projects on the mainland, as at the end of 2017, four more than at the end of 2016, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses in mainland China, including coalbed methane liquefaction, coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily. Benefiting from a steadily improving economy in mainland China and a gradual rebound of international oil prices, ECO recorded noticeable profit growth in 2017. ECO's in-house research and development of innovative technologies also progressed well with a number of achieved results gradually being applied commercially. Gradual commissioning and development of related projects is expected to contribute to the long-term business growth of the Group.

Diversification and an increase in the number of projects have gradually transformed the Group from a locally-based company in Hong Kong centred on a single town gas business a number of years ago into a sizable, nation-wide, multi-business corporation focused on environmentally-friendly energy ventures and utility sectors.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. As at the end of 2017, inclusive of Towngas China, the Group had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2017 was approximately 19,500 million cubic metres, an increase of 14 per cent over 2016. As at the end of 2017, the Group's mainland gas customers stood at approximately 25.38 million, an increase of 10 per cent over 2016. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

The global economy saw moderate recovery in 2017, leading to increasing demand for commodities. As a result, mainland China's economy grew faster in 2017 compared to 2016, with major economic indicators better than expected, including double-digit growth for exports, reversing the decline of the previous two years. The exchange rate of the renminbi also rebounded during the year. Thriving industrial manufacturing boosted the country's demand for energy, including electricity, petroleum and natural gas. In the medium to long term, the Chinese government advocates developing the use of natural gas to reduce air pollution and improve smoggy atmospheric conditions. As natural gas is the most widely used clean energy on the mainland, long-term and steady growth in market demand is anticipated. The Chinese government has formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution and speed up the pace of greater use of natural gas to replace coal ("coal-to-gas") across the country and to minimise the formation of smog, fostering a growing trend towards natural gas and environmentally-friendly energy. The competitiveness of natural gas relative to other energy sources has been enhanced following reductions in the mainland's non-residential natural gas city-gate prices at the end of 2015. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses.

In addition, with gradual commissioning of large-scale national natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and the West-to-East pipeline, and projects for importing piped natural gas from Central Asia and Myanmar, together with a scheduled supply of piped natural gas from Russia, as well as a rise in the sources of imported liquefied natural gas ("LNG"), supply of natural gas on the mainland is becoming ample, which is beneficial to market development. Mainland China is actively participating in international programmes to tackle global warming. As extensive areas of the country are experiencing serious smoggy atmospheric conditions, more and more provinces and cities are now promoting "coal-to-gas" policies. Natural gas as a fuel for household heating in winter is gradually becoming more widespread whilst the government is also advocating the use of natural gas to partially replace coal-fired power by promoting distributed energy systems. Thus, with ample sources of gas supply, expanding pipeline networks, rising living standards and society's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in future.

In the short term, the mainland's sources of gas supply in winter will still be insufficient but its gas storage capacity is swiftly improving. Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Construction of phase one of this project, developing a storage capacity of approximately 140 million standard cubic metres, was completed, with inspection passed, in January 2018. Construction of phase two, to develop a storage capacity of approximately 300 million standard cubic metres, will commence in late March 2018. This project is in line with the Chinese government's policy of advocating faster development of gas storage capacity, and will help the Group supplement and regulate gas supplies during the peak winter period for a number of its city-gas projects in eastern China, thus facilitating the Group's business development in downstream city-gas markets.

The Group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well, with 122 stations to date spread across different provinces. Apart from this, the Group is also proactively developing a gas refilling business for marine vessels. Given that natural gas is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses promise good prospects for the Group.

The Group has been in the mainland water market, under the brand name "Hua Yan Water", for over 12 years and currently invests in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, given food waste processing and utilisation is also a sizable environmentally-friendly industry, the Group is constructing a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand. Commissioning is expected in the fourth quarter of 2018; this will be the Group's first project converting waste into valuable products.

The Group invested in an LNG receiving terminal and supporting pier project at Huanghua port, Cangzhou city, Hebei province in early 2018. This state-planned energy project, emanating from mainland China's Thirteenth Five-Year Plan, will be developed in phases. Construction will embrace four LNG storage tanks with a total design receiving capacity of 2.6 million tonnes of LNG per annum, half of which is expected to be commissioned in 2021, and an unloading pier with a capacity of 100,000 tonnes. This project is currently at the preparatory stage and is expected to become a major channel for importing LNG into Hebei province after completion, thus creating synergy with the Group's investment in a midstream natural gas project in this province, which together will then create a total new gas source for the whole of Hebei province. This project will also play an important role in safeguarding gas sources for the province's "coal-to-gas" conversion project, part of the government's air pollution control plan for Beijing city, Tiangjin city and Hebei province.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and environmental waste processing and utilisation projects create ever-greater synergy and mutual advantages. Furthermore, these businesses generate stable incomes, provide good environmental benefits and exhibit high growth potential. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all operated well in 2017, contributing to ECO's steady profit growth. With a total turnover of approximately 6.55 million tonnes of aviation fuel in 2017, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly in 2017, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas utilisation project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories was commissioned in November 2017. This further raises the proportion of landfill gas used by the Group, thus making an increasing contribution to energy conservation and emission reduction in Hong Kong.

As smog and air pollution on the mainland are growing concerns, the Chinese government stepped up its efforts in 2017 to promote "coal-to-gas" conversion - using natural gas to replace coal for steam raising, leading to a surge in LNG prices during the winter, benefiting the operating income of ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province. Output from this project increased by 11 per cent, bringing better profit growth in 2017 compared to 2016. In line with the mainland's policy of using LNG to replace diesel as fuel for heavy-duty trucks, ECO is proactively developing networks of natural gas refilling stations which are gradually taking shape and expanding, and the ECO brand name is gradually becoming more well-known in the market.

Conversion of biomass into clean energy and chemical products is an important part of ECO's business strategy which is also in line with the policy direction of mainland China. To this end, a plant, located in Zhangjiagang city, Jiangsu province to process inedible grease feedstock using ECO's self-developed technology, has been constructed. The initial trial production has successfully yielded a first batch of 3,000 tonnes of green and renewable hydro-treated vegetable oil (HVO) for export to European markets. This project has gained "International Sustainability and Carbon Certification" (ISCC), and, on this basis, is well on the way to achieving its aims of maximising both product value and environmental benefits.

Mainland China is a sizeable agricultural production country generating a large quantity of agricultural waste every year. Apart from using a small portion of this in fields or for power generation, there are currently no effective measures to make good use of the rest of this waste. However, ECO's research and development team has successfully developed a world leading approach regarding pyrolysis and hydrolysis technologies which could effectively break down agricultural and forestry waste into hemicellulose, cellulose and lignin for further processing, creating an innovative way to convert this waste into value-added materials. To this end, ECO is planning to launch its first pilot project in a straw-rich mainland region applying hydrolysis technology to convert hemicellulose and cellulose in straw into furfural and paper pulp respectively; both are chemical feedstock and basic materials which will bring noticeable economic and environmental benefits. If successful, this pilot project will drive ECO to cultivate a broad green and low-carbon eco-system.

The operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region improved substantially in 2017, with a rise in the price of methanol and a 26 per cent increase in annual sales compared to 2016. Additionally, construction of a facility to convert a portion of the project's syngas into 120,000 tonnes of ethylene glycol annually has been completed, with trial production targeted to start in the first quarter of 2018. The success of this project will lay a foundation for ECO to further expand its syngas upgrading businesses.

In the past few years, ECO's scientific research focusing on the extraction of high-quality carbon materials from the bitumen part of high-temperature coal tar oil has achieved promising results, successfully producing meso-carbon micro-bead and high-quality activated carbon which meet the specifications required for commercial applications. Meso-carbon micro-bead is an ideal anode material for lithium-ion batteries, whereas high-quality activated carbon can be used for making super capacitors. Given the prevailing trend for promoting new energy electric vehicles and rail transport electrification in mainland China, prospects for these new carbon materials are promising. ECO has started preparatory work on its first pilot project of this kind in Ordos city, Inner Mongolia Autonomous Region, with gradual commissioning expected to start in early 2019.

As mainland China is now experiencing severe atmospheric pollution and carbon emissions, new energy driven reform is imminent. ECO continues to march along its well-defined new energy business development strategy by strengthening its capabilities in research and technological development, and, with that, building up its key businesses relating to low-carbon and clean-coal chemicals, efficient conversion and utilisation of straw, preparation of high-quality carbon materials, hydrogenation and upgrading of bio-grease, etc. In doing so, ECO is gradually migrating from its original emphasis on fuel substitutes to one encompassing higher value-added chemical and new material substitutes. A number of breakthroughs in key technologies have already been achieved, some of which can be commercialised shortly and able to deliver significant economic and environmental benefits. All these successes will create a significant competitive edge for ECO's future development.

TELECOMMUNICATIONS BUSINESSES

The Group's development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local telecommunications operators as well as large corporations, through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"), is progressing steadily. Benefiting from synergy created by laying fiber-optic cables along existing town gas pipelines, and leveraging European advanced "glass-in-gas" and "glass-along-gas" technologies, TGT has developed telecommunications networks in Liaoning province, Shandong province, Jiangsu province, Shenzhen city, etc. TGT is also working closely with telecommunications partners to further expand connectivity business on the mainland.

In addition, TGT has invested in, and is currently operating, seven data centres in Hong Kong and mainland China in Dongguan city, Jinan city, Dalian city, Beijing city and Harbin city in total accommodating up to 16,000 server racks. Furthermore, based on its professional and reliable telecommunications infrastructure, TGT has built a highly flexible and secure cloud platform to cater for different needs of customers. TGT is embracing opportunities created by the "big data era", "5G wireless networks" and "the Internet of Things" by proactively developing advanced fiber-optic networks and maximising usage of its data centre network and cloud platform, aiming to meet a growing market demand for telecommunications services as well as data analysis and storage.

TOWNGAS CHINA COMPANY LIMITED (STOCK CODE: 1083.HK)

Towngas China, a subsidiary of the Group, recorded good growth in profit after taxation attributable to its shareholders, amounting to HK$1,365 million in 2017, an increase of approximately 40 per cent over 2016. As at the end of 2017, the Group held approximately 1,858 million shares in Towngas China, representing approximately 67.1 per cent of Towngas China's total issued shares.

Project development also progressed well during 2017 with Towngas China adding to its portfolio a city-gas project in Huji town, Zhongxiang city, Hubei province, a midstream natural gas pipeline network project in Guyang county, Baotou city, Inner Mongolia Autonomous Region and a distributed energy project in Shenyang Economic and Technological Development Zone, Shenyang city, Liaoning province.

Foshan Gas Group Co., Ltd., an associate of Towngas China, was listed on the Shenzhen Stock Exchange in November 2017. The company is principally engaged in the piped city-gas business. Listing will help its business development in Foshan city and the surrounding areas.

Towngas China will continue to actively develop small to medium commercial and industrial gas markets on the mainland and to advocate "coal-to-gas" conversion. The company is also planning to actively develop both household gas heating, hot water and clothes drying markets on the mainland in order to boost residential gas demand, and, in addition, distributed energy system projects to enhance the efficiency of natural gas applications thus increasing competitiveness.

FINANCING PROGRAMMES

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Taking advantage of low interest rates, medium term notes totalling HK$1,438 million, with maturity of 10 years, were issued during 2017. In line with the Group's long-term business investments, as at 31st December 2017, the amount of medium term notes issued had reached HK$13.4 billion with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.5 per cent and an average tenor of 15 years.

INAUGURAL GREEN BOND ISSUANCE

The Group issued its inaugural green bonds in November 2017 based on a newly established Towngas Green Bond Framework, which was prepared in accordance with the Green Bond Principles 2017 of the International Capital Market Association. The inaugural 10-year green bonds, amounting to HK$600 million and JPY2 billion, were issued efficiently under the medium term note programme of the Group and attracted keen support from green investors. Proceeds from the bonds are earmarked for investment in the Group's waste-to-energy projects, including the landfill gas utilisation project at the South East New Territories landfill in Hong Kong and other eligible green investments in mainland China which demonstrate the Group's strong dedication to sustainable development and the fight against climate change. The Group is the first energy utility in Hong Kong to issue green bonds, laying a milestone for the Group's financial and environmental strategies.

The issuance of green bonds has allowed the Group to tap into a new base of green bond investors as an additional funding source for financing environmentally green projects under the Towngas Green Bond Framework. The Group is also pleased to play a part in developing a green finance hub in Hong Kong.

EMPLOYEES AND PRODUCTIVITY

As at the end of 2017, the number of employees engaged in the town gas business in Hong Kong was 2,022 (2016 year end: 2,019), the number of customers was 1,883,407, and each employee served the equivalent of 931 customers, an increase of 1.1 per cent over 2016. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,388 as at the end of 2017 compared to 2,392 as at the end of 2016. Related manpower costs amounted to HK$1,090 million for 2017. In 2017, there was an approximately 3.6 per cent average increase in remuneration over 2016. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

Exclusive of businesses in Hong Kong, the total number of the Group's employees in mainland China and other places outside Hong Kong was approximately 47,000 as at the end of 2017, a similar level to 2016.

On behalf of the Board of Directors, I would like to thank all our employees for their dedication and hard work in creating value for shareholders and customers.

BONUS ISSUE OF SHARES

The Directors propose to make a bonus issue of one new share for every ten existing shares held by shareholders whose names are on the Register of Members of the Company as at 14th June 2018. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 6th June 2018, and if passed, share certificates will be posted on 22nd June 2018.

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 14th June 2018. Including the interim dividend of HK12 cents per share paid on 3rd October 2017, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2018 after bonus share issue shall not be less than the interim and final dividends for 2017.

BUSINESS OUTLOOK FOR 2018

The Company predicts steady growth in its number of customers in Hong Kong during 2018. Stable economic development, favourable employment conditions and thriving inbound tourism in early 2018 all helped to stimulate domestic demand and consumer spending. The Group's gas business in Hong Kong is also benefiting from the efforts of the Government of the Hong Kong Special Administrative Region to increase land and housing supply which should help maintain stable and good growth in the number of gas customers in the next few years. Additionally, town gas as an energy resource combining both environmental and economic advantages is creating a competitive edge fostering development of the Company's commercial and industrial energy markets. Following a slight rebound of international oil prices from a low level, fuel cost adjustment charges of the gas tariff have slightly increased but this is not affecting the competitiveness of town gas, relative to electricity in particular, in the energy market. However, increasing local manpower costs and operating expenses are leading to rising costs for businesses generally. The Company's increase in the standard gas tariff effective from 1st August 2017 is helping to offset some of its own rising operating costs. The Company will, however, continue to enhance operational efficiency so as to maintain stable development of its gas business in the territory.

Despite a number of uncertainties concerning the global economic outlook, recovery momentum in 2017 was steady and is continuing so far this year. High demand for commodities in international markets is helping the development of export manufacturing industries in mainland China thus leading to steady growth in industrial gas demand. These factors are beneficial to overall profit growth of the Group's city-gas businesses. Furthermore, the Chinese government's move to improve smoggy atmospheric conditions by tightening supervision and administration of related measures is in progress. On 1st January 2018, the Implementing Regulations for the Environmental Protection Tax Law became effective alongside the Environmental Protection Tax Law, aiming to further promote corporate initiatives to enhance their environmental protection levels by charging taxes in accordance with the quantity of pollutants discharged; this is helping the development of natural gas markets. The Chinese government is also increasing its efforts to reduce carbon emissions and encourage the use of clean energy, creating opportunities for natural gas to replace use of coal in industrial production, as well as in boilers, power generation, distributed energy, household heating, etc. Natural gas price adjustments in late 2015 lowered upstream gas prices, thus enhancing competitiveness. In addition, increasing upstream gas supplies, expanding and improving pipeline networks and rapid urbanisation leading to a continuous rise in demand for utility facilities and energy, are all favourable to the downstream gas market and the healthy and long-term development of the natural gas business sector in general.

In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and recycling of materials, the Group is continuing to develop and apply new technologies for conserving energy and reducing pollutant emissions. There is also a growing trend for greater use of low-sulfur, high-quality oil, electricity and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. A rebound of international oil prices from their lowest point in early 2016 has created a favourable environment for profit growth of the Group's emerging environmentally-friendly energy businesses. ECO is also moving towards production of high-quality chemical products which are less sensitive to international oil prices, taking this as a guide for future business development. As ECO's in-house research and development of a number of technologies is gradually achieving results which are being put into commercial production, emerging environmentally-friendly energy businesses will ignite a new light for the Group, illuminating the way for long-term development and business growth strategy.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its established operational base, successful technical experience, corporate brand names and sales channels built there over 20 years alongside society's growing concern over air quality, it is anticipated that there will be ever-rising demand for clean energy. According to the Thirteenth Five-Year Plan, the share of natural gas in the country's total energy mix is set to increase from 6 per cent currently to 10 per cent by year 2020, thus creating huge market potential for clean energy. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that this sizeable customer base will create a promising platform for its expanding new businesses.

The mainland's economic development is expected to maintain steady and favourable momentum in 2018. The Group has formulated, and is gradually implementing, plans in accordance with the country's energy and environmental policies. Overall, with society's growing aspiration for more environmental protection, demand for natural gas and environmentally-friendly and renewable energy will increase. Furthermore, the Group is actively promoting an innovative mindset and effectively putting this into practice, thus continuously injecting new impetus to foster business growth. The Group anticipates an ever broader and brighter development for its businesses in the future.

LEE Shau Kee
Chairman
Hong Kong, 20th March 2018

The Board of Directors has pleasure in presenting a summary of results of the Group for the year ended 31st December 2017 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December 2017

	Note	**2017 HK$ Million**	2016 HK$ Million
Revenue	4	**32,476.5**	28,557.1
Total operating expenses	5	**(24,845.2)**	(21,387.2)
		7,631.3	7,169.9
Other gains/(losses), net	6	**630.1**	(29.5)
Interest expense		**(1,256.9)**	(1,207.4)
Share of results of associates		**2,604.3**	2,447.4
Share of results of joint ventures		**1,487.9**	1,465.3
Profit before taxation		**11,096.7**	9,845.7
Taxation	7	**(1,749.8)**	(1,575.9)
Profit for the year		**9,346.9**	8,269.8
Attributable to:			
Shareholders of the Company		**8,225.3**	7,340.7
Holders of perpetual capital securities		**111.2**	110.5
Non-controlling interests		**1,010.4**	818.6
		9,346.9	8,269.8
Dividends	8	**4,895.7**	4,450.9
Earnings per share – basic and diluted, HK cents	9	**58.8**	52.5*

* *Adjusted for the bonus share issue in 2017*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2017

	2017 **HK$** **Million**	2016 HK$ Million
Profit for the year	**9,346.9**	8,269.8
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss:		
Remeasurements of retirement benefit	**124.1**	6.3
Items that may be reclassified subsequently to profit or loss:		
Movement in reserve of available-for-sale financial assets	**(120.5)**	588.2
Change in fair value of cash flow hedges	**(117.5)**	86.8
Share of other comprehensive (loss)/income of an associate	**(2.9)**	7.2
Exchange differences	**3,614.4**	(3,078.2)
Other comprehensive income/(loss) for the year, net of tax	**3,497.6**	(2,389.7)
Total comprehensive income for the year	**12,844.5**	5,880.1
Total comprehensive income attributable to:		
Shareholders of the Company	**11,137.0**	5,354.7
Holders of perpetual capital securities	**111.2**	110.5
Non-controlling interests	**1,596.3**	414.9
	12,844.5	5,880.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st December 2017

	Note	**2017 HK$ Million**	2016 HK$ Million
Assets			
Non-current assets			
Property, plant and equipment		**55,827.4**	49,209.6
Investment property		**764.0**	729.0
Leasehold land		**2,229.3**	2,016.6
Intangible assets		**5,883.6**	5,572.4
Associates		**23,393.4**	20,485.0
Joint ventures		**10,889.2**	9,226.5
Available-for-sale financial assets		**4,289.9**	4,967.1
Derivative financial instruments		**269.9**	505.9
Retirement benefit assets		**60.4**	-
Other non-current assets		**3,089.0**	2,860.4
		106,696.1	95,572.5
Current assets			
Inventories		**2,578.3**	2,110.4
Trade and other receivables	10	**7,512.0**	6,329.6
Loan and other receivables from associates		**241.4**	153.4
Loan and other receivables from joint ventures		**939.7**	900.1
Loan and other receivables from non-controlling shareholders		**103.1**	65.4
Financial assets at fair value through profit or loss		**42.1**	67.3
Derivative financial instruments		**119.6**	87.5
Time deposits over three months		**2,071.0**	3,381.1
Time deposits up to three months, cash and bank balances		**10,758.6**	8,076.1
		24,365.8	21,170.9
Current liabilities			
Trade and other payables	11	**(14,269.8)**	(12,134.2)
Loan and other payables to joint ventures		**(1,137.9)**	(718.9)
Loan and other payables to non-controlling shareholders		**(175.3)**	(186.3)
Provision for taxation		**(531.9)**	(556.3)
Borrowings		**(15,757.0)**	(5,951.8)
Derivative financial instruments		**(76.2)**	-
		(31,948.1)	(19,547.5)
Total assets less current liabilities		**99,113.8**	97,195.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 31st December 2017

	2017 HK$ Million	2016 HK$ Million
Non-current liabilities		
Customers' deposits	**(1,331.6)**	(1,302.8)
Deferred taxation	**(5,723.1)**	(5,067.3)
Borrowings	**(21,161.8)**	(27,296.1)
Asset retirement obligations	**(46.9)**	(39.4)
Derivative financial instruments	**(604.5)**	(542.2)
Retirement benefit liabilities	-	(50.1)
	(28,867.9)	(34,297.9)
Net assets	**70,245.9**	62,898.0
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Reserves	**54,964.1**	48,457.5
Shareholders' funds	**60,438.8**	53,932.2
Perpetual capital securities	**2,354.1**	2,353.8
Non-controlling interests	**7,453.0**	6,612.0
Total equity	**70,245.9**	62,898.0

Notes:

1. General information

The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (collectively, the "Group") have been diversified into different fields of businesses and principally engage in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the People's Republic of China (the "PRC"). The Group is also engaged in property development and investment activities in Hong Kong.

The financial figures in respect of the preliminary announcement of the Group's result for the year ended 31st December 2017 have been agreed by the Company's auditor, PricewaterhouseCoopers Hong Kong ("PwC"), to the amount set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and consequently no assurance has been expressed by PwC on this announcement.

The financial information relating to the years ended 31st December 2017 and 2016 included in this preliminary announcement of 2017 annual results does not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31st December 2017 in due course.

The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. Changes in accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to both years presented, unless otherwise stated.

The Group has adopted the following amendments to Hong Kong Financial Reporting Standards and annual improvements issued by the HKICPA, which are effective for the Group's financial year beginning 1st January 2017 and relevant to the Group. There is however no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies.

● Amendments to HKAS 7	Disclosure Initiative
● Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
● Annual Improvements Project	Annual Improvements to HKFRSs 2014-2016 Cycle

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning 1st January 2017 and have not been early adopted by the Group.

3. **Financial risk management and fair value estimation of financial instruments**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31st December 2017 and 2016.

	Level 1		**Level 2**		**Level 3**		**Total**	
At 31st December HK$ Million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Assets								
Financial assets at fair value through profit or loss								
- Debt securities	**-**	-	**-**	46.8	**-**	-	**-**	46.8
- Equity securities	**42.1**	20.5	**-**	-	**-**	-	**42.1**	20.5
Derivative financial instruments	**-**	-	**157.6**	344.6	**231.9**	248.8	**389.5**	593.4
Available-for-sale financial assets								
- Debt securities	**461.8**	453.0	**-**	-	**-**	-	**461.8**	453.0
- Equity investment	**273.4**	1,175.1	**39.6**	39.1	**2,976.1**	2,808.6	**3,289.1**	4,022.8
Total assets	**777.3**	1,648.6	**197.2**	430.5	**3,208.0**	3,057.4	**4,182.5**	5,136.5
Liabilities								
Other payables	**-**	-	**-**	-	**154.0**	154.0	**154.0**	154.0
Derivative financial instruments	**-**	-	**680.7**	542.2	**-**	-	**680.7**	542.2
Total liabilities	**-**	-	**680.7**	542.2	**154.0**	154.0	**834.7**	696.2

There are no other changes in valuation techniques during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting year. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3. **Financial risk management and fair value estimation of financial instruments** *(Continued)*

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swaps is calculated as the present value of the estimated future cash flows based on observable foreign exchange rates and yield curves.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting year, with the resulting value discounted back to present value.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

- Financial assets composed of available-for-sale financial assets and derivative financial instruments in level 3, which represented an unlisted equity investment and its related derivative respectively. In respect of the unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 12.5 per cent, sales price, sales volume and expected free cash flows of the investee. The higher the discount rate, the lower the fair value. The higher the sales price, sales volume or expected free cash flows of the investee, the higher the fair value.

- In respect of the related derivative, the fair value is determined based on the binomial and black scholes models. The significant unobservable inputs, except for those included in the fair value of the underlying unlisted equity investment, mainly include expected volatility of the fair value of the unlisted equity investment. The higher the volatility, the higher the fair value.

- Financial liability represents contingent consideration which is generated from the further acquisition of a subsidiary in 2015 under other payables in level 3. The fair value is determined based on discounted cash flow model. The significant unobservable inputs include discount rate of 4.0 per cent and the rate of probability on the outflow of resources will be required to settle the obligation. The higher the discount rate, the lower the fair value. The higher the rate of probability, the higher the fair value.

The following table presents the changes in level 3 instruments of the Group for the year ended 31st December 2017 and 2016.

	Financial liability		**Financial assets**	
HK$ Million	**2017**	2016	**2017**	2016
At beginning of year	**154.0**	176.7	**3,057.4**	2,416.2
Acquisitions	**-**	-	**-**	739.0
Change in fair value	**(11.3)**	(18.7)	**(77.8)**	108.0
Exchange differences	**11.3**	(4.0)	**228.4**	(205.8)
At end of year	**154.0**	154.0	**3,208.0**	3,057.4

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

4. Segment information

The Group's principal activities are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses ("New Energy") in Hong Kong and mainland China. The revenue comprises the following:

	2017 **HK$ Million**	2016 HK$ Million
Gas sales before fuel cost adjustment	**22,865.8**	19,553.5
Fuel cost adjustment	**649.4**	438.8
Gas sales after fuel cost adjustment	**23,515.2**	19,992.3
Gas connection income	**2,922.2**	2,831.1
Equipment sales and maintenance services	**2,634.6**	2,514.4
Water and related sales	**1,249.7**	1,233.3
Oil and coal related sales	**989.0**	834.2
Other sales	**1,165.8**	1,151.8
	32,476.5	28,557.1

The chief operating decision-maker has been identified as the executive committee members (the "ECM") of the Company. The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance of (a) gas, water and related businesses; (b) New Energy and (c) property business. Gas, water and related businesses is further evaluated on a geographical basis (Hong Kong and Mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the financial statements.

The segment information provided to the ECM for the reportable segments is as follows:

2017 **HK$ Million**	**Gas, water and related businesses** **Hong Kong**	 **Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Revenue	**9,386.1**	**19,680.2**	**2,658.5**	**66.3**	**685.4**	**32,476.5**
Adjusted EBITDA	**4,648.9**	**4,916.1**	**843.7**	**42.1**	**181.1**	**10,631.9**
Depreciation and amortisation	**(734.3)**	**(1,126.6)**	**(407.5)**	**-**	**(86.3)**	**(2,354.7)**
Unallocated expenses						**(645.9)**
						7,631.3
Other gains, net						**630.1**
Interest expense						**(1,256.9)**
Share of results of associates	**-**	**831.7**	**(0.9)**	**1,768.0**	**5.5**	**2,604.3**
Share of results of joint ventures	**-**	**1,479.6**	**1.0**	**9.0**	**(1.7)**	**1,487.9**
Profit before taxation						**11,096.7**
Taxation						**(1,749.8)**
Profit for the year						**9,346.9**

Share of results of associates includes HK$1,217.0 million (2016: HK$1,188.0 million), being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

4. **Segment information** *(Continued)*

2016 HK$ Million	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
Revenue	9,042.6	16,683.7	2,072.8	63.8	694.2	28,557.1
Adjusted EBITDA	4,512.8	4,618.0	636.8	40.3	176.2	9,984.1
Depreciation and amortisation	(710.8)	(1,055.3)	(370.7)	-	(68.0)	(2,204.8)
Unallocated expenses						(609.4)
						7,169.9
Other losses, net						(29.5)
Interest expense						(1,207.4)
Share of results of associates	-	735.3	(0.8)	1,710.3	2.6	2,447.4
Share of results of joint ventures	-	1,455.5	1.1	9.2	(0.5)	1,465.3
Profit before taxation						9,845.7
Taxation						(1,575.9)
Profit for the year						8,269.8

The segment assets at 31st December 2017 and 2016 are as follows:

2017 **HK$ Million**	**Gas, water and related businesses** **Hong Kong**	 **Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Segment assets	**17,335.7**	**65,453.5**	**17,898.4**	**13,924.8**	**3,897.5**	**118,509.9**
Unallocated assets:						
Available-for-sale financial assets						**4,289.9**
Financial assets at fair value through profit or loss						**42.1**
Time deposits, cash and bank balances excluded from segment assets						**7,031.1**
Others (Note)						**1,188.9**
Total assets						**131,061.9**

Note:

Other unallocated assets mainly include other receivables other than those included under segment assets, derivative financial instruments, loan and other receivables from non-controlling shareholders.

4. **Segment information** *(Continued)*

2016 HK$ Million	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
Segment assets	16,259.1	56,276.4	16,093.0	12,706.2	3,254.2	104,588.9
Unallocated assets:						
Available-for-sale financial assets						4,967.1
Financial assets at fair value through profit or loss						67.3
Time deposits, cash and bank balances excluded from segment assets						5,884.6
Others						1,235.5
Total assets						116,743.4

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2017 is HK$10,721.3 million (2016: HK$10,328.9 million), and the revenue from external customers in other geographical locations is HK$21,755.2 million (2016: HK$18,228.2 million).

At 31st December 2017, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$27,772.0 million and HK$71,760.5 million (2016: HK$25,755.0 million and HK$61,484.1 million) respectively.

5. **Total operating expenses**

	2017 HK$ Million	2016 HK$ Million
Stores and materials used	**15,691.9**	12,709.6
Manpower costs	**3,034.9**	2,955.2
Depreciation and amortisation	**2,374.8**	2,223.1
Other operating items	**3,743.6**	3,499.3
	24,845.2	21,387.2

6. **Other gains/(losses), net**

	2017 HK$ Million	2016 HK$ Million
Net investment gains	**729.7**	208.5
Fair value gain on investment property	**33.6**	14.1
Gain on deemed disposal of partial interest in associates	**253.4**	-
Gain on disposal of associates	**23.8**	-
Fair value gain on derivative	-	248.8
Project research and development costs	**(46.9)**	(49.3)
Provision for assets	**(365.1)**	(206.6)
Provision for an investment in an associate	-	(250.0)
Ineffective portion on cash flow hedges	**2.0**	5.0
Others	**(0.4)**	-
	630.1	(29.5)

7. Taxation

The amount of taxation charged to the income statement represents:

	2017 HK$ Million	2016 HK$ Million
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year	**727.5**	647.5
Current taxation - provision for other countries income tax at the prevailing rates on the estimated assessable profits for the year	**707.1**	695.9
Current taxation - over provision in prior years	**(94.4)**	(101.6)
Deferred taxation - origination and reversal of temporary differences	**290.5**	255.2
Withholding tax	**119.1**	78.9
	1,749.8	1,575.9

8. Dividends

	2017 HK$ Million	2016 HK$ Million
Interim, paid of HK12 cents per ordinary share (2016: HK12 cents per ordinary share)	**1,678.5**	1,526.0
Final, proposed of HK23 cents per ordinary share (2016: HK23 cents per ordinary share)	**3,217.2**	2,924.9
	4,895.7	4,450.9

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$8,225.3 million (2016: HK$7,340.7 million) and the weighted average of 13,987,896,483 shares (2016: 13,988,646,483 shares *) in issue after adjusting for the shares bought back during the year.

As there were no diluted potential ordinary shares outstanding during the year (2016: nil), the diluted earnings per share for the year ended 31st December 2017 is the same as the basic earnings per share.

* *Adjusted for the bonus share issue in 2017*

10. Trade and other receivables

	2017 HK$ Million	2016 HK$ Million
Trade receivables (Note)	**3,734.5**	3,497.5
Payments in advance	**1,659.0**	1,259.4
Other receivables	**2,118.5**	1,572.7
	7,512.0	6,329.6

10. Trade and other receivables *(Continued)*

Note:

The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 31st December 2017, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	2017 **HK$ Million**	2016 HK$ Million
0 – 30 days	**3,293.5**	2,874.8
31 – 60 days	**119.0**	199.0
61 – 90 days	**41.5**	135.9
Over 90 days	**280.5**	287.8
	3,734.5	3,497.5

11. Trade and other payables

	2017 **HK$ Million**	2016 HK$ Million
Trade payables (Note a)	**2,977.2**	2,647.0
Other payables and accruals (Note b)	**11,292.6**	9,487.2
	14,269.8	12,134.2

Notes:

(a) As at 31st December 2017, the aging analysis of the trade payables is as follows:

	2017 **HK$ Million**	2016 HK$ Million
0 – 30 days	**1,340.0**	1,379.3
31 – 60 days	**488.0**	249.5
61 – 90 days	**298.0**	264.0
Over 90 days	**851.2**	754.2
	2,977.2	2,647.0

(b) The balances mainly represent advance received from customers for construction works and accrual for services or goods received from suppliers.

DIVIDEND AND BONUS SHARE ISSUE

The Board now recommends a final dividend of HK23 cents per share payable to shareholders of the Company whose names are on the register of members of the Company on 14th June 2018. The Board also recommends the issue of bonus shares on the basis of one bonus share for every ten existing shares held by shareholders registered as such on the register of members of the Company on 14th June 2018. The necessary resolutions will be proposed at the forthcoming Annual General Meeting on 6th June 2018, and if passed, dividend warrants and share certificates will be posted on 22nd June 2018.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of shareholders to the right to attend and vote at the forthcoming Annual General Meeting (or any adjournment thereof), the register of members of the Company will be closed from Friday, 1st June 2018 to Wednesday, 6th June 2018, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 31st May 2018.

In order to determine shareholders who qualify for the proposed issue of bonus shares and final dividend, the register of members of the Company will be closed from Tuesday, 12th June 2018 to Thursday, 14th June 2018, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration no later than 4:30 p.m. on Monday, 11th June 2018.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday, 6th June 2018. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Tuesday, 24th April 2018.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 31st December 2017, the Group had a net current borrowings position of HK$2,927 million (31st December 2016: net current deposits HK$5,505 million) and long-term borrowings of HK$21,162 million (31st December 2016: HK$27,296 million). The change from net current deposits as of 31st December 2016 to net current borrowings as of 31st December 2017 was due to US$995 million Guaranteed Notes maturing in August 2018. In addition, banking facilities available for use amounted to HK$13,200 million (31st December 2016: HK$11,500 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, debt and equity financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Financing structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In May 2012, the Programme was updated with the size increased to US$2 billion. In November 2017, under the Programme, the Group issued its inaugural green bonds based on a newly established Towngas Green Bond Framework, which was prepared in accordance with the Green Bond Principles 2017 of the International Capital Market Association. The inaugural 10-year green bonds, amounting to HK$600 million and JPY2 billion, has allowed the Group to tap into a new base of green bond investors as an additional funding source for financing the Group's environmentally green projects under the Towngas Green Bond Framework. Up to 31st December 2017, the Group issued notes in the total amount of HK$13,371 million (31st December 2016: HK$11,934 million) with maturity terms of 10 years, 12 years, 15 years, 30 years and 40 years in Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2017 was HK$12,748 million (31st December 2016: HK$11,196 million).

As at 31st December 2017, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million (31st December 2016: US$995 million) and the carrying value was HK$7,734 million (31st December 2016: HK$7,701 million).

As at 31st December 2017, the Group's borrowings amounted to HK$36,919 million (31st December 2016: HK$33,248 million). While the Notes mentioned above together with the bank and other loans of HK$4,003 million (31st December 2016: HK$4,381 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$6,363 million (31st December 2016: HK$6,496 million) were long-term bank loans and HK$6,071 million (31st December 2016: HK$3,474 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2017, the maturity profile of the Group's borrowings was 43 per cent within 1 year, 11 per cent within 1 to 2 years, 21 per cent within 2 to 5 years and 25 per cent over 5 years (31st December 2016: 18 per cent within 1 year, 28 per cent within 1 to 2 years, 22 per cent within 2 to 5 years and 32 per cent over 5 years).

The US dollar Guaranteed Notes, the AUD Note and JPY Note issued are hedged to Hong Kong dollars by currency swaps. Except for some borrowings of certain subsidiaries are arranged in or hedged to their functional currency in Renminbi, the Group's borrowings are primarily denominated in Hong Kong dollars and local currency of subsidiaries in mainland China. The Group therefore has no significant exposure to foreign exchange risk.

In January 2014, the Group issued its first Perpetual Subordinated Guaranteed Capital Securities (the "Perpetual Capital Securities") amounting to US$300 million with distribution rate of 4.75 per cent per annum for the first five years and thereafter at floating distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, the Perpetual Capital Securities are redeemable at the Group's option on or after 28th January 2019 and are accounted for as equity in the financial statements. The Perpetual Capital Securities are guaranteed by the Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources.

The gearing ratio [net borrowing / (shareholders' funds + perpetual capital securities + net borrowing)] for the Group as at 31st December 2017 remained healthy at 28 per cent (31st December 2016: 28 per cent).

Contingent liabilities

As at 31st December 2017 and 31st December 2016, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries, associates and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's financial investments in securities

Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 31st December 2017, the investments in securities amounted to HK$752 million (31st December 2016: HK$1,649 million). The performance of the Group's financial investments in securities was satisfactory.

CORPORATE GOVERNANCE

During the year ended 31st December 2017, the Company complied with all 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 Board Audit and Risk Committee has reviewed the Group's consolidated financial statements for the year ended 31st December 2017, including the accounting principles and practices adopted by the Group, in conjunction with the Group's internal auditor and PricewaterhouseCoopers, the Group's external auditor.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company bought back 1,000,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$15,342,200 before expenses. The shares bought back were subsequently cancelled. The buy-backs were effected by the Directors for the enhancement of shareholders' value in the long term. Details of the shares bought back are as follows:

Month of Buy-backs	Number of Shares Bought Back	Price per Share		Aggregate Consideration Paid (HK$)
		Highest (HK$)	Lowest (HK$)	
April 2017	1,000,000	15.44	15.22	15,342,200

Save as mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

By Order of the Board
JOHN H.M. HO
Chief Financial Officer and Company Secretary

Hong Kong, 20th March 2018

As at the date of this announcement, the Board comprises:

Non-executive Directors:	Dr. the Hon. Lee Shau Kee (Chairman), Dr. Colin Lam Ko Yin, Dr. Lee Ka Kit and Mr. Lee Ka Shing
Independent Non-executive Directors:	Mr. Leung Hay Man, Dr. the Hon. Sir David Li Kwok Po and Professor Poon Chung Kwong
Executive Directors:	Mr. Alfred Chan Wing Kin and Mr. Peter Wong Wai Yee

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