CONTENTS

	Page
Management Discussion and Analysis	2
Other Information	9
Report on Review of Condensed Consolidated Financial Statements	15
Condensed Consolidated Income Statement	16
Condensed Consolidated Statement of Comprehensive Income	17
Condensed Consolidated Statement of Financial Position	18
Condensed Consolidated Statement of Changes in Equity	20
Condensed Consolidated Statement of Cash Flows	22
Notes to the Condensed Consolidated Financial Statements	24

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2018, total gas sales volume of the Group surged by 18% to 4,949 million cubic metres. Total number of customers reached 12.21 million, with 440,000 new customers compared to last year. Industrial gas sales grew by 23% to 2,776 million cubic metres over the corresponding period last year, accounting for 56% of the total volume of gas sold by the Group, while commercial gas sales reached 866 million cubic metres with an increase of 11% over the corresponding period last year, accounting for 18% of the total volume of gas sold by the Group. Residential gas sales increased by 14% to 1,307 million cubic metres over the corresponding period last year and accounted for 26% of the total volume of gas sold by the Group. Profit after taxation attributable to shareholders of the Company amounted to HK$663 million, representing a steady increase of 10% over the corresponding period last year. Basic earnings per share amounted to HK23.96 cents, an increase of 8% over the corresponding period last year.

Revenue

For the six months ended 30 June 2018, revenue from the sales of piped gas and related products rose 44% to HK$4,728 million over the corresponding period last year due to the satisfactory results derived from active promotion of natural gas replacing coal. The total consolidated volume of gas sold in the current period amounted to 1,472 million cubic metres, representing an increase of 27% over the corresponding period last year. In the gas connection business, income from connection fees for the period amounted to HK$856 million, up 12% as compared to the corresponding period last year, with approximately 190,000 consolidated new household connections made during the period under review.

Development of New Projects

The Group launched two new gas projects this year, a city gas project in Liujiang District, Liuzhou City in the Guangxi Zhuang Autonomous Region and a midstream natural gas pipeline network and city gate station project in Chiping County of Liaocheng City, Shandong Province. The principal industrial activity in Liuzhou City, Guangxi is the manufacturing of automobile parts and components and mechanical equipment. As a wholly-owned, and our third project in Guangxi, we expect to generate regional synergies with the Group's two other piped gas projects of Guilin and Zhongwei. The midstream natural gas pipeline network and city gate station project in Chiping County of Liaocheng City, Shandong Province is our fourth midstream pipeline transmission project. Under this project, the "Jinan — Liaocheng" natural gas pipeline and Chiping South city gate station will be constructed. The project holds out bright prospects for the future with its ample sources for natural gas supply.

Apart from our focus on the gas business, we also continued to actively identify potential business opportunities for "distributed energy". In addition to the two distributed energy projects established last year, we have added four new distributed energy projects this year — in Jiawang District, Xuzhou City in Jiangsu Province; Jimo Chuangzhi New District, Qingdao City in Shandong Province; Yangxin Economic & Technological Development Zone of Binzhou City in Shandong Province; and Changchun City in Jilin Province. These new projects are expected to generate gas consumption, equivalent of up to 250 million cubic metres in 5 years' time. These ongoing developments will offer regional synergies to the Group's gas projects in neighbouring areas in every aspect, from markets and gas sources to policies.

Investments in Equity Instruments at Fair Value through Other Comprehensive Income

Investments in equity instruments at fair value through other comprehensive income mainly consisted of the Group's investments in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"), which contributed dividends to the Group. Chengdu Gas and Nanjing Public were stated at fair value and no impairment provision was required during the period.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2018.

Financial Position

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 30 June 2018, the Group's bank loans and other loans amounted to HK$9,418 million, of which HK$5,057 million represented bank loans and other loans due within 1 year, HK$4,340 million represented bank loans and other loans due between 1 to 5 years, and HK$21 million represented bank loans and other loans due over 5 years. Other than HK$4,131 million in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As the businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi, the Group bore foreign currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. As at the end of the period, the Group had HK$5,388 million borrowings denominated in Renminbi and the remaining HK$4,030 million borrowings were denominated mainly in Hong Kong dollars. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$29 million from joint ventures on a fixed interest rate basis. The Group held various cross currency swap contracts and foreign currency forward contracts during the period to hedge foreign currency risk for non-Renminbi denominated bank loans. The loss resulting from change in fair value of other financial liabilities was HK$42 million in the period. As at 30 June 2018, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 32.6%.

As at 30 June 2018, the Group's cash and cash equivalents together with time deposits amounted to HK$1,745 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 30 June 2018, the Group's unutilised available facilities amounted to HK$3,920 million.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and operating requirements.

Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also maintained the long-term corporate credit rating of Towngas China at "BBB+" and its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of the Group's sound financial position.

Interim Dividend

The Board has resolved not to declare an interim dividend (2017: nil).

Employee and Remuneration Policies

As at 30 June 2018, the Group had 22,072 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Corporate Social Responsibilities

As a public utility that serves numerous households, Towngas China has always held the interests of our stakeholders and the community in the highest regard. As such, we make every endeavour to achieve excellence in our corporate and business activities, seeking to create multifaceted values while also fulfilling our responsibilities as a corporate citizen. We thus place exceptional focus on operational safety, environmental protection as well as charitable contributions to ensure the sustainable development of our society.

Over the years, due to our consistent adherence to our "Safety First" principle, we have experienced a minimal number of gas incidents. In June this year, in conjunction with our parent company, The Hong Kong and China Gas Company Limited ("HKCG"), we organised a "HSE (Health, Safety & Environment) Walk" in support of the "Production Safety Month" initiative promoted by the State Administration of Work Safety. Under the theme "Travel Far, Uplift Strength and Promote Three Courtesies", we recruited staff members along with their family and friends across Guangdong, Guangxi, Fujian, Jiangxi, Hunan, Guizhou, Yunnan, Sichuan, Chongqing, Hubei, Zhejiang, Anhui, Jiangsu, Shandong, Hebei, Liaoning, Jilin, Inner Mongolia and Heilongjiang to join. Our safety and Three Courtesies cultures were the key to success of Towngas China and through the captioned activity, we promoted these values to the general public and enhanced our staff safety awareness in order to fulfil our goal of "Zero Liability and Zero Incidents".

Furthering our focus on innovation and environmental-friendliness, we continue our drive to implement advanced systems with high-efficiencies and energy conservation facilities in our business development to reduce greenhouse gases and negate the impact on the environment. Under the environmental campaign named "Low Carbon Life", a series of green activities were rolled out, including "Towngas China Plantation Day" and "Earth Hour". During the first half of the year, more than 40 project companies participated in our green initiatives and more than 3,000 saplings were planted.

Guided by the principle of "Actively participating in community services to benefit society, Dedicating efforts to protect the environment and Contributing to the community", we have organised a range of charitable projects to support to the needy in our community. Our annual signature "Rice Dumplings for the Community" campaign has taken place since 2010. On the eve of the Dragon Boat Festival this year, we recruited over 900 volunteers across the Group and project companies along with the support gained from welfare institutions, more than 23,000 rice dumplings were prepared and distributed to the underprivileged from the local community.

Since the inception of the "Gentle Breeze Movement" in 2013, we have established our presence in more than 10 provinces, autonomous regions and municipalities, including Sichuan, Jiangxi, Anhui and Shandong. Our programme aims to improve the learning environment of students in impoverished regions through libraries set up, coupled with material donations and volunteer visits. During the period, we extended our reach to Baotou in the Inner Mongolia autonomous region, with the building of a "Towngas China Library", the renovation of student dormitories as well as the donation of school uniforms, books and other schooling and educational items.

Outlook

Economic Landscape

During the first half of 2018, the Chinese Government continued to drive improvements in China's economic structure. As a result, the country recorded a 6.8% increase in its gross domestic product for the first six months of the year reflecting steady economic growth in general. Nevertheless, the nation's economic growth for this year is experiencing some pressure underpinned by the downside in the Renminbi to the USD rate, a situation caused by a number of factors, ranging from the escalating China/US trade conflicts and US government tax cuts to expectations for interest rate hikes in the US Dollar.

To cope with the increasing volatility in the external environment, the Ministry of Finance of the People's Republic of China and the State Administration of Taxation published the "Notice on Adjustments to Value-added Tax ("VAT") Rates" in April 2018, announcing a 1-percentage-point cut in the existing 17% commodity VAT and 11% service VAT in a bid to reduce the tax burden for businesses. The State Council of the People's Republic of China (the "State Council") also established the Financial Stability and Development Committee which is responsible for ensuring the stability of the domestic financial market and for maintaining Renminbi exchange rate movements within a reasonable range. At the same time to encourage further foreign investment, the National Development and Reform Commission of the People's Republic of China ("NDRC") and the Ministry of Commerce of the People's Republic of China announced their "Special Administrative Measures for Admission of Foreign Investments (Prohibition List) (2018 Edition)" for official implementation from 28 July 2018. These initiatives will help the country to maintain general economic stability while achieving its growth targets.

Natural Gas Marketisation Reforms

With regard to natural gas marketisation reforms, a significant breakthrough was achieved in the establishment of a pricing mechanism. In May 2018, the NDRC published the "Notice on Unifying the Residential City-gate Prices", benchmarking city-gate prices for residential and non-residential gas supply, unifying them from 10 June 2018. The unified benchmark can be adjusted within a 20% range, determined through negotiations between buyers and suppliers. This unified benchmark marks an important move in the natural gas industry's marketisation reforms, providing a positive effect on the healthy development of the industry in the long term.

The construction of gas storage facilities for peak-load shifting has lagged considerably behind the growth in natural gas consumption, a primary reason for the bottleneck in natural gas supplies and demand in the winter of 2017. Dealing with the situation, the NDRC and the National Energy Administration published their "Opinion on Expediting the Construction of Gas Storage Facilities and Improving the Market Mechanism of Auxiliary Services for Peak-load Shifting of Gas Storage". Under this initiative, by 2020 gas suppliers are required to own gas storage capacities equivalent to not less than 10% of their respective contracted annual sales volumes; gas operators in towns must have gas storage capacity equivalent to not less than 5% of the annual gas consumption of the towns they serve; and local governments at county-levels or above must, at a minimum, have available gas storage capacities equivalent to not less than the daily average volume of gas consumed by their respective administrative areas for three days. The document also supports and encourages the relevant parties to fulfill their gas storage obligations by constructing gas storage facilities either as sole or joint ventures, purchasing or leasing gas storage facilities, or by acquiring gas storage services. Gas storage services and peak-load shifting adjustments are subject to market-based pricing and the costs of peak-load shifting and gas storage must be reasonably covered. The document also announced policies to offer central government financial subsidies for the construction of underground gas storage, the relevant purchase costs of cushion gas as well as ensuring the necessary land supply for such projects, in its aim to support the construction of gas storage and peak-load shifting facilities to enhance the nation's future capabilities in natural gas supply.

These marketisation reforms policies are conducive to the long-term development of the natural gas industry hand-in-hand with the expanding growth in the use of natural gas. Acting in tandem with these reforms, the Group has been actively making plans to ensure that we will benefit from the many opportunities presented by the reforms as we bring our competitive strengths into play and enhance our business development.

Market Prospects of the City Gas Business

Given the ongoing progress achieved in the natural gas marketisation reforms, stringent environmental policies and high hopes that the city gas market will maintain its rapid growth in 2018, the use of natural gas as a percentage of primary energy consumption is expected to increase to 7.5%. An environmental protection tax officially came into effect on 1 January 2018. In June 2018, the Central Committee of the Communist Party of China and the State Council announced the "Opinion on Enhancing Protection of the Ecological Environment on All Fronts and Determination to Fight the Battle of Pollution Prevention and Treatment", calling for efforts to enhance protection of the ecological environment in every aspect, during the crucial stages in the country's comprehensive development as a well-off and all-rounded society. It also seeks to develop clean energy substitution projects on an ongoing basis, as well as to overcome obstacles in the prevention and treatment of pollution. The target is to reduce the concentration of fine suspended particulates (PM2.5) by more than 18% against the 2015 figure on a nationwide basis apart from also making sure that by 2020, cities at the prefecture-level or above will enjoy days with excellent air quality for over 80% of the year. The State Council has also formulated the "Action Plan for Winning the Battle of Blue Sky Protection", calling for the increase of gas supply to reduce coal consumption, together with the ongoing advancement of "Coal-to-Gas" projects under this principle of "gas conversion". By 2020, the aim is to decrease nationwide coal usage as a percentage of total energy consumption from 60.4% in 2017 to below 58%. This decrease will essentially be driven by the replacement of bulk coal with natural gas as the primary source of heat supply in key northern regions and during the winter season. In cities at county-level or above, coal-fired boilers with capacities of 10 tons of steam per hour or below will be phased out in developed districts, while coal-fired boilers with capacities of 35 tons of steam per hour or below will be phased out in key districts. The Ministry of Ecology and Environment of the People's Republic of China also announced the "2018–2019 Scheme for Enhancing Supervision and Inspection in Key Regions regarding the Blue Sky Protection Battle", to enhance the supervision of clean heat supplies and coal-to-gas conversions in key regions, including the "2+26" cities and 11 cities in the Fen-Wei Plains and the Yangtze River Delta Region from June 2018 to April 2019. As city gas suppliers are well set up in the prevention and treatment of air pollution, the industry is extremely well-positioned to capitalise on the many opportunities presented in the battle to protect the country's blue skies. We are thus fully confident of our prospects in China's burgeoning city gas market.

Business Outlook of the Group

Looking forward, we are committed to take full advantage of the positive trends and prospects in the development of the domestic natural gas industry to further drive our business growth. We will persist in our efforts to expand in the industrial and commercial market, continue to develop our "Coal-to-Gas" business, multiply our natural gas distributed energy and central heating projects through Towngas China Energy Investment (Shenzhen) Limited, and explore extended services and value-added facilities based on our enormous base of residential customers. Meanwhile, we are also actively planning for our ongoing investment in, and construction of, facilities with capacities for gas storage and peak-load shifting, as well as the development of liquefied natural gas imports and interconnected pipeline networks. These far-reaching projects will enhance our ability to assure gas supplies and provide our customers with safe, reliable and quality services in active response to national regulations on natural gas and city gas, so as to achieving the Group's business growth targets.

OTHER INFORMATION

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests or short positions of the Directors and chief executive in the shares of the Company, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in shares

Name of Company	Name of Director	Capacity	Interest in shares: Personal interest	Interest in shares: Family interest	Interest in shares: Corporate interest	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 30.06.2018
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,707,776 *(Note 1)*	–	–	3,707,776	0.13%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000 *(Note 2)*	–	–	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,040,186 *(Note 3)*	–	–	1,040,186	0.04%
	Kwan Yuk Choi, James	Beneficial owner	2,265,000	–	–	2,265,000	0.08%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	293,361	–	–	293,361	0.00%
	Ho Hon Ming, John	Beneficial owner	45,939	–	–	45,939	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	103,561	117,335	–	220,896	0.00%

Notes:

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

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

3. Subsequent to the allotment of 20,982 new shares by the Company pursuant to its scrip dividend scheme on 18 July 2018, Mr. Ho Hon Ming, John had personal interest in 1,061,168 shares, representing approximately 0.04% of the number of issued shares of the Company as at the date of this report.

Save as stated above, as at 30 June 2018, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

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

Substantial Shareholders

As at 30 June 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued shares of the Company (the "Shares"):

Long Positions in Shares

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of issued Shares as at 30.06.2018
Lee Shau Kee	Interest of controlled corporations	1,857,788,706 *(Note 1)*	67.10%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,857,788,706 *(Note 2)*	67.10%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,857,788,706 *(Note 2)*	67.10%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,857,788,706 *(Note 2)*	67.10%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,857,788,706 *(Note 2)*	67.10%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,857,788,706 *(Note 2)*	67.10%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,857,788,706 *(Note 2)*	67.10%
HKCG	Interest of controlled corporations	1,857,788,706 *(Note 3)*	67.10%
Towngas International Company Limited ("TICL")	Interest of controlled corporation	1,697,758,166 *(Note 3)*	61.32%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,697,758,166 *(Note 3)*	61.32%
Towngas Investment Company Limited ("TICL-HK")	Interest of controlled corporations	160,030,540 *(Note 3)*	5.78%
Planwise Properties Limited ("Planwise")	Beneficial owner	157,353,034 *(Note 3)*	5.68%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	193,747,684 *(Note 4)*	6.99%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,857,788,706 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,857,788,706 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,697,758,166 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("Superfun") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 160,030,540 Shares, which included (i) the 157,353,034 Shares held by Planwise; and (ii) the 2,677,506 Shares held by Superfun by virtue of Part XV of the SFO. Subsequent to the reporting period, a total of 37,475,564 new Shares were allotted on 18 July 2018 pursuant to the Company's scrip dividend scheme. As of the date of this report, HKCG was taken to be interested in a total of 1,895,264,270 Shares which were beneficially owned by HK&CG (China) (as to 1,732,005,573 Shares), Planwise (as to 160,527,180 Shares) and Superfun (as to 2,731,517 Shares). The approximate percentage figures of interest of (i) HKCG, (ii) TICL and HK&CG (China), (iii) TICL-HK and (iv) Planwise in the Shares were therefore adjusted to 67.45%, 61.64%, 5.81% and 5.71% respectively.

4. Commonwealth Bank was taken to be interested in these 193,747,684 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2018, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short Positions in Shares and Underlying Shares

As at 30 June 2018, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares.

Other Persons

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any other person who had interest or short position in the Shares or underlying Shares, which are required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Purchases, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2018.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

Board Audit and Risk Committee

The Company has established a board audit and risk committee (the "Board Audit and Risk Committee") in accordance with requirements under the Listing Rules for the purposes of reviewing and supervising the Group's financial reporting processes, risk management and internal control systems.

A Board Audit and Risk Committee meeting was held on 9 August 2018 to review the unaudited condensed consolidated financial statements for the six months ended 30 June 2018. Deloitte Touche Tohmatsu, the Company's external auditor, had carried out a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Updates on Biographical Details of Directors under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the updates on biographical details of Directors are as follows:

Mr. Chan Wing Kin, Alfred *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*
Chairman and Executive Director, Chairman of the Nomination Committee and member of the Remuneration Committee

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

Mr. Li Man Bun, Brian David *JP, FCA, MA (Cantab), MBA*
Independent Non-Executive Director, Chairman of the Board Audit and Risk Committee and member of the Remuneration Committee and the Nomination Committee

Mr. Li was appointed a Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Government of the Hong Kong Special Administrative Region on 20 March 2018 and a Member of the Asian Financial Forum Steering Committee on 1 April 2018. He ceased to be a Member of the Hong Kong-Taiwan Business Co-operation Committee on 31 March 2018 and a Council Member of the Hong Kong Management Association on 5 July 2018.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF TOWNGAS CHINA COMPANY LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 16 to 54, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 August 2018

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue	3	**5,584,184**	4,036,072
Total operating expenses	4	**(4,788,522)**	(3,375,102)
		795,662	660,970
Other losses, net		**(27,926)**	(4,242)
Share of results of associates		**178,683**	182,935
Share of results of joint ventures		**193,164**	153,760
Finance costs	5	**(150,650)**	(122,553)
Profit before taxation	6	**988,933**	870,870
Taxation	7	**(242,149)**	(197,772)
Profit for the period		**746,784**	673,098
Profit for the period attributable to:			
Shareholders of the Company		**663,445**	602,315
Non-controlling interests		**83,339**	70,783
		746,784	673,098
		HK cents	HK cents
Earnings per share	8		
— Basic		**23.96**	22.21

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period	**746,784**	673,098
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences arising on translation to presentation currency	**(272,369)**	354,829
Fair value change on investments in equity instruments at fair value through other comprehensive income	**29,238**	–
Income tax relating to items that will not be reclassified to profit or loss	**(7,310)**	–
Item that may be reclassified subsequently to profit or loss		
Fair value change on available-for-sale investment	**–**	(15,668)
	(250,441)	339,161
Total comprehensive income for the period	**496,343**	1,012,259
Total comprehensive income attributable to:		
Shareholders of the Company	**423,058**	906,787
Non-controlling interests	**73,285**	105,472
Total comprehensive income for the period	**496,343**	1,012,259

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	**30.6.2018**	31.12.2017
		HK$'000	HK$'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	10	**15,675,661**	15,059,560
Leasehold land		**651,043**	613,218
Intangible assets		**516,532**	523,472
Goodwill	11	**5,747,384**	5,824,172
Interests in associates		**4,004,181**	3,935,115
Interests in joint ventures		**2,527,758**	2,407,197
Loan to a joint venture		**23,702**	24,024
Available-for-sale investments		**–**	225,415
Equity instruments at fair value through other comprehensive income		**348,178**	–
		29,494,439	28,612,173
Current assets			
Inventories		**619,897**	636,619
Leasehold land		**29,979**	27,450
Loan to an associate		**11,614**	11,772
Loans to joint ventures		**292,896**	286,298
Loan to a non-controlling shareholder		**–**	17,417
Trade and other receivables, deposits and prepayments	12	**1,500,427**	1,393,144
Amounts due from non-controlling shareholders		**57,066**	63,847
Time deposits over three months		**63,109**	120,790
Bank balances and cash		**1,681,825**	1,605,300
		4,256,813	4,162,637

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018

	NOTES	**30.6.2018** **HK$'000** **(unaudited)**	31.12.2017 HK$'000 (audited)
Current liabilities			
Trade and other payables and accrued charges	14	**2,238,199**	5,173,019
Contract liabilities		**3,065,119**	–
Amounts due to non-controlling shareholders		**165,963**	115,546
Taxation		**790,743**	800,443
Borrowings — amount due within one year	15	**5,057,227**	3,707,803
Loans from joint ventures		**29,071**	49,172
Other financial liabilities		**140,551**	76,172
		11,486,873	9,922,155
Net current liabilities		**(7,230,060)**	(5,759,518)
Total assets less current liabilities		**22,264,379**	22,852,655
Non-current liabilities			
Other financial liabilities		**–**	128,877
Borrowings — amount due after one year	15	**4,360,412**	5,071,862
Deferred taxation		**493,443**	454,100
		4,853,855	5,654,839
Net assets		**17,410,524**	17,197,816
Capital and reserves			
Share capital	16	**276,869**	276,869
Reserves		**15,659,419**	15,568,164
Equity attributable to shareholders of the Company		**15,936,288**	15,845,033
Non-controlling interests		**1,474,236**	1,352,783
Total equity		**17,410,524**	17,197,816

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	General reserves	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017 (audited)	276,869	6,226,762	1,060,747	247,280	(75)	8,033,450	15,845,033	1,352,783	17,197,816
Adjustments (note 2)	–	–	–	–	99,299	(15,799)	83,500	(452)	83,048
At 1 January 2018 (restated)	276,869	6,226,762	1,060,747	247,280	99,224	8,017,651	15,928,533	1,352,331	17,280,864
Exchange differences arising on translation to presentation currency	–	–	(262,315)	–	–	–	(262,315)	(10,054)	(272,369)
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	29,238	–	29,238	–	29,238
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	(7,310)	–	(7,310)	–	(7,310)
Profit for the period	–	–	–	–	–	663,445	663,445	83,339	746,784
Total comprehensive income for the period	–	–	(262,315)	–	21,928	663,445	423,058	73,285	496,343
Transfer	–	–	–	22,846	–	(22,846)	–	–	–
Addition on acquisition of a business (note 19)	–	–	–	–	–	–	–	46,551	46,551
Capital contributed from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	36,027	36,027
Dividends paid to shareholders of the Company	–	(415,303)	–	–	–	–	(415,303)	–	(415,303)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	(33,958)	(33,958)
	–	(415,303)	–	22,846	–	(22,846)	(415,303)	48,620	(366,683)
At 30 June 2018 (unaudited)	**276,869**	**5,811,459**	**798,432**	**270,126**	**121,152**	**8,658,250**	**15,936,288**	**1,474,236**	**17,410,524**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	General reserves	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016 and 1 January 2017 (audited)	271,160	6,281,786	5,141	218,546	25,919	6,696,799	13,499,351	1,164,832	14,664,183
Exchange differences arising on translation to presentation currency	–	–	320,140	–	–	–	320,140	34,689	354,829
Fair value change on available-for-sale investment	–	–	–	–	(15,668)	–	(15,668)	–	(15,668)
Profit for the period	–	–	–	–	–	602,315	602,315	70,783	673,098
Total comprehensive income for the period	–	–	320,140	–	(15,668)	602,315	906,787	105,472	1,012,259
Transfer	–	–	–	5,438	–	(5,438)	–	–	–
Capital contributed from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	11,052	11,052
Dividends paid to shareholders of the Company	–	(325,392)	–	–	–	–	(325,392)	–	(325,392)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	(47,558)	(47,558)
	–	(325,392)	–	5,438	–	(5,438)	(325,392)	(36,506)	(361,898)
At 30 June 2017 (unaudited)	271,160	5,956,394	325,281	223,984	10,251	7,293,676	14,080,746	1,233,798	15,314,544

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	NOTE	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Net cash generated from operating activities		**539,682**	612,532
Investing activities			
Purchases of property, plant and equipment		**(1,110,003)**	(723,868)
Consideration paid for acquisition of businesses acquired in prior periods		**(15,296)**	(10,626)
Net cash outflow on acquisition of a business	19	**(47,655)**	–
Prepayment for acquisition of businesses		**–**	(64,473)
Proceed from disposal of an associate		**–**	29,195
Net settlement of other financial assets/liabilities		**(106,182)**	34,748
Purchase of leasehold land		**(60,248)**	(23,752)
Capital injection into an associate		**–**	(283,938)
Capital injection into a joint venture		**–**	(45,148)
Repayment of loan from a non-controlling shareholder		**17,417**	–
Repayment of loan from joint ventures		**–**	7,786
Dividends received from joint ventures		**33,704**	7,956
Dividends received from associates		**79,025**	176,332
Dividends received from			
— an available-for-sale investment		**–**	58,883
— equity instruments at fair value through other comprehensive income		**53,480**	–
Decrease in time deposits over three months		**56,063**	53,944
Other investing cash flows		**(8,286)**	15,559
Net cash used in investing activities		**(1,107,981)**	(767,402)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Financing activities		
Repayments of bank and other loans	**(4,132,011)**	(1,763,988)
Dividends paid to non-controlling shareholders of subsidiaries	**(33,958)**	(47,558)
New bank and other loans raised	**4,837,768**	2,106,628
Capital contribution from non-controlling shareholders of subsidiaries	**36,027**	11,052
Repayment of loans to joint ventures	**(20,101)**	–
Net cash generated from financing activities	**687,725**	306,134
Net increase in cash and cash equivalents	**119,426**	151,264
Cash and cash equivalents at beginning of the period	**1,605,300**	1,351,072
Effect of foreign exchange rate changes	**(42,901)**	8,050
Cash and cash equivalents at end of the period, representing bank balances and cash	**1,681,825**	1,510,386

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company ("Directors"), the Group's parent and ultimate holding company is The Hong Kong and China Gas Company Limited ("HKCG"), a limited company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The functional currency of the Company is Renminbi ("RMB"). The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules").

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$7,230 million as at 30 June 2018. The Group's liabilities as at 30 June 2018 included borrowings of approximately HK$5,057 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the condensed consolidated financial statements, the Group had unutilised facilities (the "Facilities") amounting to approximately HK$3,811 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$5,057 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

Taking into account of the internally generated funds and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of piped gas (mainly natural gas) and gas related household appliances

- Construction of gas pipeline networks under gas connection contracts

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard, if any, recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Key changes in accounting policies resulting from application of HKFRS 15 (continued)

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output Method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15

As at 30 June 2018, the Group's contract assets have been included in trade and other receivables, deposits and prepayments.

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue in the current interim period and retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS15 at 1 January 2018*
		HK$'000	HK$'000	HK$'000
Current liabilities				
Trade and other payables and accrued charges	(a)	5,173,019	(3,092,720)	2,080,299
Contract liabilities	(a)	–	3,092,720	3,092,720

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

(a) As at 1 January 2018, receipt in advance of HK$3,092,720,000 previously included in trade and other payables and accrued charges were reclassified to contract liabilities of HK$3,092,720,000.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Current liabilities			
Trade and other payables and accrued charges	2,238,199	3,065,119	5,303,318
Contract liabilities	3,065,119	(3,065,119)	–

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and contract assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other losses, net" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other losses, net" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 2.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables, contract assets, amounts due from non-controlling shareholders, time deposits over three months and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on debtors' aging when necessary.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the contractual payments are more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments/receivables.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial liabilities (continued)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments HK$'000	Equity instruments at FVTOCI HK$'000	Trade and other receivables deposits and prepayments HK$'000	Interests in associates HK$'000	Interests in joint ventures HK$'000	Deferred taxation HK$'000	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Non-controlling interests HK$'000
Closing balance at 31 December 2017 — HKAS 39		225,415	–	1,393,144	3,935,115	2,407,197	454,100	(75)	8,033,450	1,352,783
Effect arising from initial application of HKFRS 9:										
Reclassification										
From available-for-sale investments	(a)	(225,415)	225,415	–	–	–	–	–	–	–
Remeasurement										
Impairment under ECL model	(b & c)	–	–	(5,641)	(4,110)	(7,910)	(1,410)	–	(15,799)	(452)
From cost less impairment to fair value	(a & c)	–	97,444	–	26,216	–	24,361	99,299	–	–
Opening balance at 1 January 2018		–	322,859	1,387,503	3,957,221	2,399,287	477,051	99,224	8,017,651	1,352,331

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes:

(a) Available-for-sale investments

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale, of which HK$160,485,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future.

At the date of initial application of HKFRS 9, HK$225,415,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK$160,485,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$97,444,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investment revaluation reserve as at 1 January 2018, and the corresponding deferred tax impact of HK$24,361,000 were adjusted to deferred taxation and investment revaluation reserve as at 1 January 2018. The fair value losses of HK$75,000 relating to the Group's investment previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of time deposits over three months, bank balances, loans to joint ventures, an associate and a non-controlling shareholder and other receivables and deposits, are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$5,641,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset. As at 31 December 2017, the loss allowance for trade receivables amounted to HK$118,933,000 under HKAS 39. With the aforesaid additional credit loss allowance of HK$5,641,000, the loss allowance for trade receivables as at 1 January 2018 amounted to HK$124,574,000 under HKFRS 9.

(c) Interests in associates/joint ventures

The initial application of HKFRS 9 resulted in a net increase in interests in associates of HK$22,106,000 (which is arising from the impacts relating to additional loss allowance for trade receivables under ECL model amounting to HK$4,110,000 and fair value gains net of deferred taxation of HK$26,216,000 relating to associates' unquoted equity investments previously measured at cost less impairment under HKAS 39) with corresponding adjustments to retained earnings and investment revaluation reserve by debit of HK$4,110,000 and credit of HK$26,216,000 respectively.

The initial application of HKFRS 9 resulted in a decrease in interests in joint ventures of HK$7,910,000 (which is arising from the impact relating to additional loss allowance for trade receivables under ECL model amounting to HK$7,910,000) with corresponding adjustment to retained earnings by debit of HK$7,910,000.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the individual line items affected. Line items that were not affected by the adjustments have not been included.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Non-current assets				
Interests in associates	3,935,115	–	22,106	3,957,221
Interests in joint ventures	2,407,197	–	(7,910)	2,399,287
Available-for-sale investments	225,415	–	(225,415)	–
Equity instruments at fair value through other comprehensive income	–	–	322,859	322,859
Current asset				
Trade and other receivables, deposits and prepayments	1,393,144	–	(5,641)	1,387,503
Current liabilities				
Trade and other payables and accrued charges	5,173,019	(3,092,720)	–	2,080,299
Contract liabilities	–	3,092,720	–	3,092,720
Non-current liability				
Deferred taxation	454,100	–	22,951	477,051
Equity attributable to shareholders of the Company	15,845,033	–	83,500	15,928,533
Non-controlling interests	1,352,783	–	(452)	1,352,331

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

New significant judgements and key sources of estimation uncertainty related to the application of HKFRS 9

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the Group's annual financial statements for the year ended 31 December 2017, except for impairment assessment of financial assets (under HKFRS 9 subject to the ECL model rather than incurred loss model under HKAS 39) and measurement of unquoted equity investments, (subject to fair value measurement under HKFRS 9 rather than measurement of cost less impairment under HKAS 39). Details are disclosed in notes 13 and 18 respectively.

3. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	–	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contribute to less than 5% of the Group's total revenue.

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other losses, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Amount of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

Information regarding these segments is presented below.

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
Six months ended 30 June 2018			
REVENUE			
External	**4,728,376**	**855,808**	**5,584,184**
Segment results	**466,068**	**405,133**	**871,201**
Other losses, net			**(27,926)**
Unallocated corporate expenses			**(75,539)**
Share of results of associates			**178,683**
Share of results of joint ventures			**193,164**
Finance costs			**(150,650)**
Profit before taxation			**988,933**
Taxation			**(242,149)**
Profit for the period			**746,784**

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
Six months ended 30 June 2017			
REVENUE			
External	3,272,484	763,588	4,036,072
Segment results	340,416	386,743	727,159
Other losses, net			(4,242)
Unallocated corporate expenses			(66,189)
Share of results of associates			182,935
Share of results of joint ventures			153,760
Finance costs			(122,553)
Profit before taxation			870,870
Taxation			(197,772)
Profit for the period			673,098

The Group's revenue from contracts with customers has been disaggregated as (i) sales and distribution of piped gas and related products of HK$4,728,376,000 and (ii) gas connection of HK$855,808,000 for the six months ended 30 June 2018.

4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Gas fuel, stores and materials used	**3,784,993**	2,531,624
Staff costs	**470,209**	405,466
Depreciation, amortisation, and release of leasehold land	**308,527**	258,498
Other expenses	**224,793**	179,514
	4,788,522	3,375,102

5. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interest on bank and other borrowings	**158,241**	130,346
Bank charges	**2,952**	2,695
	161,193	133,041
Less: amounts capitalised	**(10,543)**	(10,488)
	150,650	122,553

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**9,988**	9,231
Release of leasehold land	**10,264**	9,638
Cost of inventories sold	**4,104,308**	2,805,102
Depreciation of property, plant and equipment	**288,275**	239,629
Staff costs	**470,209**	405,466
Exchange loss	**60,741**	–
Change in fair value of other financial assets/liabilities	**41,638**	183,459
and after crediting:		
Interest income	**7,825**	11,490
Dividend income from		
— an available-for-sale investment	**–**	58,883
— equity instruments at fair value through other comprehensive income	**53,480**	–
Exchange gain	**–**	91,007

7. TAXATION

The taxation charge represents Enterprise Income Tax ("EIT") of the PRC for both periods.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2017: 15% to 25%).

Following the Catalogue of Encouraged Industries in Western Region which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Earnings for the purposes of basic earnings per share, being profit for the period attributable to shareholders of the Company	**663,445**	602,315

	Number of shares Six months ended 30 June	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,768,690**	2,711,602

No diluted earnings per share for both periods were presented as there were no potential ordinary shares in issue for both periods.

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil). During the period, a dividend of HK fifteen cents per ordinary share (2017: HK twelve cents per ordinary share) amounting to HK$415,303,000 was declared by the Board as the final dividend for 2017 (HK$325,392,000 for 2016).

The final dividend for 2017 was payable in cash but shareholders were given the option of electing to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. Subsequent to the reporting period, on 18 July 2018, the final dividend of HK fifteen cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders as the final dividend in respect of the financial year ended 31 December 2017.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent HK$1,134,090,000 (2017: HK$734,356,000) on additions to property, plant and equipment, including HK$605,744,000 (2017: HK$537,398,000) on the construction in progress of pipelines and HK$528,346,000 (2017: HK$196,958,000) on other plant and equipment.

11. GOODWILL

	HK$'000
At 31 December 2017	5,824,172
Currency realignment	(78,056)
Provisional amount acquired on acquisition of a business *(note 19)*	1,268
At 30 June 2018	5,747,384

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2018	31.12.2017
	HK$'000	HK$'000
Trade receivables	**678,217**	710,349
Prepayments	**544,793**	461,746
Other receivables and deposits	**277,417**	221,049
	1,500,427	1,393,144

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables (net of impairment losses) of HK$678,217,000 (31 December 2017: HK$710,349,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.6.2018	31.12.2017
	HK$'000	HK$'000
0 to 90 days	**510,351**	551,597
91 to 180 days	**61,777**	45,781
Over 180 days	**106,089**	112,971
	678,217	710,349

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on gas connection. The contract assets are transferred to trade receivables when the rights become unconditional.

Details of the impairment assessment are set out in note 13.

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The Group used estimated loss rates ranging from 0% to 30% based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided additional HK$3,988,000 impairment allowance based on the provision matrix approach.

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (CONTINUED)

Allowance for impairment

The movement in the allowance for impairment in respect of trade and other receivables during the current interim period was as follows.

	HK$'000
Balance at 1 January 2018*	124,574
Net remeasurement of loss allowance	3,988
Balance at 30 June 2018	128,562

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2018	31.12.2017
	HK$'000	HK$'000
Trade payables	**1,047,406**	1,197,993
Receipt in advance	**–**	3,092,720
Consideration payable for acquisitions of businesses	**76,245**	100,591
Other payables and accruals	**1,110,901**	780,852
Amount due to ultimate holding company *(note)*	**3,647**	863
	2,238,199	5,173,019

Note: The amount is unsecured, interest-free and repayable on demand.

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES (CONTINUED)

Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2018	31.12.2017
	HK$'000	HK$'000
0 to 90 days	**565,405**	775,346
91 to 180 days	**160,081**	139,989
181 to 360 days	**184,731**	137,281
Over 360 days	**137,189**	145,377
	1,047,406	1,197,993

15. BORROWINGS

	30.6.2018	31.12.2017
	HK$'000	HK$'000
Bank loans — unsecured	**9,377,680**	8,739,164
Other loans — unsecured	**39,959**	40,501
	9,417,639	8,779,665
Carrying amount repayable:		
On demand or within one year	**5,057,227**	3,707,803
More than one year but not exceeding two years	**719,646**	2,804,347
More than two years but not exceeding five years	**3,620,104**	2,246,573
More than five years	**20,662**	20,942
	9,417,639	8,779,665
Less: Amount due within one year shown under current liabilities	**(5,057,227)**	(3,707,803)
Amount due after one year	**4,360,412**	5,071,862

16. SHARE CAPITAL

Authorised shares of HK$0.10 each

	Number of shares	**Share capital** HK$'000
At 31 December 2017 and 30 June 2018	5,000,000,000	500,000

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	**Share capital** HK$'000
At 31 December 2017 and 30 June 2018	2,768,689,545	276,869

17. CAPITAL COMMITMENTS

Except as disclosed elsewhere in the condensed consolidated financial statements, the Group has the following significant capital commitments at the end of the reporting period:

	30.6.2018 **HK$'000**	31.12.2017 HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**242,115**	180,941
— acquisition of businesses	**18,962**	19,219
— acquisition of an associate	**–**	86,486

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/liabilities	Fair value as at 30.6.2018	Fair value as at 31.12.2017	Fair value hierarchy	Valuation techniques and key inputs
Listed equity investment classified as available-for-sale investment in the condensed consolidated statement of financial position	Asset — Nil	Asset — HK$64,930,000	Level 1	Quoted market price
Listed equity investment classified as FVTOCI in the condensed consolidated statement of financial position	Asset — HK$48,580,000	Asset — Nil	Level 1	Quoted market price
Cross currency swaps classified as other financial assets in the condensed consolidated statement of financial position	Assets — HK$41,410,000 Liabilities — Nil	Asset — Nil Liabilities — HK$38,733,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Foreign currency forward contracts classified as other financial assets/liabilities in the condensed consolidated statement of financial position	Liabilities — HK$99,141,000	Liabilities — HK$166,316,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/liabilities	Fair value as at 30.6.2018	31.12.2017	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Unquoted equity investments	Assets — HK$299,598,000	N/A	Level 3	Market comparable approach	Market multiples ranging from 1.0 to 1.5 and discount for lack of marketability ranging from 0% to 30% (note)

Note: The higher the market multiples, the higher the fair value, and vice versa. The higher the discount, the lower the fair value, and vice versa.

Reconciliation of Level 3 fair value measurements of financial assets

	HK$'000
Balance at 1 January 2018*	257,929
Currency realignment	(3,573)
Fair value change recognised to other comprehensive income	45,242
Balance at 30 June 2018	299,598

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs to the model. The management reports the findings to the Directors half yearly to explain the cause of fluctuations in the fair value of the assets and liabilities.

There were no transfers between Level 1, 2 and 3 in the period.

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

19. ACQUISITION OF A BUSINESS

During the six months ended 30 June 2018, the Group acquired the following business which is principally engaged in the operation of distributed energy and other related business in the PRC. The primary reason for the below acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK$'000
Business combination in:			
徐州工業園區中港熱力有限公司 ("Xuzhou")	January 2018	51%	49,719

The acquisition-related costs were insignificant and were recognised as expenses in the current period, within other expenses of note 4.

Details of provisional fair value of net identifiable assets acquired and provisional goodwill arising on acquisition are as follows:

	Xuzhou HK$'000
Purchase consideration	49,719
Non-controlling interests	46,551
Acquiree's provisional fair value of net identifiable assets acquired (see below)	(95,002)
Provisional goodwill arising on acquisition	1,268

The non-controlling interests recognised at the acquisition date in respect of the acquisition in 2018 were measured by reference to the proportionate share of provisional fair values of the acquiree's net assets at the acquisition date and amounted to HK$46,551,000.

19. ACQUISITION OF A BUSINESS (CONTINUED)

The net identifiable assets acquired in the transaction are as follows:

Acquiree's provisional fair values at acquisition date:

	Xuzhou
	HK$'000
Net assets acquired:	
Property, plant and equipment	13,544
Prepayments	86,909
Bank balances and cash	2,064
Other payables and accrued charges	(7,515)
	95,002

Net cash outflow arising on acquisition:

	Xuzhou
	HK$'000
Purchase consideration	49,719
Bank balances and cash acquired	(2,064)
	47,655

Provisional goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business.

None of the provisional goodwill arising on this acquisition is expected to be deductible for tax purposes.

The provisional goodwill arising from the above acquisition is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the valuation to assess the provisional fair value of the identifiable assets acquired. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

19. ACQUISITION OF A BUSINESS (CONTINUED)

During the period, acquired business contributed HK$2,093,000 to the Group's revenue and incurred loss of HK$1,365,000 for the period between the date of acquisition and the end of the reporting period.

Had the above acquisition been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been HK$5,584,184,000, and the amount of the profit for the interim period would have been HK$746,784,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the following related party transactions took place during the period:

		Six months ended 30 June	
Name of related party	**Nature of transactions**	**2018**	2017
		HK$'000	HK$'000
GH — Fusion Corporation Limited *(note b)*	Purchase of pipeline construction materials and tools	**476**	419
Shanxi ECO Coalbed Methane Co., Ltd. *(note a)*	Purchase of coalbed methane	**1,845**	3,667
Hongkong and China Technology (Wuhan) Company Limited *(note a)*	System software and supporting services	**4,593**	3,001
Anhui Province Natural Gas Development Co., Ltd. *(note b)*	Purchase of compressed natural gas	**42,369**	42,143
Maanshan Hong Kong and China Gas Company Limited *(note c)*	Purchase of natural gas	**25,408**	17,514
Shenyang Sanquan Project Management Consulting Co., Ltd. *(note a)*	Project management services	**4,400**	3,742

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June 2018 HK$'000	2017 HK$'000
Shandong Hong Kong and China Gas Training Institute *(note a)*	Training services	**974**	1,319
M-Tech Metering Solution (Shenzhen) Co., Ltd. *(note a)*	Purchase of pipeline construction materials and tools	**12,176**	5,308
G-Tech Piping Tech (Zhongshan) Ltd. *(note a)*	Purchase of pipeline construction materials and tools	**52,524**	41,836
Zhuhai S-Tech Technology Limited *(note a)*	Provision of system software, cloud computing system and safety inspection supporting services	**2,427**	83
Chaozhou Hong Kong and China Gas Company Limited *(note a)*	Processing services charges of natural gas	**645**	363
南京港華能源投資發展有限公司 *(note b)*	Purchase of liquefied natural gas	**–**	2,665
南京港華棲霞燃氣有限公司 *(note b)*	Purchase of liquefied natural gas	**–**	3,793
Qingyuan Zhuojia Public Engineering Materials Co., Ltd. *(note b)*	Purchase of pipeline construction materials and tools	**4,006**	3,497
港華國際能源貿易有限公司 *(note a)*	Purchase of liquefied natural gas	**42,134**	10,416
Changzhou Dongli Hong Kong and China Gas Company Limited *(note b)*	Purchase of natural gas	**22,432**	–
Guangzhou Hong Kong and China Gas Company Limited *(note a)*	Sale of natural gas	**19,255**	–

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions	Six months ended 30 June 2018 HK$'000	2017 HK$'000
Zhuojia Public Engineering (Maanshan) Co., Ltd. *(note b)*	Processing of pipeline materials	**2,421**	1,993
Xuzhou Hong Kong and China Gas Company Limited *(note a)*	Purchase of natural gas	**4,496**	383
Jiangsu Overseas Hong Kong and China Gas Co., Ltd. *(note b)*	Purchase of pipeline construction materials and tools	**828**	835

Notes:

(a) HKCG had controlling interests in these companies.

(b) HKCG had significant influences in these companies.

(c) The Group jointly controlled this company with an independent third party.