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 2016 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 2016 amounted to HK$4,331 million, an increase of HK$134 million compared to the same period last year. Earnings per share for the first half of 2016 amounted to HK34.1 cents, an increase of 3.2 per cent compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2016, as compared to the same period in 2015, are shown in the following table:

	Unaudited Six months ended 30th June	
	2016	2015
Revenue before Fuel Cost Adjustment, HK million dollars	**13,918**	14,517
Revenue after Fuel Cost Adjustment, HK million dollars	**14,162**	15,083
Profit Attributable to Shareholders, HK million dollars	**4,331**	4,197
Earnings per Share, HK cents	**34.1**	33.0*
Interim Dividend per Share, HK cents	**12.0**	12.0
Town Gas Sold in Hong Kong, million MJ	**15,774**	15,491
Gas Sold in mainland China City-gas Business, million cubic metres; natural gas equivalent#	**8,634**	7,947
Number of Customers in Hong Kong as at 30th June	**1,847,390**	1,828,333
Number of City-gas Customers in mainland China as at 30th June#	**21,911,007**	19,912,450

* *Adjusted for the bonus share issue in 2016*
\# *Inclusive of all mainland city-gas projects of the Group*

TOWN GAS BUSINESS IN HONG KONG

During the first half of 2016, the global economy still faced severe challenges, and concurrently, the local economy grew slower compared to the same period last year, due to a decrease in the number of inbound tourists and sluggish retail sales, creating a negative impact on commercial and industrial gas sales. Conversely, as the average temperature in the first half of 2016 in Hong Kong was lower than the same period last year, residential gas sales increased. Overall, total volume of gas sales in Hong Kong for the first half of 2016 increased by 1.8 per cent to 15,774 million MJ while appliance sales revenue also achieved good growth, reaching HK$843 million, an increase of 21.4 per cent, both compared to the same period last year.

As at 30th June 2016, the number of customers was 1,847,390, an increase of 8,129 since the end of December 2015.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during the first half of 2016 in respect of the number of projects and profit from utility businesses.

Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 235 projects on the mainland, 13 more than at the end of 2015, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications and exploration and utilisation of new emerging energy sources, as well as telecommunications.

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

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 (collectively known as "ECO"), are progressing steadily. With a number of environmentally-friendly and energy conservation projects under construction or already commissioned, and new projects under development, the foundation for long-term growth of the Group's businesses is being continually reinforced. However, during the first half of 2016, international oil prices continued to fall, at one time to a 2003 low, leading to a drastic drop in prices of energy products which significantly affected ECO's half-yearly profits.

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 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2016 was approximately 8,630 million cubic metres, an increase of 9 per cent over the same period last year. As at the end of June 2016, the Group's mainland gas customers stood at 21.91 million, an increase of 10 per cent over the same period last year. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding performance on the mainland.

Under the impact of grim geopolitics in a number of regions overseas and an increasing risk of a global economic downturn, demand for commodities worldwide remained weak during the first half of 2016, and, as a result, growth of the mainland economy was slower compared to the same period last year. The country's demand for energy, including electricity, petroleum and natural gas, recorded only slight growth. Nevertheless, long-term and steady growth in the demand for natural gas, a major clean energy resource on the mainland, is still anticipated. The Chinese government has also formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution and to minimise the formation of smog, indicating an energy development trend inclining towards natural gas and environmentally-friendly energy. This favourable momentum will benefit the Group's city-gas and natural gas businesses.

The global economy is still sluggish, creating an adverse impact on industrial gas demand and, given low international oil prices, declining prices for other petroleum fuels. Following the implementation of price adjustments by the Chinese government in April and November 2015, non-residential natural gas city-gate prices have reduced, thus enhancing the competitiveness of natural gas relative to other energy sources. In the medium to long term, natural gas is still projected to be the clean energy of choice for reducing air pollution and improving smoggy atmospheric conditions on the mainland. With gradual commissioning of the country's large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and the West-to-East pipeline, and pipeline projects for importing 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 quantity of imported liquefied natural gas ("LNG"), supply of natural gas on the mainland is becoming ample, which is beneficial to market development. With a number of mainland cities gradually introducing policies to advocate the use of natural gas to replace coal, natural gas as a fuel for household heating in winter is gradually growing. 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 future.

Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is in progress. Upon completion, this facility will be the first of its kind developed by a city-gas enterprise on the mainland. Total storage capacity will be approximately 460 million standard cubic metres. Completion of phase one of this project, with a storage capacity of 150 million standard cubic metres, is expected during the first quarter of 2017. This facility, which will help the Group supplement and regulate gas supplies during the peak winter period for several of its city-gas projects in eastern China, is in line with the Chinese government's policy of advocating faster development of gas storage capacity, and will support 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 103 stations spread across different provinces to date. Apart from continuously developing this business in mainland China, the Group is also actively developing refilling projects for marine vessels and is currently investing in a joint venture project with six refilling sites for barges along the Yangtze River in Jiangsu province. This is the country's first, and largest project in terms of number of refilling sites, along this river. In September 2013, the joint venture constructed and put into service the country's first floating LNG refilling station barge. Classified by the government as a pilot project, this venture represents the start of a new era for the mainland's marine industry in LNG applications. Given that LNG is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses have good prospects for the Group.

The Group stepped into the mainland water market under the brand name “Hua Yan Water” over ten years ago and has so far invested 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 to handle 600 tonnes of food waste, green waste and landfill leachate daily for conversion into natural gas, oil products, solid fuel and fertilizer, under “Hua Yan Water” brand in Suzhou Industrial Park. This will be the Group’s first project converting waste into high-value products.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and waste processing and utilisation projects create greater 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 major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas (“LPG”) vehicular refilling stations and landfill gas utilisation projects – are all operating smoothly. Total turnover for ECO’s aviation fuel facility for the first half of 2016 was 3.66 million tonnes. The facility contributes to ECO’s steady profit growth. The business of five LPG vehicular refilling stations under the brand name “ECO” is progressing steadily, providing a quality and reliable fuel supply to the territory’s taxi and minibus sectors. ECO’s landfill gas project in the North East New Territories, after operating for several years, is generating noticeable environmental benefits. On this basis, ECO commenced the development of a South East New Territories landfill gas utilisation project in 2015, with commissioning expected to start in the second half of 2016, which will increase the proportion of landfill gas used by the Group and make a further contribution to energy conservation and emission reduction in Hong Kong.

Facing the continuing fall in international oil prices, output of ECO’s oilfield project in Thailand was adjusted to 740,000 barrels during the first half of 2016, a decrease of 29 per cent compared to the same period last year, causing a significant impact on the project’s recent profits.

ECO’s coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, suffered a downturn in output due to low LNG market prices during the first half of 2016. However, the facility is expected to resume stable and smooth operations as the mainland economy gradually begins to improve. Construction of a project in Xuzhou city, Jiangsu province to produce LNG by methanation of coke oven gas has been largely completed; trial production is expected to commence in the second half of 2016.

As smog and air pollution on the mainland are now a growing concern, the Chinese government is stepping up its efforts to promote the use of LNG as a gradual replacement for diesel for heavy-duty trucks. A network of ECO natural gas refilling stations is gradually taking shape in provinces and autonomous regions including Shaanxi, Inner Mongolia, Ningxia, Shandong, Shanxi, Jiangsu, Henan and Liaoning. All in all, ECO currently has 60 refilling stations in operation, under construction or at the planning stage. As expansion of its network progresses, the ECO brand name will gradually become more well-known in the market.

The Chinese government is encouraging conversion of biomass into clean energy and chemical products and this is now an important part of ECO's business development. To this end, ECO is, at full speed, constructing a plant to upgrade inedible bio-oil, expected to be completed in mid-2017 for trial production. Located in Zhangjiagang city, Jiangsu province, the facility will handle approximately 220,000 tonnes of palm acid oil annually for conversion into high-quality chemical products and low-sulphur fuels.

Mainland China, a sizeable agricultural country, generates 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 for utilisation of this waste. However, ECO has successfully developed new technologies to convert agricultural and forestry waste into syngas and chemical raw materials such as furfural and levulinic acid through thermal gasification and hydrolysis - a kind of development which effectively transforms waste of this kind into high-value products using advanced technologies. ECO is planning to start a pilot project within this year using these technologies and to commission a facility next year, which will lay the foundation for future mass commercial application.

ECO's coal-based methanol production plant in Inner Mongolia Autonomous Region operated smoothly during the first half of 2016 with a yield of 138,000 tonnes, a similar level to the same period last year. To overcome the adverse impact of continuous falls in methanol and gasoline prices, ECO has enhanced methanol production to 340,000 tonnes annually, and plans to optimise its facility to convert methanol into natural gasoline, thus laying the foundation for further methanol upgrading business.

ECO is also developing innovative resource conversion technologies for the production of high value-added environmentally-friendly new energy. Related research and development has achieved a breakthrough in results, with noticeable economic and environmental benefits, especially in areas of coal tar oil conversion into carbon materials, upgrading and utilisation of oil-rich powder coal and conversion of agricultural waste into syngas and fuel additives. All of this should help strengthen ECO's competitive edge in the areas of environmentally-friendly energy and petroleum substitutes in future.

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

Towngas China, a subsidiary of the Group, developed steadily during the first half of 2016 with its project companies on the mainland contributing a profit, denominated in renminbi, amounting to RMB678 million, an increase of 11 per cent compared to the same period last year. However, due to the devaluation of the renminbi and an increase in finance costs resulted from the switch to renminbi loan financing during this period, Towngas China's profit after taxation attributable to its shareholders for the first half of 2016 amounted to HK$564 million, a decrease of 12 per cent compared to the same period last year. As at the end of June 2016, the Group held approximately 1,689 million shares in Towngas China, representing approximately 63.38 per cent of Towngas China's total issued shares.

Project development of Towngas China progressed well during the first half of 2016 with an investment in SCEI Distributed Energy Systems Co., Ltd., the company's first distributed energy project, added to its portfolio.

Towngas China was honoured with the Grand Award presented by The Hong Kong Management Association ("HKMA") at its 2016 HKMA Quality Awards, in recognition of the company's long-time commitment to quality. The award is highly gratifying as it affirms Towngas China's approach to total quality management and the development of quality products, services and performance across all its operations. Towngas China's ongoing efforts to improve its customer services, safe operations, human resources, social responsibility, corporate governance, financial management performance, etc. continue to contribute to the Group's business growth momentum.

Towngas China will continue to actively develop small to medium commercial and industrial gas markets on the mainland and to advocate the use of natural gas to replace coal as a fuel. The company is also planning to actively develop the household gas heating, hot water and clothes drying markets on the mainland in order to boost residential gas demand.

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$464 million, with maturity ranging from 10 to 12 years, were issued during the first half of 2016. In line with the Group's long-term business investments, as at 30th June 2016, the amount of medium term notes issued was HK$11.1 billion with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.63 per cent and an average tenor of 16 years.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2016, the number of employees engaged in the town gas business in Hong Kong was 1,991 (30th June 2015: 1,971), the number of customers was 1,847,390, and each employee served the equivalent of 928 customers, a similar level to 30th June 2015. 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 2,362 as at the end of June 2016 compared to 2,325 as at the end of June 2015. Related manpower costs amounted to HK$493 million for the first half of 2016, an increase of HK$36 million compared with the corresponding period in 2015. 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 its 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 45,700 as at the end of June 2016, an increase of approximately 1,100 compared with the corresponding period in 2015.

DIVIDEND

Your Directors have declared an interim dividend of HK12 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 15th September 2016. To enable our Share Registrar to complete the necessary work associated with this payment, the Register of Members will be closed on Wednesday, 14th September 2016 and Thursday, 15th September 2016, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 3rd October 2016.

BUSINESS OUTLOOK FOR 2016

The Company predicts steady growth in its number of customers in Hong Kong during 2016. Under the impact of global economic uncertainties and a slowdown in inbound tourism, the territory's economy is facing downward pressures with weakening internal demand and consumer spending. However, the Government of the Hong Kong Special Administrative Region is striving to increase land and housing supply and this should help maintain stable and good growth in the number of gas customers in the next few years. Expansion in the commercial and industrial energy market is also benefiting from the competitiveness of town gas, an energy resource combining both environmental and economic benefits. As international oil prices continue to remain low following a substantial decline, gas tariff fuel cost adjustment charges in Hong Kong have been reduced which is beneficial to customers and further enhances 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 in Hong Kong. The Company's increase in its standard gas tariff on 1st August 2015 has helped offset some of this pressure on 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.

Mainland China's Thirteenth Five-Year Plan commenced in 2016. Currently, an increasing risk of a global economic downturn is impacting production for export. Given the mainland's economic growth momentum is also notably slowing, and growth in domestic market production declining, growth in gas sales of the Group's mainland city-gas businesses is weakening. Coupled with the exchange risk arising from renminbi devaluation, overall profit growth of the Group's mainland businesses faces challenges in the near term. Nevertheless, in the long term, promotion of utilising natural gas is benefiting from the Chinese government's drive to reduce carbon emissions, to encourage the use of clean energy, and to enforce the Law on the Prevention and Control of Atmospheric Pollution which was revised on 1st January 2016, all further tightening supervision and administration of related measures. These factors, coupled with rapid urbanisation, will lead to a continuing rise in demand for utility facilities and energy. Natural gas price adjustments in late 2015 lowered upstream gas prices, thus enhancing competitiveness. Increasing upstream gas supply, expanding pipeline networks and the government's move to reduce carbon emissions and minimise the formation of smog are creating opportunities for natural gas to replace use of coal in industrial processing, and for boilers, power generation, distributed energy, household heating, gas hot water heaters and clothes dryers. This is favourable to the development of 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, natural gas, etc. as fuels for vehicles and vessels to reduce atmospheric pollution. Though currently international oil prices remain low, which will impact profit growth and slow down the pace of investment of the Group's emerging environmentally-friendly energy businesses in the short term, ECO is moving towards production of high-quality chemical products which are less sensitive to international oil prices, taking this as a guide for future project investments. As self-developed research and developments gradually achieve results, 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 successful technical experience, corporate brand names and sales channels built there over 20 years, and mainland 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 below 6 per cent currently to 10 per cent by year 2020, thus creating huge market potential for clean energy businesses. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is increasing, the Group, with its sizeable customer base, foresees better benefits from its expanding new businesses.

Despite the challenges resulted from the slowdown in economic growth on the mainland, the Group has formulated, and is gradually implementing, development plans in accordance with the country's energy and environmental policy. Overall, with demand for natural gas and renewable energy increasing alongside society's growing aspiration for more environmental protection, the Group anticipates its development in the years to come will be even broader and better.

LEE Shau Kee
Chairman
Hong Kong, 22nd August 2016

FINANCIAL INFORMATION

Highlights of the Group's interim financial statements for the first six months ended 30th June 2016 are shown below. The unaudited interim financial statements have been reviewed by the Company's Board Audit and Risk Committee and external auditor, PricewaterhouseCoopers.

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

	Note	**2016 HK$M**	2015 HK$M
Revenue	3	**14,162.4**	15,083.1
Total operating expenses	4	**(10,191.8)**	(11,283.4)
		3,970.6	3,799.7
Other gains, net	5	**54.6**	598.3
Interest expense		**(576.9)**	(490.6)
Share of results of associates		**1,273.5**	831.4
Share of results of joint ventures		**879.6**	938.7
Profit before taxation		**5,601.4**	5,677.5
Taxation	6	**(770.7)**	(952.9)
Profit for the period		**4,830.7**	4,724.6
Attributable to:			
Shareholders of the Company		**4,330.7**	4,197.1
Holders of perpetual capital securities		**55.3**	55.2
Non-controlling interests		**444.7**	472.3
		4,830.7	4,724.6
Dividends	7	**1,526.0**	1,387.6
Earnings per share – basic and diluted, HK cents	8	**34.1**	33.0*

*Adjusted for the bonus share issue in 2016

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

	2016	2015
	HK$M	HK$M
Profit for the period	**4,830.7**	4,724.6
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Change in value of available-for-sale financial assets	**20.2**	(97.4)
Change in fair value of cash flow hedges	**57.7**	(75.4)
Share of other comprehensive income/(loss) of an associate	**7.4**	(4.7)
Recognition of exchange reserve upon disposal of subsidiaries	**-**	(83.0)
Exchange differences	**(984.5)**	(67.6)
Other comprehensive loss for the period, net of tax	**(899.2)**	(328.1)
Total comprehensive income for the period	**3,931.5**	4,396.5
Total comprehensive income attributable to:		
Shareholders of the Company	**3,579.4**	3,867.9
Holders of perpetual capital securities	**55.3**	55.2
Non-controlling interests	**296.8**	473.4
	3,931.5	4,396.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30TH JUNE 2016

	Note	**At 30th June 2016 HK$M**	At 31st December 2015 HK$M
Assets			
Non-current assets			
Property, plant and equipment		**48,502.6**	47,455.6
Investment property		**713.0**	713.0
Leasehold land		**2,035.6**	1,961.9
Intangible assets		**5,708.5**	5,819.5
Associates		**20,384.8**	19,591.9
Joint ventures		**9,613.8**	9,288.2
Available-for-sale financial assets		**4,577.0**	4,567.0
Derivative financial instruments		**246.5**	161.5
Other non-current assets		**2,843.9**	2,371.8
		94,625.7	91,930.4
Current assets			
Inventories		**2,109.7**	2,291.3
Trade and other receivables	9	**6,253.3**	6,896.8
Loan and other receivables from associates		**232.5**	90.9
Loan and other receivables from joint ventures		**1,064.2**	966.4
Loan and other receivables from non-controlling shareholders		**119.9**	122.6
Financial assets at fair value through profit or loss		**41.6**	12.1
Time deposits over three months		**5,456.2**	1,326.9
Time deposits up to three months, cash and bank balances		**7,118.2**	11,925.9
		22,395.6	23,632.9
Current liabilities			
Trade and other payables	10	**(11,416.1)**	(11,936.7)
Amounts due to associates		**(44.5)**	-
Amounts due to joint ventures		**(687.0)**	(572.3)
Loan and other payables to non-controlling shareholders		**(134.4)**	(181.4)
Provision for taxation		**(845.6)**	(736.2)
Borrowings		**(6,471.0)**	(9,712.3)
Derivative financial instruments		**(3.6)**	(41.7)
		(19,602.2)	(23,180.6)
Total assets less current liabilities		**97,419.1**	92,382.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (Continued)
AS AT 30TH JUNE 2016

	At 30th June 2016 HK$M	At 31st December 2015 HK$M
Non-current liabilities		
Customers' deposits	**(1,291.1)**	(1,282.9)
Deferred taxation	**(4,961.2)**	(4,874.7)
Borrowings	**(27,615.6)**	(23,363.4)
Loan payables to non-controlling shareholders	**(22.8)**	(21.9)
Asset retirement obligations	**(32.1)**	(30.2)
Derivative financial instruments	**(487.5)**	(654.4)
Retirement benefit liabilities	**(42.3)**	(42.3)
	(34,452.6)	(30,269.8)
Net assets	**62,966.5**	62,112.9
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Reserves	**48,281.7**	47,366.7
Shareholders' funds	**53,756.4**	52,841.4
Perpetual capital securities	**2,353.8**	2,353.8
Non-controlling interests	**6,856.3**	6,917.7
Total equity	**62,966.5**	62,112.9

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements, which do not constitute the Group's statutory financial statements, 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").

The financial information relating to the year ended 31st December 2015 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2016 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those 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 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's reports was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those set out in the annual report for the year ended 31st December 2015.

The Group has adopted the following amendments to standards and annual improvements which are effective for the Group's financial year beginning 1st January 2016 and relevant to the Group.

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Annual improvements 2014	Annual Improvements to HKFRSs 2012-2014 Cycle

The adoption of the amendments to standards and annual improvements 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 2016 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 2016 and 31st December 2015.

	Level 1		Level 2		Level 3		Total	
HK$M	**At 30th June 2016**	At 31st December 2015	**At 30th June 2016**	At 31st December 2015	**At 30th June 2016**	At 31st December 2015	**At 30th June 2016**	At 31st December 2015
Assets								
Financial assets at fair value through profit or loss								
- Equity securities	**41.6**	12.1	**-**	-	**-**	-	**41.6**	12.1
Derivative financial instruments	**-**	-	**246.5**	161.5	**-**	-	**246.5**	161.5
Available-for-sale financial assets								
- Debt securities	**441.4**	420.2	**-**	-	**-**	-	**441.4**	420.2
- Equity investment	**1,049.4**	994.1	**215.0**	219.5	**2,361.2**	2,416.2	**3,625.6**	3,629.8
Total assets	**1,532.4**	1,426.4	**461.5**	381.0	**2,361.2**	2,416.2	**4,355.1**	4,223.6
Liabilities								
Other payables	**-**	-	**-**	-	**154.0**	176.7	**154.0**	176.7
Derivative financial instruments	**-**	-	**491.1**	696.1	**-**	-	**491.1**	696.1
Total liabilities	**-**	-	**491.1**	696.1	**154.0**	176.7	**645.1**	872.8

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 end of the reporting period. 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.

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

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

- Available-for-sale financial assets in level 3 is an unlisted equity investment. The fair value is determined based on discounted cash flow model. The significant unobservable inputs include discount rate of 10.8 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.

- Other payables in level 3 represents contingent consideration generated from the further acquisition of a subsidiary on 1st August 2015. 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 at 30th June 2016 and 31st December 2015.

	Contingent consideration		**Equity investment**	
	At 30th June 2016 HK$M	At 31st December 2015 HK$M	**At 30th June 2016 HK$M**	At 31st December 2015 HK$M
At beginning of period/year	**176.7**	-	**2,416.2**	-
Acquisition	**-**	176.7	**-**	3,151.7
Change in fair value	**(18.7)**	-	**-**	(598.2)
Exchange difference	**(4.0)**	-	**(55.0)**	(137.3)
At end of period/year	**154.0**	176.7	**2,361.2**	2,416.2

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 end of the reporting period, with the resulting value discounted back to present value.

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

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	
	2016	2015
	HK$M	HK$M
Gas sales before fuel cost adjustment	**9,943.3**	10,869.8
Fuel cost adjustment	**244.7**	566.5
Gas sales after fuel cost adjustment	**10,188.0**	11,436.3
Gas connection income	**1,265.7**	1,260.9
Equipment sales and maintenance services	**1,248.2**	1,073.8
Water and related sales	**586.3**	562.0
Oil and coal related sales	**340.9**	313.1
Other sales	**533.3**	437.0
	14,162.4	15,083.1

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 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 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 for the six months ended 30th June 2016 and 2015 provided to the ECM for the reportable segments is as follows:

	Gas, water and related businesses		**New Energy**	**Property**	**Other segments**	**Total**
	Hong Kong	**Mainland China**				
2016	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
Revenue	**4,893.3**	**8,002.2**	**922.4**	**31.4**	**313.1**	**14,162.4**
Adjusted EBITDA	**2,582.0**	**2,379.8**	**288.4**	**19.7**	**42.6**	**5,312.5**
Depreciation and amortisation	**(350.5)**	**(519.4)**	**(186.0)**	**-**	**(32.5)**	**(1,088.4)**
Unallocated expenses						**(253.5)**
						3,970.6
Other gains, net						**54.6**
Interest expense						**(576.9)**
Share of results of associates	**-**	**424.8**	**(0.4)**	**849.1**	**-**	**1,273.5**
Share of results of joint ventures	**-**	**875.0**	**0.7**	**4.0**	**(0.1)**	**879.6**
Profit before taxation						**5,601.4**
Taxation						**(770.7)**
Profit for the period						**4,830.7**

3. Segment information (Continued)

Share of results of associates includes HK$592.5 million (2015: HK$178.0 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

2015	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	4,826.6	8,948.2	1,054.3	29.5	224.5	15,083.1
Adjusted EBITDA	2,371.4	2,245.4	407.8	17.8	35.1	5,077.5
Depreciation and amortisation	(336.7)	(482.8)	(165.7)	-	(30.7)	(1,015.9)
Unallocated expenses						(261.9)
						3,799.7
Other gains, net						598.3
Interest expense						(490.6)
Share of results of associates	-	404.6	(0.3)	427.6	(0.5)	831.4
Share of results of joint ventures	-	934.8	1.0	2.9	-	938.7
Profit before taxation						5,677.5
Taxation						(952.9)
Profit for the period						4,724.6

The segment assets at 30th June 2016 and 31st December 2015 are as follows:

30th June 2016	**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	**15,979.4**	**58,334.6**	**16,463.6**	**12,190.0**	**2,795.9**	**105,763.5**
Unallocated assets:						
Available-for-sale financial assets						**4,577.0**
Financial assets at fair value through profit or loss						**41.6**
Time deposits, cash and bank balances excluded from segment assets						**5,632.5**
Others (Note)						**1,006.7**
Total assets	**15,979.4**	**58,334.6**	**16,463.6**	**12,190.0**	**2,795.9**	**117,021.3**

Note

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

3. Segment information (Continued)

31st December 2015	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	16,055.6	57,487.8	15,431.1	11,526.0	2,575.7	103,076.2
Unallocated assets:						
Available-for-sale financial assets						4,567.0
Financial assets at fair value through profit or loss						12.1
Time deposits, cash and bank balances excluded from segment assets						6,541.8
Others (Note)						1,366.2
Total assets	16,055.6	57,487.8	15,431.1	11,526.0	2,575.7	115,563.3

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2016 is HK$5,518.6 million (2015: HK$5,393.8 million), and the revenue from external customers in other geographical locations is HK$8,643.8 million (2015: HK$9,689.3 million).

At 30th June 2016, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$24,766.5 million and HK$62,191.8 million (31st December 2015: HK$23,828.1 million and HK$61,002.0 million) respectively.

4. Total operating expenses

	Six months ended 30th June **2016** HK$M	Six months ended 30th June 2015 HK$M
Stores and materials used	**6,204.2**	7,396.9
Manpower costs	**1,367.5**	1,318.2
Depreciation and amortisation	**1,098.8**	1,023.0
Other operating items	**1,521.3**	1,545.3
	10,191.8	11,283.4

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

5. Other gains, net

	Six months ended 30th June 2016 HK$M	2015 HK$M
Net investment gains	**59.3**	618.7
Project research and development costs	**(11.3)**	(19.6)
Ineffective portion on cash flow hedges	**6.4**	-
Others	**0.2**	(0.8)
	54.6	598.3

6. Taxation

	Six months ended 30th June 2016 HK$M	2015 HK$M
Current taxation	**753.8**	814.7
Current taxation – over provision in prior years	**(90.0)**	-
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	**106.9**	138.2
	770.7	952.9

The prevailing tax rates of Hong Kong, the mainland China and Thailand range from 16.5 per cent (2015: 16.5 per cent), 15 per cent to 25 per cent (2015: 15 per cent to 25 per cent) and 50 per cent (2015: 50 per cent) respectively.

7. Dividends

	Six months ended 30th June 2016 HK$M	2015 HK$M
2015 Final, paid, of HK23 cents per ordinary share (2014 Final: HK23 cents per ordinary share)	**2,659.0**	2,417.8
2016 Interim, proposed, of HK12 cents per ordinary share (2015 Interim: HK12 cents per ordinary share)	**1,526.0**	1,387.6
	4,185.0	3,805.4

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$4,330.7 million (2015: HK$4,197.1 million) and the weighted average of 12,717,042,258 shares (2015: 12,719,393,258 shares*) in issue during the period.

* Adjusted for the bonus share issue in 2016

9. Trade and other receivables

	At 30th June 2016 HK$M	At 31st December 2015 HK$M
Trade receivables (Note)	**3,256.7**	3,513.9
Payments in advance	**1,285.9**	1,242.3
Other receivables	**1,710.7**	2,140.6
	6,253.3	6,896.8

The Group recognised a loss of HK$2.7 million (2015: HK$3.2 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 2016, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2016 HK$M	At 31st December 2015 HK$M
0 - 30 days	**2,689.4**	2,979.5
31 - 60 days	**80.4**	129.5
61 - 90 days	**124.6**	104.5
Over 90 days	**362.3**	300.4
	3,256.7	3,513.9

10. Trade and other payables

	At 30th June 2016 HK$M	At 31st December 2015 HK$M
Trade payables (Note a)	**2,608.8**	2,573.1
Other payables and accruals (Note b)	**8,807.3**	9,363.6
	11,416.1	11,936.7

Notes

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

	At 30th June 2016 HK$M	At 31st December 2015 HK$M
0 - 30 days	**1,251.1**	1,179.3
31 - 60 days	**222.4**	352.0
61 - 90 days	**284.9**	314.1
Over 90 days	**850.4**	727.7
	2,608.8	2,573.1

(b) The balances mainly represent advance received from customers for construction works and accrual for services or goods received from suppliers. The balance at 31st December 2015 included an outstanding amount of HK$45.7 million payable to Henderson Land Development Company Limited and the balance was fully settled during the period.

DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30th June 2016 of HK12 cents per share payable to shareholders of the Company whose names are on the register of members of the Company as at 15th September 2016. Dividend warrants will be despatched to shareholders on Monday, 3rd October 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14th September 2016 to Thursday, 15th September 2016, 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 Tuesday, 13th September 2016.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2016, the Group had a net current deposits position of HK$6,103 million (31st December 2015: HK$3,541 million) and long-term borrowings of HK$27,616 million (31st December 2015: HK$23,363 million). In addition, banking facilities available for use amounted to HK$10,000 million (31st December 2015: HK$13,000 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 under the Programme. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2016 after the repayment of Renminbi notes during the period, the Group issued notes in the total amount of HK$11,070 million (31st December 2015: HK$11,818 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 30th June 2016 was HK$10,452 million (31st December 2015: HK$11,055 million).

As at 30th June 2016, 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 2015: US$995 million) and the carrying value was HK$7,696 million (31st December 2015: HK$7,682 million).

As at 30th June 2016, the Group's borrowings amounted to HK$34,087 million (31st December 2015: HK$33,076 million). While the Notes mentioned above together with the bank and other loans of HK$4,653 million (31st December 2015: HK$1,684 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$7,247 million (31st December 2015: HK$5,582 million) were long-term bank loans and HK$4,039 million (31st December 2015: HK$7,073 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2016, the maturity profile of the Group's borrowings was 19 per cent within 1 year, 4 per cent within 1 to 2 years, 48 per cent within 2 to 5 years and 29 per cent over 5 years (31st December 2015: 29 per cent within 1 year, 5 per cent within 1 to 2 years, 37 per cent within 2 to 5 years and 29 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 30th June 2016 remained healthy at 28 per cent (31st December 2015: 26 per cent).

Contingent liabilities

As at 30th June 2016 and 31st December 2015, 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 30th June 2016, the investments in securities amounted to HK$1,647 million (31st December 2015: HK$1,646 million). The performance of the Group's financial investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2016, 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 2016.

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 2016.

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

Hong Kong, 22nd August 2016

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. 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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