

consolidated profit and loss account

for the year ended 31st December 2004

	Note	2004 HK\$ M	2003 HK\$ M
Turnover	2	<u>8,154.0</u>	<u>7,288.8</u>
Operating Profit before Returns on Investments	3	3,356.7	3,274.1
Investment Income		113.8	148.9
Interest Income		95.8	74.5
Interest Expense	4	(8.4)	(5.5)
Share of Profits less Losses of Associated Companies		108.5	300.3
Share of Profits less Losses of Jointly Controlled Entities		<u>51.5</u>	<u>7.4</u>
Profit before Taxation	5	3,717.9	3,799.7
Taxation	8	<u>(653.3)</u>	<u>(735.2)</u>
Profit after Taxation		3,064.6	3,064.5
Minority Interests		<u>(12.9)</u>	<u>(13.6)</u>
Profit Attributable to Shareholders	9	<u>3,051.7</u>	<u>3,050.9</u>
Dividends	10	<u>1,966.7</u>	<u>1,975.2</u>
Earnings per Share, HK cents	11	<u>54.2</u>	<u>53.9</u>

consolidated balance sheet

as at 31st December 2004

	Note	2004 HK\$ M	2003 HK\$ M
Assets			
Non-Current Assets			
Fixed Assets	12	10,308.4	9,644.3
Associated Companies	14	3,385.1	2,703.8
Jointly Controlled Entities	15	2,597.6	2,558.9
Investment Securities	16	624.3	861.3
		<u>16,915.4</u>	<u>15,768.3</u>
Current Assets			
Properties under Development for Sale	17	1,262.3	1,105.7
Inventories	18	732.7	658.5
Debtors and Payment in Advance	19	1,451.7	1,688.9
Housing Loans to Staff	20	127.1	147.5
Trading Securities	21	812.2	392.6
Time Deposits, Cash and Bank Balances	22	2,202.7	1,998.2
		<u>6,588.7</u>	<u>5,991.4</u>
Current Liabilities			
Trade and Other Payables	23	(878.9)	(700.4)
Provision for Taxation		(180.8)	(221.8)
Bank Loans and Overdrafts	24	(2,742.4)	(2,281.5)
		<u>(3,802.1)</u>	<u>(3,203.7)</u>
Net Current Assets			
		<u>2,786.6</u>	<u>2,787.7</u>
Total Assets less Current Liabilities			
		<u>19,702.0</u>	<u>18,556.0</u>
Non-Current Liabilities			
Customers' Deposits		(937.0)	(890.3)
Deferred Taxation	25	(985.3)	(905.0)
Deferred Liabilities	26	(46.4)	(56.7)
		<u>(1,968.7)</u>	<u>(1,852.0)</u>
Minority Interests			
		<u>(339.2)</u>	<u>(222.5)</u>
Net Assets			
		<u>17,394.1</u>	<u>16,481.5</u>
Capital and Reserves			
Share Capital	27	1,403.7	1,410.9
Share Premium	28	3,907.8	3,907.8
Reserves	29	10,791.2	9,864.8
Proposed Dividend	29	1,291.4	1,298.0
		<u>17,394.1</u>	<u>16,481.5</u>

Approved by the Board of Directors on 11th March 2005

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 59 to 92 form part of these accounts.

balance sheet

as at 31st December 2004

	Note	2004 HK\$ M	2003 HK\$ M
Assets			
Non-Current Assets			
Fixed Assets	12	8,620.2	8,402.2
Subsidiaries	13	3,367.5	3,051.7
Associated Companies	14	269.3	418.3
Jointly Controlled Entities	15	66.8	9.2
Investment Securities	16	15.5	15.5
		<u>12,339.3</u>	<u>11,896.9</u>
Current Assets			
Inventories	18	661.6	626.1
Debtors and Payment in Advance	19	1,282.2	1,316.0
Housing Loans to Staff	20	127.1	147.5
Trading Securities	21	53.5	–
Time Deposits, Cash and Bank Balances	22	712.2	870.1
		<u>2,836.6</u>	<u>2,959.7</u>
Current Liabilities			
Trade and Other Payables	23	(472.8)	(543.5)
Provision for Taxation		(142.9)	(183.9)
Bank Loans and Overdrafts	24	(309.6)	(408.4)
		<u>(925.3)</u>	<u>(1,135.8)</u>
Net Current Assets		<u>1,911.3</u>	<u>1,823.9</u>
Total Assets less Current Liabilities		<u>14,250.6</u>	<u>13,720.8</u>
Non-Current Liabilities			
Customers' Deposits		(937.0)	(890.3)
Deferred Taxation	25	(931.0)	(870.6)
Deferred Liabilities	26	(46.4)	(56.7)
		<u>(1,914.4)</u>	<u>(1,817.6)</u>
Net Assets		<u>12,336.2</u>	<u>11,903.2</u>
Capital and Reserves			
Share Capital	27	1,403.7	1,410.9
Share Premium	28	3,907.8	3,907.8
Reserves	29	5,733.3	5,286.5
Proposed Dividend	29	1,291.4	1,298.0
		<u>12,336.2</u>	<u>11,903.2</u>

Approved by the Board of Directors on 11th March 2005

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 59 to 92 form part of these accounts.

consolidated cash flow statement

for the year ended 31st December 2004

	Note	2004		2003	
		HK\$ M	HK\$ M	HK\$ M	HK\$ M
Net Cash Inflow from Operating Activities	33		3,349.5		3,048.2
Investing Activities					
Receipt from Sale of Fixed Assets		4.6		0.9	
Purchase of Fixed Assets		(1,007.4)		(676.9)	
Payment for Properties under Development		(175.5)		(61.0)	
Increase in Investments in Associated Companies		(99.5)		(7.6)	
Increase in Loans to Associated Companies		(217.8)		(316.4)	
Repayment of Loans by Associated Companies		214.1		479.9	
Increase in Investment in Jointly Controlled Entities		(179.5)		(712.9)	
Increase in Loans to Jointly Controlled Entities		(914.2)		(1,626.4)	
Repayment of Loans by Jointly Controlled Entities		1,159.5		28.4	
Prepayment for Investment in a PRC Joint Venture		–		(256.0)	
Acquisition of a Subsidiary	34	(6.1)		1.7	
Sale of Investments in Securities		957.6		1,986.7	
Purchase of Investments in Securities		(1,090.2)		(1,058.7)	
Decrease in Time Deposits over three months		45.4		390.8	
Interest Received	35	100.0		85.6	
Dividends Received from Investments in Securities		33.2		43.6	
Dividends Received from an Associated Company		1.5		–	
Net Cash Used in Investing Activities			(1,174.3)		(1,698.3)
Financing					
Shares Repurchased	29	(413.8)		(450.6)	
Repayment to Minority Shareholders	36	(1.7)		(0.8)	
Capital Injection by Minority Shareholders	36	17.7		25.3	
Increase in Bank Loans	36	4,465.5		3,257.5	
Repayment of Bank Loans	36	(4,004.3)		(2,724.3)	
Interest Paid	35	(19.8)		(22.4)	
Dividends Paid	29	(1,973.3)		(1,982.5)	
Net Cash Used in Financing Activities			(1,929.7)		(1,897.8)
Increase/ (Decrease) in Cash and Cash Equivalents			245.5		(547.9)
Cash and Cash Equivalents at 1st January			1,589.9		2,142.7
Effect of Foreign Exchange Rate Changes			4.6		(4.9)
Cash and Cash Equivalents at 31st December			1,840.0		1,589.9
Analysis of the Balances of Cash and Cash Equivalents					
Cash and Bank Balances		454.1		301.7	
Time Deposits up to three months		1,394.2		1,296.8	
Bank Overdrafts		(8.3)		(8.6)	
		1,840.0		1,589.9	

The notes on pages 59 to 92 form part of these accounts.

consolidated statement of changes in equity

for the year ended 31st December 2004

	Note	2004 HK\$ M	2003 HK\$ M
Total Equity as at 1st January		16,481.5	15,828.6
Gains not recognised in the Profit and Loss Account			
Share of Revaluation Surplus of an Associated Company	29	248.0	35.1
Profit Attributable to Shareholders for the year	29	3,051.7	3,050.9
Shares Repurchased	29	(413.8)	(450.6)
Dividends Paid	29	(1,973.3)	(1,982.5)
Total Equity as at 31st December		17,394.1	16,481.5

notes to the accounts

1. Principal Accounting Policies

(a) Basis of Preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention as modified by the revaluation of certain land, properties under development and trading securities.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operation and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill/ negative goodwill or goodwill/ negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Investments in subsidiaries are stated in the accounts of the Company at cost less provision, if necessary, for any impairment, plus amounts due from/ to the relevant companies.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associated Companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies and also goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

In the Company’s balance sheet, investments in associated companies are stated at cost less provision, if necessary, for any impairment. The results of the associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

notes to the accounts

1. Principal Accounting Policies (continued)

(e) Jointly Controlled Entities

A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and also goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less provision, if necessary, for any impairment. The results of the jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(f) Foreign Currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

(g) Fixed Assets

Fixed assets other than properties under development are stated at cost or valuation less accumulated depreciation and accumulated impairment. Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their estimated useful lives. The capitalised costs in respect of capital work in progress include direct materials, direct labour costs, subcontracting costs and other direct overheads.

Properties under development are investments in land and buildings in which construction work has not been completed and which, upon completion, management intends to hold for investment purposes. These properties are carried at cost or valuation which include development expenditures incurred, capitalised interest and other direct costs attributable to the development less any impairment. On completion, the properties are transferred to investment properties.

Depreciation of fixed assets is calculated on a straight-line basis to write off the cost or valuation less accumulated impairment of each asset over its estimated useful life commencing from the month following the date of commissioning or acquisition.

1. Principal Accounting Policies (continued)

(g) Fixed Assets (continued)

Depreciation periods are as follows:

Land	Over unexpired terms of the leases
Capital Work in Progress	No depreciation
Properties under Development	No depreciation
Vehicles, Office Furniture and Equipment	5 – 10 years
Compressors	10 years
Production Plant	10 – 30 years
Meters and Installations	10 – 20 years
Risers, Gasholders, Office, Store and Buildings	30 years
Gas Mains	40 years

During the year, the Directors have reviewed the useful lives of the production plant at Tai Po and considered it appropriate to revise its estimated useful lives from 25 to 30 years. This represents a change in accounting estimates and the Group's depreciation charge for the current year was reduced by approximately HK\$20.8 million.

Effective from 1st January 1994, no further revaluations of the Group's land and properties under development have been carried out. The Group places reliance on paragraph 80 of SSAP 17, "Property, Plant and Equipment", which provides exemption from the need to make regular revaluations for such assets.

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether their recoverable amounts have declined below their carrying amounts. If there is any indication that a fixed asset is impaired, the recoverable amount of the relevant asset is estimated and where relevant, an impairment is recognised to reduce the asset to its recoverable amount. Such an impairment is recognised in the profit and loss account except where the asset is carried at valuation and the impairment does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease.

Profit or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the asset is transferred to retained earnings and is shown as a movement in reserves.

(h) Investments in Securities

Investments in securities represent equity and debt securities. Securities which are intended to be held on a continuing basis and for an identified long-term purpose are classified as investment securities. Securities not classified as investment securities are classified as trading securities.

(i) Investment Securities

Investment securities are stated at cost less any provision for impairment.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of the relevant security will be reduced to its fair value. The impairment is recognised as an expense in the profit and loss account. The impairment is written back to the profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

notes to the accounts

1. Principal Accounting Policies (continued)

(h) Investments in Securities (continued)

(ii) Trading Securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from changes in fair values of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Properties under Development for Sale

Properties under development for sale are stated at the lower of carrying amount and net realisable value. Carrying amount includes the fair value of the land at the date of transfer from properties under development previously included in fixed assets and development expenditures incurred, capitalised interest and other direct costs attributable to the development.

Net realisable value represents the estimated selling price as determined by reference to prevailing market conditions, less the estimated costs to be incurred in completing and selling the property.

(j) Inventories

Inventories comprise stores and materials and work in progress, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Accounts Receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(m) Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(n) Revenue Recognition

- (i) Town gas sales – based on gas consumption derived from meter readings.
- (ii) Liquefied petroleum gas sales – upon completion of the gas filling transaction.
- (iii) Equipment sales – upon completion of installation work or when equipment, materials and parts are delivered to customers and title has passed.
- (iv) Maintenance, services and other charges – when services are provided and invoiced.
- (v) Interest income – recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (vi) Dividend income – recognised when the right to receive payment is established.
- (vii) Sales of investments in securities – recognised upon the conclusion of the contract notes.

1. Principal Accounting Policies (continued)

(o) Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing companies are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(p) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Employee Benefits

- (i) Salaries, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Group.
- (ii) The Group operates a number of defined contribution and defined benefit retirement schemes and the assets of the schemes are held separately from those of the Group in independently administered funds. The retirement schemes are funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

Defined contribution retirement schemes

The Group contributes to defined contribution retirement schemes and Mandatory Provident Fund schemes which are available to salaried employees. The Group's contributions to these retirement schemes are calculated as a percentage of the employees' basic salaries or relevant income and are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

Defined benefit retirement schemes

The Group also operates two defined benefit retirement schemes. The Workmen Retirement Scheme provides benefit to employees based on final salary and the Local Employees Provident Scheme provides benefit based on fixed contributions with a guaranteed return. For the Local Employees Provident Scheme, as the contributions made by the Group and the employees before 1st July 2003 are subject to minimum guaranteed return, this part of the scheme constitutes a defined benefit scheme. Effective from 1st July 2003, members have been offered investment choices without any minimum guaranteed return, this part of the scheme is therefore a defined contribution scheme because the minimum guaranteed return is no longer applicable.

The Group's net obligation in respect of the defined benefit retirement schemes is calculated separately for each scheme using the projected unit credit method. The costs of providing scheme benefit are charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with advice of the actuaries who carry out a full valuation of the schemes annually. The benefit obligation is measured as the present value of the estimated future benefit that employees have earned for their service in the current and prior years using interest rates of government bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefit becomes vested.

notes to the accounts

1. Principal Accounting Policies (continued)

(r) Provisions and Contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. Turnover

The Group's principal activity is the production, distribution and marketing of gas and related activities in Hong Kong which accounts for more than 90 per cent of the Group's turnover and trading results. Accordingly, no segmental analysis is presented. Turnover comprises the following:

	Group	
	2004 HK\$ M	2003 HK\$ M
Gas Sales before Fuel Cost Adjustment	6,202.7	5,940.0
Fuel Cost Adjustment	666.5	184.7
Gas Sales after Fuel Cost Adjustment	6,869.2	6,124.7
Equipment Sales	769.8	759.3
Maintenance and Services	236.5	231.0
Other Sales	278.5	173.8
	8,154.0	7,288.8

3. Operating Profit before Returns on Investments

	Group	
	2004 HK\$ M	2003 HK\$ M
Turnover	8,154.0	7,288.8
Less Expenses:		
Stores and Materials Used	(2,953.3)	(2,185.4)
Manpower Costs (Note 6)	(719.7)	(708.7)
Depreciation	(449.8)	(440.8)
Other Operating Items	(674.5)	(679.8)
Operating Profit before Returns on Investments	<u>3,356.7</u>	<u>3,274.1</u>

4. Interest Expense

	Group	
	2004 HK\$ M	2003 HK\$ M
Interest on Bank Loans and Overdrafts	19.7	20.9
Interest on Customers' Deposits	0.2	0.1
	<u>19.9</u>	<u>21.0</u>
Less: Amount Capitalised	(11.5)	(15.5)
	<u>8.4</u>	<u>5.5</u>

notes to the accounts

5. Profit before Taxation

	Group	
	2004 HK\$ M	2003 HK\$ M
Profit before Taxation is stated after crediting and charging the following:		
Crediting:		
Dividend Income from Equity Securities		
– Listed	31.8	42.5
– Unlisted	1.4	1.1
Interest Income from Debt Securities		
– Listed	7.5	30.8
– Unlisted	49.3	9.0
Exchange Gain	23.5	2.4
Net Realised and Unrealised Gains on Investments in Securities	57.1	97.7
Charging:		
Cost of Inventories Sold	3,203.7	2,496.2
Depreciation	449.8	440.8
Operating Lease Rentals – Land and Buildings	23.2	23.6
Auditors' Remuneration	2.4	2.0
Net Loss on Residential Maintenance (Note)	0.7	0.5
Note		
Analysis of Net Loss on Residential Maintenance:		
Residential Maintenance Revenue	(169.5)	(164.7)
Less Expenses:		
Salaries and Wages	88.9	87.4
Other Operating and Administrative Expenses	81.3	77.8
Net Loss	0.7	0.5

6. Manpower Costs

	Group	
	2004 HK\$ M	2003 HK\$ M
Salaries and Wages	629.8	605.9
Pension Costs – Defined Contribution Retirement Schemes	90.6	51.8
Pension Costs – Defined Benefit Retirement Schemes (Note 26)	(0.7)	51.0
	719.7	708.7

7. Directors' and Senior Management's Emoluments

(a) Directors' Emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$ M	2003 HK\$ M
Fees	1.6	1.6
Salaries, Allowances and Benefits in Kind	10.2	10.6
Performance Bonus	16.7	11.2
Contributions to Retirement Scheme	6.5	6.4
	<u>35.0</u>	<u>29.8</u>

Number of directors whose emoluments fell within:

Emoluments Band (HK\$ M)	2004	2003
0.0 – 1.0	8	8
8.5 – 9.0	–	2
9.0 – 9.5	2	–
10.5 – 11.0	–	1
15.0 – 15.5	1	–

During the year, the independent non-executive directors of the Company received directors' fees of HK\$0.5 million (2003: HK\$0.4 million) and gas allowances of HK\$0.2 million (2003: HK\$0.2 million).

(b) Five Highest Paid Individuals

The above analysis includes three (2003: three) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining two (2003: two) individuals are as follows:

	2004 HK\$ M	2003 HK\$ M
Salaries, Allowances and Benefits in Kind	3.4	3.6
Performance Bonus	3.5	3.4
Contributions to Retirement Scheme	0.9	0.9
	<u>7.8</u>	<u>7.9</u>

Number of individuals whose emoluments fell within:

Emoluments Band (HK\$ M)	2004	2003
3.0 – 3.5	1	1
4.0 – 4.5	1	1

notes to the accounts

8. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004 HK\$ M	2003 HK\$ M
Company and Subsidiaries:		
Current Taxation – Provision for Hong Kong Profits Tax at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year	568.9	565.7
Current Taxation – (Over)/ Under provision in prior years	(26.2)	33.1
Deferred Taxation relating to the origination and reversal of temporary differences	80.3	40.2
Deferred Taxation resulting from the increase in tax rate from 16% in 2002 to 17.5% in 2003	–	73.2
	<u>623.0</u>	<u>712.2</u>
Share of Taxation attributable to:		
Associated Companies	12.0	15.7
Jointly Controlled Entities	18.3	7.3
	<u>653.3</u>	<u>735.2</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
	2004 HK\$ M	2003 HK\$ M
Profit before Taxation	<u>3,717.9</u>	<u>3,799.7</u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)	650.6	664.9
Effect of different taxation rates in other countries	11.4	10.5
Income not subject to taxation	(30.7)	(90.8)
Expenses not deductible for taxation purposes	29.8	37.1
Utilisation of previously unrecognised tax losses	(10.2)	–
Unrecognised tax losses	9.0	7.2
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	73.2
Recognition of previously unrecognised temporary differences	19.6	–
(Over)/ Under provision in prior years	(26.2)	33.1
	<u>653.3</u>	<u>735.2</u>

9. Profit Attributable to Shareholders

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$2,820.1 million (2003: HK\$2,515.0 million).

10. Dividends

	Company	
	2004 HK\$ M	2003 HK\$ M
Interim, paid of HK 12 cents per ordinary share (2003: HK 12 cents per ordinary share)	675.3	677.2
Final, proposed of HK 23 cents per ordinary share (2003: HK 23 cents per ordinary share)	1,291.4	1,298.0
	1,966.7	1,975.2

At a meeting held on 11th March 2005, the directors declared a final dividend of HK 23 cents per ordinary share for the year ended 31st December 2004. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

11. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$3,051.7 million (2003: HK\$3,050.9 million) and the weighted average of 5,634,259,405 shares in issue (2003: 5,655,604,405 shares) after adjusting for the shares repurchased during the year.

notes to the accounts

12. Fixed Assets

	Land HK\$ M Note (a)	Properties under Development HK\$ M Note (b)	Buildings, Plant, Mains & Other Equipment HK\$ M Note (c)	Total HK\$ M
Group				
Cost or Valuation				
At 1st January 2004	1,921.3	204.4	12,849.7	14,975.4
Additions	3.3	19.7	1,122.0	1,145.0
Acquisition of a Subsidiary	–	–	36.0	36.0
Disposals/ Write off	–	–	(116.7)	(116.7)
At 31st December 2004	<u>1,924.6</u>	<u>224.1</u>	<u>13,891.0</u>	<u>16,039.7</u>
Accumulated Depreciation				
At 1st January 2004	335.0	–	4,996.1	5,331.1
Charge for the year	39.8	–	410.0	449.8
Acquisition of a Subsidiary	–	–	31.5	31.5
Disposals/ Write off	–	–	(81.1)	(81.1)
At 31st December 2004	<u>374.8</u>	<u>–</u>	<u>5,356.5</u>	<u>5,731.3</u>
Net Book Value				
At 31st December 2004	<u>1,549.8</u>	<u>224.1</u>	<u>8,534.5</u>	<u>10,308.4</u>
At 31st December 2003	<u>1,586.3</u>	<u>204.4</u>	<u>7,853.6</u>	<u>9,644.3</u>
Company				
Cost or Valuation				
At 1st January 2004	1,771.9	–	11,823.7	13,595.6
Additions	–	–	617.5	617.5
Disposals	–	–	(75.9)	(75.9)
At 31st December 2004	<u>1,771.9</u>	<u>–</u>	<u>12,365.3</u>	<u>14,137.2</u>
Accumulated Depreciation				
At 1st January 2004	328.4	–	4,865.0	5,193.4
Charge for the year	36.7	–	361.7	398.4
Disposals	–	–	(74.8)	(74.8)
At 31st December 2004	<u>365.1</u>	<u>–</u>	<u>5,151.9</u>	<u>5,517.0</u>
Net Book Value				
At 31st December 2004	<u>1,406.8</u>	<u>–</u>	<u>7,213.4</u>	<u>8,620.2</u>
At 31st December 2003	<u>1,443.5</u>	<u>–</u>	<u>6,958.7</u>	<u>8,402.2</u>

12. Fixed Assets (continued)

Note (a): Land

(i) The analysis of Cost or Valuation of Land is as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Items stated at:				
Cost	364.6	361.3	211.9	211.9
1993 Valuation	1,560.0	1,560.0	1,560.0	1,560.0
	<u>1,924.6</u>	<u>1,921.3</u>	<u>1,771.9</u>	<u>1,771.9</u>

Land at North Point and Tai Po Industrial Estate was revalued by an independent qualified valuer, Chesterton Petty Limited, as at 31st December 1993 on an open market value basis. The carrying amount of these two pieces of land of the Group and the Company would have been HK\$90.0 million (2003: HK\$92.1 million) had they been carried at cost less accumulated depreciation.

(ii) The Net Book Value of Land is analysed as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Held in Hong Kong:				
On medium term leases	1,494.0	1,518.5	1,406.8	1,429.2
On long term leases	–	14.3	–	14.3
Held outside Hong Kong:				
On medium term leases	55.2	52.9	–	–
On long term leases	0.6	0.6	–	–
	<u>1,549.8</u>	<u>1,586.3</u>	<u>1,406.8</u>	<u>1,443.5</u>

Note (b): Properties under Development

Properties under Development represent the commercial portion of the Ma Tau Kok South property development. The analysis of Cost or Valuation of Properties under Development is as follows:

	Group	
	2004 HK\$ M	2003 HK\$ M
Items stated at:		
Cost	32.1	12.4
1993 Valuation, less impairment	192.0	192.0
	<u>224.1</u>	<u>204.4</u>

notes to the accounts

12. Fixed Assets (continued)

Note (c): Buildings, Plant, Mains and Other Equipment

	Buildings, Plant & Equipment HK\$ M	Mains & Risers HK\$ M	Meters & Installations HK\$ M	Capital Work in Progress HK\$ M	Total HK\$ M
Group					
Cost					
At 1st January 2004	4,053.7	6,172.1	1,401.3	1,222.6	12,849.7
Additions	143.0	206.4	208.0	564.6	1,122.0
Acquisition of a Subsidiary	36.0	–	–	–	36.0
Transfers from Capital Work in Progress	58.7	375.9	1.8	(436.4)	–
Disposals/ Write off	(110.8)	(0.2)	(5.7)	–	(116.7)
At 31st December 2004	<u>4,180.6</u>	<u>6,754.2</u>	<u>1,605.4</u>	<u>1,350.8</u>	<u>13,891.0</u>
Accumulated Depreciation					
At 1st January 2004	2,245.4	1,982.3	768.4	–	4,996.1
Charge for the year	169.6	156.9	83.5	–	410.0
Acquisition of a Subsidiary	31.5	–	–	–	31.5
Disposals/ Write off	(75.9)	–	(5.2)	–	(81.1)
At 31st December 2004	<u>2,370.6</u>	<u>2,139.2</u>	<u>846.7</u>	<u>–</u>	<u>5,356.5</u>
Net Book Value					
At 31st December 2004	<u>1,810.0</u>	<u>4,615.0</u>	<u>758.7</u>	<u>1,350.8</u>	<u>8,534.5</u>
At 31st December 2003	<u>1,808.3</u>	<u>4,189.8</u>	<u>632.9</u>	<u>1,222.6</u>	<u>7,853.6</u>
Company					
Cost					
At 1st January 2004	3,717.6	5,709.6	1,391.6	1,004.9	11,823.7
Additions	45.4	8.3	198.1	365.7	617.5
Transfers from Capital Work in Progress	0.1	237.1	–	(237.2)	–
Disposals	(70.7)	–	(5.2)	–	(75.9)
At 31st December 2004	<u>3,692.4</u>	<u>5,955.0</u>	<u>1,584.5</u>	<u>1,133.4</u>	<u>12,365.3</u>
Accumulated Depreciation					
At 1st January 2004	2,175.1	1,922.9	767.0	–	4,865.0
Charge for the year	146.5	132.9	82.3	–	361.7
Disposals	(69.6)	–	(5.2)	–	(74.8)
At 31st December 2004	<u>2,252.0</u>	<u>2,055.8</u>	<u>844.1</u>	<u>–</u>	<u>5,151.9</u>
Net Book Value					
At 31st December 2004	<u>1,440.4</u>	<u>3,899.2</u>	<u>740.4</u>	<u>1,133.4</u>	<u>7,213.4</u>
At 31st December 2003	<u>1,542.5</u>	<u>3,786.7</u>	<u>624.6</u>	<u>1,004.9</u>	<u>6,958.7</u>

13. Subsidiaries

	Company	
	2004 HK\$ M	2003 HK\$ M
Unlisted Shares, at Cost	31.2	31.2
Amounts due from Subsidiaries	7,029.4	5,833.7
	7,060.6	5,864.9
Amounts due to Subsidiaries	(3,693.1)	(2,813.2)
	3,367.5	3,051.7

The principal subsidiaries of the Company are shown on pages 90 to 92 of the accounts.

14. Associated Companies

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Share of Net Assets	1,207.9	506.2	–	–
Loans to Associated Companies	2,177.2	2,197.6	269.3	418.3
	3,385.1	2,703.8	269.3	418.3

Loans to associated companies are mainly for the financing of properties development projects and the amounts are unsecured, interest free and have no fixed terms of repayment. Particulars of the associated companies as at 31st December 2004 are listed below:

Name	Note	Issued Share Capital/ Registered Capital	Percentage of the Group's Equity Interest	Place of Incorporation/ Operation	Principal Activity
GH-Fusion Limited		200 shares of US\$1 each	50	British Virgin Islands	Investment Holding
Lane Success Development Limited	(i)	10,000 shares of HK\$1 each	45	Hong Kong	Property Development
Primeland Investment Limited	(ii)	95 shares of US\$1 each	32	British Virgin Islands/ Hong Kong	Investment Holding
Shenzhen Gas Corporation Limited	(iii)	RMB 472.0 million	30	People's Republic of China ("PRC")	Gas Sales and Related Businesses
Zibo Lubo Gas Company Limited		RMB 50.0 million	27	PRC	Gas Sales and Related Businesses

notes to the accounts

14. Associated Companies (continued)

Notes

- (i) The Group holds a 45 per cent interest in Lane Success Development Limited whose principal activity is the development of King's Park Hill project. The property development project is a joint development with Henderson Land Development Limited and has been completed for sale.
- (ii) The Group has an effective interest of 15 per cent in the Airport Railway Hong Kong Station project through its 32 per cent interest in Primeland Investment Limited. The project, which includes office, commercial and hotel properties, is being developed in phases up to 2005.
- (iii) The Group has acquired a 30 per cent equity interest in Shenzhen Gas Corporation Limited whose principal activity is city gas business in the Shenzhen Special Economic Zone.

15. Jointly Controlled Entities

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Investment at Cost	–	–	65.9	9.4
Share of Net Assets	988.0	739.1	–	–
Loans to Jointly Controlled Entities	1,609.6	1,848.5	0.9	–
Loan from a Jointly Controlled Entity	–	(28.7)	–	(0.2)
	2,597.6	2,558.9	66.8	9.2

Loans to jointly controlled entities include a HK\$902.3 million (2003: HK\$1,534.6 million) loan to Yieldway International Limited for the Sai Wan Ho property development project, also known as the Grand Promenade which is a joint development with Henderson Land Development Limited. This loan is unsecured and interest bearing at the aggregate of 2 per cent per annum and the cost of funding of the lending subsidiary. The loan will be repaid in full on the earlier of the actual completion date of the construction of the development project and 31st December 2005. Other loans to jointly controlled entities of HK\$722.4 million (2003: HK\$313.9 million) are all provided to our PRC joint ventures, which are unsecured and interest free with no fixed terms of repayment, except for the loans to our Nanjing joint venture of HK\$141.5 million (2003: nil), that are unsecured, interest bearing with fixed rates ranging from 2.88 per cent to 3.06 per cent per annum and fully repayable within ten years.

15. Jointly Controlled Entities (continued)

Particulars of the jointly controlled entities as at 31st December 2004 are listed below:

Name	Issued Share Capital/ Registered Capital	Percentage of the Group's Equity Interest	Place of Incorporation/ Operation	Principal Activity
Yieldway International Limited	2 shares of HK\$1 each	50	Hong Kong	Property Development
* Anqing Hong Kong and China Gas Company Limited	RMB 36.5 million	50	PRC	Gas Sales and Related Businesses
Changzhou Hong Kong and China Gas Company Limited	RMB 166.0 million	50	PRC	Gas Sales and Related Businesses
Maanshan Hong Kong and China Gas Company Limited	RMB 107.5 million	50	PRC	Gas Sales and Related Businesses
Nanjing Hong Kong and China Gas Company Limited	RMB 600.0 million	50	PRC	Gas Sales and Related Businesses
* Shunde Hong Kong and China Gas Company Limited	RMB 100.0 million	60	PRC	Gas Sales and Related Businesses
Suzhou Hong Kong and China Gas Company Limited	RMB 100.0 million	55	PRC	Gas Sales and Related Businesses
* Taian Taishan Hong Kong and China Gas Company Limited	RMB 80.0 million	50	PRC	Gas Sales and Related Businesses
Weifang Hong Kong and China Gas Company Limited	RMB 140.0 million	50	PRC	Gas Sales and Related Businesses
Weihai Hong Kong and China Gas Company Limited	RMB 99.2 million	50	PRC	Gas Sales and Related Businesses
Wuhan Natural Gas Company Limited	RMB 400.0 million	50	PRC	Gas Sales and Related Businesses
Zibo Hong Kong and China Gas Company Limited	RMB 56.0 million	50	PRC	Gas Sales and Related Businesses

* Newly formed during the year

notes to the accounts

16. Investment Securities

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Debt Securities (Note a)	267.8	501.9	–	–
Equity Securities (Note b)	356.5	359.4	15.5	15.5
	624.3	861.3	15.5	15.5
Market Value of Listed Investments	771.8	1,023.7	16.7	14.3
Notes				
(a) Debt Securities				
Unlisted	23.3	35.1	–	–
Listed – overseas	244.5	466.8	–	–
	267.8	501.9	–	–
(b) Equity Securities				
Unlisted	38.6	–	–	–
Listed				
Hong Kong	317.9	356.5	15.5	15.5
Overseas	–	2.9	–	–
	356.5	359.4	15.5	15.5

17. Properties under Development for Sale

Properties under development for sale represent the residential portion of the Ma Tau Kok South property development project (the “Project”). On 2nd August 2002, the Group entered into a development agreement with Henderson Land Development Limited and its subsidiaries (collectively “Henderson”) under which Henderson paid to the Group a sum of HK\$380.5 million for an entitlement to 27 per cent of the net sales proceeds of the residential portion of the Project. Under the same agreement, Henderson was appointed to provide certain property development related services and materials to the Project for a total amount not exceeding HK\$97.0 million. During the year, the Group paid HK\$18.5 million (2003: HK\$2.4 million) in respect of this.

	Group	
	2004 HK\$ M	2003 HK\$ M
Cost		
At 1st January	1,486.2	1,432.1
Additions	156.6	54.1
	1,642.8	1,486.2
Less: Proceeds received	(380.5)	(380.5)
At 31st December	1,262.3	1,105.7

18. Inventories

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Stores and Materials	403.4	256.7	359.3	229.2
Work in Progress	329.3	401.8	302.3	396.9
	732.7	658.5	661.6	626.1

At 31st December 2004, the amount of stores and materials of the Group and the Company carried at net realisable value amounted to HK\$137.9 million (2003: HK\$126.9 million).

19. Debtors and Payment in Advance

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Trade Debtors (Note)	1,153.4	1,034.0	1,081.1	986.3
Other Debtors and Receivables	256.3	596.0	189.2	287.5
Payment in Advance	42.0	58.9	11.9	42.2
	1,451.7	1,688.9	1,282.2	1,316.0

Note

The Group has established credit policies for different types of customers. The credit period offered for trade debtors ranges from 30 to 60 days. These are subject to periodic review by management. As at 31st December 2004, the aging analysis of the trade debtors, net of provision, was as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
0 – 30 days	989.6	870.7	937.1	847.5
31 – 60 days	51.4	43.2	47.3	41.8
61 – 90 days	21.1	25.8	20.0	24.3
Over 90 days	91.3	94.3	76.7	72.7
	1,153.4	1,034.0	1,081.1	986.3

notes to the accounts

20. Housing Loans to Staff

The housing loans to staff includes loan made to a director of the Company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance as follows:

	Balance at 31/12/2004 HK\$ M	Balance at 31/12/2003 HK\$ M	Maximum Balance Outstanding during 2004 HK\$ M
James Kwan Yuk Choi	<u>1.8</u>	<u>2.2</u>	<u>2.2</u>

The outstanding loan to Mr. James Kwan Yuk Choi is secured by a mortgage on the property purchased. The loan is repayable up to December 2006 by monthly installments which include interest at an annual rate of 3 per cent below the best lending rate in Hong Kong.

21. Trading Securities

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Debt Securities (Note a)	757.4	346.7	53.5	–
Equity Securities (Note b)	54.8	45.9	–	–
	<u>812.2</u>	<u>392.6</u>	<u>53.5</u>	<u>–</u>
Notes				
(a) Debt Securities				
Unlisted	744.8	191.0	53.5	–
Listed				
Overseas	12.6	155.7	–	–
	<u>757.4</u>	<u>346.7</u>	<u>53.5</u>	<u>–</u>
(b) Equity Securities				
Listed				
Hong Kong	28.8	29.2	–	–
Overseas	26.0	16.7	–	–
	<u>54.8</u>	<u>45.9</u>	<u>–</u>	<u>–</u>

22. Time Deposits, Cash and Bank Balances

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Time Deposits up to three months	1,394.2	1,296.8	314.9	442.0
Time Deposits over three months	354.4	399.7	321.8	364.9
	1,748.6	1,696.5	636.7	806.9
Cash and Bank Balances	454.1	301.7	75.5	63.2
	2,202.7	1,998.2	712.2	870.1

23. Trade and Other Payables

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Trade Creditors (Note)	262.2	126.3	143.5	73.3
Other Creditors and Accruals	616.7	574.1	329.3	470.2
	878.9	700.4	472.8	543.5

Note

At 31st December 2004, the aging analysis of the trade creditors was as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
0 – 30 days	229.6	109.9	143.1	73.2
31 – 60 days	14.6	5.3	0.4	0.1
61 – 90 days	2.4	1.9	–	–
Over 90 days	15.6	9.2	–	–
	262.2	126.3	143.5	73.3

notes to the accounts

24. Bank Loans and Overdrafts

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Bank Loans	2,734.1	2,272.9	301.3	399.8
Bank Overdrafts	8.3	8.6	8.3	8.6
	<u>2,742.4</u>	<u>2,281.5</u>	<u>309.6</u>	<u>408.4</u>

25. Deferred Taxation

The movement in the deferred taxation is as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
At 1st January	905.0	791.6	870.6	777.0
Charged to Profit and Loss Account (Note 8)	80.3	113.4	60.4	93.6
At 31st December	<u>985.3</u>	<u>905.0</u>	<u>931.0</u>	<u>870.6</u>

Prior to offsetting of balances within the same taxation jurisdiction, the movement in deferred tax assets and liabilities during the year is as follows:

Group

Deferred Tax Liabilities

	Accelerated Tax Depreciation		Others		Total	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
At 1st January	903.6	803.6	17.8	9.6	921.4	813.2
Charged to Profit and Loss Account	68.1	100.0	2.7	8.2	70.8	108.2
At 31st December	<u>971.7</u>	<u>903.6</u>	<u>20.5</u>	<u>17.8</u>	<u>992.2</u>	<u>921.4</u>

Deferred Tax Assets

	Provisions		Tax Losses		Total	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
At 1st January	(10.9)	(13.4)	(5.5)	(8.2)	(16.4)	(21.6)
Charged to Profit and Loss Account	6.4	2.5	3.1	2.7	9.5	5.2
At 31st December	<u>(4.5)</u>	<u>(10.9)</u>	<u>(2.4)</u>	<u>(5.5)</u>	<u>(6.9)</u>	<u>(16.4)</u>

Net Deferred Taxation at 31st December

985.3 905.0

25. Deferred Taxation (continued)

Company

Deferred Tax Liabilities

	Accelerated Tax Depreciation	
	2004 HK\$ M	2003 HK\$ M
At 1st January	882.0	787.6
Charged to Profit and Loss Account	54.2	94.4
At 31st December	936.2	882.0

Deferred Tax Assets

	Provisions	
	2004 HK\$ M	2003 HK\$ M
At 1st January	(11.4)	(10.6)
Charged/ (Credited) to Profit and Loss Account	6.2	(0.8)
At 31st December	(5.2)	(11.4)
Net Deferred Taxation at 31st December	931.0	870.6

26. Deferred Liabilities

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Retirement Benefit Liabilities (Note)	46.4	56.7	46.4	56.7

Note

The Group operates two defined benefit retirement schemes in Hong Kong, namely the Workmen Retirement Scheme and the Local Employees Provident Scheme. The Workmen Retirement Scheme is a final salary defined benefit scheme. The Local Employees Provident Scheme provides benefits based on accumulated contributions with investment returns. The contributions made by the Group and the employees before 1st July 2003 are subject to a minimum guaranteed return, and because of the minimum guaranteed return, this part of the Local Employees Provident Scheme constitutes a defined benefit scheme. Effective from 1st July 2003, members have been offered investment choices without any minimum guaranteed return. The contributions made by the Group and the employees since 1st July 2003 are invested in the investment choices chosen by the employees. This part of the Local Employees Provident Scheme is a defined contribution scheme because the minimum guaranteed return is no longer applicable.

notes to the accounts

26. Deferred Liabilities (continued)

The amounts recognised in the balance sheet are determined as follows:

	Group and Company	
	2004	2003
	HK\$ M	HK\$ M
Present Value of Funded Obligations	1,749.4	1,696.1
Fair Value of Plan Assets	(1,847.3)	(1,725.8)
Present Value of Overfunded Obligations	(97.9)	(29.7)
Unrecognised Actuarial Gains	144.3	86.4
Liability in the Balance Sheet	46.4	56.7

The pension plan assets include the Company's ordinary shares with a fair value of HK\$79.6 million (2003: HK\$59.9 million).

The amounts recognised in the profit and loss account are as follows:

	Group and Company	
	2004	2003
	HK\$ M	HK\$ M
Current Service Cost	10.0	48.6
Interest Cost	92.8	89.7
Expected Return on Plan Assets	(103.2)	(89.4)
Net Actuarial (Gains)/ Losses Recognised	(0.3)	2.1
Total	(0.7)	51.0

The actual return on plan assets was HK\$242.8 million (2003: HK\$307.8 million).

Movement in the liability recognised in the balance sheet:

	Group and Company	
	2004	2003
	HK\$ M	HK\$ M
At 1st January	56.7	48.0
Total Expense – as shown above	(0.7)	51.0
Contribution Paid	(9.6)	(42.3)
At 31st December	46.4	56.7

26. Deferred Liabilities (continued)

The principal actuarial assumptions used are as follows:

	2004 %	2003 %
Discount Rate	4.5	5.5
Expected Rate of Return on Plan Assets	6.0	6.0
Expected Rate of Future Salary Increases	3.5	3.5

27. Share Capital

	Ordinary Shares of HK\$0.25 each			
	Number of Shares		Nominal Value	
	2004	2003	2004 HK\$ M	2003 HK\$ M
Authorised:				
At 1st January and at 31st December	10,000,000,000	10,000,000,000	2,500.0	2,500.0
Issued and Fully Paid:				
At 1st January	5,643,651,988	5,690,855,988	1,410.9	1,422.7
Repurchase of Shares	(28,882,000)	(47,204,000)	(7.2)	(11.8)
At 31st December	5,614,769,988	5,643,651,988	1,403.7	1,410.9

28. Share Premium

	Group and Company	
	2004 HK\$ M	2003 HK\$ M
At 1st January and 31st December	3,907.8	3,907.8

notes to the accounts

29. Reserves

	Properties Revaluation Reserve HK\$ M	General Reserve HK\$ M	Capital Redemption Reserve HK\$ M	Unappropriated Profits HK\$ M	Total HK\$ M
Group					
At 1st January 2004	3,061.4	3,320.0	156.0	3,327.4	9,864.8
Profit Attributable to Shareholders	–	–	–	3,051.7	3,051.7
Share of Revaluation Surplus of an Associated Company	248.0	–	–	–	248.0
Shares Repurchased	–	–	7.2	(413.8)	(406.6)
2003 Final Dividend proposed	–	–	–	1,298.0	1,298.0
2003 Final Dividend paid	–	–	–	(1,298.0)	(1,298.0)
2004 Interim Dividend paid	–	–	–	(675.3)	(675.3)
At 31st December 2004	<u>3,309.4</u>	<u>3,320.0</u>	<u>163.2</u>	<u>5,290.0</u>	<u>12,082.6</u>
Company and Subsidiaries	3,013.7	3,320.0	163.2	4,820.4	11,317.3
Associated Companies	295.7	–	–	427.3	723.0
Jointly Controlled Entities	–	–	–	42.3	42.3
	<u>3,309.4</u>	<u>3,320.0</u>	<u>163.2</u>	<u>5,290.0</u>	<u>12,082.6</u>
Balance after 2004 Final Dividend proposed	3,309.4	3,320.0	163.2	3,998.6	10,791.2
2004 Final Dividend proposed	–	–	–	1,291.4	1,291.4
	<u>3,309.4</u>	<u>3,320.0</u>	<u>163.2</u>	<u>5,290.0</u>	<u>12,082.6</u>
Company					
At 1st January 2004	1,450.8	3,320.0	156.0	359.7	5,286.5
Profit Attributable to Shareholders	–	–	–	2,820.1	2,820.1
Shares Repurchased	–	–	7.2	(413.8)	(406.6)
2003 Final Dividend proposed	–	–	–	1,298.0	1,298.0
2003 Final Dividend paid	–	–	–	(1,298.0)	(1,298.0)
2004 Interim Dividend paid	–	–	–	(675.3)	(675.3)
At 31st December 2004	<u>1,450.8</u>	<u>3,320.0</u>	<u>163.2</u>	<u>2,090.7</u>	<u>7,024.7</u>
Balance after 2004 Final Dividend proposed	1,450.8	3,320.0	163.2	799.3	5,733.3
2004 Final Dividend proposed	–	–	–	1,291.4	1,291.4
	<u>1,450.8</u>	<u>3,320.0</u>	<u>163.2</u>	<u>2,090.7</u>	<u>7,024.7</u>

29. Reserves (continued)

	Properties Revaluation Reserve HK\$ M	General Reserve HK\$ M	Capital Redemption Reserve HK\$ M	Unappropriated Profits HK\$ M	Total HK\$ M
Group					
At 1st January 2003	3,026.3	3,820.0	144.2	2,198.7	9,189.2
Profit Attributable to Shareholders	–	–	–	3,050.9	3,050.9
Share of Revaluation Surplus of an Associated Company	35.1	–	–	–	35.1
Transfer from General Reserve	–	(500.0)	–	500.0	–
Shares Repurchased	–	–	11.8	(450.6)	(438.8)
2002 Final Dividend proposed	–	–	–	1,308.9	1,308.9
2002 Final Dividend paid	–	–	–	(1,305.3)	(1,305.3)
2003 Interim Dividend paid	–	–	–	(677.2)	(677.2)
At 31st December 2003	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>4,625.4</u>	<u>11,162.8</u>
Company and Subsidiaries	3,013.7	3,320.0	156.0	4,284.0	10,773.7
Associated Companies	47.7	–	–	341.3	389.0
Jointly Controlled Entities	–	–	–	0.1	0.1
	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>4,625.4</u>	<u>11,162.8</u>
Balance after 2003 Final Dividend proposed	3,061.4	3,320.0	156.0	3,327.4	9,864.8
2003 Final Dividend proposed	–	–	–	1,298.0	1,298.0
	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>4,625.4</u>	<u>11,162.8</u>
Company					
At 1st January 2003	1,450.8	3,820.0	144.2	(233.1)	5,181.9
Profit Attributable to Shareholders	–	–	–	2,515.0	2,515.0
Transfer from General Reserve	–	(500.0)	–	500.0	–
Shares Repurchased	–	–	11.8	(450.6)	(438.8)
2002 Final Dividend proposed	–	–	–	1,308.9	1,308.9
2002 Final Dividend paid	–	–	–	(1,305.3)	(1,305.3)
2003 Interim Dividend paid	–	–	–	(677.2)	(677.2)
At 31st December 2003	<u>1,450.8</u>	<u>3,320.0</u>	<u>156.0</u>	<u>1,657.7</u>	<u>6,584.5</u>
Balance after 2003 Final Dividend proposed	1,450.8	3,320.0	156.0	359.7	5,286.5
2003 Final Dividend proposed	–	–	–	1,298.0	1,298.0
	<u>1,450.8</u>	<u>3,320.0</u>	<u>156.0</u>	<u>1,657.7</u>	<u>6,584.5</u>

The distributable reserves of the Company at 31st December 2004, comprising general reserve and unappropriated profits, amounted to HK\$5,410.7 million (2003: HK\$4,977.7 million) before the proposed final dividend for the year ended 31st December 2004.

notes to the accounts

30. Contingent Liabilities

Guarantees have been executed in respect of banking facilities as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Subsidiaries	–	–	2,375.5	1,806.3
Associated Companies	929.2	998.0	929.2	998.0
	929.2	998.0	3,304.7	2,804.3

Save as disclosed above, the Company and the Group did not have any further contingent liabilities as at 31st December 2004.

31. Commitments

(a) Capital expenditure for fixed assets

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Authorised but not brought into the accounts at 31st December	1,024.7	691.0	610.6	473.2
Of which, contracts had been entered into at 31st December	555.3	379.6	384.2	246.8

(b) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to certain joint ventures under various joint venture contracts to finance relevant PRC gas projects. The directors estimate that the Group's share of projected funds requirements of these projects would be approximately HK\$262.2 million (2003: HK\$358.7 million) which represents the attributable portion of the capital and loan contributions to be made to the joint ventures.

(c) Lease commitments

At 31st December 2004, future aggregate minimum lease payments of land and buildings under non-cancellable operating leases were as follows:

	Group		Company	
	2004 HK\$ M	2003 HK\$ M	2004 HK\$ M	2003 HK\$ M
Not later than one year	16.6	15.4	14.8	12.9
Later than one year and not later than five years	15.4	6.6	12.9	3.1
Later than five years	–	0.1	–	–
	32.0	22.1	27.7	16.0

32. Related Party Transactions

Save as disclosed in notes 14, 15, 17 and 34, there were no other significant related party transactions undertaken by the Company and the Group at anytime during the year.

33. Reconciliation of Profit before Taxation to Net Cash Inflow from Operating Activities

	Group	
	2004 HK\$ M	2003 HK\$ M
Profit before Taxation	3,717.9	3,799.7
Share of Profits less Losses of Associated Companies	(108.5)	(300.3)
Share of Profits less Losses of Jointly Controlled Entities	(51.5)	(7.4)
Interest Income	(95.8)	(74.5)
Interest Expense	8.4	5.5
Dividend Income from Equity Securities	(33.2)	(43.6)
Depreciation	449.8	440.8
Loss/ (Gain) on Disposal/ Write off of Fixed Assets	30.9	(0.5)
Net Realised and Unrealised Gains on Investments in Securities	(61.7)	(97.7)
Increase in Customers' Deposits	46.7	41.8
Increase in Inventories	(74.2)	(51.9)
Increase in Debtors and Payment in Advance	(21.0)	(212.2)
Decrease in Housing Loans to Staff	20.4	21.4
Increase in Trade and Other Payables	120.1	82.1
(Decrease)/ Increase in Deferred Liabilities	(10.3)	8.7
Profits Tax Paid	(583.8)	(571.6)
Exchange Differences	(4.7)	7.9
Net Cash Inflow from Operating Activities	3,349.5	3,048.2

notes to the accounts

34. Acquisition of a Subsidiary

	Group	
	2004 HK\$ M	2003 HK\$ M
Net Assets Acquired		
Fixed Assets	4.5	12.6
Associated Companies	–	(14.3)
Inventories	–	1.9
Debtors and Payment in Advance	2.4	2.4
Time Deposits, Cash and Bank Balances	0.1	4.5
Trade and Other Payables	(0.8)	(4.2)
Minority Interests	–	(0.1)
	6.2	2.8
Satisfied by		
Cash Consideration	6.2	2.8
Analysis of the Net Cash (Outflow)/ Inflow in Respect of Acquisition of a Subsidiary		
Cash Consideration	(6.2)	(2.8)
Time Deposits, Cash and Bank Balances Acquired	0.1	4.5
	(6.1)	1.7

Acquisition of a subsidiary related to the Group's acquisition of the entire issued share capital of Cotech Investment Limited and its wholly owned subsidiary, Eastar Technology Limited (subsequently renamed as Towngas Telecommunications Fixed Network Limited) from Henderson Cyber Limited in June 2004.

35. Reconciliation of Interest Income and Expense to Interest Received and Paid

	Group	
	2004 HK\$ M	2003 HK\$ M
Interest Income	(95.8)	(74.5)
Decrease in Interest Receivable	(4.2)	(11.1)
Interest Received	(100.0)	(85.6)
Interest Expense before Capitalisation (Note 4)	19.9	21.0
(Increase)/ Decrease in Interest Payable	(0.1)	1.4
Interest Paid	19.8	22.4

36. Analysis of Changes in Financing During the Year

	Share Capital and Share Premium HK\$ M	Capital Redemption Reserve HK\$ M	Bank Borrowings HK\$ M	Minority Interests HK\$ M	Total HK\$ M
Group					
At 1st January 2004	5,318.7	156.0	2,272.9	222.5	7,970.1
Net Cash Inflow from Financing	–	–	461.2	16.0	477.2
Transfer to Capital Redemption Reserve	(7.2)	7.2	–	–	–
Injection in form of Fixed Assets	–	–	–	87.7	87.7
Share of Profit	–	–	–	12.9	12.9
Effect of Foreign Exchange Differences	–	–	–	0.1	0.1
At 31st December 2004	5,311.5	163.2	2,734.1	339.2	8,548.0
At 1st January 2003	5,330.5	144.2	1,739.7	121.5	7,335.9
Net Cash Inflow from Financing	–	–	533.2	24.5	557.7
Transfer to Capital Redemption Reserve	(11.8)	11.8	–	–	–
Injection in form of Fixed Assets	–	–	–	62.9	62.9
Share of Profit	–	–	–	13.6	13.6
At 31st December 2003	5,318.7	156.0	2,272.9	222.5	7,970.1

notes to the accounts

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2004:

Name	Issued Share Capital/ Registered Capital	Percentage of Issued/ Registered Capital Held	Place of Incorporation/ Operation	Principal Activity
Barnaby Assets Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Securities Investment
Danetop Services Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Securities Investment
ECO Energy Company Limited	2 ordinary shares of HK\$1 each	100	Hong Kong	LPG Filling Stations
Empire Bridge Investments Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Securities Investment
Hong Kong & China Gas (China) Limited	10,000 ordinary shares of HK\$1 each	100	British Virgin Islands	Investment Holding
† Hong Kong & China Gas Investment Limited	US\$30.0 million	100	PRC	Investment Holding
Monarch Properties Limited	1,000 ordinary shares of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
Pathview Properties Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
Planwise Properties Limited	2,000 ordinary shares of HK\$1 each	100	British Virgin Islands/ Hong Kong	Property Holding
Prominence Properties Limited	1,000 ordinary shares of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
# P-Tech Engineering Company Limited (formerly known as Towngas Industrial Gas Company Limited)	2 ordinary shares of HK\$1 each	100	Hong Kong	Engineering, Dry Ice and Production of Industrial Gas
# Quality Testing Services Limited	10,000 ordinary shares of HK\$1 each	100	Hong Kong	Appliance Testing
Starmax Assets Limited	90 million ordinary shares of HK\$1 each	100	British Virgin Islands/ Hong Kong	Property Development
Summit Result Development Limited	100 ordinary shares of HK\$1 each	100	Hong Kong	Investment Holding
Superfun Enterprises Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Securities Investment
Technology Capitalization Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
Towngas Enterprise Limited (formerly known as Towngas Retail Enterprise Limited)	2 ordinary shares of HK\$1 each	100	Hong Kong	Café, Restaurant and Retail Sales

† Wholly Foreign-owned Enterprise

Direct subsidiaries of the Company

Subsidiaries (continued)

Name	Issued Share Capital/ Registered Capital	Percentage of Issued/ Registered Capital Held	Place of Incorporation/ Operation	Principal Activity
# Towngas International Company Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
# Towngas Investment Company Limited	2 ordinary shares of HK\$1 each	100	Hong Kong	Investment Holding
# Towngas Technologies Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Investment Holding
Towngas Telecommunications Company Limited	100 ordinary shares of HK\$1 each	100	Hong Kong	Telecommunications Business
△ Towngas Telecommunications Fixed Network Limited (formerly known as Eastar Technology Limited)	35,000,000 ordinary shares of HK\$1 each	100	Hong Kong	Telecommunications Business
Uticom Limited	100 ordinary shares of HK\$1 each	60	Hong Kong	Development of Automatic Meter Reading System
Upwind International Limited	1 ordinary share of US\$1 each	100	British Virgin Islands/ Hong Kong	Securities Investment
U-Tech Engineering Company Limited	5,500,000 ordinary shares of HK\$1 each	100	Hong Kong	Engineering and Related Businesses

Direct subsidiaries of the Company

△ Newly acquired during the year

notes to the accounts

Subsidiaries (continued)

The following is a list of Sino-foreign Equity Joint Ventures which are accounted for as subsidiaries as at 31st December 2004:

Name	Registered Capital	Percentage of Registered Capital Held	Place of Incorporation/ Operation	Principal Activity
* Danyang Hong Kong & China Gas Company Limited	RMB 60.0 million	80	PRC	Gas Sales and Related Businesses
Guangzhou Dongyong Hong Kong & China Gas Limited	RMB 53.3 million	80	PRC	Gas Sales and Related Businesses
Guangzhou Jianke Hong Kong & China Gas Company Limited	RMB 16.8 million	70	PRC	Gas Sales and Related Businesses
Jinan Hong Kong & China Gas Company Limited	RMB 100.0 million	60	PRC	Gas Sales and Related Businesses
Longkou Hong Kong & China Gas Company Limited	RMB 42.0 million	70	PRC	Gas Sales and Related Businesses
Nanjing Chemical Industry Park Hong Kong & China Gas Company Limited	RMB 6.2 million	80	PRC	Gas Sales and Related Businesses
Panyu Hong Kong & China Gas Limited	RMB 105.0 million	80	PRC	Gas Sales and Related Businesses
Qingdao Dong Yi Hong Kong & China Gas Company Limited	RMB 30.0 million	60	PRC	Gas Sales and Related Businesses
Qingdao Zhongji Hong Kong & China Gas Company Limited	RMB 18.5 million	90	PRC	Gas Sales and Related Businesses
Taizhou Hong Kong & China Gas Company Limited	RMB 83.0 million	65	PRC	Gas Sales and Related Businesses
Tongxiang Hong Kong & China Gas Company Limited	RMB 57.9 million	76	PRC	Gas Sales and Related Businesses
Wujiang Hong Kong & China Gas Company Limited	RMB 60.0 million	80	PRC	Gas Sales and Related Businesses
* Xuzhou Hong Kong & China Gas Company Limited	RMB 125.0 million	80	PRC	Gas Sales and Related Businesses
Yixing Hong Kong & China Gas Company Limited	RMB 124.0 million	80	PRC	Gas Sales and Related Businesses
Zhongshan Hong Kong & China Gas Limited	RMB 96.0 million	70	PRC	Gas Sales and Related Businesses
Zhangjiagang Hong Kong & China Gas Company Limited	RMB 55.2 million	51	PRC	Gas Sales and Related Businesses

* Newly formed during the year