香 港 中 華 煤 氣 有 限 公 司

THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong under the Companies Ordinance with limited liability)

(Stock Code: 3)

PRELIMINARY ANNOUNCEMENT OF 2017 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 2017 amounted to HK$4,472 million, an increase of HK$141 million compared to the same period last year. Earnings per share for the first half of 2017 amounted to HK32 cents, an increase of 3.3 per cent compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2017, as compared to the same period in 2016, are shown in the following table:

	Unaudited Six months ended 30th June	
	2017	2016
Revenue before Fuel Cost Adjustment, HK million dollars	**15,109**	13,918
Revenue after Fuel Cost Adjustment, HK million dollars	**15,431**	14,162
Profit Attributable to Shareholders, HK million dollars	**4,472**	4,331
Earnings per Share, HK cents	**32**	31*
Interim Dividend per Share, HK cents	**12**	12
Town Gas Sold in Hong Kong, million MJ	**15,896**	15,774
Gas Sold in mainland China City-gas Business, million cubic metres; natural gas equivalent#	**9,715**	8,634
Number of Customers in Hong Kong as at 30th June	**1,872,728**	1,847,390
Number of City-gas Customers in mainland China as at 30th June#	**24,149,171**	21,911,007

* *Adjusted for the bonus share issue in 2017*

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

TOWN GAS BUSINESS IN HONG KONG

The global economy improved gradually during the first half of 2017, and concurrently, the local economy continued to grow moderately. Favourable overall employment conditions and growth in the number of inbound visitors helped stimulate local consumer spending. Benefiting from a rise in commercial and industrial gas sales, total volume of gas sales in Hong Kong for the first half of 2017 increased by 0.8 per cent to approximately 15,896 million MJ, in contrast to a slight decrease in the quantity of appliances sold impacted by different occupation periods of new residential buildings, both compared to the same period last year.

As at 30th June 2017, the number of customers was 1,872,728, an increase of 13,314 since the end of 2016.

Since the last adjustment of the standard gas tariff on 1st August 2015, the Company's operating costs have continued to rise. Although the Company has implemented cost saving and workflow improvement measures, such initiatives are no longer offsetting additional costs. Therefore the Company raised its standard gas tariff by HK1.1 cents per MJ on 1st August 2017. The actual increase in the gas tariff (including standard tariff and fuel cost adjustment) is equivalent to 4.3 per cent. The Company promises to keep this standard gas tariff frozen for the next two years.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during the first half of 2017. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 242 projects on the mainland, one more than at the end of 2016, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses in mainland China, including coalbed methane liquefaction, coal chemicals, conversion and utilisation of biomass, and natural gas refilling stations, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily. International oil prices have gradually stabilised since the end of 2016, helping ECO's profit growth during the first half of 2017. ECO has also made good progress in its in-house research and development of innovative technologies. Gradual commercial application of these technologies is expected to contribute to the long-term business growth of the Group.

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

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group 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 2017 was approximately 9,720 million cubic metres, an increase of 13 per cent over the same period last year. As at the end of June 2017, the Group's mainland gas customers stood at approximately 24.15 million, an increase of 10 per cent over the same period last year. The Group continues to have a good reputation on the mainland as a large-scale city-gas enterprise with outstanding performance.

The global economy became more stable during the first half of 2017, leading to increasing demand for commodities. As a result, growth in the mainland economy was slightly higher compared to the same period last year. Exports from mainland China rebounded after a decline of two consecutive years while growth in industrial production accelerated, thus boosting the country's demand for energy, including electricity, petroleum and natural gas. Furthermore, in the medium to long term, as natural gas is projected to be the clean energy of choice to best reduce air pollution and improve smoggy atmospheric conditions on the mainland, long-term and steady growth in market demand is 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, fostering a growing trend towards natural gas and environmentally-friendly energy. The competitiveness of natural gas relative to other energy sources has been enhanced following reductions in the mainland's non-residential natural gas city-gate prices at the end of 2015. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses.

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

Anhui Province Natural Gas Development Co. Ltd., an associated company of the Group, was listed on the Shanghai Stock Exchange on 10th January 2017. As a large-scale integrated operator, its core business is the construction and operation of long-haul natural gas pipelines in Anhui province, alongside a downstream distribution business. Listing is helping to speed up the company's construction of natural gas pipelines and its development of markets in the province.

Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Two gas storage wells, as part of phase one of this project, were completed in July 2017 with a capacity of approximately 83.6 million standard cubic metres; the total storage capacity of phase one will be approximately 140 million standard cubic metres. This project is in line with the Chinese government's policy of advocating faster development of gas storage capacity, and will help the Group supplement and regulate gas supplies during the peak winter period for a number of its city-gas projects in eastern China, thus facilitating the Group's business development in downstream city-gas markets.

The Group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well with 115 stations now spread across different provinces to date. Apart from this, the Group is also proactively 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. Given that natural gas is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses have good prospects for the Group.

The Group has been in the mainland water market under the brand name "Hua Yan Water" for over 11 years and currently invests in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, given food waste processing and utilisation is also a sizable environmentally-friendly industry, the Group is constructing a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand. Commissioning is expected in the third quarter of 2018; 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 a stable income, provide good environmental benefits and exhibit high growth potential. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all are operating well, contributing to ECO's steady profit growth. With a total turnover of approximately 3.17 million tonnes for the first half of 2017, ECO's aviation fuel facility provides a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly during the first half of 2017, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories is expected to be commissioned in November 2017. This will then further increase the proportion of landfill gas used by the Group, thus making an additional contribution to energy conservation and emission reduction in Hong Kong.

The operating environment faced by ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, improved substantially during the first half of 2017 due to a rebound of LNG market prices, and output increased by 18 per cent compared to the same period last year. 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 to gradually replace diesel as fuel for heavy-duty trucks. ECO's networks of natural gas refilling stations are gradually taking shape in a number of provinces and autonomous regions including Shaanxi, Inner Mongolia, Ningxia, Shandong, Shanxi, Jiangsu, Henan and Liaoning. All in all, ECO currently has 62 refilling stations in operation, under construction or at the planning stage. As expansion of its networks progresses, the ECO brand name will gradually become more well-known in the market.

Conversion of biomass into clean energy and chemical products is an important part of ECO's business strategy which is also in line with the policy direction of mainland China. To this end, construction of a plant located in Zhangjiagang city, Jiangsu province, to process inedible grease feedstock using ECO's self-developed technology, is progressing smoothly and is expected to be ready for trial production in the third quarter of 2017. This project has already obtained "International Sustainability and Carbon Certification" (ISCC), and, on this basis, ECO is developing marketing channels to export this green and renewable hydro-treated vegetable oil (HVO) to European markets with the aims of maximising product value and realising environmental benefits.

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 to make good use of the rest of this waste. However, ECO's research and development team has successfully developed a world leading approach on pyrolysis and hydrolysis technologies, which can convert agricultural and forestry waste into high-value syngas and green block chemicals, such as furfural and levulinic acid. To this end, ECO is going to launch a pilot project in Hubei province applying hydrolysis technology to convert hemicellulose and cellulose in straw into furfural and paper pulp respectively; both are chemical feedstock and basic materials which will bring noticeable economic and environmental benefits. This project is expected to be commissioned during the second half of 2018.

ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region saw significant growth both in methanol output and selling prices in the first half of 2017 compared to the same period last year, producing over 170,000 tonnes of methanol in this period. Additionally, construction of a facility to convert part of the syngas into 120,000 tonnes of ethylene glycol annually is progressing smoothly, with trial production targeted to start by the end of 2017. The success of this project will lay a solid foundation for ECO to further expand its syngas utilisation and methanol upgrading businesses.

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

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

Towngas China, a subsidiary of the Group, recorded good business growth during the first half of 2017, with profit after taxation attributable to its shareholders amounting to HK$602 million, an increase of approximately 7 per cent compared to the same period last year. As at the end of June 2017, the Group held approximately 1,778 million shares in Towngas China, representing approximately 65.56 per cent of Towngas China's total issued shares.

Project development also progressed well during the first half of 2017 with Towngas China adding a city-gas project in Huji town, Zhongxiang city, Hubei province and a midstream natural gas pipeline network project in Guyang county, Baotou city, Inner Mongolia Autonomous Region to its portfolio.

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. In addition, Towngas China is going to actively develop distributed energy system projects.

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$700 million, with maturity of 10 years, were issued during the year to date in 2017. In line with the Group's long-term business investments, the amount of medium term notes issued so far has reached HK$12.6 billion with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.6 per cent and an average tenor of 15.2 years.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2017, the number of employees engaged in the town gas business in Hong Kong was 2,011 (30th June 2016: 1,991), the number of customers was 1,872,728, and each employee served the equivalent of 931 customers, a slight increase compared to 30th June 2016. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,383 as at the end of June 2017 compared to 2,362 as at the end of June 2016. Related manpower costs amounted to HK$513 million for the first half of 2017, an increase of HK$20 million compared to the same period last year. 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 46,500 as at the end of June 2017, an increase of approximately 800 compared to the same period last year.

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 2017. The Register of Members will be closed from Thursday, 14th September 2017 to Friday, 15th September 2017, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Tuesday, 3rd October 2017.

BUSINESS OUTLOOK FOR 2017

The Company predicts steady growth in its number of customers in Hong Kong during 2017. Currently, continuous improvement of the local economy and favourable employment conditions are helping to stimulate internal demand and consumer spending. The Group's gas business in Hong Kong is also benefiting from the efforts of the Government of the Hong Kong Special Administrative Region to increase land and housing supply which should help maintain stable and good growth in the number of gas customers in the next few years. Additionally, town gas as an energy resource combining both environmental and economic advantages is creating a competitive edge fostering development of the Company's commercial and industrial energy markets. Furthermore, reduction in fuel cost adjustment charges of gas tariff resulting from lower international oil prices is not only bringing benefits to customers but also enhancing the competitiveness of town gas, relative to electricity in particular, in the energy market. However, uncertainties in international politics and the world economy will create variables in Hong Kong's future economic development. Moreover, increasing local manpower costs and operating expenses are leading to rising costs for businesses in Hong Kong generally. The Company's increase in the standard gas tariff with effect from 1st August 2017 will help to offset some of the pressures 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.

Gradual improvement of the global economic environment this year and a continuous rise in demand for commodities are helping the development of export manufacturing industries in mainland China thus leading to steady growth in industrial gas demand. These are beneficial to overall profit growth of the Group's city-gas businesses. Given the more stable exchange rate of the renminbi recently and an improving mainland economy, industrial manufacturing activities are gaining favourable momentum. Furthermore, the Chinese government's move to improve smoggy atmospheric conditions by tightening supervision and administration of related measures, enhancing efforts to reduce carbon emissions and encouraging the use of clean energy, is creating opportunities for natural gas to replace use of coal in industrial production, as well as in boilers, power generation, distributed energy and household heating. Natural gas price adjustments in late 2015 lowered upstream gas prices, thus enhancing competitiveness. In addition, increasing upstream gas supplies, expanding pipeline networks and rapid urbanisation leading to a continuous rise in demand for utility facilities and energy, are all favourable to the downstream gas market and the healthy and long-term development of the natural gas business sector in general.

In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and recycling of materials, the Group is continuing to develop and apply new technologies for conserving energy and reducing pollutant emissions. There is also a growing trend for greater use of low-sulfur, high-quality oil, electricity and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. Though international oil prices have recently rebounded from their lowest point in early 2016, it is necessary to closely monitor potential market volatility as this could still impact profit growth and slow down the pace of investment of the Group's emerging environmentally-friendly energy businesses in the short term. ECO has therefore moved 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 ECO's in-house research and development of technologies has gradually achieved results which will be put into commercial production, emerging environmentally-friendly energy businesses will ignite a new light for the Group, illuminating the way for long-term development and business growth strategy.

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

Currently, the mainland's economic development is progressing steadily. The Group has formulated, and is gradually implementing, plans in accordance with the country's energy and environmental policies. Overall, with demand for natural gas and environmentally-friendly and renewable energy increasing alongside society's growing aspiration for more environmental protection, coupled with the Group's drive to boost its business growth by continually adding new momentum through promotion of an innovative mindset, the Group anticipates its business development in the years to come will be ever broader and better.

LEE Shau Kee
Chairman
Hong Kong, 21st August 2017

FINANCIAL INFORMATION

Highlights of the Group's interim financial statements for the first six months ended 30th June 2017 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	**2017** **HK$M**	2016 HK$M
Revenue	3	**15,430.9**	14,162.4
Total operating expenses	4	**(11,375.4)**	(10,191.8)
		4,055.5	3,970.6
Other gains, net	5	**209.1**	54.6
Interest expense		**(615.1)**	(576.9)
Share of results of associates		**1,312.4**	1,273.5
Share of results of joint ventures		**838.5**	879.6
Profit before taxation		**5,800.4**	5,601.4
Taxation	6	**(813.0)**	(770.7)
Profit for the period		**4,987.4**	4,830.7
Attributable to:			
Shareholders of the Company		**4,472.0**	4,330.7
Holders of perpetual capital securities		**55.6**	55.3
Non-controlling interests		**459.8**	444.7
		4,987.4	4,830.7
Dividends	7	**1,678.5**	1,526.0
Earnings per share – basic and diluted, HK cents	8	**32**	31*

*Adjusted for the bonus share issue in 2017

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

	2017	2016
	HK$M	HK$M
Profit for the period	**4,987.4**	4,830.7
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Movement in reserve of available-for-sale financial assets	**122.1**	20.2
Change in fair value of cash flow hedges	**(174.1)**	57.7
Share of other comprehensive (loss)/income of an associate	**(5.1)**	7.4
Release of exchange reserve on deemed partial disposal of an associate	**3.9**	-
Exchange differences	**1,325.5**	(984.5)
Other comprehensive income/(loss) for the period, net of tax	**1,272.3**	(899.2)
Total comprehensive income for the period	**6,259.7**	3,931.5
Total comprehensive income attributable to:		
Shareholders of the Company	**5,596.2**	3,579.4
Holders of perpetual capital securities	**55.6**	55.3
Non-controlling interests	**607.9**	296.8
	6,259.7	3,931.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30TH JUNE 2017

	Note	**At 30th June 2017 HK$M**	At 31st December 2016 HK$M
Assets			
Non-current assets			
Property, plant and equipment		**51,894.5**	49,209.6
Investment property		**729.0**	729.0
Leasehold land		**2,130.3**	2,016.6
Intangible assets		**5,665.2**	5,572.4
Associates		**21,896.0**	20,485.0
Joint ventures		**10,266.6**	9,226.5
Available-for-sale financial assets		**5,044.4**	4,967.1
Derivative financial instruments		**395.6**	505.9
Other non-current assets		**2,934.0**	2,860.4
		100,955.6	95,572.5
Current assets			
Inventories		**2,246.4**	2,110.4
Trade and other receivables	9	**6,591.5**	6,329.6
Loan and other receivables from associates		**302.3**	153.4
Loan and other receivables from joint ventures		**805.5**	900.1
Loan and other receivables from non-controlling shareholders		**66.1**	65.4
Financial assets at fair value through profit or loss		**119.8**	67.3
Derivative financial instruments		**23.9**	87.5
Time deposits over three months		**1,771.6**	3,381.1
Time deposits up to three months, cash and bank balances		**8,738.0**	8,076.1
		20,665.1	21,170.9
Current liabilities			
Trade and other payables	10	**(12,320.1)**	(12,134.2)
Amounts due to joint ventures		**(744.3)**	(718.9)
Loan and other payables to non-controlling shareholders		**(203.0)**	(186.3)
Provision for taxation		**(691.7)**	(556.3)
Borrowings		**(7,642.5)**	(5,951.8)
Derivative financial instruments		**(13.2)**	-
		(21,614.8)	(19,547.5)
Total assets less current liabilities		**100,005.9**	97,195.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (Continued)
AS AT 30TH JUNE 2017

	At 30th June 2017 HK$M	At 31st December 2016 HK$M
Non-current liabilities		
Customers' deposits	**(1,317.4)**	(1,302.8)
Deferred taxation	**(5,371.7)**	(5,067.3)
Borrowings	**(26,897.8)**	(27,296.1)
Asset retirement obligations	**(44.5)**	(39.4)
Derivative financial instruments	**(553.4)**	(542.2)
Retirement benefit liabilities	**(50.1)**	(50.1)
	(34,234.9)	(34,297.9)
Net assets	**65,771.0**	62,898.0
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Reserves	**51,089.3**	48,457.5
Shareholders' funds	**56,564.0**	53,932.2
Perpetual capital securities	**2,354.1**	2,353.8
Non-controlling interests	**6,852.9**	6,612.0
Total equity	**65,771.0**	62,898.0

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 2016 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2017 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those consolidated financial statements. The auditor's report 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 2016.

The Group has adopted the following amendments to standards which are effective for the Group's financial year beginning 1st January 2017 and relevant to the Group.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the 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 2017 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 2017 and 31st December 2016.

	Level 1		Level 2		Level 3		Total	
HK$M	**At 30th June 2017**	At 31st December 2016	**At 30th June 2017**	At 31st December 2016	**At 30th June 2017**	At 31st December 2016	**At 30th June 2017**	At 31st December 2016
Assets								
Financial assets at fair value through profit or loss								
- Debt securities	**-**	-	**95.1**	46.8	**-**	-	**95.1**	46.8
- Equity securities	**24.7**	20.5	**-**	-	**-**	-	**24.7**	20.5
Derivative financial instruments	**-**	-	**157.0**	344.6	**262.5**	248.8	**419.5**	593.4
Available-for-sale financial assets								
- Debt securities	**478.6**	453.0	**-**	-	**-**	-	**478.6**	453.0
- Equity investment	**1,174.7**	1,175.1	**41.5**	39.1	**2,841.4**	2,808.6	**4,057.6**	4,022.8
Total assets	**1,678.0**	1,648.6	**293.6**	430.5	**3,103.9**	3,057.4	**5,075.5**	5,136.5
Liabilities								
Other payables	-	-	-	-	**154.0**	154.0	**154.0**	154.0
Derivative financial instruments	-	-	**566.6**	542.2	-	-	**566.6**	542.2
Total liabilities	-	-	**566.6**	542.2	**154.0**	154.0	**720.6**	696.2

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)

Specific valuation techniques used to value financial instruments include:

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

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

- Financial assets composed of available-for-sale financial assets and derivative financial instruments in level 3, which represented an unlisted equity investment and its related derivative respectively. In respect of the unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 11.7 per cent, sales price, sales volume and expected free cash flows of the investee. The higher the discount rate, the lower the fair value. The higher the sales price, sales volume or expected free cash flows of the investee, the higher the fair value.

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

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

The following table presents the changes in level 3 instruments of the Group at 30th June 2017 and 31st December 2016.

	Financial liability		**Financial assets**	
HK$M	**At 30th June 2017**	At 31st December 2016	**At 30th June 2017**	At 31st December 2016
At beginning of period/year	**154.0**	176.7	**3,057.4**	2,416.2
Acquisition	**-**	-	**-**	739.0
Change in fair value	**(5.0)**	(18.7)	**-**	108.0
Exchange differences	**5.0**	(4.0)	**46.5**	(205.8)
At end of period/year	**154.0**	154.0	**3,103.9**	3,057.4

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 2017 HK$M	2016 HK$M
Gas sales before fuel cost adjustment	**11,073.8**	9,943.3
Fuel cost adjustment	**322.0**	244.7
Gas sales after fuel cost adjustment	**11,395.8**	10,188.0
Gas connection income	**1,279.1**	1,265.7
Equipment sales and maintenance services	**1,211.5**	1,248.2
Water and related sales	**545.6**	586.3
Oil and coal chemical product sales	**505.6**	340.9
Other sales	**493.3**	533.3
	15,430.9	14,162.4

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 2017 and 2016 provided to the ECM for the reportable segments is as follows:

2017 HK$M	**Gas, water and related businesses: Hong Kong**	**Gas, water and related businesses: Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Revenue	**4,903.1**	**9,019.5**	**1,215.0**	**32.6**	**260.7**	**15,430.9**
Adjusted EBITDA	**2,596.8**	**2,405.7**	**400.1**	**20.4**	**42.1**	**5,465.1**
Depreciation and amortisation	**(364.0)**	**(544.4)**	**(203.5)**	**-**	**(41.0)**	**(1,152.9)**
Unallocated expenses						**(256.7)**
						4,055.5
Other gains, net						**209.1**
Interest expense						**(615.1)**
Share of results of associates	**-**	**455.3**	**(0.5)**	**857.6**	**-**	**1,312.4**
Share of results of joint ventures	**-**	**834.2**	**0.6**	**4.5**	**(0.8)**	**838.5**
Profit before taxation						**5,800.4**
Taxation						**(813.0)**
Profit for the period						**4,987.4**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3. Segment information (Continued)

Share of results of associates includes HK$590.0 million (2016: HK$592.5 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

2016 HK$M	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
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

The segment assets at 30th June 2017 and 31st December 2016 are as follows:

30th June 2017 HK$M	**Gas, water and related businesses Hong Kong**	** Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Segment assets	**16,543.3**	**60,341.2**	**16,992.8**	**13,408.1**	**3,473.9**	**110,759.3**
Unallocated assets:						
Available-for-sale financial assets						**5,044.4**
Financial assets at fair value through profit or loss						**119.8**
Time deposits, cash and bank balances excluded from segment assets						**4,618.8**
Others (Note)						**1,078.4**
Total assets	**16,543.3**	**60,341.2**	**16,992.8**	**13,408.1**	**3,473.9**	**121,620.7**

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

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2017 is HK$5,508.0 million (2016: HK$5,518.6 million), and the revenue from external customers in other geographical locations is HK$9,922.9 million (2016: HK$8,643.8 million).

At 30th June 2017, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$26,744.2 million and HK$65,837.4 million (31st December 2016: HK$25,755.0 million and HK$61,484.1 million) respectively.

4. Total operating expenses

	Six months ended 30th June **2017** **HK$M**	 2016 HK$M
Stores and materials used	**7,216.2**	6,204.2
Manpower costs	**1,403.3**	1,367.5
Depreciation and amortisation	**1,163.6**	1,098.8
Other operating items	**1,592.3**	1,521.3
	11,375.4	10,191.8

5. Other gains, net

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Net investment gains	**176.1**	59.3
Gain on deemed disposal of partial interest in an associate	**44.0**	-
Ineffective portion on cash flow hedges	**(5.4)**	6.4
Project research and development costs	**(5.2)**	(11.3)
Others	**(0.4)**	0.2
	209.1	54.6

6. Taxation

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Current taxation	**648.3**	663.8
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	**164.7**	106.9
	813.0	770.7

The prevailing tax rates of Hong Kong, the mainland China and Thailand range from 16.5 per cent (2016: 16.5 per cent), 15 per cent to 25 per cent (2016: 15 per cent to 25 per cent) and 50 per cent (2016: 50 per cent) respectively.

7. Dividends

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
2016 Final, paid, of HK23 cents per ordinary share (2015 Final: HK23 cents per ordinary share)	**2,924.7**	2,659.0
2017 Interim, proposed, of HK12 cents per ordinary share (2016 Interim: HK12 cents per ordinary share)	**1,678.5**	1,526.0
	4,603.2	4,185.0

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$4,472.0 million (2016: HK$4,330.7 million) and the weighted average of 13,988,146,483 shares (2016: 13,988,646,483 shares*) in issue during the period.

* Adjusted for the bonus share issue in 2017

9. Trade and other receivables

	At 30th June 2017 HK$M	At 31st December 2016 HK$M
Trade receivables (Note)	**3,556.9**	3,497.5
Payments in advance	**1,400.8**	1,259.4
Other receivables	**1,633.8**	1,572.7
	6,591.5	6,329.6

The Group recognised a loss of HK$5.7 million (2016: HK$2.7 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 2017, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2017 HK$M	At 31st December 2016 HK$M
0 - 30 days	**2,997.0**	2,874.8
31 - 60 days	**99.3**	199.0
61 - 90 days	**117.9**	135.9
Over 90 days	**342.7**	287.8
	3,556.9	3,497.5

10. Trade and other payables

	At 30th June 2017 HK$M	At 31st December 2016 HK$M
Trade payables (Note a)	**2,642.2**	2,647.0
Other payables and accruals (Note b)	**9,677.9**	9,487.2
	12,320.1	12,134.2

Notes

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

	At 30th June 2017 HK$M	At 31st December 2016 HK$M
0 - 30 days	**1,246.0**	1,379.3
31 - 60 days	**220.0**	249.5
61 - 90 days	**215.3**	264.0
Over 90 days	**960.9**	754.2
	2,642.2	2,647.0

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

DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30th June 2017 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 2017. Dividend warrants will be despatched to shareholders on Tuesday, 3rd October 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14th September 2017 to Friday, 15th September 2017, 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, 13th September 2017.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2017, the Group had a net current deposits position of HK$2,867 million (31st December 2016: HK$5,505 million) and long-term borrowings of HK$26,898 million (31st December 2016: HK$27,296 million). In addition, banking facilities available for use amounted to HK$12,700 million (31st December 2016: HK$11,500 million).

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

Financing structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2017, the Group issued notes in the total amount of HK$11,934 million (31st December 2016: HK$11,934 million) with maturity terms of 10 years, 12 years, 15 years, 30 years and 40 years in Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2017 was HK$11,299 million (31st December 2016: HK$11,196 million).

As at 30th June 2017, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million (31st December 2016: US$995 million) and the carrying value was HK$7,754 million (31st December 2016: HK$7,701 million).

As at 30th June 2017, the Group's borrowings amounted to HK$34,540 million (31st December 2016: HK$33,248 million). While the Notes mentioned above together with the bank and other loans of HK$4,762 million (31st December 2016: HK$4,381 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$5,880 million (31st December 2016: HK$6,496 million) were long-term bank loans and HK$4,845 million (31st December 2016: HK$3,474 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2017, the maturity profile of the Group's borrowings was 22 per cent within 1 year, 35 per cent within 1 to 2 years, 18 per cent within 2 to 5 years and 25 per cent over 5 years (31st December 2016: 18 per cent within 1 year, 28 per cent within 1 to 2 years, 22 per cent within 2 to 5 years and 32 per cent over 5 years).

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

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

The gearing ratio [net borrowing / (shareholders' funds + perpetual capital securities + net borrowing)] for the Group as at 30th June 2017 remained healthy at 29 per cent (31st December 2016: 28 per cent).

Contingent liabilities

As at 30th June 2017 and 31st December 2016, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency profile

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

Group's financial investments in securities

Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 30th June 2017, the investments in securities amounted to HK$1,742 million (31st December 2016: HK$1,649 million). The performance of the Group's financial investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2017, 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 2017.

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

During the six months ended 30th June 2017, the Company bought back 1,000,000 shares on the Exchange at an aggregate consideration of HK$15,342,200 before expenses. The shares bought back were subsequently cancelled. The buy-backs were effected by the Directors for the enhancement of shareholders' value in the long term. Details of the shares bought back are as follows:

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

Save as mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2017.

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

Hong Kong, 21st August 2017

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

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

Independent Non-executive Directors: Mr. Leung Hay Man, Dr. the Hon. Sir David Li Kwok Po and Professor Poon Chung Kwong

Executive Directors: Mr. Alfred Chan Wing Kin and Mr. Peter Wong Wai Yee

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