

# 2019

# 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

## 2019 INTERIM REPORT

To Shareholders

Dear Sir or Madam,

### HALF-YEARLY RESULTS

The Directors wish to report that the unaudited profit after taxation attributable to shareholders of the Group for the six months ended 30th June 2019 amounted to HK\$3,889 million, a decrease of HK\$900 million, down by 18.8 per cent, compared to the same period last year. Earnings per share for the first half of 2019 amounted to HK23 cents. Exclusive of the Group's share of a revaluation surplus from an investment property, the International Finance Centre complex, the Group's profit after taxation amounted to HK\$3,752 million, a decrease of HK\$211 million, down by 5.3 per cent, compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2019, as compared to the same period in 2018, are shown in the following table:

	Unaudited	
	Six months ended 30th June	
	2019	2018
Revenue before Fuel Cost Adjustment, HK million dollars	<b>19,924</b>	18,744
Revenue after Fuel Cost Adjustment, HK million dollars	<b>20,352</b>	19,242
Profit Attributable to Shareholders, HK million dollars	<b>3,889</b>	4,789
Earnings per Share, HK cents	<b>23.0</b>	28.3*
Interim Dividend per Share, HK cents	<b>12</b>	12
Town Gas Sold in Hong Kong, million MJ	<b>15,776</b>	16,158
Gas Sold in mainland China City-gas Business, million cubic metres; natural gas equivalent <sup>#</sup>	<b>12,945</b>	11,469
Number of Customers in Hong Kong as at 30th June	<b>1,920,595</b>	1,890,415
Number of City-gas Customers in mainland China as at 30th June <sup>#</sup>	<b>28,517,205</b>	26,469,561

\* Adjusted for the bonus share issue in 2019

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

The unaudited condensed consolidated interim financial statements are provided on pages 10 to 38 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**

Local economic growth slowed during the first half of 2019. During the period under review, gas sales in the restaurant sector decreased compared to the same period last year. Additionally, as the average temperature in Hong Kong during the first half of 2019 was higher than the same period last year, this also affected gas sales. Total volume of gas sales in Hong Kong for the first half of 2019 was approximately 15,776 million MJ, a decrease of 2.4 per cent, in contrast to a 7.1 per cent increase in the number of appliances sold, both compared to the same period last year.

As at 30th June 2019, the number of customers was 1,920,595, an increase of 12,084 since the end of 2018.

The Company raised its standard gas tariff by HK1.1 cents per MJ on 1st August 2019. The actual increase in the gas tariff (comprising standard tariff and fuel cost adjustment) is equivalent to 4.4 per cent. The Company commits to keeping this new standard gas tariff frozen for the next two years.

## **BUSINESS DEVELOPMENT IN MAINLAND CHINA**

The Group's mainland businesses continued to progress steadily during the first half of 2019. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 260 projects on the mainland, six more than at the end of 2018, 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. 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 sizeable, nationwide, multi-business corporation focused on environmentally-friendly energy ventures and utility sectors.

## UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group has a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2019 was approximately 12,940 million cubic metres, an increase of 13 per cent over the same period last year. As at the end of June 2019, the Group's mainland gas customers stood at approximately 28.52 million, an increase of 8 per cent over the same period last year. The Group has a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

The mainland economy faced uncertainties across different aspects due to international trade tensions during the first half of 2019, resulting in economic slowdown compared to the same period last year. This, coupled with weakness of the renminbi, has adversely affected the Group's mainland businesses. Although exports have been impacted by the unfavourable international business environment with some export-oriented enterprises starting to move to Southeast Asian countries, rising per capita income of urban and rural residents continued to drive domestic consumer spending during the period, helping to sustain an industrial manufacturing base, thus boosting the country's demand for energy. The government advocates the use of natural gas to reduce air pollution and improve smoggy atmospheric conditions. To this end, a natural gas utilisation policy has been formulated to strengthen preventative measures to combat air pollution and speed up the use of natural gas to replace coal across the country. Substituting piped natural gas for bottled petroleum gas is also being encouraged nationwide, thus facilitating the development of city-gas businesses, whilst greater use of household heating in the Yangtze River Basin is raising residential gas sales there. The government is also promoting distributed energy systems by advocating partial replacement of coal-fired power with natural gas. In addition, the national policy of removing the requirement for Chinese partners to hold a majority stake in certain industries, including city-gas and thermal pipeline networks, in cities with populations of more than 500,000 effective from 30th July 2019 will help open up related markets. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses in the future.

The Chinese government has been making strong efforts to drive market-oriented reforms for the natural gas industry in recent years. The "Guiding Opinion on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinion on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" published in 2017 and June 2019, respectively, by the National Development and Reform Commission have set out proposed return rates for both gas distribution and gas facility installation businesses of city-gas enterprises, while the rates of gas prices and installation fees for end users of piped gas are now to be determined by local price bureaux. In the future, the Group's city-gas project companies might be subject to the risk of having to adjust their natural gas selling prices and gas facility installation fees accordingly, thus creating uncertainties for the Group both operationally and financially. In view of the above, our management team is actively monitoring and evaluating the changes in policies and will take appropriate measures to address any potential risks.

As natural gas is being promoted as a major clean energy on the mainland, long-term and steady growth in market demand is anticipated. In view of this, the country is striving to maintain an ample supply of natural gas. Supplies of natural gas are gradually becoming abundant with a gradual increase in imported piped natural gas from Central Asia and Myanmar and a rise in the sources of imported liquefied natural gas (“LNG”), both to the benefit of market development. In addition, Russia’s Siberian east-route pipeline, which is scheduled for commissioning before the winter period of 2019, is expected to increase upstream gas sources for the Group’s city-gas projects in northeastern and eastern China. A number of mainland provinces and cities are also gradually laying plans to develop gas storage facilities to help boost capacity over winter alongside the construction of coastal LNG receiving stations. All these projects will contribute to a stable supply of natural gas, helping the Group’s mainland city-gas businesses to continue to thrive in the future.

In line with the Chinese government’s policy of advocating faster development of gas storage capacity, the Group is actively enhancing its own gas storage capacity on the mainland. Construction of the Group’s natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project is the first of its kind built by a city-gas enterprise on the mainland. Phase one involves the construction of 10 wells, with a storage capacity of approximately 460 million standard cubic metres; the first three wells were commissioned at the end of October 2018. During the second quarter of 2019, as initiated by the Group, Shanghai Gas (Group) Co., Ltd., a company possessing LNG receiving stations, joined phase one of the project to help facilitate the import of LNG resources from overseas. Phase two, wholly-owned by the Group, involves the construction of 12 wells with a storage capacity of 560 million standard cubic metres. Upon completion, total storage capacity of the whole facility will be over 1 billion standard cubic metres, enabling the Group to 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, it is planned that this facility will supply gas to the Group’s city-gas projects in other regions through interconnected upstream pipeline networks, thus assisting the Group’s business development in downstream city-gas markets.

The Group has been in the mainland water market, under the brand name “Hua Yan Water”, for over 13 years and currently invests in, and operates, seven 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; 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; and a new water services joint venture project in Foshan city, Guangdong province added in the fourth quarter of 2018 through investment in Foshan Water Environmental Protection Co., Ltd. The major businesses of this latter company encompass tap water supply, wastewater treatment and municipal environmental and sanitary engineering. This is the Group’s first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In tandem with the country’s promotion of the development of the Greater Bay Area, investment in this project is expected to provide opportunities for the Group to develop water services and environmental protection businesses within the region. In addition, given food waste processing and utilisation is also a sizeable environmentally-friendly industry, the Group has constructed 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; trial production formally commenced in mid-February 2019 and is the Group’s first project converting municipal environmental and sanitary waste into value-added products. Projects of this kind will gradually be extended to other affluent mainland regions.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and municipal environmental and sanitary waste processing and utilisation projects are creating 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 – are all operating well, contributing to ECO's steady profit growth. ECO's aviation fuel facility recorded a total turnover of approximately 3.3 million tonnes of aviation fuel during the first half of 2019, a similar level to the same period last year. ECO's landfill gas utilisation projects in the North East New Territories and the South East New Territories generate noticeable environmental benefits by avoiding in-situ burning and emission of landfill gas and enabling partial replacement of fossil fuels, thus increasing the Group's contribution to energy conservation and emission reduction in Hong Kong.

As the mainland's demand for natural gas as a major clean energy continues to increase, there is a rising need for using LNG as a gas supplement during winter. In relation to this, ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly, seeing an increase in the upstream supply of coalbed methane for this facility.

The overall operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, worsened noticeably during the first half of 2019 compared to the same period last year due to a significant fall in the selling prices of methanol and ethylene glycol caused by a reversal of the external economic environment; as a result, ECO is now adjusting its development strategy in response to this changing external environment.

Conversion of biomass into clean energy and chemical products is one of ECO's major business strategies, which is also in line with the policy direction of mainland China. To this end, after several months of trial operations, ECO's integrated processing project, located in Zhangjiagang city, Jiangsu province, using its self-developed technology to process inedible bio-grease feedstock into hydro-treated vegetable oil (“HVO”), has produced a total of nearly 20,000 tonnes of HVO, which has gained “International Sustainability and Carbon Certification” (ISCC). On this basis, ECO has commenced phase two of the project to enhance production capacity to 180,000 tonnes per annum. HVO as an advanced biofuel can achieve noticeable reduction in the carbon emission. This project will generate promising economic benefits, and will be the key business to develop.

Mainland China is a sizeable agricultural production country generating a large quantity of agricultural waste every year. Apart from using a small portion of this in fields or for power generation, there are currently no effective measures to make good use of the rest of this waste. ECO has commenced construction work relating to a pilot project in Tangshan city, Hebei province, to apply self-developed hydrolysis technology to break down agricultural straw into hemicellulose, cellulose and lignin and to yield furfural and paper pulp. Both are used for chemical feedstock and basic materials and have noticeable economic and environmental benefits. This pilot project is expected to be commissioned by the end of 2019 and, if successful, will enable ECO to build facilities in mainland regions abundant with straw resources and develop a broad green and low-carbon business eco-system.

ECO's in-house scientific research, focusing on the extraction of high-quality carbon materials from the pitch portion of high-temperature coal tar oil, has achieved promising results, successfully producing high-quality activated carbon and mesophase pitch. High-quality activated carbon can be used for making super capacitors, whereas mesophase pitch can be used as a raw material for carbon fibre or as an anode material for batteries. Given prevailing trends for new energy electric vehicles and rail transport electrification in mainland China, prospects for these new carbon materials are promising. ECO's first pilot project of this kind is now at the preparatory stage; construction work is expected to commence in the second half of 2019.

ECO continues to march along its well-defined new energy business 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 agricultural straw, preparation of high-quality carbon materials, hydrogenation and upgrading of inedible bio-grease, and utilisation of unconventional gas resources, etc. ECO plans to further encompass higher value-added chemical and advanced materials. As these projects begin to show significant economic and environmental benefits, they are expected to become the basis of ECO's core business in the future.

## **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 internet service providers, 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 strengthening its foundations to cater for data transmission, processing and storage needs as well as swifter market development in the future.

In order to facilitate business development on the mainland, TGT and Beijing Ying Tong Technology Co., Ltd. have formed a joint venture, named Ying Tong TGT Network Services (Shenzhen) Co., Ltd., to develop connectivity, data centre and fog computing (small-scale data centre) businesses on the mainland. The synergy effect of this cooperation will help TGT to further expand its business scope on the mainland. In addition, Shenzhen Internet Exchange Co., Ltd., an associated company of TGT, having been granted several value-added telecommunications service licences, has built, and is now operating, a fibre cable network of more than 400 km to provide quality broadband and leased-line services in Shenzhen city. To open up even more new markets, TGT is also actively extending its business into Taiwan, and is planning to further expand into other Asian regions 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 2019, with profit after taxation attributable to its shareholders amounting to HK\$756 million, an increase of approximately 14 per cent compared to the same period last year. As at the end of June 2019, the Group held approximately 1,895 million shares in Towngas China, representing approximately 67.45 per cent of Towngas China's total issued shares.

Project development has progressed well so far this year with Towngas China adding five new projects to its portfolio, comprising U-Tech (Guang Dong) Engineering Construction Co., Ltd. and four distributed energy projects located in Maanshan Economic and Technological Development Zone South District, Anhui province; in the Chemical Industrial Park, Luanzhou Economic Development Zone, Tangshan city, Hebei province; in the Xinmi Yinji International Tourism Resort, Zhengzhou city, Henan province; and in Shenzhen city, Guangdong province.

In tandem with the natural gas market trend on the mainland, Towngas China is proactively exploring upstream gas sources and investing in the construction of gas storage facilities in order to both supplement and regulate the company's gas supplies during the winter period and reduce gas resource costs. In respect of downstream markets, Towngas China's industrial and commercial market development strategy has been upgraded to an "integrated energy service" approach, with a view to offering a diverse range of energy consumption services and efficient energy utilisation options to its customers. Towngas China Energy Investment Limited, a wholly-owned subsidiary of Towngas China, will also continue to look for potential opportunities to develop distributed energy businesses. As for the residential market and extended businesses, Towngas China is proactively utilising the Group's online customer centre platform, under the brand name "Towngas Lifestyle", to leverage greater customer value and enhance the scale of the company's extended businesses through strategic cooperation with third parties. Such strategic initiatives will underpin Towngas China as it moves forward and grasps opportunities to ensure continuing sound business growth.

## **FINANCING PROGRAMMES**

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. In line with the Group's long-term business investments, the nominal amount of medium term notes issued so far has reached HK\$13.9 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.4 per cent per annum and an average tenor of 15 years. The Group updated the programme during the year and increased the issue size by US\$1 billion to US\$3 billion, introducing more flexibility for future financing.

In January 2014, the Group issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Securities"), amounting to US\$300 million, through Towngas (Finance) Limited, a wholly-owned subsidiary of the Group. These Perpetual Securities were redeemed in January 2019. Since Perpetual Securities have no fixed maturity date, they are accounted for as equity instead of borrowings in financial statements. This helps to strengthen the Group to maintain its high investment grade credit ratings. Therefore, the Group issued new Perpetual Securities again in February 2019 and the proceeds are mainly used to refinance the redeemed US\$300 million Perpetual Securities. The newly issued US\$300 million Perpetual Securities keep the coupon interest rate at 4.75 per cent per annum for the first five years. The Perpetual Securities are redeemable, at the option of the Group, in February 2024 or thereafter every six months on the coupon payment date. This issuance of the Perpetual Securities, rated A3 and BBB+ by international rating agencies Moody's Investors Service and Standard and Poor's Rating Services respectively, received an overwhelming response from investors and were more than 14 times oversubscribed. The Perpetual Securities, guaranteed by the Company, were listed on The Stock Exchange of Hong Kong Limited on 13th February 2019 (stock code: 5749.HK).

## **EMPLOYEES AND PRODUCTIVITY**

As at 30th June 2019, the number of employees engaged in the town gas business in Hong Kong was 2,060 (30th June 2018: 2,024), the number of customers was 1,920,595, and each employee served the equivalent of 932 customers, a similar level to 30th June 2018. 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 2,424 as at the end of June 2019 compared to 2,377 as at the end of June 2018. Related manpower costs amounted to HK\$569 million for the first half of 2019, 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 49,760 as at the end of June 2019, an increase of approximately 2,960 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 13th September 2019. The Register of Members will be closed from Thursday, 12th September 2019 to Friday, 13th September 2019, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Wednesday, 2nd October 2019.

## **BUSINESS OUTLOOK FOR 2019**

The Company predicts steady growth in its number of customers in Hong Kong during 2019. The Group's gas business in Hong Kong is 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 its 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. Nevertheless, under a weak global economy, coupled with current uncertainties facing Hong Kong's economy, a potential decrease in the number of inbound tourists and a projected adverse impact on domestic retail sales, the local business environment is therefore full of challenges. The Company's increase in the standard gas tariff with effect from 1st August 2019 will help to offset some of these pressures on its own rising operating costs. The Company will, however, continue to promote smart innovation to enhance customer services and operational efficiency so as to maintain stable development of its gas business in the territory.

Mainland China's economic development, and particularly associated export manufacturing industries, is being significantly impacted by volatile international trade tensions. Coupled with the exchange rate risk arising from devaluation of the renminbi, the Group's mainland businesses inevitably face challenges with respect to growth in the near term. Despite this, domestic consumer spending is making an ever-increasing contribution to the mainland's economic growth, aided by the Chinese government continually striving to expand domestic demand. Additionally, export of mainland products to countries and regions along the "Belt and Road Initiative" routes shows growth potential and will help to facilitate the development of manufacturing industries. In the long term, the Chinese government's move to tighten supervision and administration of measures combating air pollution is progressive, including efforts to promote reduction of carbon emissions. Encouraging greater use of clean energy in place of coal burning will also promote corporate initiatives to enhance environmental protection levels. All these efforts are helping the development of natural gas markets. In addition, increasing upstream gas supplies, expansion and improvement of pipeline networks and the Chinese government's plan to establish a national pipeline company to advocate natural gas market reforms, together with rapid urbanisation, are all leading to a continuous rise in demand for utility facilities and energy, favouring the development of the downstream gas market and a healthy development of the natural gas business sector in general. As a result, the Group's gas sales are expected to show promising growth in the future.

Good prospects are also predicted for the Group's water businesses, which encompass tap water supply, municipal and industrial waste water treatment, and municipal environmental sanitation including food waste treatment, waste classification and utilisation, given the government's support for this particular environmental protection sector.

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. The Group has established research and development centres in Shanghai city and Suzhou city to develop new technologies for agricultural and industrial waste application, including utilisation of inedible grease, straw and coal tar oil. As a result of several key successes in this area, ECO is now establishing production bases in eastern and northern China; gradual commissioning of related projects is expected to start from the end of 2019. 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 medium-to-long term business growth.

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, human resources, corporate brand names and sales channels built there for 25 years, alongside society's growing concern over air quality, it is anticipated that there will be ever-rising demand for clean energy and good potential for growth in the natural gas market. The Group's mainland businesses are therefore expected to further prosper. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that a sizeable customer base will establish a promising platform for expansion of various new businesses. Furthermore, in line with the country's development plan for the Guangdong-Hong Kong-Macao Greater Bay Area, the Group is seizing investment opportunities to explore environmental protection projects in the Pearl River Delta region.

As trade disputes between mainland China and the United States have intensified recently, there is growing concern over the impact on mainland export-oriented industries resulting from further tariffs imposed on Chinese goods by the United States. This, coupled with current conflicts in Hong Kong arising from opposition towards the proposed amendments to the Fugitive Offenders Ordinance, is testing for the Group's businesses in the territory although not expected to have a significant impact on the Group's profit in the short term. Moreover, the continuing optimisation of mainland China's economic structure, which the government has been implementing for a number of years, together with a rising middle-class population, will help maintain sustainable stable economic growth and a keen demand for clean energy. The Group will continue to formulate, and is gradually implementing, plans in accordance with the country's energy and environmental protection policies. Overall, with society's growing aspiration for more environmental protection, demand for natural gas and renewable energy will increase, alongside an environmentally-friendly and circular economy. Furthermore, the Group is actively promoting technological research and new product development, and related work is being effectively and gradually implemented, 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 various businesses in the future.

**Lee Ka-kit**  
Chairman

**Lee Ka-shing**  
Chairman

Hong Kong, 20th August 2019

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

For the six months ended 30th June

	Note	2019 HK\$M	2018 HK\$M
Revenue	4	<b>20,351.9</b>	19,241.6
Total operating expenses	5	<b>(16,075.4)</b>	(14,674.6)
		<b>4,276.5</b>	4,567.0
Other gains/(losses), net	6	<b>15.8</b>	(48.3)
Interest expense		<b>(559.5)</b>	(609.4)
Share of results of associates		<b>1,064.7</b>	1,630.2
Share of results of joint ventures		<b>687.4</b>	828.1
Profit before taxation	7	<b>5,484.9</b>	6,367.6
Taxation	8	<b>(999.5)</b>	(996.4)
Profit for the period		<b>4,485.4</b>	5,371.2
Attributable to:			
Shareholders of the Company		<b>3,889.4</b>	4,789.4
Holders of perpetual capital securities		<b>43.0</b>	55.9
Non-controlling interests		<b>553.0</b>	525.9
		<b>4,485.4</b>	5,371.2
Dividends	9	<b>2,031.0</b>	1,846.4
Earnings per share – basic and diluted, HK cents	10	<b>23.0</b>	28.3*

\* Adjusted for the bonus share issue in 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30th June

	<b>2019</b> <b>HK\$M</b>	2018 HK\$M
Profit for the period	<b>4,485.4</b>	5,371.2
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss:		
Movement in reserve of equity investments at fair value through other comprehensive income	<b>53.4</b>	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	<b>11.7</b>	(23.9)
Change in fair value of cash flow hedges	<b>(17.1)</b>	(11.5)
Share of other comprehensive income of an associate	–	3.8
Exchange differences	<b>(1.5)</b>	(841.9)
Other comprehensive income/(loss) for the period, net of tax	<b>46.5</b>	(826.6)
Total comprehensive income for the period	<b>4,531.9</b>	4,544.6
Total comprehensive income attributable to:		
Shareholders of the Company	<b>3,938.5</b>	4,077.9
Holders of perpetual capital securities	<b>43.0</b>	55.9
Non-controlling interests	<b>550.4</b>	410.8
	<b>4,531.9</b>	4,544.6

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30th June 2019

	Note	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	59,936.0	57,978.8
Investment property		778.0	778.0
Right-of-use assets	12	2,765.9	–
Leasehold land		–	2,214.5
Intangible assets		5,670.8	5,682.1
Associates		26,646.3	26,314.1
Joint ventures		11,287.2	10,950.3
Financial assets at fair value through other comprehensive income		1,213.0	1,127.0
Financial assets at fair value through profit or loss		3,504.6	3,506.7
Derivative financial instruments		110.7	55.4
Other non-current assets		3,636.4	3,474.0
		<b>115,548.9</b>	<b>112,080.9</b>
<b>Current assets</b>			
Inventories		2,415.1	2,480.7
Trade and other receivables	13	7,358.0	7,615.9
Loan and other receivables from associates		687.8	356.9
Loan and other receivables from joint ventures		1,142.3	822.6
Loan and other receivables from non-controlling shareholders		156.5	155.0
Financial assets at fair value through profit or loss		454.4	303.5
Derivative financial instruments		–	38.2
Time deposits over three months		242.2	338.6
Time deposits up to three months, cash and bank balances		7,212.0	8,500.8
		<b>19,668.3</b>	<b>20,612.2</b>
<b>Current liabilities</b>			
Trade payables and other liabilities	14	(13,682.9)	(13,929.4)
Amounts due to joint ventures		(1,217.1)	(1,049.5)
Loan and other payables due to non-controlling shareholders		(106.2)	(148.0)
Provision for taxation		(655.3)	(496.8)
Borrowings		(9,101.3)	(8,062.7)
Redeemable perpetual securities		–	(2,349.6)
Derivative financial instruments		(14.3)	(114.9)
		<b>(24,777.1)</b>	<b>(26,150.9)</b>
<b>Total assets less current liabilities</b>		<b>110,440.1</b>	<b>106,542.2</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (continued)

As at 30th June 2019

	Note	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
<b>Non-current liabilities</b>			
Deferred taxation		(6,347.4)	(6,099.1)
Borrowings		(27,768.2)	(27,609.3)
Asset retirement obligations		(52.2)	(48.6)
Derivative financial instruments		(569.0)	(558.9)
Retirement benefit liabilities		(23.8)	(23.8)
Other non-current liabilities		(2,438.9)	(2,009.2)
		<u>(37,199.5)</u>	<u>(36,348.9)</u>
<b>Net assets</b>		<u>73,240.6</u>	<u>70,193.3</u>
<b>Capital and reserves</b>			
Share capital	15	5,474.7	5,474.7
Reserves	17	57,295.0	56,926.0
		<u>62,769.7</u>	<u>62,400.7</u>
<b>Shareholders' funds</b>		<u>62,769.7</u>	<u>62,400.7</u>
<b>Perpetual capital securities</b>	16	2,384.3	–
<b>Non-controlling interests</b>		<u>8,086.6</u>	<u>7,792.6</u>
<b>Total equity</b>		<u>73,240.6</u>	<u>70,193.3</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

For the six months ended 30th June

	<b>2019</b>	2018
	<b>HK\$M</b>	HK\$M
<b>Net cash from operating activities</b>	<b>4,876.2</b>	5,010.6
<b>Investing activities</b>		
Purchase of property, plant and equipment	(3,135.7)	(3,233.4)
Payment for leasehold land	(201.4)	(114.9)
Consideration paid for acquisition of businesses in prior periods	–	(15.3)
Acquisition of businesses	–	(61.0)
Increase in investments in associates	(52.2)	(8.7)
Increase in investments in joint ventures	(67.9)	(28.4)
Interest received	112.1	150.9
Decrease in time deposits over three months	96.2	1,022.7
Dividends received from investments in securities	47.0	67.9
Dividends received from associates	543.7	238.4
Dividends received from joint ventures	45.5	33.7
Other cash flows used in investing activities	(114.6)	(836.7)
<b>Net cash used in investing activities</b>	<b>(2,727.3)</b>	(2,784.8)
<b>Financing activities</b>		
Redemption of perpetual securities	(2,405.4)	–
Issue of perpetual capital securities	2,341.3	–
Further acquisition of subsidiaries	–	(17.5)
Dividends paid to shareholders of the Company	(3,538.9)	(3,217.2)
Interest paid	(744.6)	(772.2)
Interest paid to holders of perpetual capital securities	–	(55.7)
Net borrowings and others	913.7	2,899.7
<b>Net cash used in financing activities</b>	<b>(3,433.9)</b>	(1,162.9)
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(1,285.0)</b>	1,062.9
<b>Cash and cash equivalents at 1st January</b>	<b>8,500.8</b>	10,758.6
<b>Effect of foreign exchange rate changes</b>	<b>(3.8)</b>	(23.8)
<b>Cash and cash equivalents at 30th June</b>	<b>7,212.0</b>	11,797.7
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	1,946.4	4,285.1
Time deposits up to three months	5,265.6	7,512.6
	<b>7,212.0</b>	11,797.7

## 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 HK\$M	Non-controlling interests HK\$M	Total HK\$M
	Share capital HK\$M	Reserves HK\$M			
Total equity as at 1st January 2019 (audited)	5,474.7	56,926.0	–	7,792.6	70,193.3
Adjustment on adoption of HKFRS 16, net of taxation (note 2)	–	(30.6)	–	(6.1)	(36.7)
Total equity as at 1st January 2019 (restated)	5,474.7	56,895.4	–	7,786.5	70,156.6
Profit for the period	–	3,889.4	43.0	553.0	4,485.4
Other comprehensive income:					
Movement in reserve of financial assets at fair value through other comprehensive income	–	52.0	–	13.1	65.1
Change in fair value of cash flow hedges	–	(15.0)	–	(2.1)	(17.1)
Exchange differences	–	12.1	–	(13.6)	(1.5)
Total comprehensive income for the period	–	3,938.5	43.0	550.4	4,531.9
Issue of perpetual capital securities	–	–	2,341.3	–	2,341.3
Dividends paid to shareholders of the Company	–	(3,538.9)	–	–	(3,538.9)
Dividends paid to non-controlling shareholders	–	–	–	(250.3)	(250.3)
Total equity as at 30th June 2019	5,474.7	57,295.0	2,384.3	8,086.6	73,240.6



## 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 HK\$M	Non-controlling interests HK\$M	Total HK\$M
	Share capital HK\$M	Reserves HK\$M			
Total equity as at 1st January 2018 (audited)	5,474.7	54,964.1	2,354.1	7,453.0	70,245.9
Adjustment on adoption of HKFRS 9 and HKFRS 15, net of taxation	–	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	<u>5,474.7</u>	<u>56,055.9</u>	<u>2,354.3</u>	<u>7,718.2</u>	<u>71,603.1</u>

## 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 2019, the Group was in a net current liability position of approximately HK\$5.1 billion. This is mainly because of the settlement of the US\$1 billion guaranteed notes in August 2018, which was not fully refinanced by non-current borrowings since the settlement. Taking into consideration 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 2018 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2019 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 2018 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 2018.

The Group has adopted the following amendments to standards and new interpretation which are effective for the Group's financial year beginning 1st January 2019 and relevant to the Group.

Amendments to HKAS 19	Employee Benefits, Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements Projects	HKASs and HKFRSs 2015 – 2017 cycle
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments

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

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

The HKICPA has also issued HKFRS 16 Leases ("HKFRS 16") which is effective for accounting period beginning 1st January 2019, and the impact of the adoption and the new accounting policies are disclosed in note 2.

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 2018.

## 2. Changes in accounting policies

The impacts of the adoption of HKFRS 16 on the Group's condensed consolidated interim financial statements are detailed below and it also discloses the new accounting policies that have been applied from 1st January 2019, where they are different to those applied in prior periods.

### **(a) Impact on the consolidated financial statements**

As explained in note 2(b) below, the Group has adopted HKFRS 16 retrospectively from 1st January 2019, but has not restated comparative information for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore not reflected in the consolidated statement of financial position as at 31st December 2018, but are recognised in the opening consolidated statement of financial position as at 1st January 2019.

### **(b) HKFRS 16 Leases – Impact of adoption**

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1st January 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1st January 2019 were 3% for leases in Hong Kong and 5% for leases in mainland China. While for right-of-use assets, the Group has elected to measure the right-of-use assets as if HKFRS 16 had been applied since the commencement date of a lease using the same incremental borrowing rate.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The Group reassessed all lease contracts as well as contracts which did not satisfy the definition of a lease under HKAS 17 at 1st January 2019, there is one lease contract that was previously classified as an operating lease when applying HKAS 17 not meeting the definition of a lease under HKFRS 16.

## 2. Changes in accounting policies (continued)

### (b) HKFRS 16 Leases – Impact of adoption (continued)

There were no existing contracts that were not classified as a lease under HKAS 17 but satisfy the definition of a lease under HKFRS 16.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The total impact on the Group's lease liabilities as at 1st January 2019 is as follows:

	HK\$M
Operating lease commitments disclosed as at 31st December 2018	579.2
Less: contract reassessed as a service agreement	(124.0)
Discounted using the lessee's incremental borrowing rates of at the date of initial application	(22.8)
	<hr/>
<b>Lease liabilities recognised as at 1st January 2019</b>	<b>432.4</b>
	<hr/> <hr/>
Of which are:	
Current lease liabilities	113.6
Non-current lease liabilities	318.8
	<hr/>
	<b>432.4</b>
	<hr/> <hr/>

The recognised right-of-use assets relate to the following types of assets:

	30th June 2019 HK\$M	1st January 2019 HK\$M
Prepaid leasehold land	2,378.9	2,214.5
Buildings, plant and equipment and others	387.0	401.3
	<hr/>	<hr/>
<b>Total right-of-use assets</b>	<b>2,765.9</b>	<b>2,615.8</b>
	<hr/> <hr/>	<hr/> <hr/>

## 2. Changes in accounting policies (continued)

### (b) HKFRS 16 Leases – Impact of adoption (continued)

The change in accounting policies affected the following items in the consolidated statement of financial position as at 1st January 2019.

- Property, plant and equipment – increase by HK\$1.0 million
- Associates – decrease by HK\$2.4 million
- Joint ventures – decrease by HK\$9.9 million
- Right-of-use assets – increase by HK\$401.3 million
- Deferred taxation – decrease by HK\$5.7 million
- Lease liabilities – increase by HK\$432.4 million

The net impact on retained profits on 1st January 2019 was a decrease of HK\$30.6 million.

The adoption of HKFRS 16 resulted in changes in certain terminology used. The right-of-use assets in relation to prepaid leasehold land were previously presented as leasehold land.

### (c) Impact on segment information and earnings per share

Adjusted profit before interest, tax, depreciation and amortisation (“adjusted EBITDA”), segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policies. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in accounting policies:

	Adjusted EBITDA HK\$M	Segment assets HK\$M	Segment liabilities HK\$M
Gas, water and related businesses			
– Hong Kong	28.2	107.4	109.5
– mainland China	53.4	150.6	168.3
New Energy	6.8	56.9	61.9
Other segments	13.1	72.1	80.1
	<u>101.5</u>	<u>387.0</u>	<u>419.8</u>

Earnings per share decreased by HK0.015 cents per share for the six months ended 30th June 2019 as a result of the adoption of HKFRS 16.

## 2. Changes in accounting policies *(continued)*

### ***(d) Practical expedients applied***

In applying HKFRS16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### ***(e) HKFRS 16 Leases – Accounting policies applied from 1st January 2019***

The Group leases various land, office buildings and customer service centres. Rental contracts are made for a range of fixed periods but may have extension options as described in note 2(e)(ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended 31st December 2018, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the profit or loss on a straight-line basis over the period of the lease.

From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## 2. Changes in accounting policies *(continued)*

### **(e) HKFRS 16 Leases – Accounting policies applied from 1st January 2019** *(continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

#### *(i) Variable lease payments*

Estimation uncertainty arising from variable lease payments

Some leases contain variable payment terms that are linked to sales or net profits generated. Variable lease payments that depend on sales or net profits are recognised in the profit or loss in the period in which the condition that triggers those payments occurs. Most leases are subject to fixed payments.

## 2. Changes in accounting policies *(continued)*

### (e) **HKFRS 16 Leases – Accounting policies applied from 1st January 2019** *(continued)*

#### (ii) *Extension and termination options*

Extension and termination options are included in a few leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

## 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 2018. 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 2019 and 31st December 2018.

HK\$M	Level 1		Level 2		Level 3		Total	
	At 30th	At 31st	At 30th	At 31st	At 30th	At 31st	At 30th	At 31st
	June	December	June	December	June	December	June	December
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Assets</b>								
Financial assets at fair value through profit or loss								
– Debt securities	–	–	163.9	–	–	–	163.9	–
– Equity securities	243.3	264.1	47.2	39.4	3,504.6	3,506.7	3,795.1	3,810.2
Derivative financial instruments	–	–	110.7	93.6	–	–	110.7	93.6
Financial assets at fair value through other comprehensive income								
– Debt securities	235.6	204.6	–	–	–	–	235.6	204.6
– Equity investment	370.1	348.3	–	–	607.3	574.1	977.4	922.4
<b>Total assets</b>	<b>849.0</b>	<b>817.0</b>	<b>321.8</b>	<b>133.0</b>	<b>4,111.9</b>	<b>4,080.8</b>	<b>5,282.7</b>	<b>5,030.8</b>
<b>Liabilities</b>								
Other payables	–	–	–	–	154.0	154.0	154.0	154.0
Derivative financial instruments	–	–	583.3	673.8	–	–	583.3	673.8
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>583.3</b>	<b>673.8</b>	<b>154.0</b>	<b>154.0</b>	<b>737.3</b>	<b>827.8</b>

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 calculated as the present value of future cash flows based on the forward exchange rates at the end of the reporting period.

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 financial assets at fair value through profit or loss. 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 13.0 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 2019 and 31st December 2018:

HK\$M	Financial assets		Financial liabilities	
	At 30th June 2019	At 31st December 2018	At 30th June 2019	At 31st December 2018
At beginning of period/year	4,080.8	4,150.4	154.0	154.0
Change in fair value	41.9	176.1	0.1	9.8
Exchange differences	(10.8)	(245.7)	(0.1)	(9.8)
At end of period/year	4,111.9	4,080.8	154.0	154.0

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim 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	
	2019 HK\$M	2018 HK\$M
Gas sales before fuel cost adjustment	15,305.3	14,143.7
Fuel cost adjustment	427.9	497.4
Gas sales after fuel cost adjustment	15,733.2	14,641.1
Connection income	1,439.1	1,355.3
Equipment sales and maintenance services	1,464.8	1,314.2
Water and related sales	643.1	640.0
Oil and coal related sales	424.1	670.0
Other sales	647.6	621.0
	20,351.9	19,241.6

#### 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 EBITDA. Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the condensed consolidated interim financial statements.

The segment information for the six months ended 30th June 2019 and 2018 provided to the ECM for the reportable segments is as follows:

2019 HK\$M	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Mainland</u>					
	<u>Hong Kong</u>	<u>China</u>				
Revenue recognised at a point in time	5,207.3	13,020.1	1,063.4	–	88.2	19,379.0
Revenue recognised over time	–	438.9	–	–	300.5	739.4
Finance and rental income	–	–	204.1	29.4	–	233.5
	<u>5,207.3</u>	<u>13,459.0</u>	<u>1,267.5</u>	<u>29.4</u>	<u>388.7</u>	<u>20,351.9</u>
Adjusted EBITDA	2,619.7	2,888.8	303.1	17.3	49.2	5,878.1
Depreciation and amortisation	(380.0)	(657.7)	(156.1)	–	(63.4)	(1,257.2)
Unallocated expenses						(344.4)
						4,276.5
Other gains, net						15.8
Interest expense						(559.5)
Share of results of associates	–	685.1	(45.9)	421.6	3.9	1,064.7
Share of results of joint ventures	–	680.1	0.7	4.6	2.0	687.4
Profit before taxation						5,484.9
Taxation						(999.5)
Profit for the period						<u>4,485.4</u>

Share of results of associates includes HK\$137.0 million (2018: HK\$826.5 million) being the Group’s share of change in valuation of investment properties at the International Finance Centre (the “IFC”) complex for the period.

#### 4. Segment information (continued)

	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
2018 HK\$M						
Revenue recognised at a point in time	5,314.2	11,592.3	1,363.0	–	103.7	18,373.2
Revenue recognised over time	–	369.9	–	–	269.8	639.7
Finance and rental income	–	–	194.8	33.9	–	228.7
	<u>5,314.2</u>	<u>11,962.2</u>	<u>1,557.8</u>	<u>33.9</u>	<u>373.5</u>	<u>19,241.6</u>
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						<u>5,371.2</u>

The segment assets at 30th June 2019 and 31st December 2018 are as follows:

	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
<b>30th June 2019</b> <b>HK\$M</b>						
Segment assets	<b>16,868.6</b>	<b>71,299.2</b>	<b>18,067.0</b>	<b>15,977.3</b>	<b>4,526.3</b>	<b>126,738.4</b>
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,213.0
Financial assets at fair value through profit or loss						3,959.0
Time deposits, cash and bank balances excluded from segment assets						2,446.4
Others (Note)						860.4
Total assets						<u>135,217.2</u>

#### 4. Segment information (continued)

31st December 2018 HK\$M	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
Segment assets	17,278.3	67,989.8	17,579.3	15,899.2	4,194.1	122,940.7
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,127.0
Financial assets at fair value through profit or loss						3,810.2
Time deposits, cash and bank balances excluded from segment assets						3,973.1
Others (Note)						842.1
Total assets						<u>132,693.1</u>

#### 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.

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2019 is HK\$5,920.9 million (2018: HK\$5,985.2 million), and the revenue from external customers in mainland China and other geographical locations is HK\$14,431.0 million (2018: HK\$13,256.4 million).

At 30th June 2019, the total of non-current assets other than financial instruments located in Hong Kong is HK\$30,896.6 million (31st December 2018: HK\$30,437.3 million), and the total of non-current assets other than financial instruments located in mainland China and other geographical locations is HK\$76,883.5 million (31st December 2018: HK\$74,092.4 million).

#### 5. Total operating expenses

	<b>Six months ended 30th June</b>	
	<b>2019</b>	2018
	<b>HK\$M</b>	HK\$M
Stores and materials used	<b>11,078.6</b>	10,058.5
Manpower costs	<b>1,624.9</b>	1,577.4
Depreciation and amortisation	<b>1,341.2</b>	1,242.3
Other operating items	<b>2,030.7</b>	1,796.4
	<b><u>16,075.4</u></b>	<u>14,674.6</u>

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

	Six months ended 30th June	
	2019 HK\$M	2018 HK\$M
Net investment gains	256.0	152.2
Provision for assets	(235.4)	(200.0)
Others	(4.8)	(0.5)
	<u>15.8</u>	<u>(48.3)</u>

## 7. Profit before taxation

Profit before taxation is stated after charging cost of inventories sold of HK\$12,042.0 million (2018: HK\$11,157.0 million).

## 8. Taxation

	Six months ended 30th June	
	2019 HK\$M	2018 HK\$M
Current taxation	814.6	823.0
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	184.9	173.4
	<u>999.5</u>	<u>996.4</u>

The prevailing tax rates of Hong Kong, mainland China and Thailand range from 16.5 per cent (2018: 16.5 per cent), 15 per cent to 25 per cent (2018: 15 per cent to 25 per cent) and 50 per cent (2018: 50 per cent) respectively.

## 9. Dividends

	Six months ended 30th June	
	2019 HK\$M	2018 HK\$M
2018 Final, paid, of HK23 cents per ordinary share (2017 Final: HK23 cents per ordinary share)	3,538.9	3,217.2
2019 Interim, proposed, of HK12 cents per ordinary share (2018 Interim: HK12 cents per ordinary share)	2,031.0	1,846.4
	<u>5,569.9</u>	<u>5,063.6</u>

## 10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$3,889.4 million (2018: HK\$4,789.4 million) and the weighted average of 16,925,052,244 shares (2018: 16,925,052,244 shares\*) in issue during the period.

\* Adjusted for the bonus share issue in 2019

## 11. Property, plant and equipment

	<b>Buildings, plant, mains, mining and oil properties and other equipment HK\$M</b>
Cost	
At 1st January 2019	<b>80,072.4</b>
Additions	<b>3,347.2</b>
Disposals/write off	<b>(154.4)</b>
Impairment	<b>(200.0)</b>
Exchange differences	<b>125.8</b>
	<hr/>
At 30th June 2019	<b>83,191.0</b>
	<hr/>
Accumulated depreciation	
At 1st January 2019	<b>22,093.6</b>
Charge for the period	<b>1,242.0</b>
Disposals/write off	<b>(115.3)</b>
Exchange differences	<b>34.7</b>
	<hr/>
At 30th June 2019	<b>23,255.0</b>
	<hr/>
Net book value	
At 30th June 2019	<b>59,936.0</b>
	<hr/> <hr/>
At 31st December 2018	<b>57,978.8</b>
	<hr/> <hr/>



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

	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)
	<hr/>
At 30th June 2018	78,646.7
	<hr/>
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)
	<hr/>
At 30th June 2018	21,299.3
	<hr/>
Net book value	
At 30th June 2018	57,347.4
	<hr/> <hr/>
At 31st December 2017	55,827.4
	<hr/> <hr/>

## 12. Right-of-use assets

	Prepaid leasehold land HK\$M	Buildings, plant and equipment and others HK\$M	Total HK\$M
At 1st January 2019, as restated	2,214.5	401.3	2,615.8
Additions	201.4	57.0	258.4
Depreciation	(32.0)	(71.1)	(103.1)
Exchange differences	(5.0)	(0.2)	(5.2)
	<hr/>	<hr/>	<hr/>
At 30th June 2019	2,378.9	387.0	2,765.9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### 13. Trade and other receivables

	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
Trade receivables (Note)	3,461.1	3,563.5
Payments in advance	1,478.7	1,581.5
Other receivables	2,418.2	2,470.9
	<u>7,358.0</u>	<u>7,615.9</u>

The Group recognised a loss of HK\$42.4 million (2018: HK\$4.5 million) for the impairment of its trade and other receivables during the period. The impairment has been included in other operating items (Note 5).

#### Note

The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 30th June 2019, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
0 – 30 days	3,008.0	3,106.9
31 – 60 days	102.8	107.7
61 – 90 days	96.9	126.4
Over 90 days	253.4	222.5
	<u>3,461.1</u>	<u>3,563.5</u>

### 14. Trade payables and other liabilities

	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
Trade payables (Note a)	2,768.1	3,078.1
Other payables and accruals (Note b)	4,060.1	4,225.5
Contract liabilities (Note c)	6,734.5	6,625.8
Lease liabilities (Notes d and e)	120.2	–
	<u>13,682.9</u>	<u>13,929.4</u>

#### 14. Trade payables and other liabilities (continued)

Notes

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

	<b>At 30th June 2019 HK\$M</b>	At 31st December 2018 HK\$M
0 – 30 days	<b>1,020.1</b>	1,404.7
31 – 60 days	<b>405.1</b>	399.3
61 – 90 days	<b>305.0</b>	300.0
Over 90 days	<b>1,037.9</b>	974.1
	<hr/> <b>2,768.1</b> <hr/>	<hr/> 3,078.1 <hr/>

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

(c) The balances mainly represent non-refundable advance received from customers for utility connection services, provision of gas and provision of maintenance service.

(d) As at 30th June 2019, the contractual maturities of the Group's lease liabilities were as follows:

	<b>HK\$M</b>
Less than 1 year	<b>120.2</b>
Over 1 year (Note i)	<b>299.6</b>
	<hr/> <b>419.8</b> <hr/>

Note i

Non-current lease liabilities is included in other non-current liabilities.

(e) The interest expense on lease liabilities for the period amounting to HK\$9.5 million is included in the profit or loss.

## 15. Share capital

	Number of Shares		Share Capital	
	At 30th June 2019	At 31st December 2018	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
Issued and fully paid:				
At beginning of period/year	<b>15,386,411,131</b>	13,987,646,483	<b>5,474.7</b>	5,474.7
Bonus shares	<b>1,538,641,113</b>	1,398,764,648	–	–
At end of period/year	<b>16,925,052,244</b>	15,386,411,131	<b>5,474.7</b>	5,474.7

## 16. Perpetual capital securities

In February 2019, the Group issued its second 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 February 2024 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.

## 17. Reserves

	Investment revaluation reserve HK\$M	Hedging reserve HK\$M	Exchange reserve HK\$M	Retained profits HK\$M	Total HK\$M
At 1st January 2019 (audited)	93.3	53.7	(651.3)	57,430.3	56,926.0
Adjustment on adoption of HKFRS 16, net of taxation	-	-	-	(30.6)	(30.6)
At 1st January 2019, as restated	93.3	53.7	(651.3)	57,399.7	56,895.4
Profit attributable to shareholders	-	-	-	3,889.4	3,889.4
Other comprehensive income:					
Change in value of financial assets at fair value through other comprehensive income	52.0	-	-	-	52.0
Change in fair value of cash flow hedges	-	(15.0)	-	-	(15.0)
Exchange differences	-	-	12.1	-	12.1
Total comprehensive income for the period	52.0	(15.0)	12.1	3,889.4	3,938.5
2018 final dividend paid	-	-	-	(3,538.9)	(3,538.9)
At 30th June 2019	<u>145.3</u>	<u>38.7</u>	<u>(639.2)</u>	<u>57,750.2</u>	<u>57,295.0</u>
Balance after 2019 interim dividend proposed	145.3	38.7	(639.2)	55,719.2	55,264.0
2019 interim dividend proposed	-	-	-	2,031.0	2,031.0
	<u>145.3</u>	<u>38.7</u>	<u>(639.2)</u>	<u>57,750.2</u>	<u>57,295.0</u>

## 17. 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 2018 (audited)	7.0	138.8	1,651.4	53,166.9	54,964.1
Adjustment on adoption of HKFRS 9 and HKFRS 15, net of taxation	119.6	-	-	134.9	254.5
At 1st January 2018, as restated	126.6	138.8	1,651.4	53,301.8	55,218.6
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 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

## 18. Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June 2019 and 31st December 2018.

## 19. Commitments

(a) Capital expenditures for property, plant and equipment

	At 30th June 2019 HK\$M	At 31st December 2018 HK\$M
Contracts had been entered into but not brought into the condensed consolidated interim financial statements	4,347.5	3,496.0

## 19. Commitments (continued)

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

	<b>At 30th June 2019 HK\$M</b>	At 31st December 2018 HK\$M
Contracts had been entered into but not brought into the condensed consolidated interim financial statements	<u><u>2,783.1</u></u>	<u><u>2,912.1</u></u>

- (c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to finance certain gas, water and New Energy projects under various contracts in mainland China. The directors of the Company estimate that as at 30th June 2019, the Group's commitments to these projects were approximately HK\$1,833.4 million (At 31st December 2018: HK\$1,848.6 million).

- (d) Lease commitments

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront 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 5 years. Future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<b>At 30th June 2019 HK\$M</b>	At 31st December 2018 HK\$M
Not later than 1 year	<b>15.0</b>	23.7
Later than 1 year and not later than 5 years	<b>11.1</b>	14.5
	<u><u>26.1</u></u>	<u><u>38.2</u></u>

## 20. 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\$271.7 million (2018: HK\$245.7 million). These related party transactions were conducted at prices and terms as agreed by parties involved. As at 30th June 2019, there were balances in relation to bank loans and interest payables from one bank with a common director with the Company of HK\$441.7 million (At 31st December 2018: HK\$443.1 million).

## FINANCIAL RESOURCES REVIEW

### Liquidity and capital resources

As at 30th June 2019, the Group had a net current borrowings position of HK\$1,647 million (31st December 2018: HK\$1,573 million) and long-term borrowings of HK\$27,768 million (31st December 2018: HK\$27,609 million). In addition, banking facilities available for use amounted to HK\$14,500 million (31st December 2018: HK\$13,300 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 July 2019, the Programme was updated with the size increased to US\$3 billion. As at 30th June 2019, the Group issued notes in the total nominal amount of HK\$13,898 million (31st December 2018: HK\$14,398 million) with maturity terms of 3 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the “MTNs”). The carrying value of the issued MTNs as at 30th June 2019 was HK\$13,219 million (31st December 2018: HK\$13,708 million).

As at 30th June 2019, the Group’s borrowings amounted to HK\$36,870 million (31st December 2018: HK\$38,022 million). While the notes mentioned above together with the bank and other loans of HK\$5,685 million (31st December 2018: HK\$3,624 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\$10,682 million (31st December 2018: HK\$12,453 million) were long-term bank loans and HK\$7,284 million (31st December 2018: HK\$5,887 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2019, the maturity profile of the Group’s borrowings was 25 per cent within 1 year, 11 per cent within 1 to 2 years, 41 per cent within 2 to 5 years and 23 per cent over 5 years (31st December 2018: 27 per cent within 1 year, 5 per cent within 1 to 2 years, 44 per cent within 2 to 5 years and 24 per cent over 5 years).

The RMB Note, 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. On 28th January 2019, the “First Call Date”, all of the Perpetual Capital Securities were redeemed at their principal amount. In February 2019, the Group issued new perpetual capital securities and the proceeds were mainly used to refinance the Perpetual Capital Securities redeemed in January 2019. The newly issued US\$300 million perpetual capital securities are able to keep a distribution rate of 4.75 per cent per annum for the first five years and thereafter at fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, and these perpetual capital securities are redeemable at the Group’s option on or after 12th February 2024, they are accounted for as equity in the financial statements. The new 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 borrowings/(shareholders’ funds + perpetual capital securities + net borrowings)] for the Group as at 30th June 2019 remained healthy at 31 per cent (31st December 2018: 29 per cent).

### **Contingent liabilities**

As at 30th June 2019 and 31st December 2018, 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 2019, the relevant investments in securities amounted to HK\$1,014 million (31st December 2018: HK\$812 million). The performance of the Group’s financial investments in securities was satisfactory.

## **OTHER INFORMATION**

### **Corporate governance**

During the six months ended 30th June 2019, the Company complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### **Re-compliance with Rules 3.10(1), 3.10A and 3.21 of the Listing Rules**

As disclosed in the announcement of the Company dated 30th October 2018, following the passing away of Mr. Leung Hay-man (the former Independent Non-executive Director) on 11th October 2018, the Company had two Independent Non-executive Directors and did not meet the requirements under Rules 3.10(1), 3.10A and 3.21 of the Listing Rules. With the appointment of Dr. Moses Cheng Mo-chi as Independent Non-executive Director on 14th January 2019, (i) the board of directors of the Company (the “Board”) comprises three Independent Non-executive Directors representing one-third of the members of the Board, which fulfills the requirements under Rules 3.10(1) and 3.10A of the Listing Rules; and (ii) the Board Audit and Risk Committee comprises a minimum of three members, which fulfills the requirement under Rule 3.21 of 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 confirmed that they had fully complied with the required standard set out in the Model Code throughout the six months ended 30th June 2019.

### **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 2019 to review the unaudited consolidated interim financial statements for the six months ended 30th June 2019. 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 2019 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**

Saved as redemption of perpetual securities in January 2019 as detailed in “Financing structure” section, 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 2019.

## Disclosure of interests

### A. Directors

As at 30th June 2019, 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)

Name of company	Name of director	Interest in shares			Aggregate interests	%*
		Personal interests	Corporate interests	Other interests		
The Hong Kong and China Gas Company Limited	Dr. Lee Ka-kit			7,028,292,718 (Note 2)	7,028,292,718	41.53
	Mr. Lee Ka-shing			7,028,292,718 (Note 2)	7,028,292,718	41.53
	Dr. the Hon. Sir David Li Kwok-po	50,066,109			50,066,109	0.30
	Mr. Alfred Chan Wing-kin	322,697 (Note 5)			322,697	0.00
	Prof. Poon Chung-kwong	220,486 (Note 4)			220,486	0.00
Lane Success Development Limited	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. Lee Ka-kit			2 (Note 7)	2	100
	Mr. Lee Ka-shing			2 (Note 7)	2	100
Towngas China Company Limited ("Towngas China")	Dr. Lee Ka-kit			1,945,034,864 (Note 8)	1,945,034,864	69.22
	Mr. Lee Ka-shing			1,945,034,864 (Note 8)	1,945,034,864	69.22
	Mr. Alfred Chan Wing-kin	3,881,901 (Note 9)			3,881,901	0.14
	Mr. Peter Wong Wai-yee	3,075,000			3,075,000	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 2019, 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 2019, 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 individual/company	No. of shares in which interested	%*
<b>Substantial shareholders</b> (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Dr. the Hon. Lee Shau-kee (Note 3)	7,028,292,718	41.53
	Disralei Investment Limited (Note 1)	3,912,669,216	23.12
	Timpani Investments Limited (Note 1)	5,432,374,683	32.10
	Faxson Investment Limited (Note 1)	7,028,292,718	41.53
	Henderson Land Development Company Limited (Note 1)	7,028,292,718	41.53
	Henderson Development Limited (Note 1)	7,028,292,718	41.53
	Hopkins (Cayman) Limited (Note 2)	7,028,292,718	41.53
	Riddick (Cayman) Limited (Note 2)	7,028,292,718	41.53
	Rimmer (Cayman) Limited (Note 2)	7,028,292,718	41.53
<b>Persons other than substantial shareholders</b>	Macrostar Investment Limited (Note 1)	1,595,918,035	9.43
	Chelco Investment Limited (Note 1)	1,595,918,035	9.43
	Medley Investment Limited (Note 1)	1,519,705,467	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 2019, 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:

- These 7,028,292,718 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.
- These 7,028,292,718 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.
- These 7,028,292,718 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.
- These 220,486 shares were jointly held by Prof. Poon Chung-kwong and his spouse.
- These 322,697 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. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 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. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.
8. These 1,945,034,864 shares in Towngas China representing approximately 69.22% of the total issued shares in Towngas China were taken to be interested by Hong Kong & China Gas (China) Limited (“HK&CG (China)”) (as to 1,777,488,912 shares), Planwise Properties Limited (“Planwise”) (as to 164,742,704 shares) and Superfun Enterprises Limited (“Superfun”) (as to 2,803,248 shares), wholly-owned subsidiaries of the Company, among which included the entitlement to new shares upon their submission of election forms with Towngas China electing to receive new shares in Towngas China in lieu of cash dividend pursuant to Towngas China’s scrip dividend scheme on 21st June 2019. Subsequent to the allotment of a total of 49,770,594 new shares to HK&CG (China), Planwise and Superfun by Towngas China on 4th July 2019, the said percentage figure of interest in Towngas China’s shares was adjusted to 67.76% as at 4th July 2019. Dr. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.
9. Upon his submission of an election form with Towngas China electing to receive new shares in Towngas China in lieu of cash dividend pursuant to Towngas China’s scrip dividend scheme on 21st June 2019 and the subsequent allotment of 99,332 new shares by Towngas China pursuant to its scrip dividend scheme on 4th July 2019, Mr. Alfred Chan Wing-kin had personal interest of 3,881,901 shares in Towngas China, representing approximately 0.14% 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.),  
*Chairman & Non-executive Director*

Dr. Lee was appointed as Chairman of the Board, chairman of the Nomination Committee and member of the Remuneration Committee of the Company with effect from the conclusion of its annual general meeting held on 28th May 2019, as well as Chairman and Managing Director of Henderson Land Development Company Limited, a controlling shareholder of the Company, with effect from the conclusion of its annual general meeting held on even date.

- 2) **Mr. Lee Ka-shing** J.P.,  
*Chairman & Non-executive Director*

Mr. Lee was appointed as Chairman of the Board, chairman of the Nomination Committee and member of the Remuneration Committee of the Company with effect from the conclusion of its annual general meeting held on 28th May 2019, as well as Chairman and Managing Director of Henderson Land Development Company Limited, a controlling shareholder of the Company, with effect from the conclusion of its annual general meeting held on even date.

- 3) **Dr. Colin Lam Ko-yin** S.B.S., F.C.I.L.T., F.H.K.I.o.D., D.B. (Hon.),  
*Non-executive Director*

Dr. Lam was awarded an Honorary Fellowship by The Chinese University of Hong Kong on 6th May 2019.

- 4) **Dr. the Hon. Sir David Li Kwok-po** GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur,  
*Independent Non-executive Director*

(i) Sir David stepped down from his position as Chief Executive and was re-designated as Executive Chairman, and remains as an Executive Director and the Chairman of the Board of The Bank of East Asia, Limited on 1st July 2019.

(ii) Sir David ceased to be a director of Hong Kong Interbank Clearing Limited on 1st July 2019.

(iii) Sir David was conferred a Fellowship by the Hong Kong Academy of Finance on 26th June 2019.

- 5) **Dr. Moses Cheng Mo-chi** G.B.M., G.B.S., O.B.E., J.P.,  
*Independent Non-executive Director*

(i) Dr. Cheng retired from the position of Non-executive Director of Kader Holdings Company Limited on 1st May 2019.

(ii) Dr. Cheng was conferred a Fellowship by the Hong Kong Academy of Finance on 26th June 2019.

- 6) **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 director of Foshan Gas Group Co., Ltd. on 11th April 2019.

- 7) **Mr. Peter Wong Wai-ye** C.P.A. (CANADA), C.M.A., C.P.A. (HK), A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.,  
*Executive Director and Chief Operating Officer – Utilities Business*

Mr. Wong retired from the position of the Vice Chairman and a director of Foshan Gas Group Co., Ltd. on 11th April 2019.

## CORPORATE INFORMATION

### Board of directors

As at the date of this report, the Board comprises Dr. Lee Ka-kit (Chairman), Mr. Lee Ka-shing (Chairman), Dr. Colin Lam Ko-yin, Dr. the Hon. Sir David Li Kwok-po\*, Mr. Alfred Chan Wing-kin, Prof. Poon Chung-kwong\*, Mr. Peter Wong Wai-ye and Dr. Moses Cheng Mo-chi\*.

\* *Independent Non-executive Director*

### Registered office

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

### Company's website

[www.towngas.com](http://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](mailto:invrelation@towngas.com)

### Corporate Affairs Department

Telephone number: 2963 3493  
Fax number: 2516 7368  
E-mail address: [cad@towngas.com](mailto:cad@towngas.com)

### Company Secretarial Department

Telephone number: 2963 3292  
Fax number: 2562 6682  
E-mail address: [compsec@towngas.com](mailto: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.*

