香 港 中 華 煤 氣 有 限 公 司
THE HONG KONG AND CHINA GAS COMPANY LIMITED
(Incorporated in Hong Kong under the Companies Ordinance with limited liability)
(Stock Code: 3)

PRELIMINARY ANNOUNCEMENT OF 2018 INTERIM RESULTS

HALF-YEARLY RESULTS

The Directors are pleased to report that the unaudited profit after taxation attributable to shareholders of the Group for the six months ended 30th June 2018 amounted to HK$4,789 million, an increase of HK$317 million compared to the same period last year. Earnings per share for the first half of 2018 amounted to HK31.1 cents, an increase of 7.1 per cent compared to the same period last year.

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

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

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

TOWN GAS BUSINESS IN HONG KONG

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

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

BUSINESS DEVELOPMENT IN MAINLAND CHINA

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

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

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

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group has a total of 132 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2018 was approximately 11,470 million cubic metres, an increase of 18 per cent over the same period last year. As at the end of June 2018, the Group's mainland gas customers stood at approximately 26.47 million, an increase of 10 per cent over the same period last year. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

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

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

The mainland's gas storage capacity is swiftly improving. In line with this, construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Construction of phase one of this project, with a storage capacity of approximately 140 million standard cubic metres, was completed, with inspection passed, in January 2018. This phase-one facility was injected with gas transmitted from the West-to-East pipeline in late June 2018 and will be commissioned during this coming winter. Construction of phase two, to develop an additional storage capacity of approximately 300 million standard cubic metres, commenced in late March 2018. This facility will help the Group supplement and regulate gas supply during the peak winter period for a number of its city-gas projects in eastern China. In the longer term, there are plans to supply gas from this facility to the Group's city-gas projects in other regions through interconnected upstream pipeline networks. The Group's development of this project is in line with the Chinese government's policy of advocating faster development of gas storage capacity and will facilitate the Group's business development in downstream city-gas markets.

The Group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well, with 125 stations to date spread across different provinces, mainly supplying LNG to heavy-duty trucks and waste handling urban vehicle fleets. Apart from this, the Group is also proactively developing a gas refilling business for marine vessels. Given that natural gas is a form of clean energy that is being actively promoted by the Chinese government, vehicular and marine refilling station businesses promise good prospects for the Group.

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

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

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

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

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

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

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

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

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

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

TELECOMMUNICATIONS BUSINESSES

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

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

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

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

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

FINANCING PROGRAMMES

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

INAUGURAL GREEN BOND ISSUANCE

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

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

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2018, the number of employees engaged in the town gas business in Hong Kong was 2,024 (30th June 2017: 2,011), the number of customers was 1,890,415, and each employee served the equivalent of 934 customers, a slight increase compared to 30th June 2017. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,377 as at the end of June 2018 compared to 2,383 as at the end of June 2017. Related manpower costs amounted to HK$541 million for the first half of 2018, an increase of HK$28 million compared to the same period last year. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of its customer services.

Exclusive of businesses in Hong Kong, the total number of the Group's employees in mainland China and other places outside Hong Kong was 46,800 as at the end of June 2018, an increase of approximately 300 compared to the same period last year.

DIVIDEND

Your Directors have declared an interim dividend of HK12 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 14th September 2018. The Register of Members will be closed from Thursday, 13th September 2018 to Friday, 14th September 2018, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Tuesday, 2nd October 2018.

BUSINESS OUTLOOK FOR 2018

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

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

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

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

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

LEE Shau Kee
Chairman
Hong Kong, 21st August 2018

FINANCIAL INFORMATION

Highlights of the Group's interim financial statements for the first six months ended 30th June 2018 are shown below. The unaudited interim financial statements have been reviewed by the Company's Board Audit and Risk Committee and external auditor, PricewaterhouseCoopers.

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

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

*Adjusted for the bonus share issue in 2018

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30TH JUNE 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (Continued)
AS AT 30TH JUNE 2018

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

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

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

The financial information relating to the year ended 31st December 2017 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2018 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those set out in the annual report for the year ended 31st December 2017.

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

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

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

The HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are effective for accounting period beginning 1st January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contacts with Customers

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

1. Basis of preparation and accounting policies (Continued)

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

2. Impact on adoption of new accounting standards

(a) Impact on adoption – HKFRS 9

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

The adoption of HKFRS 9 resulting in increase in net assets value and reserves attributable to shareholders of the Company as at 1st January 2018 by HK$279.3 million and HK$254.5 million respectively, primarily due to increase in fair value of available-for-sale financial assets (now classified as financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss ("FVPL")) previously measured at cost less impairment, offset by increase in provision for trade receivables upon adoption of expected credit loss model.

Details of financial impact, reclassification of investments and changes in accounting policies will be set out in the interim report.

(b) Impact on adoption - HKFRS 15

The Group has adopted HKFRS 15 from 1st January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The adoption of HKFRS 15 has no material impact to financial results and financial position of the group for the six months ended 30th June 2018.

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

The adoption of HKFRS 15 resulted in changes in certain terminology used. Contract liabilities in relation to advance received from customers were previously presented as receipt in advance within trade and other payables.

Details of changes in reclassification and changes in accounting policies will be set out in the interim report.

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

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

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

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30th June 2018 and 31st December 2017.

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

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

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

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

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

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

- 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.

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

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

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

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

4. Segment information

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

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

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 asse sses the performance of (a) gas, water and related businesses; (b) New Energy and (c) property business. Gas, water and related businesses are further evaluated on a geographic basis (Hong Kong and Mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the consolidated financial statements.

4. Segment information (Continued)

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

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

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

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

4. Segment information (Continued)

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

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

Note

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

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

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

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

5. Total operating expenses

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

6. Other (losses)/gains, net

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

7. Taxation

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

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

8. Dividends

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

9. Earnings per share

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

* Adjusted for the bonus share issue in 2018

10. Trade and other receivables

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

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

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 30th June 2018, the aging analysis of the trade receivables, net of impairment provision, is as follows:

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

11. Trade and other payables and contract liabilities

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

Notes

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

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

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

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

DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30th June 2018 of HK12 cents per share payable to shareholders of the Company whose names are on the register of members of the Company as at 14th September 2018. Dividend warrants will be despatched to shareholders on Tuesday, 2nd October 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13th September 2018 to Friday, 14th September 2018, both days inclusive, during which period no transfer of shares will be registered. **In order to qualify for this dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 12th September 2018.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

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

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

Financing structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2018, the Group issued notes in the total amount of HK$13,671 million (31st December 2017: HK$13,371 million) with maturity terms of 10 years, 12 years, 15 years, 30 years and 40 years in Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2018 was HK$13,020 million (31st December 2017: HK$12,748 million).

As at 30th June 2018, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million (31st December 2017: US$995 million) and the carrying value was HK$7,806 million (31st December 2017: HK$7,734 million).

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

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

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

The gearing ratio [net borrowing / (shareholders' funds + perpetual capital securities + net borrowing)] for the Group as at 30th June 2018 remained healthy at 30 per cent (31st December 2017: 28 per cent).

Contingent liabilities

As at 30th June 2018 and 31st December 2017, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency profile

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

Group's financial investments in securities

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

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2018, the Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Model code for dealing in securities by Directors

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30th June 2018.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2018.

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

Hong Kong, 21st August 2018

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

Non-executive Directors:	Dr. the Hon. Lee Shau Kee (Chairman), Dr. Colin Lam Ko Yin, Dr. Lee Ka Kit and Mr. Lee Ka Shing
Independent Non-executive Directors:	Mr. Leung Hay Man, Dr. the Hon. Sir David Li Kwok Po and Professor Poon Chung Kwong
Executive Directors:	Mr. Alfred Chan Wing Kin and Mr. Peter Wong Wai Yee

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