2018

Interim Report

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)

THE HONG KONG AND CHINA GAS COMPANY LIMITED
2018 INTERIM REPORT

To Shareholders

Dear Sir or Madam,

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 2018 amounted to HK$4,789 million, an increase of HK$317 million compared to the same period last year. Earnings per share for the first half of 2018 amounted to HK31.1 cents, an increase of 7.1 per cent compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2018, as compared to the same period in 2017, are shown in the following table:

	Unaudited Six months ended 30th June	
	2018	2017
Revenue before Fuel Cost Adjustment, HK million dollars	**18,744**	15,109
Revenue after Fuel Cost Adjustment, HK million dollars	**19,242**	15,431
Profit Attributable to Shareholders, HK million dollars	**4,789**	4,472
Earnings per Share, HK cents	**31.1**	29.1*
Interim Dividend per Share, HK cents	**12**	12
Town Gas Sold in Hong Kong, million MJ	**16,158**	15,896
Gas Sold in mainland China City-gas Business, million cubic metres; natural gas equivalent#	**11,469**	9,715
Number of Customers in Hong Kong as at 30th June	**1,890,415**	1,872,728
Number of City-gas Customers in mainland China as at 30th June#	**26,469,561**	24,149,171

* *Adjusted for the bonus share issue in 2018*
\# *Inclusive of all mainland city-gas projects of the Group*

The unaudited condensed consolidated interim financial statements are provided on pages 10 to 42 of this Interim Report. The unaudited interim financial statements have been reviewed by the Company's Board Audit and Risk Committee and external auditor, PricewaterhouseCoopers.

TOWN GAS BUSINESS IN HONG KONG

The local economy continued to grow moderately during the first half of 2018. Favourable overall employment conditions and growth in the number of inbound visitors helped gas business development in the restaurant and hotel sectors. Additionally, as the average temperature in Hong Kong during the first quarter of 2018 was lower than the same period last year, residential gas sales increased. Commercial and industrial gas sales also recorded significant growth, benefiting from the development of new projects in the market and a rebound of oil prices. Total volume of gas sales in Hong Kong for the first half of 2018 increased by 1.6 per cent to approximately 16,158 million MJ while appliance sales revenue increased by 5.2 per cent, both compared to the same period last year.

As at 30th June 2018, the number of customers was 1,890,415, an increase of 7,008 since the end of 2017.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during the first half of 2018. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 251 projects on the mainland, six more than at the end of 2017, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses in mainland China, including coalbed methane liquefaction, coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily. Benefiting from a steadily improving economy in mainland China and a gradual rebound of international oil prices, ECO recorded stable profit growth during the first half of 2018. ECO's in-house research and development of innovative technologies is also progressing well with a number of achieved results gradually being applied commercially. Gradual commissioning and development of related projects are expected to contribute to the long-term business growth of the Group.

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

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group has a total of 132 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 2018 was approximately 11,470 million cubic metres, an increase of 18 per cent over the same period last year. As at the end of June 2018, the Group's mainland gas customers stood at approximately 26.47 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 overall performance on the mainland.

During the first half of 2018, mainland China's economy maintained stable growth, despite an increasingly complex international trade environment, with the volume of exports increasing compared to the same period last year. Rising per capita income of urban and rural residents also drove the mainland's domestic consumer spending during this period, helping to sustain a thriving industrial manufacturing base thus boosting the country's demand for energy, including electricity, petroleum and natural gas. In the medium to long term, the Chinese government advocates developing the use of natural gas to reduce air pollution and improve smoggy atmospheric conditions. As natural gas is the most widely used clean energy on the mainland, long-term and steady growth in market demand is anticipated. The Chinese government has formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution and speed up the pace of greater use of natural gas to replace coal ("coal-to-gas") across the country and to minimise the formation of smog, fostering a growing trend towards natural gas and environmentally-friendly energy. Using piped natural gas instead of bottled petroleum gas is also being advocated across the country. In addition, use of household heating in the Yangtze River Basin is raising residential gas sales. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses.

Natural gas supply was insufficient in early 2018. With a gradual increase in imported piped natural gas from Central Asia and Myanmar, together with a scheduled supply of piped natural gas from Russia and a rise in the sources of imported liquefied natural gas ("LNG"), as well as the country's greater natural gas storage capacity for use over winter, supply of natural gas on the mainland is foreseen to become ample gradually, which will be beneficial for market development. The government is also advocating the use of natural gas to partially replace coal-fired power by promoting distributed energy systems. The Group anticipates its mainland city-gas businesses will continue to thrive in the future.

The mainland's gas storage capacity is swiftly improving. In line with this, construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Construction of phase one of this project, with a storage capacity of approximately 140 million standard cubic metres, was completed, with inspection passed, in January 2018. This phase-one facility was injected with gas transmitted from the West-to-East pipeline in late June 2018 and will be commissioned during this coming winter. Construction of phase two, to develop an additional storage capacity of approximately 300 million standard cubic metres, commenced in late March 2018. This facility will help the Group supplement and regulate gas supply during the peak winter period for a number of its city-gas projects in eastern China. In the longer term, there are plans to supply gas from this facility to the Group's city-gas projects in other regions through interconnected upstream pipeline networks. The Group's development of this project is in line with the Chinese government's policy of advocating faster development of gas storage capacity and will facilitate 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 125 stations to date spread across different provinces, mainly supplying LNG to heavy-duty trucks and waste handling urban vehicle fleets. Apart from this, the Group is also proactively developing a gas refilling business for marine vessels. Given that natural gas is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses promise good prospects for the Group.

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

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

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all are operating well, contributing to ECO's steady profit growth. With a total turnover of approximately 3.29 million tonnes of aviation fuel during the first half of 2018, an increase of 4 per cent compared to the same period last year, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly during the first half of 2018, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas utilisation project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories has also been commissioned. This further raises the proportion of landfill gas used by the Group, thus increasing its contribution to energy conservation and emission reduction in Hong Kong.

There is a significant demand for using LNG as a gas supplement on the mainland. ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is making a good operating income. Output from this project slightly increased by 3 per cent during the first half of 2018, bringing better profit growth compared to the same period last year. In line with the mainland's policy of using LNG to replace diesel as fuel for heavy-duty trucks, ECO is continuing to steadily develop its networks of natural gas refilling stations.

Conversion of biomass into clean energy and chemical products is an important part of ECO's business strategy, which is also in line with the policy direction of mainland China. To this end, a plant, located in Zhangjiagang city, Jiangsu province, to process inedible bio-grease feedstock using ECO's self-developed technology, has commenced trial production after having gained "International Sustainability and Carbon Certification" (ISCC). In successfully yielding a first batch of 3,000 tonnes of green and renewable hydro-treated vegetable oil (HVO) for export to European markets in 2018, the realisation of its product value and environmental benefit value has now become proven.

Mainland China is a sizeable agricultural production country generating a large quantity of agricultural waste every year subject to handling and utilisation. ECO has successfully developed a world-leading approach regarding pyrolysis and hydrolysis technologies which could effectively break down agricultural and forestry waste into hemicellulose, cellulose and lignin for further processing, creating an innovative way to convert this waste into value-added products. To this end, ECO has commenced the construction work of its first pilot project in Tangshan city, Hebei province applying hydrolysis technology to convert straw into furfural and paper pulp respectively; both are chemical feedstock and basic materials which will bring noticeable economic and environmental benefits. This pilot project is expected to commence trial production in mid-2019 and, if successful, will drive ECO to cultivate a broad green and low-carbon eco-system business.

Benefiting from an increase in energy prices, the operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region improved substantially during the first half of 2018, with an 11 per cent increase in turnover compared to the same period last year. Additionally, trial production of a facility to convert a portion of the project's syngas into 120,000 tonnes of ethylene glycol annually was started in the second quarter of this year, and has successfully produced high-quality ethylene glycol, representing a key step to further expand ECO's syngas upgrading businesses.

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

ECO continues to march along its well-defined new energy business development strategy by strengthening its capabilities in developing innovative technologies, and, with that, building up its key businesses relating to low-carbon and clean-coal chemicals, efficient conversion and utilisation of straw, preparation of high-quality carbon materials, hydrogenation and upgrading of bio-grease, etc. In so doing, ECO is gradually migrating from its original emphasis on fuel substitutes to one encompassing higher value-added chemical and new material substitutes. A number of breakthroughs in key technologies have already been achieved, delivering significant economic and environmental benefits. All these successes will create a significant competitive edge for ECO's future development.

TELECOMMUNICATIONS BUSINESSES

The Group's development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local telecommunications operators as well as large corporations, through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"), is progressing steadily. TGT is currently operating two data centres in Hong Kong and five others in mainland China. The company is strengthening its foundation to cater for data transmission needs and swifter market development in the future.

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

Towngas China, a subsidiary of the Group, recorded good business growth during the first half of 2018, with profit after taxation attributable to its shareholders amounting to HK$663 million, an increase of approximately 10 per cent compared to the same period last year. As at the end of June 2018, the Group held approximately 1,858 million shares in Towngas China, representing approximately 67.1 per cent of Towngas China's total issued shares.

Project development also progressed well during the first half of 2018 with Towngas China adding six new projects to its portfolio, including a city-gas project in Liujiang district, Liuzhou city, Guangxi Zhuang Autonomous Region; a midstream natural gas pipeline network and city gate station project in Chiping county, Liaocheng city, Shandong province; and four distributed energy projects located in Jiawang district, Xuzhou city, Jiangsu province, in Jimo Chuangzhi new district, Qingdao city, Shandong province, in Yangxin Economic and Technological Development Zone, Binzhou city, Shandong province and in Changchun city, Jilin province respectively.

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

FINANCING PROGRAMMES

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Medium term notes totalling HK$300 million, with a maturity of 30 years, were issued during the year to date in 2018. In line with the Group's long-term business investments, the amount of medium term notes issued so far has reached HK$13.7 billion with tenors ranging from 10 to 40 years, at an average fixed interest rate of 3.5 per cent and an average tenor of 15.3 years.

INAUGURAL GREEN BOND ISSUANCE

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

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

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2018, the number of employees engaged in the town gas business in Hong Kong was 2,024 (30th June 2017: 2,011), the number of customers was 1,890,415, and each employee served the equivalent of 934 customers, a slight increase compared to 30th June 2017. 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 2,377 as at the end of June 2018 compared to 2,383 as at the end of June 2017. Related manpower costs amounted to HK$541 million for the first half of 2018, an increase of HK$28 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 46,800 as at the end of June 2018, an increase of approximately 300 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 14th September 2018. The Register of Members will be closed from Thursday, 13th September 2018 to Friday, 14th September 2018, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Tuesday, 2nd October 2018.

BUSINESS OUTLOOK FOR 2018

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

Recent rising international trade tensions have led to an uncertain global economic outlook, which is projected to impact the development of export manufacturing industries in mainland China. Coupled with the exchange rate risk arising from renminbi devaluation starting in the second half of 2018, overall profit growth of the Group's mainland businesses faces challenges in the near term. Despite this, as the mainland's domestic consumer spending is making an ever increasing contribution to the country's economic growth, the Chinese government is continually striving to expand domestic demand to drive economic development in order to offset some of the impact resulting from uncertain prospects of exports manufacturing industries. This strategy will help to maintain stable growth of commercial and industrial gas sales. In the long term, the Chinese government's move to improve smoggy atmospheric conditions by tightening supervision and administration of related measures will be progressive. On 1st January 2018, the Implementing Regulations for the Environmental Protection Tax Law became effective alongside the Environmental Protection Tax Law, aiming to further promote corporate initiatives to enhance their environmental protection levels by charging taxes in accordance with the quantity of pollutants discharged; this is helping the development of natural gas markets. The Chinese government is also increasing its efforts to reduce carbon emissions and encourage the use of clean energy, creating opportunities for natural gas to replace use of coal in industrial production, as well as in boilers, power generation, distributed energy, household heating, etc. Natural gas price adjustments in late 2015 lowered upstream gas prices, thus enhancing competitiveness. In addition, increasing upstream gas supplies, expanding and improving pipeline networks and rapid urbanisation, leading to a continuous rise in demand for utility facilities and energy, are all favourable to the downstream gas market and the healthy and long-term development of the natural gas business sector in general.

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

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

Despite a number of uncertainties concerning the global economy, mainland China's economy is expected to maintain stable growth this year. The Group has formulated, and is gradually implementing, plans in accordance with the country's energy and environmental policies. Overall, with society's growing aspiration for more environmental protection, demand for natural gas, as well as environmentally-friendly and renewable energy and materials, will increase. Furthermore, the Group is actively promoting an innovative mindset and effectively putting this into practice, thus continuously injecting new impetus to foster business growth. In addition, with sizeable customer base resources built up after years of operating urban utilities, the Group anticipates an ever broader and brighter development for its businesses in the future.

LEE Shau Kee
Chairman

Hong Kong, 21st August 2018

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th June

	Note	**2018 HK$M**	2017 HK$M
Revenue	4	**19,241.6**	15,430.9
Total operating expenses	5	**(14,674.6)**	(11,375.4)
		4,567.0	4,055.5
Other (losses)/gains, net	6	**(48.3)**	209.1
Interest expense		**(609.4)**	(615.1)
Share of results of associates		**1,630.2**	1,312.4
Share of results of joint ventures		**828.1**	838.5
Profit before taxation	7	**6,367.6**	5,800.4
Taxation	8	**(996.4)**	(813.0)
Profit for the period		**5,371.2**	4,987.4
Attributable to:			
Shareholders of the Company		**4,789.4**	4,472.0
Holders of perpetual capital securities		**55.9**	55.6
Non-controlling interests		**525.9**	459.8
		5,371.2	4,987.4
Dividends	9	**1,846.4**	1,678.5
Earnings per share – basic and diluted, HK cents	10	**31.1**	29.1*

* *Adjusted for the bonus share issue in 2018*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30th June

	2018 HK$M	2017 HK$M
Profit for the period	**5,371.2**	4,987.4
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Movement in reserve of equity investments at fair value through other comprehensive income	**46.9**	–
Items that may be reclassified subsequently to profit or loss:		
Movement in reserve of debt investments at fair value through other comprehensive income	**(23.9)**	–
Movement in reserve of available-for-sale financial assets	**–**	122.1
Change in fair value of cash flow hedges	**(11.5)**	(174.1)
Share of other comprehensive income/(loss) of an associate	**3.8**	(5.1)
Release of exchange reserve on deemed partial disposal of an associate	**–**	3.9
Exchange differences	**(841.9)**	1,325.5
Other comprehensive (loss)/income for the period, net of tax	**(826.6)**	1,272.3
Total comprehensive income for the period	**4,544.6**	6,259.7
Total comprehensive income attributable to:		
Shareholders of the Company	**4,077.9**	5,596.2
Holders of perpetual capital securities	**55.9**	55.6
Non-controlling interests	**410.8**	607.9
	4,544.6	6,259.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30th June 2018

	Note	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Assets			
Non-current assets			
Property, plant and equipment	11	**57,347.4**	55,827.4
Investment property		**764.0**	764.0
Leasehold land		**2,281.4**	2,229.3
Intangible assets		**5,831.0**	5,883.6
Associates		**24,520.9**	23,393.4
Joint ventures		**11,126.1**	10,889.2
Financial assets at fair value through other comprehensive income		**1,110.7**	–
Available-for-sale financial assets		**–**	4,289.9
Derivative financial instruments		**51.0**	269.9
Financial assets at fair value through profit or loss		**3,619.6**	–
Retirement benefit assets		**60.4**	60.4
Other non-current assets		**3,148.6**	3,089.0
		109,861.1	106,696.1
Current assets			
Inventories		**2,401.6**	2,578.3
Trade and other receivables	12	**7,278.6**	7,512.0
Loan and other receivables from associates		**463.8**	241.4
Loan and other receivables from joint ventures		**1,301.6**	939.7
Loan and other receivables from non-controlling shareholders		**95.8**	103.1
Financial assets at fair value through profit or loss		**526.1**	42.1
Derivative financial instruments		**136.7**	119.6
Time deposits over three months		**1,046.3**	2,071.0
Time deposits up to three months, cash and bank balances		**11,797.7**	10,758.6
		25,048.2	24,365.8
Current liabilities			
Trade and other payables and contract liabilities	13	**(13,710.0)**	(14,269.8)
Amounts due to joint ventures		**(757.3)**	(1,137.9)
Loan and other payables due to non-controlling shareholders		**(221.0)**	(175.3)
Provision for taxation		**(708.2)**	(531.9)
Borrowings		**(17,345.6)**	(15,757.0)
Derivative financial instruments		**(140.6)**	(76.2)
		(32,882.7)	(31,948.1)
Total assets less current liabilities		**102,026.6**	99,113.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (continued)

As at 30th June 2018

	Note	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Non-current liabilities			
Customers' deposits		**(1,345.8)**	(1,331.6)
Deferred taxation		**(5,949.6)**	(5,723.1)
Borrowings		**(22,614.9)**	(21,161.8)
Asset retirement obligations		**(47.3)**	(46.9)
Derivative financial instruments		**(465.9)**	(604.5)
		(30,423.5)	(28,867.9)
Net assets		**71,603.1**	70,245.9
Capital and reserves			
Share capital	14	**5,474.7**	5,474.7
Reserves	16	**56,055.9**	54,964.1
Shareholders' funds		**61,530.6**	60,438.8
Perpetual capital securities	15	**2,354.3**	2,354.1
Non-controlling interests		**7,718.2**	7,453.0
Total equity		**71,603.1**	70,245.9

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June

	2018 HK$M	2017 HK$M
Net cash from operating activities	**5,010.6**	4,392.8
Investing activities		
Purchase of property, plant and equipment	**(3,233.4)**	(2,467.8)
Payment for leasehold land	**(114.9)**	(92.7)
Consideration paid for acquisition of businesses in prior periods	**(15.3)**	(10.6)
Acquisition of businesses	**(61.0)**	–
Increase in investments in associates	**(8.7)**	(283.9)
Increase in investments in joint ventures	**(28.4)**	(45.1)
Interest received	**150.9**	133.2
Decrease in time deposits over three months	**1,022.7**	1,616.2
Dividends received from investments in securities	**67.9**	91.6
Dividends received from associates	**238.4**	364.7
Dividends received from joint ventures	**33.7**	278.7
Other cash flows used in investing activities	**(836.7)**	(85.8)
Net cash used in investing activities	**(2,784.8)**	(501.5)
Financing activities		
Shares bought back	**–**	(15.4)
Further acquisition of subsidiaries	**(17.5)**	(182.3)
Dividends paid to shareholders of the Company	**(3,217.2)**	(2,924.7)
Interest paid	**(772.2)**	(707.2)
Interest paid to holders of perpetual capital securities	**(55.7)**	(55.3)
Net borrowings and others	**2,899.7**	587.8
Net cash used in financing activities	**(1,162.9)**	(3,297.1)
Increase in cash and cash equivalents	**1,062.9**	594.2
Cash and cash equivalents at 1st January	**10,758.6**	8,076.1
Effect of foreign exchange rate changes	**(23.8)**	67.7
Cash and cash equivalents at 30th June	**11,797.7**	8,738.0
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**4,285.1**	4,482.9
Time deposits up to three months	**7,512.6**	4,255.1
	11,797.7	8,738.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June

	Attributable to shareholders of the Company		Holders of perpetual capital securities	Non-controlling interests	Total
	Share capital HK$M	Reserves HK$M	HK$M	HK$M	HK$M
Total equity as at 1st January 2018	**5,474.7**	**54,964.1**	**2,354.1**	**7,453.0**	**70,245.9**
Changes in accounting policy	**–**	**254.5**	**–**	**24.8**	**279.3**
Total equity as at 1st January 2018 (restated)	**5,474.7**	**55,218.6**	**2,354.1**	**7,477.8**	**70,525.2**
Profit for the period	**–**	**4,789.4**	**55.9**	**525.9**	**5,371.2**
Other comprehensive income:					
Movement in reserve of financial assets at fair value through other comprehensive income	**–**	**15.8**	**–**	**7.2**	**23.0**
Change in fair value of cash flow hedges	**–**	**(11.5)**	**–**	**–**	**(11.5)**
Share of other comprehensive income of an associate	**–**	**3.8**	**–**	**–**	**3.8**
Exchange differences	**–**	**(719.6)**	**–**	**(122.3)**	**(841.9)**
Total comprehensive income for the period	**–**	**4,077.9**	**55.9**	**410.8**	**4,544.6**
Capital injection	**–**	**–**	**–**	**36.0**	**36.0**
Acquisition of businesses	**–**	**–**	**–**	**52.1**	**52.1**
Further acquisition of subsidiaries	**–**	**(23.4)**	**–**	**5.9**	**(17.5)**
Interest paid on perpetual capital securities	**–**	**–**	**(55.7)**	**–**	**(55.7)**
Dividends paid to shareholders of the Company	**–**	**(3,217.2)**	**–**	**–**	**(3,217.2)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**(264.4)**	**(264.4)**
Total equity as at 30th June 2018	**5,474.7**	**56,055.9**	**2,354.3**	**7,718.2**	**71,603.1**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)
For the six months ended 30th June

	Attributable to shareholders of the Company		Holders of perpetual capital securities	Non-controlling interests	Total
	Share capital HK$M	Reserves HK$M	HK$M	HK$M	HK$M
Total equity as at 1st January 2017	5,474.7	48,457.5	2,353.8	6,612.0	62,898.0
Profit for the period	–	4,472.0	55.6	459.8	4,987.4
Other comprehensive income:					
Movement in reserve of available-for-sale financial assets	–	127.5	–	(5.4)	122.1
Change in fair value of cash flow hedges	–	(174.1)	–	–	(174.1)
Share of other comprehensive loss of an associate	–	(5.1)	–	–	(5.1)
Release of exchange reserve on deemed partial disposal of an associate	–	3.9	–	–	3.9
Exchange differences	–	1,172.0	–	153.5	1,325.5
Total comprehensive income for the period	–	5,596.2	55.6	607.9	6,259.7
Capital injection	–	–	–	11.1	11.1
Further acquisition of subsidiaries	–	(24.3)	–	(158.0)	(182.3)
Interest paid on perpetual capital securities	–	–	(55.3)	–	(55.3)
Dividends paid to shareholders of the Company	–	(2,924.7)	–	–	(2,924.7)
Dividends paid to non-controlling shareholders	–	–	–	(220.1)	(220.1)
Shares bought back	–	(15.4)	–	–	(15.4)
Total equity as at 30th June 2017	5,474.7	51,089.3	2,354.1	6,852.9	65,771.0

NOTES TO THE CONDENSED CONSOLIDATED 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 consolidated 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").

As at 30th June 2018, the Group was in a net current liability position of approximately HK$7.8 billion. This is mainly because of the maturity of the US$1 billion guaranteed notes in August 2018 which was recorded as current liabilities as at 30th June 2018. Taking into account the Group's available facilities, history of obtaining external financing and the Group's expected cash flows from operations, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis.

The financial information relating to the year ended 31st December 2017 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2018 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 2017 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 2017.

The Group has adopted the following amendments to standards which are effective for the Group's financial year beginning 1st January 2018 and relevant to the Group.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)- Interpretation 22	Foreign Currency Transactions and Advance Consideration

1. Basis of preparation and accounting policies *(continued)*

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 effective for accounting period beginning 1st January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contacts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 2 below.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31st December 2017.

2. Changes in accounting policies

The impacts of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements are detailed below and it also discloses the new accounting policies that have been applied from 1st January 2018, where they are different to those applied in prior periods.

(a) Impact on the consolidated financial statements

As explained in note 2(b) below, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31st December 2017, but are recognised in the opening consolidated statement of financial position as at 1st January 2018.

The following tables show the adjustments recognised for each individual financial statement line item. Financial statement line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

2. Changes in accounting policies *(continued)*

(a) Impact on the consolidated financial statements (continued)

	31st December 2017 HK$M	HKFRS 9 HK$M	1st January 2018 HK$M
Consolidated statement of financial position (extract)			
Non-current assets			
Associates	23,393.4	22.1	23,415.5
Joint ventures	10,889.2	(9.9)	10,879.3
Available-for-sale financial assets	4,289.9	(4,289.9)	–
Financial assets at fair value through profit or loss (FVPL)	–	3,619.6	3,619.6
Financial assets at fair value through other comprehensive income (FVOCI)	–	1,209.4	1,209.4
Derivative financial instruments	269.9	(231.9)	38.0
Current assets			
Trade and other receivables	7,512.0	(13.6)	7,498.4
Financial assets at fair value through profit or loss (FVPL)	42.1	65.5	107.6
Non-current liabilities			
Deferred taxation	(5,723.1)	(92.0)	(5,815.1)
Capital and reserves			
Reserves	54,964.1	254.5	55,218.6
Non-controlling interests	7,453.0	24.8	7,477.8

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of HKFRS 9 Financial Instruments from 1st January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 2(c) below. In accordance with the transitional provisions in HKFRS 9 (7.2.15), comparative figures have not been restated.

2. Changes in accounting policies *(continued)*

(b) *HKFRS 9 Financial Instruments – Impact of adoption* *(continued)*

The total impact on the Group's retained profits as at 1st January 2018 is as follows:

	Note	HK$M
Closing retained profits 31st December 2017 – HKAS 39		**49,949.7**
Reclassify investments from available-for-sale to FVPL	(i)	**153.4**
Increase in provision for trade receivables		**(8.5)**
Increase in provision for trade receivables of associates and joint ventures		**(10.0)**
Adjustment to retained profits from adoption of HKFRS 9 on 1st January 2018		**134.9**
Opening retained profits 1st January 2018 – HKFRS 9		**50,084.6**

(i) Classification and measurement

On 1st January 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1st January 2018	Note	FVPL HK$M	Available-for-sale HK$M	FVOCI HK$M	Derivative financial instruments HK$M
Closing balance 31st December 2017 – HKAS 39		**42.1**	**4,289.9**	**–**	**389.5**
Reclassify investments from available-for-sale to FVPL	(a)	**3,453.2**	**(3,248.6)**	**–**	**–**
Reclassify equity investments from available-for-sale to FVOCI	(b)	**–**	**(579.5)**	**747.6**	**–**
Reclassify bonds from available-for-sale to FVOCI	(c)	**–**	**(461.8)**	**461.8**	**–**
Reclassify embedded derivatives from derivative financial instruments to FVPL		**231.9**	**–**	**–**	**(231.9)**
Opening balance 1st January 2018 – HKFRS 9		**3,727.2**	**–**	**1,209.4**	**157.6**

2. Changes in accounting policies *(continued)*

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

The impact (net of tax) of these changes on the Group's equity is as follows:

	Note	Effect on AFS reserve HK$M	Effect on FVOCI reserve HK$M	Effect on retained profits* HK$M
Opening balance – HKAS 39		**7.0**	**–**	**49,949.7**
Reclassify listed equities from available-for-sale to FVOCI	(b)	**9.4**	**(9.4)**	**–**
Reclassify bonds from available-for-sale to FVOCI	(c)	**(16.4)**	**16.4**	**–**
Reclassify unlisted equities from available-for-sale to FVPL	(a)	**–**	**–**	**153.4**
Reclassify unlisted equities from available-for-sale to FVOCI	(b)	**–**	**119.6**	**–**
Total impact		**(7.0)**	**126.6**	**153.4**
Opening balance – HKFRS 9		**–**	**126.6**	**50,103.1**

* *Before adjustment for impairment. See note (ii) below.*

Note

(a) Reclassification from available-for-sale to FVPL

Certain listed and unlisted equities were reclassified from available-for-sale to financial assets at FVPL. Related fair value gains (net of tax) of HK$153.4 million were recognised in retained profits on 1st January 2018.

(b) Equity investments previously classified as available-for-sale

The Group elected to present in OCI changes in the fair value of most of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$579.5 million were reclassified from available-for-sale financial assets to FVOCI and fair value gains (net of tax) of HK$110.2 million were recognised in FVOCI reserve on 1st January 2018.

2. Changes in accounting policies *(continued)*

(b) HKFRS 9 Financial Instruments – Impact of adoption *(continued)*

(i) Classification and measurement (continued)

(c) Available-for-sale debt instruments classified as FVOCI

Listed bonds were reclassified from available for sale to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed bonds with a fair value of HK$461.8 million were reclassified from available-for-sale financial assets to FVOCI and fair value gains (net of tax) of HK$16.4 million were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1st January 2018.

(d) Other financial assets

Equity securities – held for trading are required to be held at FVPL under HKFRS 9, but there was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

– trade receivables,

– other receivables and loan and other receivables from associates, joint ventures and non-controlling shareholders, and

– debt investments carried at FVOCI.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 2(b) above.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, the loss allowance as at 1st January 2018 was determined as follows:

HK$M	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Over 90 days**	**Total**
Expected loss rate	**0%**	**0%**	**0%**	**4.8%**	
Gross carrying amount	**240.0**	**119.0**	**41.5**	**280.5**	**681.0**
Loss allowance	**–**	**–**	**–**	**13.6**	**13.6**

2. Changes in accounting policies *(continued)*

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

The loss allowances for trade receivables as at 31st December 2017 reconcile to the opening loss allowances on 1st January 2018 as follows:

	Trade receivables HK$M
At 31st December 2017 – calculated under HKAS 39	**(187.8)**
Amounts restated through opening retained profits and non-controlling interests	**(13.6)**
Opening loss allowance as at 1st January 2018 – calculated under HKFRS 9	**(201.4)**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Other receivables and loan and other receivables from associates, joint ventures and non-controlling shareholders

The loss allowance for other receivables and loan and other receivables from associates, joint ventures and non-controlling shareholders as a result of applying the expected credit risk model was immaterial.

Debt investments

All of the Group's debt investments at FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for listed bonds to be investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

2. Changes in accounting policies *(continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1st January 2018

(i) Investment and other financial assets

Classification

From 1st January 2018, the Group classifies its financial assets as those to be measured subsequently at fair value (either through OCI, or through profit or loss).

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as FVOCI where assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains or losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains, net. Interest income from these financial assets is included in other (losses)/gains, net using the effective interest rate method.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends income from such investments continue to be recognised in profit or loss as other (losses)/gains, net when the Group's right to receive payments is established.

2. Changes in accounting policies *(continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1st January 2018 (continued)

(i) Investment and other financial assets (continued)

Impairment

From 1st January 2018, the Group assesses on a forward looking basis the expected credit losses associated with other receivables and loan and other receivables from associates, joint ventures and non-controlling shareholders and debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Derivatives and hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other (losses)/gains, net.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies

As explained in note 1 above, the Group has adopted HKFRS 15 from 1st January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated. The accounting policies were changed to comply with HKFRS 15, which replaces both the provisions of HKAS 18 Revenue (“HKAS 18”) and HKAS 11 Construction Contracts (“HKAS 11”) and the interpretations that relate to the recognition, classification and measurement of revenue and costs. From 1st January 2018 onwards, the Group has adopted the following accounting policies on revenues:

Revenues are recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. In summary, revenue from gas sales, water sales, oil and coal related sales and equipment sales is recognised at a point in time. Revenue from maintenance services is recognised over time. Other sales include rental income and finance income which are excluded from the scope of HKFRS 15. The remaining revenue streams within other sales are either recognised overtime or at a point in time. Revenue from connection income may be recognised over time or at a point in time depending on the terms of the contracts and actual work performed.

2. Changes in accounting policies *(continued)*

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies (continued)

Control of the goods or service is transferred over time if the Group's performance:

– provides all of the benefits received and consumed simultaneously by the customer;

– creates or enhances an asset that the customer controls as the Group performs; or

– does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

– direct measurements of the value transferred by the Group to the customer; or

– the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

The adoption does not have a material impact on the recognition of the Group's main revenue streams except for accounting for connection income as detailed below. Rental income from lease agreements is specifically excluded from the scope of the new standard.

Accounting for connection income

In prior reporting periods, the Group accounted for connection income using "stage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured with reference to the contract costs incurred up to statement of financial position date as a percentage of total estimated costs for each contact. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

Under HKFRS 15, revenue from connection income may be recognised over time or at a point in time depending on the terms of the contracts and actual work performed. If the Group satisfies the performance obligation over time then revenue will be recognised over time based on progress of the work. Otherwise, revenue is recognised at a point in time when the performance obligations are satisfied.

2. Changes in accounting policies *(continued)*

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies *(continued)*

Presentation of contract liabilities

Contract liabilities in relation to advance received from customers were previously presented as other payables and accruals within trade and other payables.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended at 31st December 2017. There have been no changes in the risk management policies since year end.

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).

3. 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 2018 and 31st December 2017.

HK$M	Level 1		Level 2		Level 3		Total	
	At 30th June 2018	At 31st December 2017	**At 30th June 2018**	At 31st December 2017	**At 30th June 2018**	At 31st December 2017	**At 30th June 2018**	At 31st December 2017
Assets								
Financial assets at fair value through profit or loss								
– Debt securities	**–**	–	**367.6**	–	**–**	–	**367.6**	–
– Equity securities	**117.0**	42.1	**41.5**	–	**3,619.6**	–	**3,778.1**	42.1
Derivative financial instruments	**–**	–	**187.7**	157.6	**–**	231.9	**187.7**	389.5
Financial assets at fair value through other comprehensive income								
– Debt securities	**369.7**	–	**–**	–	**–**	–	**369.7**	–
– Equity investment	**210.2**	–	**–**	–	**530.8**	–	**741.0**	–
Available-for-sale financial assets								
– Debt securities	**–**	461.8	**–**	–	**–**	–	**–**	461.8
– Equity investment	**–**	273.4	**–**	39.6	**–**	2,976.1	**–**	3,289.1
Total assets	**696.9**	777.3	**596.8**	197.2	**4,150.4**	3,208.0	**5,444.1**	4,182.5
Liabilities								
Other payables	**–**	–	**–**	–	**154.0**	154.0	**154.0**	154.0
Derivative financial instruments	**–**	–	**606.5**	680.7	**–**	–	**606.5**	680.7
Total liabilities	**–**	–	**606.5**	680.7	**154.0**	154.0	**760.5**	834.7

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

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

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.

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 include an unlisted equity investment and its related derivative, which are considered entirely as FVPL. In respect of the unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 12.8 per cent, sales price, sales volume and expected free cash flows of the investee. The fair value decreases with the increase in the discount rate, and increases with the increase in the sales price, sales volume or expected free cash flows of the investee. 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 fair value increases with the increase in the volatility.

– Financial assets also include unlisted equity investments, the fair values of which are determined based on their attributable net assets values or attributable net asset value after taking into account estimated fair value-to-book ratio. The significant unobservable input includes attributable net asset value and the estimated fair value-to-book ratio. The fair value increases with the increase in the attributable net asset values or fair value-to-book ratio.

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

- 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 fair value decreases with the increase in the discount rate, and increases with the increase in the rate of probability.

The following table presents the changes in level 3 instruments of the Group at 30th June 2018 and 31st December 2017.

	Financial assets		**Financial liabilities**	
HK$M	**At 30th June 2018**	At 31st December 2017	**At 30th June 2018**	At 31st December 2017
At beginning of period, as restated/year	**4,150.4**	3,057.4	**154.0**	154.0
Change in fair value	**–**	(77.8)	**2.1**	(11.3)
Exchange differences	**–**	228.4	**(2.1)**	11.3
At end of period/year	**4,150.4**	3,208.0	**154.0**	154.0

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

4. **Segment information**

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

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Gas sales before fuel cost adjustment	**14,143.7**	11,073.8
Fuel cost adjustment	**497.4**	322.0
Gas sales after fuel cost adjustment	**14,641.1**	11,395.8
Connection income	**1,355.3**	1,279.1
Equipment sales and maintenance services	**1,314.2**	1,211.5
Water and related sales	**640.0**	545.6
Oil and coal chemical product sales	**670.0**	505.6
Other sales	**621.0**	493.3
	19,241.6	15,430.9

4. Segment information *(continued)*

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 consolidated financial statements.

The segment information for the six months ended 30th June 2018 and 2017 provided to the ECM for the reportable segments is as follows:

2018 **HK$M**	**Gas, water and related businesses** Hong Kong	**Gas, water and related businesses** Mainland China	**New Energy**	**Property**	**Other segments**	**Total**
Revenue	5,314.2	11,962.2	1,557.8	33.9	373.5	19,241.6
Adjusted EBITDA	2,744.1	2,809.4	489.4	21.1	46.9	6,110.9
Depreciation and amortisation	(371.8)	(633.9)	(173.5)	–	(50.7)	(1,229.9)
Unallocated expenses						(314.0)
						4,567.0
Other losses, net						(48.3)
Interest expense						(609.4)
Share of results of associates	–	518.4	(0.6)	1,111.2	1.2	1,630.2
Share of results of joint ventures	–	817.2	0.7	4.6	5.6	828.1
Profit before taxation						6,367.6
Taxation						(996.4)
Profit for the period						5,371.2

Share of results of associates includes HK$826.5 million (2017: HK$590.0 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

4. Segment information *(continued)*

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

The segment assets at 30th June 2018 and 31st December 2017 are as follows:

30th June 2018 HK$M	**Gas, water and related businesses Hong Kong**	**Gas, water and related businesses Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Segment assets	**16,973.5**	**67,847.5**	**17,830.8**	**14,912.3**	**4,048.1**	**121,612.2**
Unallocated assets:						
Financial assets at fair value through other comprehensive income						**4,086.8**
Financial assets at fair value through profit or loss						**937.7**
Time deposits, cash and bank balances excluded from segment assets						**7,084.8**
Others (Note)						**1,187.8**
Total assets						**134,909.3**

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.

4. Segment information *(continued)*

31st December 2017 HK$M	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
Segment assets	17,335.7	65,453.5	17,898.4	13,924.8	3,897.5	118,509.9
Unallocated assets:						
Available-for-sale financial assets						4,289.9
Financial assets at fair value through profit or loss						42.1
Time deposits, cash and bank balances excluded from segment assets						7,031.1
Others (Note)						1,188.9
Total assets						131,061.9

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2018 is HK$5,985.2 million (2017: HK$5,508.0 million), and the revenue from external customers in other geographical locations is HK$13,256.4 million (2017: HK$9,922.9 million).

At 30th June 2018, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$29,134.1 million and HK$73,223.2 million (31st December 2017: HK$27,772.0 million and HK$71,760.5 million) respectively.

5. Total operating expenses

	Six months ended 30th June **2018** **HK$M**	 2017 HK$M
Stores and materials used	**10,058.5**	7,216.2
Manpower costs	**1,577.4**	1,403.3
Depreciation and amortisation	**1,242.3**	1,163.6
Other operating items	**1,796.4**	1,592.3
	14,674.6	11,375.4

6. Other (losses)/gains, net

	Six months ended 30th June	
	2018	2017
	HK$M	HK$M
Net investment gains	**152.2**	176.1
Gain on deemed disposal of partial interest in an associate	**–**	44.0
Ineffective portion on cash flow hedges	**4.7**	(5.4)
Project research and development costs	**(5.2)**	(5.2)
Provision for assets	**(200.0)**	–
Others	**–**	(0.4)
	(48.3)	209.1

7. Profit before taxation

Profit before taxation is stated after charging cost of inventories sold of HK$11,157.0 million (2017: HK$8,292.9 million).

8. Taxation

	Six months ended 30th June	
	2018	2017
	HK$M	HK$M
Current taxation	**823.0**	648.3
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	**173.4**	164.7
	996.4	813.0

The prevailing tax rates of Hong Kong, the mainland China and Thailand range from 16.5 per cent (2017: 16.5 per cent), 15 per cent to 25 per cent (2017: 15 per cent to 25 per cent) and 50 per cent (2017: 50 per cent) respectively.

9. Dividends

	Six months ended 30th June	
	2018	2017
	HK$M	HK$M
2017 Final, paid, of HK23 cents per ordinary share (2016 Final: HK23 cents per ordinary share)	**3,217.2**	2,924.7
2018 Interim, proposed, of HK12 cents per ordinary share (2017 Interim: HK12 cents per ordinary share)	**1,846.4**	1,678.5
	5,063.6	4,603.2

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$4,789.4 million (2017: HK$4,472.0 million) and the weighted average of 15,386,411,131 shares (2017: 15,386,911,131 shares*) in issue during the period.

* *Adjusted for the bonus share issue in 2018*

11. Property, plant and equipment

	Buildings, plant, mains, mining and oil properties and other equipment HK$M
Cost	
At 1st January 2018	76,138.7
Additions	3,547.3
Acquisition of businesses	40.5
Disposals/write off	(94.8)
Impairment	(200.0)
Exchange differences	(785.0)
At 30th June 2018	78,646.7
Accumulated depreciation	
At 1st January 2018	20,311.3
Charge for the period	1,204.4
Disposals/write off	(62.9)
Exchange differences	(153.5)
At 30th June 2018	21,299.3
Net book value	
At 30th June 2018	57,347.4
At 31st December 2017	55,827.4

11. Property, plant and equipment *(continued)*

	Buildings, plant, mains, mining and oil properties and other equipment HK$M
Cost	
At 1st January 2017	66,753.8
Additions	2,578.9
Disposals/write off	(75.3)
Exchange differences	1,526.5
At 30th June 2017	70,783.9
Accumulated depreciation	
At 1st January 2017	17,544.2
Charge for the period	1,128.5
Disposals/write off	(58.4)
Exchange differences	275.1
At 30th June 2017	18,889.4
Net book value	
At 30th June 2017	51,894.5
At 31st December 2016	49,209.6

12. Trade and other receivables

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Trade receivables (Note)	**3,328.9**	3,734.5
Payments in advance	**1,507.2**	1,659.0
Other receivables	**2,442.5**	2,118.5
	7,278.6	7,512.0

The Group recognised a loss of HK$4.5 million (2017: HK$5.7 million) for the impairment of its trade and other receivables during the period. The impairment has been included in other operating items (Note 5).

12. Trade and other receivables *(continued)*

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 2018, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
0 – 30 days	**2,828.9**	3,293.5
31 – 60 days	**142.1**	119.0
61 – 90 days	**43.2**	41.5
Over 90 days	**314.7**	280.5
	3,328.9	3,734.5

13. Trade and other payables and contract liabilities

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Trade payables (Note a)	**2,684.3**	2,977.2
Other payables and accruals (Note b)	**4,588.8**	4,723.3
Contract liabilities/receipt in advance (Note c)	**6,436.9**	6,569.3
	13,710.0	14,269.8

Notes

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

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
0 – 30 days	**1,014.3**	1,340.0
31 – 60 days	**296.5**	488.0
61 – 90 days	**318.7**	298.0
Over 90 days	**1,054.8**	851.2
	2,684.3	2,977.2

13. Trade and other payables and contract liabilities *(continued)*

(b) The balances mainly represent accrual for services or goods received from suppliers.

(c) The balances mainly represent advance received from customers for utility connection services and provision of gas.

14. Share capital

	Number of Shares		Share Capital	
	At 30th June 2018	At 31st December 2017	**At 30th June 2018 HK$M**	At 31st December 2017 HK$M
Issued and fully paid:				
At beginning of period/year	**13,987,646,483**	12,717,042,258	**5,474.7**	5,474.7
Bonus shares	**1,398,764,648**	1,271,604,225	**–**	–
Shares bought back	**–**	(1,000,000)	**–**	–
At end of period/year	**15,386,411,131**	13,987,646,483	**5,474.7**	5,474.7

15. Perpetual capital securities

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

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

16. Reserves

	Investment revaluation reserve HK$M	Hedging reserve HK$M	Exchange reserve HK$M	Retained profits HK$M	Total HK$M
At 1st January 2018	7.0	138.8	1,651.4	49,949.7	51,746.9
Changes in accounting policy	119.6	–	–	134.9	254.5
At 1st January 2018 (restated)	126.6	138.8	1,651.4	50,084.6	52,001.4
Profit attributable to shareholders	–	–	–	4,789.4	4,789.4
Other comprehensive income:					
Change in value of financial assets at fair value through other comprehensive income	15.8	–	–	–	15.8
Change in fair value of cash flow hedges	–	(11.5)	–	–	(11.5)
Share of other comprehensive income of an associate	–	3.8	–	–	3.8
Exchange differences	–	–	(719.6)	–	(719.6)
Total comprehensive income for the period	15.8	(7.7)	(719.6)	4,789.4	4,077.9
Further acquisition of subsidiaries	–	–	–	(23.4)	(23.4)
2017 final dividend proposed	–	–	–	3,217.2	3,217.2
2017 final dividend paid	–	–	–	(3,217.2)	(3,217.2)
At 30th June 2018	142.4	131.1	931.8	54,850.6	56,055.9
Balance after 2018 interim dividend proposed	142.4	131.1	931.8	53,004.2	54,209.5
2018 interim dividend proposed	–	–	–	1,846.4	1,846.4
	142.4	131.1	931.8	54,850.6	56,055.9

16. Reserves *(continued)*

	Investment revaluation reserve HK$M	Hedging reserve HK$M	Exchange reserve HK$M	Retained profits HK$M	Total HK$M
At 1st January 2017	119.6	259.2	(1,369.2)	46,523.0	45,532.6
Profit attributable to shareholders	–	–	–	4,472.0	4,472.0
Other comprehensive income:					
Impairment loss on available-for-sale financial assets transferred to income statement	86.9	–	–	–	86.9
Change in value of available-for-sale financial assets	40.6	–	–	–	40.6
Change in fair value of cash flow hedges	–	(174.1)	–	–	(174.1)
Share of other comprehensive loss of an associate	–	(5.1)	–	–	(5.1)
Released on deemed partial disposal of an associate	–	–	3.9	–	3.9
Exchange differences	–	–	1,172.0	–	1,172.0
Total comprehensive income for the period	127.5	(179.2)	1,175.9	4,472.0	5,596.2
Shares bought back	–	–	–	(15.4)	(15.4)
Further acquisition of subsidiaries	–	–	–	(24.3)	(24.3)
2016 final dividend proposed	–	–	–	2,924.9	2,924.9
2016 final dividend paid	–	–	–	(2,924.7)	(2,924.7)
At 30th June 2017	247.1	80.0	(193.3)	50,955.5	51,089.3
Balance after 2017 interim dividend proposed	247.1	80.0	(193.3)	49,277.0	49,410.8
2017 interim dividend proposed	–	–	–	1,678.5	1,678.5
	247.1	80.0	(193.3)	50,955.5	51,089.3

17. Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June 2018 and 31st December 2017.

18. Commitments

(a) Capital expenditures for property, plant and equipment

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Contracts had been entered into but not brought into the condensed consolidated interim financial statements	**4,256.1**	4,164.1

(b) Share of capital expenditures for property, plant and equipment of joint ventures

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Contracts had been entered into but not brought into the condensed consolidated interim financial statements	**2,083.6**	2,809.0

(c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to finance certain gas and New Energy projects under various contracts in mainland China. The directors of the Company estimate that as at 30th June 2018, the Group's commitments to these projects were approximately HK$2,597.3 million (At 31st December 2017: HK$2,571.5 million).

(d) Lease commitments

Lessee

At 30th June 2018, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Not later than 1 year	**150.7**	133.7
Later than 1 year and not later than 5 years	**281.5**	265.9
Later than 5 years	**211.5**	221.7
	643.7	621.3

18. Commitments *(continued)*

(d) Lease commitments *(continued)*

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront and rental of data centre facilities under operating leases. Except for certain car parks rented out on an hourly or a monthly basis, these leases typically run for a period of 2 to 10 years. Future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	At 30th June 2018 HK$M	At 31st December 2017 HK$M
Not later than 1 year	**122.0**	126.5
Later than 1 year and not later than 5 years	**245.9**	256.8
Later than 5 years	**70.8**	95.9
	438.7	479.2

19. Related party transactions

Saved as disclosed elsewhere in the condensed consolidated interim financial statements, there were purchase of goods and services from associates of HK$245.7 million (2017: HK$72.2 million). These related party transactions were conducted at prices and terms as agreed by parties involved. As at 30th June 2018, there were balances in relation to bank loans and interest payables from one bank with a common director with the Company of HK$368.5 million (At 31st December 2017: HK$805.0 million) and time deposits and interest receivables from one bank with a common director with the Company of HK$922.0 million (At 31st December 2017: HK$420.4 million).

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2018, the Group had a net current borrowings position of HK$4,502 million (31st December 2017: HK$2,927 million) and long-term borrowings of HK$22,615 million (31st December 2017: HK$21,162 million). In addition, banking facilities available for use amounted to HK$12,400 million (31st December 2017: HK$13,200 million).

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

Financing structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2018, the Group issued notes in the total amount of HK$13,671 million (31st December 2017: HK$13,371 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 2018 was HK$13,020 million (31st December 2017: HK$12,748 million).

As at 30th June 2018, 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 2017: US$995 million) and the carrying value was HK$7,806 million (31st December 2017: HK$7,734 million).

As at 30th June 2018, the Group's borrowings amounted to HK$39,961 million (31st December 2017: HK$36,919 million). While the Notes mentioned above together with the bank and other loans of HK$4,132 million (31st December 2017: HK$4,003 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$9,560 million (31st December 2017: HK$6,363 million) were long-term bank loans and HK$5,443 million (31st December 2017: HK$6,071 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2018, the maturity profile of the Group's borrowings was 45 per cent within 1 year, 4 per cent within 1 to 2 years, 27 per cent within 2 to 5 years and 24 per cent over 5 years (31st December 2017: 43 per cent within 1 year, 11 per cent within 1 to 2 years, 21 per cent within 2 to 5 years and 25 per cent over 5 years).

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 2018 remained healthy at 30 per cent (31st December 2017: 28 per cent).

Contingent liabilities

As at 30th June 2018 and 31st December 2017, 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 2018, the investments in securities amounted to HK$1,058 million (31st December 2017: HK$752 million). The performance of the Group's financial investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2018, 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 2018.

Board Audit and Risk Committee

The Board Audit and Risk Committee (formerly known as Board Audit Committee) was formed in May 1996 to review and supervise the financial reporting process and internal controls of the Group. A Board Audit and Risk Committee meeting was held in August 2018 to review the unaudited consolidated interim financial statements for the six months ended 30th June 2018. PricewaterhouseCoopers, the Group's external auditor, carried out a review of the Company's unaudited consolidated interim financial statements for the six months ended 30th June 2018 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

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 2018.

Disclosure of interests

A. Directors

As at 30th June 2018, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and underlying shares (Long positions)

		Interest in shares				
Name of company	**Name of director**	**Personal interests**	**Corporate interests**	**Other interests**	**Aggregate interests**	**%***
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee		6,389,357,019 *(Note 3)*		6,389,357,019	41.53
	Dr. the Hon. Sir David Li Kwok Po	42,914,645			42,914,645	0.28
	Dr. Lee Ka Kit			6,389,357,019 *(Note 2)*	6,389,357,019	41.53
	Mr. Alfred Chan Wing Kin	293,361 *(Note 5)*			293,361	0.00
	Mr. Lee Ka Shing			6,389,357,019 *(Note 2)*	6,389,357,019	41.53
	Professor Poon Chung Kwong	200,442 *(Note 4)*			200,442	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee		9,500 *(Note 6)*		9,500	95
	Dr. Lee Ka Kit			9,500 *(Note 6)*	9,500	95
	Mr. Lee Ka Shing			9,500 *(Note 6)*	9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee		2 *(Note 7)*		2	100
	Dr. Lee Ka Kit			2 *(Note 7)*	2	100
	Mr. Lee Ka Shing			2 *(Note 7)*	2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee		1,857,788,706 *(Note 8)*		1,857,788,706	67.10
	Dr. Lee Ka Kit			1,857,788,706 *(Note 8)*	1,857,788,706	67.10
	Mr. Lee Ka Shing			1,857,788,706 *(Note 8)*	1,857,788,706	67.10
	Mr. Alfred Chan Wing Kin	3,707,776 *(Note 9)*			3,707,776	0.13
	Mr. Peter Wong Wai Yee	3,015,000 *(Note 10)*			3,015,000	0.11

* *Percentage which the aggregate long position in the shares or underlying shares represents to the number of issued shares of the Company or any of its associated corporations.*

Save as mentioned above, as at 30th June 2018, there were no other interests or short positions of the Directors of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

B. *Substantial shareholders and others (Long positions)*

As at 30th June 2018, the interests and short positions of every person, other than the Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of company	No. of shares in which interested	%*
Substantial shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited *(Note 1)*	3,556,972,015	23.12
	Timpani Investments Limited *(Note 1)*	4,938,522,441	32.10
	Faxson Investment Limited *(Note 1)*	6,389,357,019	41.53
	Henderson Land Development Company Limited *(Note 1)*	6,389,357,019	41.53
	Henderson Development Limited *(Note 1)*	6,389,357,019	41.53
	Hopkins (Cayman) Limited *(Note 2)*	6,389,357,019	41.53
	Riddick (Cayman) Limited *(Note 2)*	6,389,357,019	41.53
	Rimmer (Cayman) Limited *(Note 2)*	6,389,357,019	41.53
Persons other than substantial shareholders	Macrostar Investment Limited *(Note 1)*	1,450,834,578	9.43
	Chelco Investment Limited *(Note 1)*	1,450,834,578	9.43
	Medley Investment Limited *(Note 1)*	1,381,550,426	8.98

* *Percentage which the aggregate long position in the shares represents to the number of issued shares of the Company.*

Save as mentioned above, as at 30th June 2018, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

1. These 6,389,357,019 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD.

2. These 6,389,357,019 shares are duplicated in the interests described in Note 1. Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD as trustee of a unit trust ("Unit Trust"). Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Dr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.

3. These 6,389,357,019 shares are duplicated in the interests described in Notes 1 and 2. Dr. the Hon. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.

4. These 200,442 shares were jointly held by Professor Poon Chung Kwong and his spouse.

5. These 293,361 shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.

6. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. the Hon. Lee Shau Kee, Dr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.

7. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. the Hon. Lee Shau Kee, Dr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.

8. These 1,857,788,706 shares in Towngas China representing approximately 67.10% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited ("HK&CG (China)") (as to 1,697,758,166 shares), Planwise Properties Limited ("Planwise") (as to 157,353,034 shares) and Superfun Enterprises Limited ("Superfun") (as to 2,677,506 shares), wholly-owned subsidiaries of the Company. Subsequent to the allotment of a total of 37,475,564 new shares by Towngas China pursuant to its scrip dividend scheme on 18th July 2018, the Company was taken to be interested in a total of 1,895,264,270 shares in Towngas China representing approximately 67.45% of the total issued shares in Towngas China which were beneficially owned by HK&CG (China) (as to 1,732,005,573 shares), Planwise (as to 160,527,180 shares) and Superfun (as to 2,731,517 shares) as at the date of this report. Dr. the Hon. Lee Shau Kee, Dr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.

9. Subsequent to the allotment of 74,793 new shares by Towngas China pursuant to its scrip dividend scheme on 18th July 2018, Mr. Alfred Chan Wing Kin had personal interest of 3,782,569 shares in Towngas China, representing approximately 0.13% of the total issued shares in Towngas China as at the date of this report.

10. Subsequent to the allotment of 60,000 new shares by Towngas China pursuant to its scrip dividend scheme on 18th July 2018, Mr. Peter Wong Wai Yee had personal interest of 3,075,000 shares in Towngas China, representing approximately 0.11% of the total issued shares in Towngas China as at the date of this report.

Arrangements to purchase shares or debentures

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Changes in the information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

1) **Dr. LEE Ka Kit** G.B.S., J.P., D.B.A. (Hon.),
Non-executive Director

Dr. Lee was appointed as an Independent Non-executive Director of Xiaomi Corporation on 25th June 2018.

2) **Professor POON Chung Kwong** G.B.S., J.P., Ph.D., D.Sc.,
Independent Non-executive Director

Professor Poon resigned as an Independent Non-executive Director of Hopewell Highway Infrastructure Limited on 2nd May 2018.

3) **Mr. Alfred CHAN Wing Kin** B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc. (Eng), B.Sc. (Eng),
Managing Director

Mr. Chan was appointed as a Member of the Board of Stewards of The Education University of Hong Kong Foundation on 1st February 2018.

CORPORATE INFORMATION

Board of directors

As at the date of this report, the board of directors of the Company comprises Dr. the Hon. Lee Shau Kee (Chairman), Mr. Leung Hay Man*, Dr. Colin Lam Ko Yin, Dr. the Hon. Sir David Li Kwok Po*, Dr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. Lee Ka Shing, Professor Poon Chung Kwong* and Mr. Peter Wong Wai Yee.

* *Independent Non-executive Director*

Registered office

23rd Floor, 363 Java Road, North Point,
Hong Kong

Company's website

www.towngas.com

Share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Telephone number: 2862 8555
Fax number: 2865 0990

Investor relations

Corporate Treasury and Investor Relations Department
Telephone number: 2963 3189
Fax number: 2911 9005
E-mail address: invrelation@towngas.com

Corporate Affairs Department
Telephone number: 2963 3493
Fax number: 2516 7368
E-mail address: ccd@towngas.com

Company Secretarial Department
Telephone number: 2963 3292
Fax number: 2562 6682
E-mail address: compsec@towngas.com

A printed version of this Interim Report is available on request from the Company and the Company's Share Registrar free of charge. The website version of this Interim Report is also available on the Company's website.

This Interim Report is printed on environmentally-friendly paper.