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 2015 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 2015 amounted to HK$4,197 million, an increase of HK$470 million compared to the same period last year. Earnings per share for the first half of 2015 amounted to HK36.3 cents, an increase of approximately 13 per cent compared to the same period last year.

Highlights of the unaudited results of the Group for the six months ended 30th June 2015, as compared to the same period in 2014, are shown in the following table:

	Unaudited Six months ended 30th June	
	2015	2014
Revenue before Fuel Cost Adjustment, HK million dollars	**14,517**	14,827
Revenue after Fuel Cost Adjustment, HK million dollars	**15,083**	15,808
Profit Attributable to Shareholders, HK million dollars	**4,197**	3,727
Earnings per Share, HK cents	**36.3**	32.2*
Interim Dividend per Share, HK cents	**12.0**	12.0
Town Gas Sold in Hong Kong, million MJ	**15,491**	15,765
Gas Sold in mainland China City-gas Business, ten thousand cubic metres; natural gas equivalent#	**794,747**	768,123
Number of Customers in Hong Kong as at 30th June	**1,828,333**	1,810,647
Number of City-gas Customers in mainland China as at 30th June#	**19,912,450**	18,259,179

* *Adjusted for the bonus issue in 2015*
\# *Inclusive of all mainland city-gas projects of the Group*

GAS BUSINESS IN HONG KONG

The local economy continued to grow moderately during the first half of 2015. Favourable overall employment conditions maintained stable growth in local consumer spending. However, restaurant and hotel sectors were impacted by a slowdown in inbound tourism. Residential gas sales were also affected as the average temperature in the first half of 2015 in Hong Kong was higher than the same period last year. Overall, total volume of gas sales in Hong Kong during the first half of 2015 was approximately 15,491 million MJ, a decrease of 1.7 per cent, in contrast to appliance sales which increased by 9.9 per cent, both compared to the same period last year.

As at 30th June 2015, the number of customers was 1,828,333, an increase of 8,398 since the end of December 2014.

The Company's operating costs have been increasing over the past few years. Although the Company has been implementing cost saving and workflow improvement measures, such initiatives are no longer offsetting additional costs. Therefore the Company raised its standard gas tariff by HK1 cent per MJ on 1st August 2015. The actual increase in the gas tariff (including standard tariff and fuel cost adjustment) is equivalent to 3.5 per cent. The Company promises to keep this standard gas tariff frozen for the next two years.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress well during the first half of 2015 in respect of the number of projects and profit.

Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group currently has 212 projects on the mainland, ten more than at the end of 2014, spread across 25 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications, energy resources' exploration and utilisation, as well as telecommunications.

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

The Group's development of emerging environmentally-friendly energy businesses and related research and development of new technologies, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), are progressing well. With a number of environmentally-friendly and energy conservation projects under construction or already commissioned, and new projects under development, the foundation for long-term growth of the Group's businesses is being continually reinforced.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. Inclusive of Towngas China, the Group currently has a total of 128 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities, of which one is a new project established by Towngas China this year. The total volume of gas sales for these projects for the first half of 2015 was approximately 7,940 million cubic metres, an increase of 3 per cent over the same period last year. As at the end of June 2015, the Group's mainland gas customers stood at approximately 19.91 million, an increase of 9 per cent over the same period last year. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding performance on the mainland.

Despite the impact of global economic uncertainty and slow economic recovery leading to continuous weak demand for commodities worldwide, the mainland economy continued to grow steadily though the pace was slower during the first half of 2015 compared to the same period last year. The growth in demand for energy, including electricity, petroleum and natural gas, was noticeably lower across the whole country. However, a long-term and steady growth in the demand for natural gas, the major clean energy resource on the mainland, is still anticipated. Following a gas supply purchase and sales contract and a framework agreement signed between mainland China and Russia in May and November 2014 respectively, Russia will supply a total of 68 billion cubic metres of piped natural gas annually to mainland China, an important move in guaranteeing sufficient gas resources. The mainland government has also formulated a natural gas utilisation policy to strengthen preventative measures to combat air pollution and to minimise the formation of haze. This momentum is benefiting the Group's city-gas and natural gas businesses and helping to create continuous growth.

In April 2015, the mainland government aligned the two-tiered natural gas ceiling city-gate prices of "existing" and "incremental" volumes by substantially reducing the ceiling price for "incremental volume" and slightly raising the ceiling price for "existing volume", both applicable to non-residential users, with an aim to further promote market-oriented reform of natural gas prices. However, the sluggish global economic recovery is currently having an adverse impact on industrial gas market demand. Despite this, in the medium to long term, natural gas is still projected to be the clean energy of choice on the mainland for reducing air pollution and improving hazy atmospheric conditions. With gradual commissioning of the country's large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and the West-to-East pipeline, and pipeline projects for importing natural gas from Central Asia and Myanmar, together with the signing of piped natural gas supply contracts with Russia, as well as a rise in the quantity of imported liquefied natural gas ("LNG"), supply of natural gas on the mainland will increase substantially in the next few years. Thus, with increasing sources of gas supply, expanding pipeline networks and the public's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in future.

The Group's midstream natural gas projects are operating smoothly. These include natural gas pipeline projects in Anhui and Hebei provinces; natural gas extension projects in Jilin and Henan provinces; and the Guangdong LNG Receiving Terminal project. In addition, Towngas China added two midstream natural gas projects to its portfolio this year – the Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project in Anhui province, and Taigang Gas midstream long-haul pipeline project in Taian city, Shandong province. Construction of the Group's gas storage facility in underground salt caverns in Jintan city, Jiangsu province is in progress. Upon completion, this facility will be the first of its kind developed by any city-gas enterprise on the mainland. Phase one of this project, with a total storage capacity of 110 million standard cubic metres, is expected to be commissioned in mid-2016 and will help the Group supplement and regulate gas supplies during the peak winter period in eastern China. This project is also in line with the Chinese government's policy of advocating faster development of gas storage capacity. These kinds of midstream projects generate good returns and support the Group's development of its downstream city-gas markets.

The upstream natural gas supply market is also facing reform. The Shanghai Petroleum and Natural Gas Exchange launched a pilot operation on 1st July 2015 to further promote a market-oriented pricing mechanism for natural gas. Initially, the major products for spot trading in this exchange are piped natural gas and LNG. These kinds of reforms, impacting both natural gas supply mechanism and prices, are conducive to the healthy development of downstream city-gas businesses.

The Group has so far invested in, and operates, six water projects, including 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 project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. With increasing demand for clean water resources across the country, the Group's water projects are progressing well, supplying water of good quality, and maintaining steady growth in volume of water sales. To achieve a healthier development in the water sector, these project companies are now striving for a reasonable increase in the selling price of water.

Operation and management of businesses encompassing city-gas, midstream natural gas and city-water projects create greater synergy and mutual advantages. Furthermore, these businesses generate stable income and provide good environmental benefits, with room for expansion. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – are all operating smoothly. Total turnover for ECO's aviation fuel facility for the first half of 2015 was 2.88 million tonnes. The facility provides a safe and reliable fuel supply to Hong Kong International Airport and contributes to ECO's steady profit growth. The LPG refilling station business is progressing steadily, providing a quality and reliable fuel supply to the local taxi and minibus sectors. ECO's landfill gas project in the North East New Territories, after operating for several years, is generating noticeable environmental benefits. On this basis, ECO has commenced the development of a South East New Territories landfill gas utilisation project recently, with commissioning expected in mid-2016, which will make a further contribution to energy conservation and emission reduction in Hong Kong. ECO's oilfield project in Thailand, despite the adverse impact of the fall in international oil prices, is operating smoothly and recorded an output of 1.04 million barrels of oil during the first half of 2015, a significant increase of 94 per cent compared to the same period last year.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly. On this basis, ECO is now seeking more natural gas and coalbed gas supply sources at different strategic locations in order to expand its production capacity and distribution coverage. There is substantial demand for coke for steelmaking in the iron and steel industry in mainland China. During the industrial process to convert coking coal to coke, a large quantity of coke oven gas is generated which ECO finds it useful as a raw material to produce LNG to meet market demand. To this end, construction of a project in Xuzhou city, Jiangsu province to produce LNG by using coke oven gas is in progress; commissioning is expected by the end of 2015. Upon completion, ECO's capability to supply LNG will be enhanced.

As haze and air pollution on the mainland are now a growing concern, the Chinese government is increasing its efforts to promote the development of refilling station networks supplying LNG as a fuel for vehicles and vessels. The use of LNG as a gradual replacement for diesel for heavy-duty trucks is an especially important and effective anti-pollution measure. In response to this opportunity, ECO has continued to reinforce its production of LNG by using coalbed gas, coke oven gas and biomass, such as agricultural and forestry waste, as raw materials. Mainland China, a sizeable agricultural country, generates a large quantity of agricultural waste every year. Apart from a small portion of this for use in fields or for power generation, the rest is not fully utilised as effective measures are yet to be put in place. ECO has successfully developed new technologies to convert this agricultural and forestry waste into natural gas through thermal gasification and methanation. ECO's application of these new technologies will be implemented shortly which will then open a new chapter in ECO's new energy businesses.

Meanwhile, a network of ECO natural gas refilling stations is gradually taking shape in, amongst others, Shaanxi, Shandong, Shanxi, Henan and Liaoning provinces. All in all, ECO currently has 52 refilling stations in operation, under construction or at the planning stage, and as expansion into more provinces progresses, the ECO brand name will gradually become more well-known in the market.

ECO's coal-based methanol production plant in Inner Mongolia Autonomous Region operated smoothly during the first half of 2015. Construction of an additional facility to upgrade methanol into natural gasoline (a gasoline substitute chemical product) using self-developed technology, was completed at the end of 2014 and is now at the pilot production stage, thus laying a solid foundation for ECO's methanol upgrading business.

ECO is also developing innovative resource conversion technologies for the production of high value-added environmentally-friendly energy. Related research and development has shown promising results with noticeable economic and environmental benefits, especially in the areas of methanol upgrading and utilisation of agricultural waste, which should also help strengthen ECO's competitive edge in this new energy sector in 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 2015. Towngas China's profit after taxation attributable to its shareholders was HK$639 million, an increase of 37 per cent compared to the same period last year. As at the end of June 2015, the Group held approximately 1,642 million shares in Towngas China, representing approximately 62.15 per cent of Towngas China's total issued shares.

Project development is also progressing well. During the first half of 2015, Towngas China acquired a new piped-gas project in Wulian county, Rizhao city, Shandong province, and two midstream pipeline projects, namely Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project in Anhui province, and Taigang Gas midstream long-haul pipeline project in Taian city, Shandong province.

In June 2015, Standard & Poor's Ratings Services, an international rating agency, raised its long-term corporate credit rating on Towngas China to "BBB+" from "BBB", and maintained its "cnA+" long-term Greater China regional scale credit rating with a "stable" outlook. In July 2015, Moody's Investors Service, another international rating agency, also raised its issuer rating on Towngas China to "Baa1" from "Baa2" with a "stable" outlook. Such ratings demonstrate the rating agencies' recognition of Towngas China's stable financial status and reflect the company's increasing credit strength.

FINANCING PROGRAMMES

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Taking advantage of low interest rates, medium term notes totaling HK$972 million with maturity ranging from 10 to 15 years were issued during the first half of 2015. In line with the Group's long-term business investments, the Group had issued, as at 30th June 2015, medium term notes of an aggregate amount equivalent to HK$11.3 billion with tenors ranging from 5 to 40 years under this programme.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2015, the number of employees engaged in the town gas business in Hong Kong was 1,971 (30th June 2014: 1,972), the number of customers was 1,828,333, and each employee served the equivalent of 928 customers, slightly up compared to the same period last year. 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 2,325 as at the end of June 2015, a similar level to the same period last year. Related manpower costs amounted to HK$457 million for the first half of 2015, an increase of HK$19 million compared with the corresponding period in 2014. 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 the Group’s 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 44,600 as at the end of June 2015, an increase of approximately 800 compared with the corresponding period in 2014.

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 18th September 2015. To enable our Share Registrar to complete the necessary work associated with this payment, the Register of Members will be closed on Thursday, 17th September 2015 and Friday, 18th September 2015, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Friday, 2nd October 2015.

BUSINESS OUTLOOK FOR 2015

The Company predicts steady growth in the number of customers in Hong Kong during 2015. Currently, favourable local employment conditions are helping to stimulate internal demand and consumer spending. As the Government of the Hong Kong Special Administrative Region is also striving to increase land and housing supply, stable growth in the number of gas customers is anticipated. Expansion in the commercial and industrial energy market is also benefiting from the competitiveness of town gas, an energy resource combining both environmental and economic benefits. As international oil prices still remain low following substantial decrease since the second half of 2014, charges for fuel cost adjustment of the gas tariff in Hong Kong have been reduced which is beneficial to customers and to further enhancement of the market competitiveness of town gas. However, increasing local manpower costs and operating expenses have led to rising operating costs for businesses generally in Hong Kong. The Company’s increase in the standard gas tariff with effect from 1st August 2015 will help to offset some of the pressure on its own rising operating costs. The Company will, however, continue to enhance its own operational efficiency so as to maintain stable development of its gas business in the territory.

In respect of city-gas businesses in mainland China, slowdown in the real estate market, resulting from the government's related control policies over the past two years, has impacted revenue from connection fees. In addition, growth of gas sales is declining due to an adverse impact on industrial production resulting from a sluggish global economic recovery, while growth of gas consumption in the commercial sector is also slowing due to the mainland government's more cautious approach to official spending. All these factors have created challenges for the overall profit growth of the Group's mainland businesses recently. Nevertheless, there will be a continuing rise in demand for utility services and energy in the long run, resulting from the mainland government's drive to reduce carbon emissions and to encourage the use of clean energy to combat air pollution, both of which are favourable to the development of natural gas, coupled with rapid urbanisation and current abundant upstream gas supply. It is anticipated that natural gas price adjustment this year will lower upstream gas prices which would be favourable to the development of the downstream gas market and the healthy 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 the creation of a more circular economy, 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 and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. Despite international oil prices remaining low recently, which will impact profit growth and slow down the pace of investment of the Group's emerging environmentally-friendly energy businesses in the short term, the Group will continue to select projects of high quality to invest in. In the long term, emerging environmentally-friendly energy businesses will ignite a new light, illuminating the way for the Group's long-term development and business growth strategy, and lay a solid foundation for the future of the Group.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its successful technical experience, corporate brand names and sales channels built there over 20 years, and mainland society's growing concern over air quality, it is anticipated that there will be ever-rising demand for clean energy. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is increasing, the Group, with a sizeable customer base, foresees better benefits from its new businesses which continue to expand.

Overall, the Group predicts good and broader prospects and an even better future for all its businesses in the years to come.

LEE Shau Kee
Chairman

Hong Kong, 13th August 2015

FINANCIAL INFORMATION

Highlights of the Group's interim accounts for the first six months ended 30th June 2015 are shown below. The unaudited interim accounts have been reviewed by the Company's audit committee and external auditor, PricewaterhouseCoopers.

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

	Note	**2015 HK$M**	2014 HK$M
Revenue	3	**15,083.1**	15,808.0
Total operating expenses	4	**(11,283.4)**	(11,851.9)
		3,799.7	3,956.1
Other gains/(losses), net	5	**598.3**	(30.5)
Interest expense		**(490.6)**	(497.6)
Share of results of associates		**831.4**	948.1
Share of results of joint ventures		**938.7**	783.3
Profit before taxation		**5,677.5**	5,159.4
Taxation	6	**(952.9)**	(963.2)
Profit for the period		**4,724.6**	4,196.2
Attributable to:			
Shareholders of the Company		**4,197.1**	3,726.6
Holders of perpetual capital securities		**55.2**	47.3
Non-controlling interests		**472.3**	422.3
		4,724.6	4,196.2
Dividends	7	**1,387.6**	1,261.9
Earnings per share – basic and diluted, HK cents	8	**36.3**	32.2 *

*Adjusted for the bonus issue in 2015

CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 30TH JUNE 2015

	Note	**At 30th June 2015 HK$M**	At 31st December 2014 HK$M
Assets			
Non-current assets			
Property, plant and equipment		**46,886.1**	49,695.0
Investment property		**683.0**	683.0
Leasehold land		**1,876.6**	1,658.6
Intangible assets		**5,986.2**	5,858.5
Associates		**18,822.4**	17,572.5
Joint ventures		**9,456.0**	9,033.8
Available-for-sale financial assets		**5,397.6**	2,599.7
Derivative financial instruments		**223.9**	266.6
Other non-current assets		**2,329.9**	2,401.7
		91,661.7	89,769.4
Current assets			
Inventories		**2,324.0**	2,283.2
Trade and other receivables	9	**6,926.5**	6,975.7
Loan and other receivables from associates		**229.6**	115.1
Loan and other receivables from joint ventures		**1,183.4**	1,239.2
Loan and other receivables from non-controlling shareholders		**126.7**	153.9
Financial assets at fair value through profit or loss		**35.5**	718.8
Time deposits over three months		**403.8**	550.1
Time deposits up to three months, cash and bank balances		**13,751.6**	12,605.5
		24,981.1	24,641.5
Current liabilities			
Trade and other payables	10	**(11,449.1)**	(11,942.6)
Amounts due to joint ventures		**(548.3)**	(677.7)
Loan and other payables to non-controlling shareholders		**(199.2)**	(213.9)
Provision for taxation		**(1,053.7)**	(805.7)
Borrowings		**(9,702.3)**	(7,049.7)
		(22,952.6)	(20,689.6)
Net current assets		**2,028.5**	3,951.9
Total assets less current liabilities		**93,690.2**	93,721.3

CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)
AS AT 30TH JUNE 2015

	At 30th June 2015 HK$M	At 31st December 2014 HK$M
Non-current liabilities		
Customers' deposits	**(1,263.8)**	(1,256.4)
Deferred taxation	**(4,865.0)**	(5,169.2)
Borrowings	**(23,262.0)**	(24,484.3)
Loan payables to non-controlling shareholders	**(24.5)**	(22.3)
Asset retirement obligations	**(31.9)**	(31.9)
Derivative financial instruments	**(621.0)**	(527.6)
Retirement benefit liabilities	**(5.9)**	(5.9)
	(30,074.1)	(31,497.6)
Net assets	**63,616.1**	62,223.7
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Reserves	**47,230.4**	44,735.7
Proposed dividend	**1,387.6**	2,417.8
Shareholders' funds	**54,092.7**	52,628.2
Perpetual capital securities	**2,353.8**	2,353.8
Non-controlling interests	**7,169.6**	7,241.7
Total equity	**63,616.1**	62,223.7

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts, which do not constitute statutory accounts, 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").

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31st December 2014.

The Group has adopted the following amendments to standards and annual improvements which are effective for the Group's financial year beginning 1st January 2015 and relevant to the Group.

Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions
Annual improvements 2012	Annual improvements to HKFRSs 2010-2012 Cycle
Annual improvements 2013	Annual improvements to HKFRSs 2011-2013 Cycle

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

The HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning 1st January 2015 and the Group has not early adopted the rules.

Except as disclosed in Note 2 to the condensed interim accounts, the critical accounting estimates and judgements used in the preparation of these unaudited condensed consolidated interim accounts are consistent with those set out in the annual report for the year ended 31st December 2014.

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

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

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

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

The following table presents the Group's assets and liabilities that are measured at fair value at 30th June 2015 and 31st December 2014.

	Level 1		Level 2		Level 3		Total	
HK$M	**At 30th June 2015**	At 31st December 2014	**At 30th June 2015**	At 31st December 2014	**At 30th June 2015**	At 31st December 2014	**At 30th June 2015**	At 31st December 2014
Assets								
Financial assets at fair value through profit or loss								
- Debt securities	**-**	672.7	-	-	**-**	-	**-**	672.7
- Equity securities	**18.7**	34.9	-	-	**-**	-	**18.7**	34.9
- Derivative financial instruments	**-**	-	**16.8**	11.2	**-**	-	**16.8**	11.2
Derivative financial instruments	**-**	-	**223.9**	266.6	**-**	-	**223.9**	266.6
Available-for-sale financial assets								
- Debt securities	**468.3**	520.1	-	-	**-**	-	**468.3**	520.1
- Equity investment	**1,241.7**	1,584.1	-	-	**3,151.7**	-	**4,393.4**	1,584.1
Total assets	**1,728.7**	2,811.8	**240.7**	277.8	**3,151.7**	-	**5,121.1**	3,089.6
Liabilities								
Derivative financial instruments	**-**	-	**621.0**	527.6	**-**	-	**621.0**	527.6

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 balance sheet date. 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Available-for-sale financial asset in level 3 is an unlisted equity investment. The fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate and expected free cash flows of the investee. The higher the discount rate, the lower the fair value. The higher the expected free cash flows of the investee, the higher the fair value.

Investments in unlisted equity securities	**2015 HK$M**
Opening balance at 1st January	**-**
Acquisition	**3,151.7**
Closing balance at 30th June	**3,151.7**

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

Specific valuation techniques used to value financial instruments includes:

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

Critical accounting estimates and judgements used in fair value assessment of available-for-sale financial assets:

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods (such as discounted cash flow model) and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The key assumptions adopted on projected cash flows are based on managements' best estimates.

3. Segment information

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

	Six months ended 30th June	
	2015	2014
	HK$M	HK$M
Gas sales before fuel cost adjustment	**10,869.8**	11,067.4
Fuel cost adjustment	**566.5**	980.6
Gas sales after fuel cost adjustment	**11,436.3**	12,048.0
Gas connection income	**1,260.9**	1,210.1
Equipment sales and maintenance services	**1,073.8**	994.7
Water and related sales	**562.0**	500.0
Oil and coal related sales	**313.1**	672.2
Other sales	**437.0**	383.0
	15,083.1	15,808.0

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

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

3. Segment information (Continued)

The segment information for the six months ended 30th June 2015 and 2014 provided to the ECM for the reportable segments is as follows:

2015	**Gas, water and related businesses Hong Kong HK$M**	**Gas, water and related businesses Mainland China HK$M**	**New Energy HK$M**	**Property HK$M**	**Other segments HK$M**	**Total HK$M**
Revenue	**4,826.6**	**8,948.2**	**1,054.3**	**29.5**	**224.5**	**15,083.1**
Adjusted EBITDA	**2,371.4**	**2,245.4**	**407.8**	**17.8**	**35.1**	**5,077.5**
Depreciation and amortisation	**(336.7)**	**(482.8)**	**(165.7)**	**-**	**(30.7)**	**(1,015.9)**
Unallocated expenses						**(261.9)**
						3,799.7
Other gains, net						**598.3**
Interest expense						**(490.6)**
Share of results of associates	**-**	**404.6**	**(0.3)**	**427.6**	**(0.5)**	**831.4**
Share of results of joint ventures	**-**	**934.8**	**1.0**	**2.9**	**-**	**938.7**
Profit before taxation						**5,677.5**
Taxation						**(952.9)**
Profit for the period						**4,724.6**

Share of results of associates includes HK$178.0 million (2014: HK$257.6 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the period.

2014	Gas, water and related businesses Hong Kong HK$M	Gas, water and related businesses Mainland China HK$M	New Energy HK$M	Property HK$M	Other segments HK$M	Total HK$M
Revenue	5,240.3	8,787.8	1,577.1	24.2	178.6	15,808.0
Adjusted EBITDA	2,446.9	2,119.0	544.7	14.1	37.3	5,162.0
Depreciation and amortisation	(325.1)	(423.7)	(168.3)	-	(24.4)	(941.5)
Unallocated expenses						(264.4)
						3,956.1
Other losses, net						(30.5)
Interest expense						(497.6)
Share of results of associates	-	451.6	(0.6)	497.2	(0.1)	948.1
Share of results of joint ventures	-	779.8	0.9	2.6	-	783.3
Profit before taxation						5,159.4
Taxation						(963.2)
Profit for the period						4,196.2

3. Segment information (Continued)

The segment assets at 30th June 2015 and 31st December 2014 are as follows:

30th June 2015	**Gas, water and related businesses** **Hong Kong**	**Gas, water and related businesses** **Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
Segment assets	**15,406.0**	**57,822.2**	**16,717.8**	**10,583.7**	**2,245.0**	**102,774.7**
Unallocated assets:						
Available-for-sale financial assets						**5,397.6**
Financial assets at fair value through profit or loss						**35.5**
Time deposits, cash and bank balances excluded from segment assets						**7,751.4**
Others (Note)						**683.6**
Total assets	**15,406.0**	**57,822.2**	**16,717.8**	**10,583.7**	**2,245.0**	**116,642.8**

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 2014	Gas, water and related businesses Hong Kong	Gas, water and related businesses Mainland China	New Energy	Property	Other segments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Segment assets	16,143.1	54,524.1	20,716.2	10,360.2	2,130.5	103,874.1
Unallocated assets:						
Available-for-sale financial assets						2,599.7
Financial assets at fair value through profit or loss						718.8
Time deposits, cash and bank balances excluded from segment assets						6,674.8
Others (Note)						543.5
Total assets	16,143.1	54,524.1	20,716.2	10,360.2	2,130.5	114,410.9

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2015 is HK$5,393.8 million (2014: HK$5,866.2 million), and the revenue from external customers in other geographical locations is HK$9,689.3 million (2014: HK$9,941.8 million).

At 30th June 2015, the total of non-current assets other than financial instruments located in Hong Kong and other geographical locations are HK$22,496.6 million and HK$61,213.7 million (31st December 2014: HK$21,828.5 million and HK$62,672.9 million) respectively.

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

4. Total operating expenses

	Six months ended 30th June	
	2015	2014
	HK$M	HK$M
Stores and materials used	**7,396.9**	8,246.1
Manpower costs	**1,318.2**	1,159.6
Depreciation and amortisation	**1,023.0**	948.7
Other operating items	**1,545.3**	1,497.5
	11,283.4	11,851.9

5. Other gains/(losses), net

	Six months ended 30th June	
	2015	2014
	HK$M	HK$M
Net investment gains/(losses)	**618.7**	(13.1)
Project research and development costs	**(19.6)**	(20.3)
Others	**(0.8)**	2.9
	598.3	(30.5)

6. Taxation

	Six months ended 30th June	
	2015	2014
	HK$M	HK$M
Current taxation	**814.7**	762.7
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	**138.2**	200.5
	952.9	963.2

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the period. Other countries profits tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

7. Dividends

	Six months ended 30th June	
	2015	2014
	HK$M	HK$M
2014 Final, paid, of HK23 cents per ordinary share (2013 Final: HK23 cents per ordinary share)	**2,417.8**	2,198.7
2015 Interim, proposed, of HK12 cents per ordinary share (2014 Interim: HK12 cents per ordinary share)	**1,387.6**	1,261.9
	3,805.4	3,460.6

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$4,197.1 million (2014: HK$3,726.6 million) and the weighted average of 11,563,298,508 shares (2014: 11,566,846,508 shares*) in issue during the period.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the reporting periods of 2015 and 2014, the diluted earnings per share for the period ended 30th June 2015 and 2014 are approximately the same as the basic earnings per share.

* Adjusted for the bonus issue in 2015.

9. Trade and other receivables

	At 30th June 2015 HK$M	At 31st December 2014 HK$M
Trade receivables (Note)	**3,458.0**	3,640.9
Payments in advance	**1,860.3**	1,995.5
Other receivables	**1,608.2**	1,339.3
	6,926.5	6,975.7

The Group recognised a loss of HK$3.2 million (2014: HK$5.6 million) for the impairment of its trade and other receivables during the period. The impairment has been included in other operating items (Note 4).

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 30th June 2015, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	At 30th June 2015 HK$M	At 31st December 2014 HK$M
0 - 30 days	**2,977.4**	3,097.6
31 - 60 days	**107.2**	99.3
61 - 90 days	**66.0**	97.3
Over 90 days	**307.4**	346.7
	3,458.0	3,640.9

NOTES TO THE CONDENSED INTERIM ACCOUNTS (UNAUDITED)

10. Trade and other payables

	At 30th June 2015 HK$M	At 31st December 2014 HK$M
Trade payables (Note a)	**2,690.2**	3,168.0
Other payables and accruals (Note b)	**8,758.9**	8,774.6
	11,449.1	11,942.6

Notes

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

	At 30th June 2015 HK$M	At 31st December 2014 HK$M
0 - 30 days	**1,266.7**	1,404.8
31 - 60 days	**208.0**	323.9
61 - 90 days	**369.3**	335.9
Over 90 days	**846.2**	1,103.4
	2,690.2	3,168.0

(b) The balance includes an amount of approximately HK$45.7 million (At 31st December 2014: HK$45.7 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront. Remaining balances mainly represents advance received from customers for construction works and accrual for services or goods received from suppliers.

11. Major non-cash transaction/disposal of subsidiaries

On 30th June 2015, the Group disposed its wholly-owned subsidiary, Prominent Wealth Investments Limited which mainly held 70.1 per cent equity interest in Inner Mongolia SanWei Resource Group Xiao Yu Gou Coal Company Limited to Elegant Spread Limited and settled in return of 15 per cent equity interest in China Sanwei Energy Resources Company Limited. The new investment was accounted for as available-for-sale financial asset since the completion of transaction. Since the Group lost control on the subsidiary, relevant assets and liabilities were derecognised from the Group's consolidated accounts. There is not any significant impact in the Group's profit or loss for the period due to the disposal.

DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30th June 2015 of HK12 cents per share payable to shareholders of the Company whose names are on the register of members of the Company as at 18th September 2015. Dividend warrants will be despatched to shareholders on Friday, 2nd October 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 17th September 2015 to Friday, 18th September 2015, 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, 16th September 2015.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2015, the Group had a net current deposits position of HK$4,453 million (31st December 2014: HK$6,106 million) and long-term borrowings of HK$23,262 million (31st December 2014: HK$24,484 million). In addition, banking facilities available for use amounted to HK$12,700 million (31st December 2014: HK$11,400 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 favorable terms and timing under the Programme. In May 2012, the Programme was updated with the size increased to US$2 billion. Up to 30th June 2015, the Group issued notes in the total amount of HK$11,332 million (31st December 2014: HK$10,360 million) with maturity terms of 5 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 2015 was HK$10,646 million (31st December 2014: HK$9,748 million).

As at 30th June 2015, 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 2014: US$995 million) and the carrying value was HK$7,679 million (31st December 2014: HK$7,675 million).

As at 30th June 2015, the Group's borrowings amounted to HK$32,964 million (31st December 2014: HK$31,534 million). While the Notes mentioned above together with the bank and other loans of HK$1,441 million (31st December 2014: HK$1,326 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$5,559 million (31st December 2014: HK$6,446 million) were long-term bank loans and HK$7,639 million (31st December 2014: HK$6,339 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2015, the maturity profile of the Group's borrowings was 29 per cent within 1 year, 7 per cent within 1 to 2 years, 37 per cent within 2 to 5 years and 27 per cent over 5 years (31st December 2014: 22 per cent within 1 year, 17 per cent within 1 to 2 years, 35 per cent within 2 to 5 years and 26 per cent over 5 years).

The US dollar Guaranteed Notes, the RMB Note, AUD Note and JPY Note issued, and a bank loan of RMB500 million raised in Hong Kong are hedged to Hong Kong dollars by currency swaps and the Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi; thus, the Group 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 balance sheet, 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 2015 remained healthy at 25 per cent (31st December 2014: 25 per cent).

Contingent liabilities

As at 30th June 2015 and 31st December 2014, 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 2015, the investments in securities amounted to HK$1,745 million (31st December 2014: HK$2,150 million). The performance of the Group's financial investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2015, 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 2015.

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 2015.

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

Hong Kong, 13th August 2015

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

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