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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 2014 INTERIM RESULTS

HALF-YEARLY RESULTS

The Directors are pleased to report that the unaudited profit after taxation attributable to shareholders of the Group for the six months ended 30th June 2014 amounted to HK$3,727 million, an increase of HK$107 million compared with the same period last year. Earnings per share for the first half of 2014 amounted to HK35.4 cents. Exclusive of the Group's share of a revaluation surplus from the International Finance Centre ("IFC") complex and unrealised exchange differences on the renminbi, the Group's operating profit after taxation for the six months ended 30th June 2014 increased by HK$428 million to HK$3,748 million, an increase of approximately 13.0 per cent compared to the same period last year mainly attributable to a rise in profit from the Group's local businesses and mainland utility businesses.

Highlights of the unaudited results of the Group for the six months ended 30th June 2014, as compared to the same period in 2013, are shown in the following table:

	Unaudited Six months ended 30th June	
	2014	2013
Revenue before Fuel Cost Adjustment, HK million dollars	**14,827**	12,163
Revenue after Fuel Cost Adjustment, HK million dollars	**15,808**	13,147
Profit Attributable to Shareholders, HK million dollars	**3,727**	3,620
Earnings per Share, HK cents	**35.4**	34.4*
Interim Dividend per Share, HK cents	**12.0**	12.0
Town Gas Sold in Hong Kong, million MJ	**15,765**	15,144
Gas Sold in mainland China City-gas Business, ten thousand cubic metres; natural gas equivalent#	**768,123**	655,633
Number of Customers in Hong Kong as at 30th June	**1,810,647**	1,782,564
Number of City-gas Customers in mainland China as at 30th June#	**18,259,179**	15,664,617

* *Adjusted for the bonus issue in 2014*

\# *Inclusive of all mainland city-gas projects of the Group*

GAS BUSINESS IN HONG KONG

The local economy continued to grow moderately during the first half of 2014. Stable tourism and favourable overall local job conditions helped stimulate consumer spending. Restaurant and hotel sectors maintained steady growth. As a result, commercial and industrial gas sales increased during the first half of 2014. Residential gas sales also increased as the average temperature in the first quarter of 2014 in Hong Kong was lower than the same period last year. Overall, total volume of gas sales in Hong Kong during the first half of 2014 increased by 4.1 per cent to 15,765 million MJ while appliance sales also achieved good growth increasing by 15.3 per cent, both compared to the same period last year.

As at 30th June 2014, the number of customers was 1,810,647, an increase of 11,916 since the end of December 2013, meeting target estimates.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group’s mainland businesses progressed steadily during the first half of 2014 in respect of the number of projects and profit returns.

With on-going stable economic advancement of mainland China, the demand for energy is strong. A long-term steady supply of natural gas, the major clean energy resource on the mainland, is particularly essential. On 21st May 2014, a 30-year gas supply purchase and sales contract was signed between mainland China and Russia. Under this contract, Russia will start transmitting natural gas to the northeastern region of mainland China via a pipeline from 2018, an important move in guaranteeing sufficient gas sources. The mainland government has also formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution. The development of coal-based natural gas production ventures utilising the mainland’s abundant coal resources is also being encouraged to increase alternative energy sources. This momentum is benefiting the Group’s city-gas and natural gas businesses and helping to create continuous growth. The Group’s development of emerging environmentally-friendly energy businesses and related research and development of new technologies, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter’s subsidiaries (together known as “ECO”), are progressing well. With a number of environmentally-friendly and energy conservation projects already commissioned and new projects under development, a new foundation is being laid for long-term growth of the Group’s businesses. In addition, as a result of the development of the Group’s telecommunications businesses in Hong Kong and on the mainland over the last few years, several data centres and telecommunications conduit system project companies have since been established, which are now contributing to ever-more diversification of the Group’s businesses.

Overall, inclusive of projects of the Group’s subsidiary, Towngas China Company Limited (“Towngas China”; stock code: 1083.HK), the Group currently has 192 projects on the mainland, 19 more than at the end of 2013, spread across 24 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications, energy resources’ exploration and utilisation, as well as telecommunications.

Diversification and an increase in the number of projects are gradually transforming the Group from a locally-based company in Hong Kong centred on a single business into a sizable, nation-wide, multi-business corporation with a focus on environmentally-friendly energy ventures and utility sectors.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group currently has a total of 126 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities, of which seven are new projects established this year. The total volume of gas sales for these projects for the first half of 2014 was approximately 7,680 million cubic metres, an increase of 17.2 per cent over the same period last year. As at the end of June 2014, the Group's mainland gas customers stood at approximately 18.26 million, an increase of 16.6 per cent over the same period last year. The Group continues to be a large-scale city-gas enterprise with outstanding performance on the mainland.

Natural gas price reform on the mainland was introduced in July 2013 with a rise in the gate price for non-residential use. With on-going market-oriented reforms in the natural gas sector, it is anticipated that the price of gas will rise further as a result, creating a short-term impact on commercial and industrial gas market demands. However, in the medium to long term, natural gas is still projected to be the clean energy of choice on the mainland for reducing pollutant emissions to improve hazy atmospheric conditions. With gradual commissioning of the country's large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline, and pipeline projects for importing natural gas from Central Asia and Burma coming on stream, as well as a rise in the quantity of imported and domestic liquefied natural gas ("LNG"), supply of natural gas on the mainland is increasing. Thus, with increasing sources of gas supply, expanding pipeline networks and the public's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include natural gas pipeline projects in Anhui province, in Hebei province and in Hangzhou city, Zhejiang province; natural gas extension projects in Jilin and Henan provinces; the Guangdong LNG Receiving Terminal project; and Towngas China's midstream pipeline project located in Wafangdian, Dalian city, Liaoning province. These kinds of high-pressure, natural gas pipeline projects generate good returns and help the Group develop its downstream city-gas markets.

The Group has so far invested in, and operates, six water projects, including 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 the starting area of Jiangbei Concentration Zone, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. With increasing demand for clean water resources across the country, the Group's water projects are progressing well, with steady growth in volume of water sales.

Operation and management of businesses encompassing city-gas, city-water and midstream natural gas projects create positive synergy and mutual advantages. Furthermore, these businesses generate stable income and provide good environmental benefits, with room for expansion. 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 two major businesses in Hong Kong – an aviation fuel facility servicing Hong Kong International Airport, and dedicated liquefied petroleum gas ("LPG") vehicular filling stations – are both operating smoothly. Total turnover for the aviation fuel facility for the first half of 2014 was 2.79 million tonnes, providing a safe and reliable fuel supply to Hong Kong International Airport and continuing to contribute to ECO's steady profit growth. Profit margins for the LPG refilling station business for the first half of 2014 significantly improved compared with the same period last year, benefiting from favourable fluctuations in LPG costs.

As haze and air pollution on the mainland are now a growing concern, the Chinese government is therefore increasing its efforts to promote the utilisation of natural gas with the aim of improving air quality. Developing refilling station networks supplying LNG as a fuel for vehicles and vessels, and gradually replacing diesel for heavy-duty trucks, are gaining momentum. In response to these trends, ECO has started to reinforce its LNG supply capacity with unconventional gas resources including coalbed gas and coke oven gas. ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating steadily and smoothly, with both production volume and liquefied products' selling prices rising significantly compared with the same period last year. ECO is now seeking more natural gas and coalbed gas supply sources on the mainland in order to expand its liquefaction capacity and distribution areas.

There is substantial coke demand for steelmaking in the iron and steel industry in mainland China. During the industrial process to convert coking coal to coke, a large quantity of coke oven gas is generated which can be used to produce LNG firstly through methanation and then liquefaction. ECO has recently sped up its efforts to pin down long-term coke oven gas supply agreements with several coking plants, and has already commenced preparatory work on two projects of this kind, one located in Xuzhou city, Jiangsu province and the other in Heze city, Shandong province, with annual production capacities of 75,000 tonnes and 83,000 tonnes of LNG respectively. Commissioning of both projects is expected in the second half of 2015.

A network of ECO natural gas refilling stations is gradually taking shape in, amongst others, Shaanxi, Shandong, Shanxi, Henan and Liaoning provinces. ECO is also planning to provide LNG refilling facilities for incoming and outgoing heavy-duty trucks and river transport vessels at the logistics port of Jining city, Shandong province – a port which links an upstream railway with the nearby downstream Beijing-Hangzhou canal. All in all, ECO currently has 30 refilling stations in operation, under planning or construction, and further expansion of this business into even more provinces is actively in progress. As the number of refilling stations increases, the ECO brand name will gradually become more well-known in the market.

In view of a worldwide shortage and rising prices of petroleum, the mainland is speeding up its development of suitable substitutes in order to reduce reliance on imported crude oil. ECO is proactively studying the utilisation of innovative resource conversion technologies to produce high value-added environmentally-friendly energy, and is making progress with converting low-value raw materials into high value-added energy. Related research and development has shown promising results recently, which could help strengthen ECO's competitive edge in this new energy sector in future. Preparatory work for a related project located in the Chemical Industrial Park of Zhangjiagang city, Jiangsu province, has already commenced. This project, with an annual production capacity of 120,000 tonnes, will upgrade biological fatty-acids (such as palm oil residue and used cooking oil) into chemical products which can be used as substitutes for diesel, will be an important first step in developing ECO's biomass energy business.

ECO's methanol production plant, in Inner Mongolia Autonomous Region, operated smoothly during the first half of 2014 with further increase in production output. On this basis, construction of a facility to further upgrading methanol into 140,000-tonne natural gasoline (a gasoline substitute chemical product) using self-developed technology has commenced; commissioning is expected before the end of 2014. This will be an important milestone for ECO's methanol upgrading business.

With regard to ECO's oilfield project in Thailand, progress was encouraging during the first half of 2014 with two high-yield wells drilled in March and April enabling a daily output of over 4,000 barrels of oil. This project is expected to achieve good results in 2014.

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

Towngas China, a subsidiary of the Group, recorded good business growth during the first half of 2014. Exclusive of unrealised exchange differences on the renminbi, Towngas China recorded a net profit of HK$612 million, an increase of approximately 33.4 per cent compared with the same period last year. Inclusive of the exchange losses resulting from the depreciation of the renminbi during the period under review, Towngas China's profit after taxation attributable to its shareholders was HK$468 million, a decrease of HK$65 million compared with the same period last year. As at the end of June 2014, the Group had an approximately 62.25 per cent interest in Towngas China.

In May 2014, Standard & Poor's Ratings Services ("Standard & Poor's), an international rating agency, upgraded its rating outlook on Towngas China to "positive" from "stable", and affirmed its "BBB" long-term corporate credit rating on the company. As a result of the outlook revision, Standard & Poor's raised its long-term Greater China regional scale credit rating on Towngas China to "cnA+" from "cnA". In July 2014, Moody's Investors Service ("Moody's"), another international rating agency, also upgraded its rating outlook on Towngas China to "positive" from "stable", and affirmed its "Baa2" issuer rating on the company. Such ratings demonstrate Towngas China's increasing credit strength and the rating agencies' recognition of the company's growth momentum.

Project development is also progressing well. Towngas China acquired seven new piped-gas projects during the first half of 2014 located in Xingyi city, Guizhou province; in Siping city, Jilin province; in Guyang county, Baotou city, Inner Mongolia Autonomous Region; in Jiajiang county, Leshan city, Sichuan province; in Songyang county, Lishui city, Zhejiang province; in Tongshan district, Xuzhou city, Jiangsu province; and in Luliang county, Qujing city, Yunnan province. Towngas China also acquired a vehicular gas refilling station project in Qiqihar city, Heilongjiang province during the first half of 2014.

Towngas China has recently been honoured with "Company of the Year Award" in the "Gas Industry Awards 2014" jointly organised by the Institution of Gas Engineers & Managers of the United Kingdom and the Energy and Utilities Alliance (an international organisation), the first company on the mainland to win this international award. This is the third time the Group has won this award, demonstrating the industry's recognition of the Group's outstanding performance in safety and reliability of gas supply.

PROPERTY DEVELOPMENTS

Leasing of the commercial area of the Grand Waterfront property development project located at Ma Tau Kok is good. The Group also has an approximately 15.8 per cent interest in the IFC complex. Rental demand for the shopping mall and office towers of IFC continues to be robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

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. In line with the Group's long-term business investments, the Group had issued, as at 30th June 2014, medium term notes of an aggregate amount equivalent to HK$10.2 billion with tenors ranging from 5 to 40 years under this programme.

In January 2014, the Group also issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Capital Securities"), amounting to US$300 million, through Towngas (Finance) Limited, another wholly-owned subsidiary of the Group. These Perpetual Capital Securities have a nominal interest rate of 4.75 per cent per annum for the first five years, a record low for securities of the same kind issued by corporations in Asia at that time, and thereafter will have a floating interest rate. The Perpetual Capital Securities, guaranteed by the Company, were listed on The Stock Exchange of Hong Kong Limited on 29th January 2014 (stock code: 6018.HK) and rated "A3" and "A-" by international rating agencies Moody's and Standard & Poor's respectively. The issuance helps further strengthen the Group's balance sheet, improve its financing maturity profile, diversify funding sources and maintain solid investment grade ratings.

HONG KONG EMPLOYEES AND PRODUCTIVITY

As at 30th June 2014, the number of employees engaged in the town gas business in Hong Kong was 1,972 (30th June 2013: 1,945), the number of customers was 1,810,647, and each employee served the equivalent of 918 customers, slightly up compared to the same period last year. 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 2,341 as at the end of June 2014 compared with 2,281 as at the end of June 2013. Related manpower costs amounted to HK$457 million for the first half of 2014, an increase of HK$34 million compared with the corresponding period in 2013. 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.

DIVIDEND

Your Directors have declared an interim dividend of HK12 cents per share payable to shareholders whose names are on the register of shareholders of the Company as at 19th September 2014. To enable our Share Registrar to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 18th September 2014 and Friday, 19th September 2014, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Friday, 3rd October 2014.

BUSINESS OUTLOOK FOR 2014

The Company predicts steady growth in the number of customers in Hong Kong during 2014. Currently, favourable job conditions and an increasing number of inbound tourists in Hong Kong are helping to stimulate internal demand and consumer spending. In addition, the number of private residential units ready for completion this year is also forecast to reach a decade high, facilitating growth in gas customers and gas consumption. Market expansion of gas utilisation is also benefiting from the competitiveness of town gas, an energy resource combining both environmental and economic benefits. However, the overall business environment in Hong Kong is being impacted by increasing manpower costs and operating expenses across various business sectors. Nevertheless, the Company will continue to enhance its own operational efficiency so as to maintain stable development of its gas business in the territory.

In mainland China, slowdown in the real estate market, resulting from related control policies, is expected to impact revenue from connection fees for city-gas businesses in the short term. In addition, growth of industrial production is decelerating due to continuing global economic weaknesses, while growth of gas consumption in the commercial sector is also decreasing due to the mainland government's more cautious approach to official spending. Given all these factors, a slight slowing in overall profit growth for the Group's mainland businesses is expected in 2014. Nevertheless, there will be a continuing rise in demand for utility services and energy in the long run resulting from the mainland government's advocate of reduction of emissions and utilisation of clean energy to combat air pollution, and the country's rapid progress of urbanisation. Recent natural gas price reform better reflects the market situation on the mainland and favours a healthier development of the natural gas business sector in the long term. In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and the creation of a more circular economy, 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 and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. All these aspects are beginning to ignite a new light illuminating the way for the Group's long-term development of its emerging environmentally-friendly energy businesses 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 successful corporate brand names and sales channels built there over the last 20 years, and mainland society's rising concern over air quality, it is anticipated that there will be rising demand for clean energy. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is increasing, the Group, with a sizeable customer base, foresees a promising return from its expanding and diversifying businesses.

Overall, the Group predicts good prospects and an even broader and better future for all its businesses in the years to come.

LEE Shau Kee
Chairman

Hong Kong, 25th August 2014

FINANCIAL INFORMATION

Highlights of the Group's interim accounts for the first six months ended 30th June 2014 are shown below. The unaudited interim accounts have been reviewed by the Company's audit committee and external auditor, PricewaterhouseCoopers.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30TH JUNE

	Note	**2014** **HK$M**	2013 HK$M
Revenue	3	**15,808.0**	13,147.1
Total operating expenses	4	**(11,851.9)**	(9,789.6)
		3,956.1	3,357.5
Other (losses)/gains, net	5	**(30.5)**	404.0
Interest expense		**(497.6)**	(439.0)
Share of results of associates		**948.1**	799.1
Share of results of joint ventures		**783.3**	667.5
Profit before taxation		**5,159.4**	4,789.1
Taxation	6	**(963.2)**	(770.9)
Profit for the period		**4,196.2**	4,018.2
Attributable to:			
Shareholders of the Company		**3,726.6**	3,620.0
Holders of perpetual capital securities		**47.3**	-
Non-controlling interests		**422.3**	398.2
		4,196.2	4,018.2
Dividends	7	**1,261.9**	1,147.2
Earnings per share – basic and diluted, HK cents	8	**35.4**	34.4*

*Adjusted for the bonus issue in 2014

CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 30TH JUNE 2014

	Note	**At 30th June 2014 HK$M**	At 31st December 2013 HK$M
Assets			
Non-current assets			
Property, plant and equipment		**46,651.0**	45,450.9
Investment property		**646.0**	646.0
Leasehold land		**1,623.7**	1,551.4
Intangible assets		**5,696.3**	5,253.3
Associates		**16,913.0**	17,015.1
Joint ventures		**8,958.3**	8,939.0
Available-for-sale financial assets		**2,868.8**	2,937.3
Derivative financial instruments		**343.3**	421.4
Retirement benefit assets		**66.3**	66.3
Other non-current assets		**2,349.9**	2,425.8
		86,116.6	84,706.5
Current assets			
Inventories		**2,366.6**	2,383.1
Trade and other receivables	9	**6,567.7**	6,567.6
Loan and other receivables from associates		**306.1**	116.5
Loan and other receivables from joint ventures		**1,883.6**	1,664.7
Loan and other receivables from non-controlling shareholders		**155.3**	157.2
Financial assets at fair value through profit or loss		**558.5**	661.3
Time deposits over three months		**848.4**	1,289.3
Time deposits up to three months, cash and bank balances		**11,920.6**	8,849.0
		24,606.8	21,688.7
Current liabilities			
Trade and other payables	10	**(10,817.1)**	(11,272.3)
Amounts due to joint ventures		**(379.2)**	(596.6)
Loan and other payables to non-controlling shareholders		**(524.1)**	(274.2)
Provision for taxation		**(1,101.0)**	(896.4)
Borrowings		**(6,318.5)**	(6,222.3)
		(19,139.9)	(19,261.8)
Net current assets		**5,466.9**	2,426.9
Total assets less current liabilities		**91,583.5**	87,133.4

CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)
AS AT 30TH JUNE 2014

	Note	**At 30th June 2014 HK$M**	At 31st December 2013 HK$M
Non-current liabilities			
Customers' deposits		**(1,241.4)**	(1,233.4)
Deferred taxation		**(4,913.9)**	(4,711.3)
Borrowings		**(25,191.6)**	(24,401.1)
Loan payables to non-controlling shareholders		**(21.6)**	(22.1)
Asset retirement obligations		**(31.2)**	(29.2)
Derivative financial instruments		**(287.5)**	(365.8)
		(31,687.2)	(30,762.9)
Net assets		**59,896.3**	56,370.5
Capital and reserves			
Share capital		**5,474.7**	2,389.9
Share premium		**-**	2,861.0
Reserves		**44,053.5**	42,418.0
Proposed dividend		**1,261.9**	2,198.7
Shareholders' funds		**50,790.1**	49,867.6
Perpetual capital securities	11	**2,354.1**	-
Non-controlling interests		**6,752.1**	6,502.9
Total equity		**59,896.3**	56,370.5

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

1 Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts, which do not constitute statutory accounts, have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31st December 2013.

The Group has adopted the following new or revised standards, interpretations and amendments to standards which are effective for the Group's financial year beginning 1st January 2014 and relevant to the Group.

HKAS 32 (Amendment)	"Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"
HKAS 36 (Amendment)	"Recoverable Amount Disclosures for Non-Financial Assets"
HKAS 39 (Amendment)	"Novation of Derivatives and Continuation of Hedge Accounting"
Amendments to HKAS 19 (2011)	"Defined Benefit Plans: Employee Contribution"
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	"Investment Entities"
HKFRSs Amendments	"Annual improvements to HKFRSs 2010-2012 Cycle and Annual improvements to HKFRSs 2011-2013 Cycle"
HK (IFRIC) - Int 21	"Levies"

The adoption of the new or revised standards, interpretations and amendments to standards has no significant impact on the Group's results and financial position or any substantial changes in Group's accounting policies.

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 2014 and the Group has not early adopted the rules.

2 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).

2 Financial risk management and fair value estimation of financial instruments (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 30th June 2014 and 31st December 2013.

	Level 1		Level 2		Total	
	At 30th June 2014 HK$M	At 31st December 2013 HK$M	**At 30th June 2014 HK$M**	At 31st December 2013 HK$M	**At 30th June 2014 HK$M**	At 31st December 2013 HK$M
Assets						
Financial assets at fair value through profit or loss						
- Debt securities	**524.5**	618.8	**-**	-	**524.5**	618.8
- Equity securities	**34.0**	42.5	**-**	-	**34.0**	42.5
Derivative financial instruments	**-**	-	**343.3**	421.4	**343.3**	421.4
Available-for-sale financial assets						
- Debt securities	**664.1**	746.3	**-**	-	**664.1**	746.3
- Equity investments	**1,722.1**	1,705.9	**-**	-	**1,722.1**	1,705.9
Loans to associates	-	-	**766.0**	1,046.8	**766.0**	1,046.8
Loans to joint ventures	-	-	**409.6**	401.9	**409.6**	401.9
Aviation fuel facility construction receivable	-	-	**2,188.6**	2,133.6	**2,188.6**	2,133.6
Total assets	**2,944.7**	3,113.5	**3,707.5**	4,003.7	**6,652.2**	7,117.2
Liabilities						
Derivative financial instruments	**-**	-	**287.5**	365.8	**287.5**	365.8

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 30th June 2014, the Group did not have financial instruments under this category.

2 Financial risk management and fair value estimation of financial instruments (Continued)

Specific valuation techniques used to value financial instruments includes:

- 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 balance sheet date, with the resulting value discounted back to present value.

3 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:

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Gas sales before fuel cost adjustment	**11,067.4**	9,246.2
Fuel cost adjustment	**980.6**	983.9
Gas sales after fuel cost adjustment	**12,048.0**	10,230.1
Gas connection income	**1,503.9**	1,194.6
Equipment sales and maintenance services	**914.3**	797.4
Water sales	**286.6**	271.4
Oil and coal related sales	**672.2**	239.9
Other sales	**383.0**	413.7
	15,808.0	13,147.1

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 perspective. 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 are further evaluated on a geographic basis (Hong Kong and Mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted earnings 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 accounts.

3 Segment information (Continued)

The segment information for the six months ended 30th June 2014 and 2013 provided to the ECM for the reportable segments is as follows:

2014	**Gas, water and related businesses – Hong Kong HK$M**	**Gas, water and related businesses – Mainland China HK$M**	**New Energy HK$M**	**Property HK$M**	**Other segments HK$M**	**Total HK$M**
Revenue	**5,240.3**	**8,787.8**	**1,577.1**	**24.2**	**178.6**	**15,808.0**
Adjusted EBITDA	**2,446.9**	**2,119.0**	**544.7**	**14.1**	**37.3**	**5,162.0**
Depreciation and amortisation	**(325.1)**	**(423.7)**	**(168.3)**	**-**	**(24.4)**	**(941.5)**
Unallocated expenses						**(264.4)**
						3,956.1
Other losses, net						**(30.5)**
Interest expense						**(497.6)**
Share of results of associates	**-**	**451.6**	**(0.6)**	**497.2**	**(0.1)**	**948.1**
Share of results of joint ventures	**-**	**779.8**	**0.9**	**2.6**	**-**	**783.3**
Profit before taxation						**5,159.4**
Taxation						**(963.2)**
Profit for the period						**4,196.2**

Share of results of associates includes HK$257.6 million (2013: HK$126.6 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

2013	Gas, water and related businesses – Hong Kong HK$M	Gas, water and related businesses – Mainland China HK$M	New Energy HK$M	Property HK$M	Other segments HK$M	Total HK$M
Revenue	4,929.9	6,997.9	979.8	21.2	218.3	13,147.1
Adjusted EBITDA	2,300.2	1,737.0	290.6	12.5	47.3	4,387.6
Depreciation and amortisation	(316.9)	(346.9)	(89.5)	-	(17.0)	(770.3)
Unallocated expenses						(259.8)
						3,357.5
Other gains, net						404.0
Interest expense						(439.0)
Share of results of associates	-	445.1	(0.7)	355.2	(0.5)	799.1
Share of results of joint ventures	-	664.0	0.8	2.7	-	667.5
Profit before taxation						4,789.1
Taxation						(770.9)
Profit for the period						4,018.2

3 Segment information (Continued)

The segment assets at 30th June 2014 and 31st December 2013 are as follows:

30th June 2014	Gas, water and related businesses Hong Kong HK$M	Gas, water and related businesses Mainland China HK$M	New Energy HK$M	Property HK$M	Other segments HK$M	Total HK$M
Segment assets	**15,759.4**	**53,502.0**	**19,610.9**	**10,243.3**	**1,818.9**	**100,934.5**
Unallocated assets:						
Available-for-sale financial assets						**2,868.8**
Financial assets at fair value through profit or loss						**558.5**
Time deposits, cash and bank balances excluded from segment assets						**5,675.8**
Others (Note)						**685.8**
Total assets	**15,759.4**	**53,502.0**	**19,610.9**	**10,243.3**	**1,818.9**	**110,723.4**

Note

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

31st December 2013	Gas, water and related businesses Hong Kong HK$M	Gas, water and related businesses Mainland China HK$M	New Energy HK$M	Property HK$M	Other segments HK$M	Total HK$M
Segment assets	16,058.1	51,507.3	19,489.8	10,562.7	1,505.3	99,123.2
Unallocated assets:						
Available-for-sale financial assets						2,937.3
Financial assets at fair value through profit or loss						661.3
Time deposits, cash and bank balances excluded from segment assets						2,777.2
Others (Note)						896.2
Total assets	16,058.1	51,507.3	19,489.8	10,562.7	1,505.3	106,395.2

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2014 is HK$5,866.2 million (2013: HK$5,575.8 million), and the revenue from external customers in other geographical locations is HK$9,941.8 million (2013: HK$7,571.3 million).

At 30th June 2014, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$21,287.1 million and HK$59,201.2 million (31st December 2013: HK$21,662.7 million and HK$57,193.0 million) respectively.

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

4 Total operating expenses

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Stores and materials used	**8,246.1**	6,706.5
Manpower costs	**1,159.6**	1,012.4
Depreciation and amortisation	**948.7**	775.5
Other operating items	**1,497.5**	1,295.2
	11,851.9	9,789.6

5 Other (losses)/gains, net

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Net investment (losses)/gains	**(13.1)**	461.5
Loss on disposal of a subsidiary	-	(34.7)
Project research and development costs	**(20.3)**	(17.4)
Others	**2.9**	(5.4)
	(30.5)	404.0

6 Taxation

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Current taxation	**762.7**	634.3
Deferred taxation relating to the origination and reversal of temporary differences	**200.5**	136.6
	963.2	770.9

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Other countries profits tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

7 Dividends

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
2013 Final, paid, of HK23 cents per ordinary share (2012 Final: HK23 cents per ordinary share)	**2,198.7**	1,998.8
2014 Interim, proposed, of HK12 cents per ordinary share (2013 Interim: HK12 cents per ordinary share)	**1,261.9**	1,147.2
	3,460.6	3,146.0

8 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$3,726.6 million (2013: HK$3,620.0 million) and the weighted average of 10,515,637,553 shares (2013: 10,515,637,553 shares*) in issue during the period.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the reporting periods of 2014 and 2013, the diluted earnings per share for the period ended 30th June 2014 and 2013 are approximately the same as the basic earnings per share.

* Adjusted for the bonus issue in 2014.

9 Trade and other receivables

	At 30th June 2014 HK$M	At 31st December 2013 HK$M
Trade receivables (Note)	**3,324.2**	3,517.3
Payments in advance	**1,799.7**	1,763.6
Other receivables	**1,443.8**	1,286.7
	6,567.7	6,567.6

The Group recognised a loss of HK$5.6 million (2013: HK$6.7 million) for the impairment of its trade and other receivables during the period. The impairment has been included in other operating items (Note 4).

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 30th June 2014, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2014 HK$M	At 31st December 2013 HK$M
0 - 30 days	**2,847.4**	3,067.8
31 - 60 days	**79.3**	80.7
61 - 90 days	**49.2**	37.9
Over 90 days	**348.3**	330.9
	3,324.2	3,517.3

10 Trade and other payables

	At 30th June 2014 HK$M	At 31st December 2013 HK$M
Trade payables (Note a)	**2,435.6**	2,622.5
Other payables and accruals (Note b)	**8,381.5**	8,649.8
	10,817.1	11,272.3

Notes

(a) The aging analysis of the trade payables is as follows:

	At 30th June 2014 HK$M	At 31st December 2013 HK$M
0 - 30 days	**1,078.5**	1,384.2
31 - 60 days	**173.3**	197.4
61 - 90 days	**263.5**	252.9
Over 90 days	**920.3**	788.0
	2,435.6	2,622.5

(b) The balance includes an amount of approximately HK$45.7 million (At 31st December 2013: HK$45.7 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront.

11 Perpetual capital securities

In January 2014, the Group issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Capital Securities"), amounting to US$300 million through, Towngas (Finance) Limited, a wholly-owned subsidiary for cash.

The Perpetual Capital Securities are guaranteed by the Company, bear distribution at a rate of 4.75 per cent per annum for the first five years and thereafter will have a floating distribution rate. The Perpetual Capital Securities are perpetual and are redeemable, at the option of the Group, in January 2019 or thereafter every six months on the distribution payment date. The distribution payment can be deferred at the discretion of the Group. Therefore, they are classified as equity instruments, and recorded in equity in the consolidated balance sheet.

DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30th June 2014 of HK12 cents per share payable to shareholders of the Company whose names are on the register of members of the Company as at 19th September 2014. Dividend warrants will be despatched to shareholders on Friday, 3rd October 2014.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 18th September 2014 to Friday, 19th September 2014, both days inclusive, during which period no transfer of shares will be registered. **In order to qualify for this dividend, 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 Wednesday, 17th September 2014.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2014, the Group had a net current deposits position of HK$6,451 million (31st December 2013: HK$3,916 million) and long-term borrowings of HK$25,192 million (31st December 2013: HK$24,401 million). In addition, banking facilities available for use amounted to HK$11,200 million (31st December 2013: HK$11,200 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 favorable terms and timing under the Programme. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2014, the Group issued notes in the total amount of HK$10,210 million (31st December 2013: HK$10,210 million) with maturity terms of 5 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2014 was HK$9,849 million (31st December 2013: HK$9,789 million).

As at 30th June 2014, 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 2013: US$995 million) and the carrying value was HK$7,666 million (31st December 2013: HK$7,663 million).

As at 30th June 2014, the Group's borrowings amounted to HK$31,510 million (31st December 2013: HK$30,623 million). The Notes mentioned above together with the bank and other loans of HK$1,303 million (31st December 2013: HK$1,360 million) had fixed interest rate and were unsecured. While the bank and other loans of HK$12 million of a newly acquired joint venture during the year 2014 was secured by a pledge of certain assets of the joint venture, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$6,424 million (31st December 2013: HK$5,614 million) were long-term bank loans and HK$6,256 million (31st December 2013: HK$6,197 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2014, the maturity profile of the Group's borrowings was 20 per cent within 1 year, 18 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 26 per cent over 5 years (31st December 2013: 20 per cent within 1 year, 8 per cent within 1 to 2 years, 44 per cent within 2 to 5 years and 28 per cent over 5 years).

The US dollar Guaranteed Notes, the RMB Note, AUD Note and JPY Note issued, and a bank loan of RMB500 million raised in Hong Kong are hedged to Hong Kong dollars by currency swaps and the Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi; thus, the Group has no significant exposure to foreign exchange risk. The gearing ratio [net borrowing / (shareholders' funds + perpetual capital securities + net borrowing)] for the Group as at 30th June 2014 remained healthy at 26 per cent (31st December 2013: 29 per cent).

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 balance sheet, improve its financing maturity profile and diversify its funding sources.

Contingent liabilities

As at 30th June 2014, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties (31st December 2013: Nil).

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 investments in securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 30th June 2014, the investments in securities amounted to HK$3,427 million (31st December 2013: HK$3,599 million). The performance of the Group's investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2014, the Company had 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 "Listing Rules").

Model code for dealing in securities by Directors

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30th June 2014.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2014.

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

Hong Kong, 25th August 2014

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

Non-executive Directors:	Dr. the Hon. Lee Shau Kee (Chairman), Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing
Independent Non-executive Directors:	Mr. Leung Hay Man, Dr. the Hon. 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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