# CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2009

| | Note | 2009 HK$'M | 2008 HK$'M |
|---|---|---|---|
| Revenue | 5 | 12,351.8 | 12,352.2 |
| Total operating expenses | 6 | (8,490.4) | (8,738.2) |
| | | 3,861.4 | 3,614.0 |
| Other gains/(losses), net | 7 | 827.2 | (584.6) |
| Interest expense | 9 | (567.8) | (416.8) |
| Share of profits less losses of associated companies | | 1,164.4 | 1,820.3 |
| Share of profits less losses of jointly controlled entities | | 771.0 | 524.5 |
| Profit before taxation | 10 | 6,056.2 | 4,957.4 |
| Taxation | 13 | (747.0) | (562.6) |
| Profit for the year | | 5,309.2 | 4,394.8 |
| Attributable to: | | | |
| Shareholders of the Company | | 5,175.0 | 4,302.5 |
| Minority interests | | 134.2 | 92.3 |
| | | 5,309.2 | 4,394.8 |
| Dividends | 15 | 2,285.3 | 2,333.0 |
| Earnings per share – basic and diluted, HK cents | 16 | 78.7 | 64.5 |

The notes on pages 77 to 144 form part of these accounts.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2009

| | 2009<br>HK$'M | 2008<br>HK$'M |
|---|---|---|
| Profit for the year | 5,309.2 | 4,394.8 |
| Other comprehensive income: | | |
| Revaluation surplus/(deficit) of available-for-sale financial assets transferred to equity | 830.2 | (565.9) |
| Capital reserve | – | 13.6 |
| Change in fair value of cash flow hedges | 486.9 | (287.2) |
| Exchange differences | 2.7 | 657.3 |
| Other comprehensive income for the year, net of tax | 1,319.8 | (182.2) |
| Total comprehensive income for the year | 6,629.0 | 4,212.6 |
| Total comprehensive income attributable to: | | |
| Shareholders of the Company | 6,495.9 | 4,068.0 |
| Minority interests | 133.1 | 144.6 |
| | 6,629.0 | 4,212.6 |

The notes on pages 77 to 144 form part of these accounts.

# CONSOLIDATED BALANCE SHEET

as at 31st December 2009

| | Note | 2009 HK$'M | 2008 HK$'M |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 23,573.3 | 15,077.0 |
| Investment property | 18 | 501.0 | 523.0 |
| Leasehold land | 19 | 879.3 | 561.0 |
| Intangible asset | 20 | 2,461.7 | 196.4 |
| Associated companies | 22 | 8,338.0 | 10,465.4 |
| Jointly controlled entities | 23 | 7,011.2 | 6,164.0 |
| Available-for-sale financial assets | 24 | 2,996.0 | 1,105.2 |
| Derivative financial instruments | 35 | 186.4 | – |
| Retirement benefit assets | 25 | 59.3 | 64.7 |
| Other non-current assets | 26 | 477.0 | 89.1 |
| | | 46,483.2 | 34,245.8 |
| **Current assets** | | | |
| Completed property for sale | | 29.0 | 110.1 |
| Inventories | 27 | 2,588.0 | 1,806.0 |
| Trade and other receivables | 28 | 3,164.7 | 2,429.9 |
| Loan and other receivables from associated companies | 22 | 41.2 | 29.4 |
| Loan and other receivables from jointly controlled entities | 23 | 83.2 | 86.6 |
| Loan and other receivables from minority interests | | 106.7 | 85.4 |
| Housing loans to staff | | 35.0 | 46.8 |
| Financial assets at fair value through profit or loss | 29 | 405.2 | 767.4 |
| Time deposits over three months | 30 | 351.9 | 55.7 |
| Time deposits up to three months, cash and bank balances | 30 | 12,817.4 | 12,290.9 |
| | | 19,622.3 | 17,708.2 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | (5,190.7) | (2,746.7) |
| Amounts due to jointly controlled entities | 23 | (22.2) | (34.0) |
| Loan and other payables to minority interests | | (111.4) | – |
| Provision for taxation | | (556.9) | (384.5) |
| Borrowings | 32 | (4,747.6) | (2,242.5) |
| | | (10,628.8) | (5,407.7) |
| **Net current assets** | | 8,993.5 | 12,300.5 |
| **Total assets less current liabilities** | | 55,476.7 | 46,546.3 |

The notes on pages 77 to 144 form part of these accounts.

# CONSOLIDATED BALANCE SHEET (Continued)

as at 31st December 2009

| | Note | 2009 HK$'M | 2008 HK$'M |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Customers' deposits | 33 | (1,114.4) | (1,074.3) |
| Deferred taxation | 34 | (1,890.0) | (1,272.9) |
| Borrowings | 32 | (15,672.0) | (12,342.5) |
| Loans payable to minority interests | | (12.2) | (44.7) |
| Derivative financial instruments | 35 | – | (312.1) |
| | | (18,688.6) | (15,046.5) |
| **Net assets** | | 36,788.1 | 31,499.8 |
| **Capital and reserves** | | | |
| Share capital | 36 | 1,632.3 | 1,666.4 |
| Share premium | 37 | 3,618.6 | 3,618.6 |
| Reserves | 38 | 26,093.1 | 23,833.5 |
| Proposed dividend | 38 | 1,501.8 | 1,533.1 |
| Shareholders' funds | | 32,845.8 | 30,651.6 |
| **Minority interests** | | 3,942.3 | 848.2 |
| **Total equity** | | 36,788.1 | 31,499.8 |

Approved by the Board of Directors on 16th March 2010

**Lee Shau Kee**
*Director*

**David Li Kwok Po**
*Director*

The notes on pages 77 to 144 form part of these accounts.

# BALANCE SHEET

as at 31st December 2009

| | Note | 2009 HK$'M | 2008 HK$'M |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 8,908.5 | 8,673.2 |
| Leasehold land | 19 | 241.9 | 248.4 |
| Subsidiaries | 21 | 15,524.8 | 12,798.5 |
| Loans to an associated company | 22 | – | 456.2 |
| Jointly controlled entities | 23 | 933.4 | 931.9 |
| Available-for-sale financial assets | 24 | 104.6 | 60.9 |
| Retirement benefit assets | 25 | 59.3 | 64.7 |
| | | 25,772.5 | 23,233.8 |
| **Current assets** | | | |
| Inventories | 27 | 838.0 | 739.9 |
| Trade and other receivables | 28 | 1,382.6 | 1,211.8 |
| Loans to subsidiaries | 21 | 163.1 | 68.9 |
| Loan and other receivables from associated companies | 22 | 28.8 | 28.0 |
| Housing loans to staff | | 35.0 | 46.8 |
| Financial assets at fair value through profit or loss | 29 | 2.7 | 5.3 |
| Time deposits up to three months, cash and bank balances | 30 | 1,233.1 | 798.2 |
| | | 3,683.3 | 2,898.9 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | (666.8) | (390.2) |
| Amounts due to jointly controlled entities | 23 | (1.3) | (0.8) |
| Provision for taxation | | (128.1) | (168.5) |
| Borrowings | 32 | (1,200.0) | – |
| | | (1,996.2) | (559.5) |
| **Net current assets** | | 1,687.1 | 2,339.4 |
| **Total assets less current liabilities** | | 27,459.6 | 25,573.2 |
| **Non-current liabilities** | | | |
| Amounts due to subsidiaries | 21 | (14,657.1) | (10,022.1) |
| Customers' deposits | 33 | (1,108.1) | (1,068.4) |
| Deferred taxation | 34 | (1,056.3) | (1,030.2) |
| Borrowings | 32 | (500.0) | (1,700.0) |
| | | (17,321.5) | (13,820.7) |
| **Net assets** | | 10,138.1 | 11,752.5 |
| **Capital and reserves** | | | |
| Share capital | 36 | 1,632.3 | 1,666.4 |
| Share premium | 37 | 3,618.6 | 3,618.6 |
| Reserves | 38 | 3,385.4 | 4,934.4 |
| Proposed dividend | 38 | 1,501.8 | 1,533.1 |
| | | 10,138.1 | 11,752.5 |

Approved by the Board of Directors on 16th March 2010

**Lee Shau Kee**
*Director*

**David Li Kwok Po**
*Director*

The notes on pages 77 to 144 form part of these accounts.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2009

| | Note | 2009 HK$'M | 2008 HK$'M |
|---|---|---|---|
| **Net cash from operating activities** | 42 | 3,975.4 | 4,964.9 |
| **Investing activities** | | | |
| Receipt from sale of property, plant and equipment | | 4.0 | 3.9 |
| Receipt from sale of leasehold land | | – | 0.3 |
| Purchase of property, plant and equipment | | (2,721.1) | (2,865.6) |
| Payment for leasehold land | | (39.1) | (29.4) |
| Increase in investments in associated companies | | (166.8) | (199.7) |
| Increase in loans to associated companies | | (82.9) | (266.5) |
| Repayment of loans by associated companies | | – | 150.9 |
| Increase in investments in jointly controlled entities | | (112.5) | (44.6) |
| Increase in loans to jointly controlled entities | | (48.3) | (39.7) |
| Increase in loans from jointly controlled entities | | 27.1 | – |
| Repayment of loans by jointly controlled entities | | 18.2 | 5.6 |
| Acquisition of subsidiaries | 44 (a) | (630.8) | – |
| Consolidation of a subsidiary | 44 (b) | 923.9 | – |
| Sale of financial assets at fair value through profit or loss | | 981.6 | 1,402.0 |
| Sale of available-for-sale financial assets | | 206.3 | – |
| Purchase of available-for-sale financial assets | | (1,324.9) | (172.5) |
| Purchase of financial assets at fair value through profit or loss | | (287.4) | (1,771.8) |
| Increase in time deposits over three months | | (256.1) | (34.6) |
| Interest received | | 222.1 | 328.2 |
| Dividends received from investments in securities | | 97.1 | 59.9 |
| Dividends received from associated companies | | 513.7 | 468.9 |
| Dividends received from jointly controlled entities | | 846.0 | 1,202.1 |
| **Net cash used in investing activities** | | (1,829.9) | (1,802.6) |
| **Financing activities** | | | |
| Shares repurchased | | (1,999.0) | – |
| Change in loans with minority interests | | (52.5) | (12.6) |
| Capital injection by minority interests | | 88.9 | 48.2 |
| Increase in borrowings | | 3,737.4 | 8,882.5 |
| Repayment of borrowings | | (402.5) | (2,120.3) |
| Interest paid | | (601.2) | (281.0) |
| Dividends paid | 38 | (2,302.7) | (2,193.6) |
| Dividends paid to minority interests | | (73.5) | (66.7) |
| **Net cash (used in)/from financing activities** | | (1,605.1) | 4,256.5 |
| **Increase in cash and cash equivalents** | | 540.4 | 7,418.8 |
| **Cash and cash equivalents at 1st January** | | 12,290.9 | 4,808.8 |
| **Effect of foreign exchange rate changes** | | (13.9) | 63.3 |
| **Cash and cash equivalents at 31st December** | | 12,817.4 | 12,290.9 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash and bank balances | | 4,007.2 | 976.0 |
| Time deposits up to three months | | 8,810.2 | 11,314.9 |
| | | 12,817.4 | 12,290.9 |

The notes on pages 77 to 144 form part of these accounts.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2009

| | Attributable to shareholders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital HK$'M | Share premium HK$'M | Reserves HK$'M | Minority interests HK$'M | Total HK$'M |
| **Total equity as at 1st January 2009** | **1,666.4** | **3,618.6** | **25,366.6** | **848.2** | **31,499.8** |
| Profit for the year | – | – | 5,175.0 | 134.2 | 5,309.2 |
| Other comprehensive income: | | | | | |
| Revaluation surplus of available-for-sale financial assets transferred to equity | – | – | 830.2 | – | 830.2 |
| Change in fair value of cash flow hedges | – | – | 486.9 | – | 486.9 |
| Exchange differences | – | – | 3.8 | (1.1) | 2.7 |
| Total comprehensive income for the year | – | – | 6,495.9 | 133.1 | 6,629.0 |
| Capital injection | – | – | – | 88.9 | 88.9 |
| Acquisition of subsidiaries (Note 44(a)) | – | – | – | 489.1 | 489.1 |
| Dividends paid | – | – | (2,302.7) | – | (2,302.7) |
| Dividends paid to minority interests | – | – | – | (73.5) | (73.5) |
| Share repurchased | (34.1) | – | (1,964.9) | – | (1,999.0) |
| Consolidation of a subsidiary (Note 44(b)) | – | – | – | 2,456.5 | 2,456.5 |
| **Total equity as at 31st December 2009** | **1,632.3** | **3,618.6** | **27,594.9** | **3,942.3** | **36,788.1** |
| | | | | | |
| Total equity as at 1st January 2008 | 1,514.9 | 3,770.1 | 23,492.2 | 722.1 | 29,499.3 |
| Profit for the year | – | – | 4,302.5 | 92.3 | 4,394.8 |
| Other comprehensive income: | | | | | |
| Revaluation deficit of available-for-sale financial assets transferred to equity | – | – | (565.9) | – | (565.9) |
| Capital reserve | – | – | 13.6 | – | 13.6 |
| Change in fair value of cash flow hedges | – | – | (287.2) | – | (287.2) |
| Exchange differences | – | – | 605.0 | 52.3 | 657.3 |
| Total comprehensive income for the year | – | – | 4,068.0 | 144.6 | 4,212.6 |
| Capital injection | – | – | – | 48.2 | 48.2 |
| Bonus issue | 151.5 | (151.5) | – | – | – |
| Dividends paid | – | – | (2,193.6) | – | (2,193.6) |
| Dividends paid to minority interests | – | – | – | (66.7) | (66.7) |
| Total equity as at 31st December 2008 | 1,666.4 | 3,618.6 | 25,366.6 | 848.2 | 31,499.8 |

The notes on pages 77 to 144 form part of these accounts.

# NOTES TO THE ACCOUNTS

## 1 General information

The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (collectively, the "Group") have been diversified into different fields of businesses and engages in energy related activities, production, distribution and marketing of gas and water and related activities in Hong Kong and the People's Republic of China (the "PRC"). The Group is also engaged in property development and investment activities in Hong Kong.

The Company is a limited liability company incorporated and domiciled in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 23rd Floor, 363 Java Road, North Point, Hong Kong.

These consolidated accounts have been approved for issue by the Board of Directors on 16th March 2010.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in Note 4.

#### *(i) Amendments and interpretations effective in 2009*

HKAS 1 (revised) "Presentation of Financial Statements" - effective 1st January 2009. The revised standard requires "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKAS 23 (revised) "Borrowing Costs" - effective 1st January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying assets (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The adoption of this revised standard have no material impact on the Group's accounting policies as the Group's original accounting policy on borrowing costs complies with the amended requirements.

HKFRS 7 "Financial Instruments - Disclosures" (amendment) - effective 1st January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

HKFRS 8, "Operating Segments" - effective 1st January 2009. HKFRS 8 replaces HKAS 14, "Segment Reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a presentation of segment information from both geographical and product perspectives. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. Comparatives for 2008 in Note 5 have been restated. However, such restatement in note disclosure does not have any impact on the consolidated balance sheet and income statement.

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### *(ii) New or revised standards, interpretations and amendments that are not yet effective for the year ended 31st December 2009 but relevant to the Group and have not been early adopted by the Group*

The HKICPA has issued the following new or revised HKFRS, interpretations, amendments or improvements to existing standards which are not yet effective for the year ended 31st December 2009 and have not been early adopted by the Group:

| New or revised standards, interpretation and amendments | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 27 (revised) | "Consolidated and Separate Financial Statements" | 1st July 2009 |
| HKAS 32 (amendment) | "Classification of Rights Issues" | 1st July 2009 |
| HKAS 39 (amendment) | "Financial Instruments: Recognition and Measurement" | 1st July 2009 |
| HKFRS 2 (amendment) | "Group Cash-settled Share-based Payment Transactions" | 1st January 2010 |
| HKFRS 3 (revised) | "Business Combinations" | 1st July 2009 |
| HKFRS 9 | "Financial Instruments" | 1st January 2013 |
| HK(IFRIC) 14 | "Prepayments of a Minimum Funding Requirement" | 1st January 2010 |
| HK(IFRIC) 17 | "Distributions of Non-cash Assets to Owners" | 1st July 2009 |
| HK(IFRIC) 19 | "Extinguishing Financial Liabilities with Equity Instruments" | 1st July 2010 |
| HKICPA's Improvements to HKFRS 2008 and 2009 | | 1st July 2009 or 1st January 2010 |

The Group will apply the above standards, interpretations and amendments from 1st January 2010. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether there will be any substantial changes to the Group's significant accounting policies and presentation of financial information will be resulted.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

#### *(i) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights or has de facto control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. De facto control exists where the Group owns less than 50 per cent of the voting shares in an entity, but is deemed to have control for reasons other than potential voting rights, contract or other statutory means. For example, control is achievable if the balance of other shareholdings is dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

## 2 Summary of significant accounting policies (Continued)

### (b) Consolidation (Continued)

#### *(i) Subsidiaries* (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### *(ii) Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

#### *(iii) Associated companies*

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associated companies include goodwill (net of any accumulated impairment) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the consolidated income statement.

## 2 Summary of significant accounting policies (Continued)

### (b) Consolidation (Continued)

#### *(iv) Jointly controlled entities*

Jointly controlled entities are joint ventures 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. Investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill (net of any accumulated impairment) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in jointly controlled entities are recognised in the consolidated income statement.

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

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee members that makes strategic decisions.

### (d) Foreign currency translation

#### *(i) Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars ("HKD"), which is the Company's functional and presentation currency.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## 2 Summary of significant accounting policies (Continued)

### (d) Foreign currency translation (Continued)

#### *(ii) Transactions and balances* (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

#### *(iii) Group companies*

The results and financial position of all the Group entities, including associated companies and jointly controlled entities, (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The capitalised costs in respect of capital work in progress include direct materials, direct labour costs, subcontracting costs, capitalised borrowing costs and other direct overheads. Capital work in progress are transferred to relevant categories of property, plant and equipment upon completion of their respective work.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement.

## 2 Summary of significant accounting policies (Continued)

### (e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated on a straight-line basis to allocate the cost less accumulated impairment of each component of the asset to its residual value over its estimated useful life as follows:

| | |
|---|---|
| Production plant | 10 - 30 years |
| Vehicles, office furniture and equipment | 5 - 15 years |
| Compressors | 10 years |
| Gas mains | 40 years |
| Water mains | 40 - 50 years |
| Risers, gasholders, office, store and buildings | 30 years |
| Meters and installations | 5 - 20 years |
| Mining rights | Based on the units of production method utilising only recoverable coal reserves as the depletion base |
| Others | 3 - 30 years |
| Capital work in progress | No depreciation |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

### (f) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market value, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors ("HKIS"). These valuations are reviewed annually by qualified valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

Property that is being constructed or developed for future use as investment property is classified as investment properties and measured at fair value unless fair value cannot be reliably determined. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment, the gain is recognised in the income statement.

## 2 Summary of significant accounting policies (Continued)

### (g) Leases

#### *(i) Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

#### *(ii) Finance leases*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are carried at cost less accumulated depreciation and impairment. They are depreciated over the shorter of the useful life of the assets and the lease term.

### (h) Intangible asset

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies and jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible asset". Goodwill arising on an acquisition of an associated company or jointly controlled entity is included in the cost of the investment of the relevant associated company or jointly controlled entity. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately recognised goodwill is allocated to cash-generating units, primarily individual projects, for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### (i) Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than separately recognised goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 Summary of significant accounting policies (Continued)

### (j) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and with no intention of trading the receivables. They are included in the current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

#### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Loans and receivables are carried at amortised cost using effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other gains/losses, net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of "other gains/losses, net" when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses on disposal of available-for-sale financial assets under "other gains/losses, net".

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of "other gains/losses, net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of "other gains/losses, net" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 2 Summary of significant accounting policies (Continued)

### (j) Financial assets (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. In case of available-for-sale equity investments carried at cost less impairment, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment testing of loans and receivables is described in Note 2(o).

The Group may choose to reclassify a non-derivative trading financial asset out of the financial assets at fair value through profit or loss category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the financial assets at fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

### (k) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of the derivative instruments used for hedging purposes are disclosed in Note 35. Movements on the hedging reserve in shareholders' equity are shown in Note 38. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other gains/losses, net".

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of changes in the fair value of derivatives is recognised in the income statement within "interest expense". The gain or loss relating to the ineffective portion is recognised in the income statement within "other gains/losses, net". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory or in depreciation in the case of property, plant and equipment.

## 2 Summary of significant accounting policies (Continued)

### (k) Derivative financial instruments and hedging activities (Continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within "other gains/losses, net".

### (l) Completed property for sale

Completed property for sale is stated at the lower of carrying amount and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (m) 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.

### (n) Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

Contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings are shown as work in progress under inventories in the balance sheet.

### (o) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will become bankrupt or enter into a financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement.

If collection of loans and receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

## 2 Summary of significant accounting policies (Continued)

### (p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, cash and cash equivalents are presented as time deposits up to three months, cash and bank balances in current assets and bank overdrafts are included in borrowings in current liabilities.

### (q) Trade payables and customers' deposits

Trade payables and customers' deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (r) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

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 income statement in the year in which they are incurred.

### (s) Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current taxation is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, deferred taxation is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2 Summary of significant accounting policies (Continued)

### (t) Revenue and income recognition

(i) Gas sales – based on gas consumption derived from meter readings.
(ii) Water sales – based on water consumption derived from meter readings.
(iii) Liquefied petroleum gas sales – upon completion of the gas filling transaction.
(iv) Equipment sales – upon completion of installation work or when equipment, materials and parts are delivered to customers and title has passed.
(v) Maintenance and service charges – when services are provided.
(vi) Interest income – recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
(vii) Dividend income – recognised when the right to receive payment is established.
(viii) Sales of property – recognised upon the signing of the sale and purchase agreements or the issue of occupation permits by the relevant government authorities, whichever is the later.
(ix) Rental income – recognised on a straight-line accrual basis over the terms of lease agreements.
(x) Construction income – recognised under percentage of completion method.

### (u) Employee benefits

Salaries, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Group.

The Group operates a number of defined contribution and one 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.

#### *(i) Defined contribution retirement schemes*

The Group contributes to defined contribution retirement schemes and Mandatory Provident Fund schemes which are available to salaried employees in Hong Kong. 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.

For employees in mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial government in the PRC based on a certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

#### *(ii) Defined benefit retirement scheme*

The Group also operates a defined benefit retirement scheme, namely the Workmen Retirement Scheme, in Hong Kong. The scheme provides benefit to employees based on final salary. The Group's net obligation in respect of the defined benefit retirement scheme is calculated separately for the scheme using the projected unit credit method. The costs of providing scheme benefit are charged to the income statement 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 scheme 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.

## 2 Summary of significant accounting policies (Continued)

### (v) 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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.

## 3 Financial risk management

### *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage and reduce certain risk exposures.

Risk management is carried out by treasury and investment departments (Group Treasury) under policies approved by the Treasury Committee, comprising all the executive directors of the Company. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Treasury Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (a) Market risk

#### *(i) Foreign exchange risk*

The Group operates in Hong Kong and mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has also entered into cross currency swap contracts to manage its exposure to foreign exchange risk from recognised liabilities. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts and other suitable financial instruments.

## 3 Financial risk management (Continued)

### (a) Market risk (Continued)

#### *(i) Foreign exchange risk* (Continued)

Transactions denominated in the USD mainly arise from the Group's operation in Hong Kong. Pursuant to Hong Kong's Linked Exchange Rate System under which HKD is pegged to the USD, management considers there are no significant foreign exchange risks with respect to the USD.

At 31st December 2009, if the RMB had weakened/strengthened by 2 per cent against the USD and HKD with all other variables held constant, pre-tax profit for the year would have been HK$9.7 million (2008: HK$11.5 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of the USD and HKD denominated borrowings.

#### *(ii) Price risk*

The Group is exposed to equity securities price risk for the listed equity investments held by the Group which are classified as available-for-sale financial assets and financial assets at fair value through profit or loss of HK$1,814.1 million (2008: HK$628.5 million) and HK$137.0 million (2008: HK$32.3 million) respectively. It is the Group's policy to maintain a well-diversified portfolio of investments to minimise impact of price risk.

Majority of the Group's equity securities are publicly traded and are included in one of the following indexes: Hang Seng Index, S&P 500 Index, Financial Times Stock Exchange ("FTSE") 100 Index, Cotation Assistée en Continu ("CAC") Index, Swiss Market Index and Tokyo Stock Price Index.

The table below summarises the impact of increases/decreases of the following indexes on the Group's pre-tax profit for the year and on equity. The analysis is based on the assumption that the indexes had increased/decreased by 10 per cent with all other variables held constant and all the Group's equity securities moved according to the historical correlation with the indexes.

| | Group | | | |
|---|---|---|---|---|
| | Impact on pre-tax profit | | Impact on equity | |
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Hang Seng Index | 1.7 | 0.3 | 141.2 | 50.9 |
| S&P 500 Index | 19.9 | 4.8 | 32.3 | 13.2 |
| FTSE 100 Index | 2.4 | 1.5 | 11.1 | – |
| CAC Index | – | – | 13.5 | 2.0 |
| Swiss Market Index | – | – | 1.9 | 1.6 |
| Tokyo Stock Price Index | – | – | 2.0 | 0.5 |

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

The Company has no significant equity securities and the Company's financial results are not significantly affected by equity securities price risk.

## 3 Financial risk management (Continued)

### (a) Market risk (Continued)

#### *(iii) Cash flow and fair value interest rate risk*

***The Group***

Financial instruments at fixed and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group's interest-bearing assets mainly comprise fixed rate equity linked investments classified as financial assets at fair value through profit and loss of HK$135.3 million (2008: HK$606.5 million) and floating and fixed rate bank deposits of HK$13,169.3 million (2008: HK$12,346.6 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$8,973.7 million (2008: HK$6,972.0 million), fixed rate borrowings of HK$11,445.9 million (2008: HK$7,613.0 million) and floating rate deposits received from customers of HK$1,114.4 million (2008: HK$1,074.3 million).

Fixed rate equity linked investment is a debt instrument that differs from a standard fixed-income debt security in which the investment's interest and final payout depends on whether share price of the underlying equity shares exceed a pre-determined price. The investment's underlying equity can be a single stock, basket of stocks, or an equity index. The fair value of the financial instruments is based on the pricing model using the market closing price of the underlying stocks and/or index, the volatilities, correlations and interest rate at the balance sheet date. Accordingly, its fair value is subject to fair value interest rate risk and price risk. The exposure to price changes is managed by closely monitoring the changes in market conditions that may have an impact on the market prices or factor affecting the value of these assets. The preparation of sensitivity analysis on fair value interest rate risk and price risk in relation to equity linked investment involves complicated valuation technique and management considers the cost outweighs benefit provided. Accordingly, no sensitivity analysis in relation to equity linked investment is presented.

At 31st December 2009, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$124.3 million (2008: HK$85.7 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank deposits.

At 31st December 2009, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$95.7 million (2008: HK$119.3 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

***The Company***

The Company's interest bearing assets mainly comprise floating rates bank deposits of HK$1,233.1 million (2008: HK$798.2 million). The Company's interest rate risk arises from floating rate borrowings of HK$1,700.0 million (2008: HK$1,700.0 million) and floating rate deposits received from customers of HK$1,108.1 million (2008: HK$1,068.4 million).

At 31st December 2009, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$8.1 million (2008: HK$5.9 million) higher/lower, mainly as a result of higher/lower bank deposits interest income on floating rate bank deposits.

At 31st December 2009, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$27.9 million (2008: HK$35.6 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

## 3 Financial risk management (Continued)

### (b) Credit risk

Credit risk of the Group and Company mainly arises from:

| | Group 2009 HK$'M | Group 2008 HK$'M | Company 2009 HK$'M | Company 2008 HK$'M |
|---|---|---|---|---|
| Cash and bank deposits | 13,169.3 | 12,346.6 | 1,233.1 | 798.2 |
| Debt securities and derivative instruments | 1,133.0 | 879.5 | – | 1.1 |
| Trade receivables | 1,646.4 | 1,360.5 | 1,223.4 | 1,103.6 |
| Other receivables | 833.3 | 549.3 | 141.8 | 92.2 |
| Instalment receivables | 57.4 | 239.7 | – | – |
| Loan and other receivables from jointly controlled entities | 931.1 | 831.0 | 82.6 | 82.6 |
| Loan and other receivables from associated companies | 88.8 | 485.6 | 28.8 | 484.2 |
| Loan and other receivables from minority interests | 106.7 | 85.4 | – | – |
| Other non-current assets | 477.0 | 89.1 | – | – |

The Group has no significant concentrations of credit risk. The Group has credit policy to handle credit risk of customers. There is no significant concentration of sales to any individual customer. The top five largest customers account for less than 30 per cent of the total revenues. Furthermore, security deposits are required for gas customers. This also applies to the PRC joint ventures where there is no significant concentration of sales to any individual customer. Debt securities, derivative and cash transactions counter parties are limited to financial institutions with good credit rating of investment grade or above. The Group has policies that limit the amount of credit exposure to any one financial institution. Also, the Group and Company monitor the exposure to credit risk in respect of the financial assistance provided to its subsidiaries, jointly controlled entities and associated companies through exercising control or influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates is as follows:

| | Group 2009 % | Group 2008 % | Company 2009 % | Company 2008 % |
|---|---|---|---|---|
| Cash and bank deposits | | | | |
| AA | 21.6 | 27.9 | 35.1 | 34.6 |
| A | 49.7 | 56.8 | 64.7 | 65.3 |
| BBB | 23.7 | 14.5 | 0.2 | – |
| Unrated | 5.0 | 0.8 | – | 0.1 |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Debt securities and derivative instruments | | | | |
| AAA | 1.7 | 4.2 | N/A | N/A |
| AA | 45.0 | 17.9 | N/A | N/A |
| A | 47.4 | 73.2 | N/A | N/A |
| BBB | 3.1 | 1.0 | N/A | N/A |
| Unrated | 2.8 | 3.7 | N/A | N/A |
| | 100.0 | 100.0 | N/A | N/A |

Credit ratings are quoted from Bloomberg.

## 3 Financial risk management (Continued)

### (b) Credit risk (Continued)

Credit quality of loan and other receivables from associated companies, loan and other receivables from jointly controlled entities, other non-current assets and trade and instalment receivables are disclosed in Notes 22, 23, 26 and 28 respectively to the accounts. None of the financial assets that are fully performing has been renegotiated during the year.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping adequate free cash and credit lines available.

The Group determines that there is no significant liquidity risk in view of our adequate and stable sources of funds and unutilised banking facilities.

The table below analyses the Group's and the Company's major financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 year HK$'M | Between 1 and 2 years HK$'M | Between 2 and 5 years HK$'M | Over 5 years HK$'M |
|---|---|---|---|---|
| **Group** | | | | |
| At 31st December 2009 | | | | |
| Trade and other payables | 5,190.7 | – | – | – |
| Borrowings | 5,458.8 | 5,262.1 | 2,301.4 | 14,246.9 |
| At 31st December 2008 | | | | |
| Trade and other payables | 2,746.7 | – | – | – |
| Borrowings | 2,735.6 | 1,658.2 | 4,804.1 | 9,740.4 |
| **Company** | | | | |
| At 31st December 2009 | | | | |
| Trade and other payables | 666.8 | – | – | – |
| Borrowings | 1,204.4 | 201.0 | 301.0 | – |
| Facilities provided to an associated company | – | – | – | – |
| At 31st December 2008 | | | | |
| Trade and other payables | 390.2 | – | – | – |
| Borrowings | 12.8 | 1,210.1 | 506.0 | – |
| Facilities provided to an associated company | 53.4 | – | – | – |

## 3 Financial risk management (Continued)

### *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase existing shares, drawdown and repay borrowings, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowing divided by shareholders' funds and net borrowing. Net borrowing is calculated as total borrowings, less time deposits, cash and bank deposits as shown in the consolidated balance sheet.

The gearing ratios at 31st December 2009 and 2008 are as follows:

| | 2009<br>HK$'M | 2008<br>HK$'M |
|---|---|---|
| Total borrowings | (20,419.6) | (14,585.0) |
| Less: Time deposits, cash and bank deposits | 13,169.3 | 12,346.6 |
| Net borrowing | (7,250.3) | (2,238.4) |
| Shareholders' funds | (32,845.8) | (30,651.6) |
| | (40,096.1) | (32,890.0) |
| Gearing ratio | 18% | 7% |

### *Fair value estimation*

Effective 1st January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31st December 2009.

| | Level 1<br>HK$'M | Level 2<br>HK$'M | Total<br>HK$'M |
|---|---|---|---|
| Assets | | | |
| Financial assets at fair value through profit or loss | | | |
| Debt securities | 99.2 | 158.0 | 257.2 |
| Equity securities | 137.0 | – | 137.0 |
| Derivative financial instruments | – | 197.4 | 197.4 |
| Available-for-sale financial assets | | | |
| Debt securities | 658.4 | 20.0 | 678.4 |
| Equity investments | 1,814.1 | – | 1,814.1 |
| Total assets | 2,708.7 | 375.4 | 3,084.1 |

## 3 Financial risk management (Continued)

### *Fair value estimation* (Continued)

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 31st December 2009, the Group did not have financial instruments under this category.

Specific valuation techniques used to value financial instruments includes:

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

Note that all the resulting fair value estimates are included in level 2.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Critical accounting estimates

#### *(i) Estimated impairment of assets*

The Group tests annually whether separately recognised goodwill has suffered any impairment, in accordance with the accounting policy stated in the accounts Note 2(i). Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### *(ii) Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

# 4 Critical accounting estimates and judgements (Continued)

## (a) Critical accounting estimates (Continued)

### *(iii) Estimate of fair value of investment property*

The valuation of investment properties (including those held by an associated company) are performed in accordance with the "The HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including:

– current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;

– recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

– rental income derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of the rental income.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are mainly determined using income capitalisation valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

### *(iv) Estimate of gas and water consumption*

Revenue for gas and water supply may include an estimation of the gas and water supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. As of the year-end date, the overall billed gas and water sales are in line with the gas and water supplied to the customers.

### *(v) Reserve estimates*

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining rights for a coal mine in mainland China. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset carrying values may be affected due to changes in estimated future cash flows.

– Depreciation charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

– Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

## 4 Critical accounting estimates and judgements (Continued)

### (b) Critical judgements in applying the entity's accounting policies

Control in Towngas China Company Limited (the "Towngas China")

The Group has obtained de facto control over Towngas China on 31st December 2009 and since then, the Group's 45.6 per cent interest in Towngas China is accounted for and consolidated into the consolidated accounts of the Company as a subsidiary. Key judgements adopted in concluding the Group has obtained de facto control in Towngas China are as follows:

– The Group has consistently and regularly held a majority of the voting rights exercised at Towngas China's shareholders' meetings and no other single shareholder directly or indirectly controls more voting rights than the Group.

– The Group has established a good and trustworthy relationship with the second largest shareholder of Towngas China who holds a 27.1 per cent interest therein, and the shareholding of other minority shareholders is dispersed and the chance of all other shareholders getting together to vote against the Group is remote.

– The Group has obtained effective control over majority of the board of Towngas China (five out of nine board seats) since 31st December 2009.

## 5 Segment information

The Group's principal activity is the production, distribution and marketing of gas, water and related activities in Hong Kong and mainland China. The revenue comprises the following:

| | 2009 HK$'M | 2008 HK$'M |
|---|---|---|
| Gas sales before fuel cost adjustment | 8,704.2 | 8,379.7 |
| Fuel cost adjustment | 539.9 | 1,677.0 |
| Gas sales after fuel cost adjustment | 9,244.1 | 10,056.7 |
| Equipment sales | 963.5 | 908.3 |
| Maintenance and services | 296.6 | 285.3 |
| Water sales | 313.1 | 289.1 |
| Property sales | 493.4 | 33.2 |
| Rental income | 29.1 | 24.6 |
| Other sales | 1,012.0 | 755.0 |
| | 12,351.8 | 12,352.2 |

The chief operating decision-maker has been identified as the executive committee members (the "ECM"). ECM review the Group's internal reporting in order to assess performance and allocate resources. ECM consider the business from both a product and geographical perspective. From a product perspective, management assesses the performance of (a) gas, water and related business; and (b) property business. Gas, water and related business is further evaluated on a geographic basis (Hong Kong and Mainland China).

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

Segment assets exclude available-for-sale financial assets, financial assets at fair value through profit or loss, time deposits, cash and bank balances other than those included under segment assets for operation purposes, derivative financial instruments, retirement benefit assets, other non-current assets, loan and other receivables from minority interests and housing loans to staff.

## 5 Segment information (Continued)

The segment information provided to ECM for the reportable segments is as follows:

| | Gas, water and related business | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Property | | All other segments | | Total | |
| | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ |
| Revenue | 7,871.5 | 9,177.4 | 3,957.8 | 3,117.0 | 522.5 | 57.8 | – | – | 12,351.8 | 12,352.2 |
| Adjusted EBITDA | 3,900.0 | 4,095.9 | 1,046.3 | 781.4 | 199.6 | (104.4) | (2.4) | – | 5,143.5 | 4,772.9 |
| Depreciation and amortisation | (548.6) | (479.2) | (277.8) | (221.7) | (0.2) | (0.2) | – | – | (826.6) | (701.1) |
| Unallocated corporate expenses | | | | | | | | | (455.5) | (457.8) |
| | | | | | | | | | 3,861.4 | 3,614.0 |
| Other gains/(losses), net | | | | | | | | | 827.2 | (584.6) |
| Interest expense | | | | | | | | | (567.8) | (416.8) |
| Share of profits less losses of associated companies | – | – | 327.5 | 219.5 | 837.5 | 1,600.8 | (0.6) | – | 1,164.4 | 1,820.3 |
| Share of profits less losses of jointly controlled entities | – | – | 575.2 | 476.3 | 197.1 | 47.6 | (1.3) | 0.6 | 771.0 | 524.5 |
| Profit before taxation | | | | | | | | | 6,056.2 | 4,957.4 |
| Taxation | | | | | | | | | (747.0) | (562.6) |
| Profit for the year | | | | | | | | | 5,309.2 | 4,394.8 |
| Attributable to: | | | | | | | | | | |
| Shareholders of the Company | | | | | | | | | 5,175.0 | 4,302.5 |
| Minority interests | | | | | | | | | 134.2 | 92.3 |
| | | | | | | | | | 5,309.2 | 4,394.8 |

Share of profits of associated companies includes HK$524.9 (2008: HK$1,357.4 million), being the Group's share of post-tax change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

Share of profits of jointly controlled entities includes HK$197.1 million (2008: HK$47.6 million), being the Group's share of post-tax profits arising from the sale of a portion of the residential units of Grand Promenade.

| | Gas, water and related business | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Property | | All other segments | | Total | |
| | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ | 2009 HK$ | 2008 HK$ |
| Segment assets | 18,459.7 | 18,098.4 | 27,639.4 | 19,196.1 | 6,328.2 | 6,504.1 | 3,782.3 | 154.8 | 56,209.6 | 43,953.4 |
| Unallocated assets: | | | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | | 2,996.0 | 1,105.2 |
| Financial assets at fair value through profit or loss | | | | | | | | | 405.2 | 767.4 |
| Time deposits, cash and bank balances excluded from segment assets | | | | | | | | | 5,630.3 | 5,842.0 |
| Others | | | | | | | | | 864.4 | 286.0 |
| Total assets | 18,459.7 | 18,098.4 | 27,639.4 | 19,196.1 | 6,328.2 | 6,504.1 | 3,782.3 | 154.8 | 66,105.5 | 51,954.0 |

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2009 is HK$8,394.0 million (2008: HK$9,235.2), and the revenue from external customers in PRC is HK$3,957.8 million (2008: HK$3,117.0 million).

At 31st December 2009, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other countries are HK$15,596.9 million and HK$27,167.6 million (2008: HK$15,319.4 million and HK$17,667.4 million) respectively.

For the year ended 31st December 2009, the percentage of revenues attributable to the Group's five largest customers is less than 30 per cent.

## 6 Total operating expenses

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Stores and materials used | 4,617.7 | 5,598.6 |
| Cost of property sold | 139.6 | 9.9 |
| Manpower costs (Note 11) | 1,120.2 | 1,006.2 |
| Depreciation and amortisation | 836.3 | 708.4 |
| Other operating items | 1,776.6 | 1,415.1 |
| | 8,490.4 | 8,738.2 |

## 7 Other gains/(losses), net

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Fair value (loss)/gain on investment property (Note 18) | (22.0) | 113.0 |
| Net investment gains/(losses) (Note 8) | 552.6 | (723.2) |
| Gain on acquisition of a subsidiary (Note 44(a)) | 259.9 | – |
| Gain on deemed disposal of interests in an associated company | 194.9 | – |
| Provision for other receivables | (91.8) | – |
| Provision for investment in a jointly controlled entity | (50.1) | – |
| Ineffective portion on cash flow hedges (Note 35) | 5.5 | (2.1) |
| Others | (21.8) | 27.7 |
| | 827.2 | (584.6) |

## 8 Net investment gains/(losses)

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| **(a) Interest income** | | |
| Bank deposits | 47.9 | 194.4 |
| Listed available-for-sale financial assets | 12.9 | 0.9 |
| Unlisted available-for-sale financial assets | 0.6 | – |
| Loans to associated companies and jointly controlled entities | 23.9 | 23.5 |
| Others | 21.3 | 22.1 |
| | 106.6 | 240.9 |
| **(b) Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss** | | |
| Listed securities | 105.4 | (180.9) |
| Unlisted securities | 321.9 | (865.7) |
| Exchange differences | 16.8 | 0.4 |
| | 444.1 | (1,046.2) |
| **(c) Net realised and unrealised losses on available-for-sale financial assets** | | |
| Listed securities | (85.9) | – |
| Unlisted securities | (2.6) | – |
| Exchange differences | 2.2 | – |
| | (86.3) | – |
| **(d) Dividend income** | | |
| Listed available-for-sale financial assets | 55.7 | 25.0 |
| Unlisted available-for-sale financial assets | 40.9 | 29.2 |
| Listed financial assets at fair value through profit or loss | 0.5 | 5.7 |
| | 97.1 | 59.9 |
| **(e) Other investment (expense)/income** | (8.9) | 22.2 |
| | 552.6 | (723.2) |

## 9 Interest expense

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Interest on bank loans and overdrafts wholly repayable within five years | 141.9 | 259.3 |
| Interest on guaranteed notes not wholly repayable within five years | 468.1 | 170.1 |
| Interest on customers' deposits | 1.1 | 3.1 |
| | 611.1 | 432.5 |
| Less: Amount capitalised | (43.3) | (15.7) |
| | 567.8 | 416.8 |

The interest expense is capitalised at an average rate of 3.52 per cent (2008: 2.99 per cent) per annum.

## 10 Profit before taxation

Profit before taxation is stated after charging and (crediting) the following:

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Cost of inventories sold | 5,197.5 | 6,086.9 |
| Depreciation and amortisation | 836.3 | 708.4 |
| Loss on disposal/write off of property, plant and equipment | 89.9 | 26.2 |
| Loss on disposal of leasehold land | 2.1 | – |
| Impairment loss of trade receivables | 20.2 | 26.1 |
| Impairment loss of instalment receivables | – | 26.3 |
| Impairment loss of available-for-sale financial assets | 87.5 | – |
| Research and development expenditures | 34.1 | – |
| Operating lease rentals | | |
| – land and buildings | 50.5 | 39.4 |
| – plant and equipment | 9.3 | 9.3 |
| Rental income from investment property | | |
| – gross rental income | (29.1) | (24.6) |
| – outgoing expenses | 20.6 | 17.5 |
| Auditors' remuneration | 7.2 | 6.9 |
| Net loss on residential maintenance (Note) | 18.0 | 19.3 |
| Note | | |
| Analysis of net loss on residential maintenance: | | |
| Residential maintenance revenue | (183.6) | (181.0) |
| Less expenses: | | |
| Manpower costs | 108.4 | 106.9 |
| Other operating and administrative expenses | 93.2 | 93.4 |
| Net loss | 18.0 | 19.3 |

## 11 Manpower costs

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Salaries and wages | 984.7 | 901.3 |
| Pension costs – defined contribution retirement schemes | 125.6 | 123.0 |
| Pension costs – defined benefit retirement scheme (Note 25) | 9.9 | (18.1) |
| | 1,120.2 | 1,006.2 |

## 12 Directors' and senior management's emoluments

### (a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31st December 2009 is set out below:

| Name of director | Fees HK$'M | Salary, allowances and benefits in kind HK$'M | Performance bonus HK$'M | Contributions to retirement scheme HK$'M | Total HK$'M |
|---|---|---|---|---|---|
| Alfred Chan Wing Kin | 0.1 | 4.9 | 19.4 | 3.6 | 28.0 |
| James Kwan Yuk Choi | 0.1 | 3.0 | 7.0 | 2.6 | 12.7 |
| Lee Shau Kee | 0.3 | 0.1 | – | – | 0.4 |
| Liu Lit Man | 0.2 | – | – | – | 0.2 |
| Leung Hay Man | 0.2 | – | – | – | 0.2 |
| Colin Lam Ko Yin | 0.1 | 0.1 | – | – | 0.2 |
| Lee Ka Kit | 0.1 | – | – | – | 0.1 |
| Lee Ka Shing | 0.1 | – | – | – | 0.1 |
| David Li Kwok Po | 0.2 | 0.1 | – | – | 0.3 |
| Poon Chung Kwong | 0.1 | – | – | – | 0.1 |
| | 1.5 | 8.2 | 26.4 | 6.2 | 42.3 |

The remuneration of every director of the Company for the year ended 31st December 2008 is set out below:

| Name of director | Fees HK$'M | Salary, allowances and benefits in kind HK$'M | Performance bonus HK$'M | Contributions to retirement scheme HK$'M | Total HK$'M |
|---|---|---|---|---|---|
| Alfred Chan Wing Kin | 0.1 | 5.0 | 16.4 | 2.8 | 24.3 |
| Ronald Chan Tat Hung | 0.1 | 3.7 | 4.3 | 2.2 | 10.3 |
| James Kwan Yuk Choi | 0.1 | 3.1 | 6.1 | 2.4 | 11.7 |
| Lee Shau Kee | 0.3 | 0.1 | – | – | 0.4 |
| Liu Lit Man | 0.2 | – | – | – | 0.2 |
| Leung Hay Man | 0.2 | – | – | – | 0.2 |
| Colin Lam Ko Yin | 0.1 | 0.1 | – | – | 0.2 |
| Lee Ka Kit | 0.1 | – | – | – | 0.1 |
| Lee Ka Shing | 0.1 | – | – | – | 0.1 |
| David Li Kwok Po | 0.2 | 0.1 | – | – | 0.3 |
| | 1.5 | 12.1 | 26.8 | 7.4 | 47.8 |

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK$36.1 million (2008: HK$40.4 million) and post-employment benefits of HK$6.2 million (2008: HK$7.4 million) paid to the Group's key management during the year ended 31st December 2009. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2008: nil).

## 12 Directors' and senior management's emoluments (Continued)

### (b) Five highest paid individuals

The above analysis includes two (2008: three) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining three (2008: two) individuals are as follows:

| | 2009 HK$'M | 2008 HK$'M |
|---|---|---|
| Salaries, allowances and benefits in kind | 5.3 | 3.4 |
| Performance bonus | 6.0 | 4.3 |
| Contributions to retirement scheme | 2.5 | 1.4 |
| | 13.8 | 9.1 |

Number of individuals whose emoluments fell within:

| Emoluments band (HK$'M) | 2009 | 2008 |
|---|---|---|
| 5.0 – 6.0 | 1 | 1 |
| 4.0 – 5.0 | 1 | 1 |
| 3.0 – 4.0 | 1 | – |

## 13 Taxation

The amount of taxation charged to the consolidated income statement represents:

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Current taxation – provision for Hong Kong Profits Tax at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year | 537.7 | 515.8 |
| Current taxation – provision for PRC Enterprise Income Tax at the prevailing rates on the estimated assessable profit for the year | 63.7 | 38.4 |
| Current taxation – under/(over) provision in prior years | 1.2 | (29.4) |
| Deferred taxation – origination and reversal of temporary differences | 76.3 | 99.9 |
| Withholding tax | 68.1 | – |
| Deferred taxation – change of tax rate for entities operated in Hong Kong | – | (62.1) |
| | 747.0 | 562.6 |

## 13 Taxation (Continued)

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

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Profit before taxation | 6,056.2 | 4,957.4 |
| Less: Share of profits less losses of associated companies | (1,164.4) | (1,820.3) |
| Share of profits less losses of jointly controlled entities | (771.0) | (524.5) |
| | 4,120.8 | 2,612.6 |
| Calculated at a tax rate of 16.5% (2008: 16.5%) | 679.9 | 431.1 |
| Effect of different tax rates in other countries | 73.0 | 38.0 |
| Income not subject to taxation | (237.1) | (74.5) |
| Expenses not deductible for taxation purposes | 147.0 | 254.6 |
| Utilisation of previously unrecognised tax losses | (6.0) | (17.2) |
| Under/(over) provision in prior years | 1.2 | (29.4) |
| Withholding tax | 68.1 | – |
| Change of tax rate for entities operated in Hong Kong | – | (62.1) |
| Others | 20.9 | 22.1 |
| | 747.0 | 562.6 |

Share of associated companies' taxation for the year ended 31st December 2009 of HK$244.5 million (2008: HK$327.1 million) is included in the consolidated income statement as share of profits less losses of associated companies.

Share of jointly controlled entities' taxation for the year ended 31st December 2009 of HK$202.6 million (2008: HK$132.3 million) is included in the consolidated income statement as share of profits less losses of jointly controlled entities.

## 14 Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$2,610.1 million (2008: HK$2,816.9 million).

## 15 Dividends

| | Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Interim, paid of HK 12 cents per ordinary share (2008: HK 12 cents per ordinary share) | 783.5 | 799.9 |
| Final, proposed of HK 23 cents per ordinary share (2008: HK 23 cents per ordinary share) | 1,501.8 | 1,533.1 |
| | 2,285.3 | 2,333.0 |

At a meeting held on 16th March 2010, the directors of the Company declared a final dividend of HK 23 cents per ordinary share for the year ended 31st December 2009. 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 2009.

## 16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$5,175.0 million (2008: HK$4,302.5 million) and the weighted average of 6,577,537,751 shares (2008: 6,665,599,584 shares) in issue after adjusting for the shares repurchased during the year.

As there were no diluted potential ordinary shares outstanding during the year (2008: nil), the diluted earnings per share for the year ended 31st December 2009 is the same as the basic earnings per share.

## 17 Property, plant and equipment

| | Buildings, plant and equipment HK$'M | Mains and risers HK$'M | Meters and installations HK$'M | Mining rights HK$'M | Others HK$'M | Capital work in progress HK$'M | Total HK$'M |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Cost | | | | | | | |
| At 1st January 2009 | 6,450.8 | 12,182.9 | 2,023.8 | – | – | 1,850.2 | 22,507.7 |
| Additions | 502.9 | 181.9 | 269.5 | – | – | 1,756.7 | 2,711.0 |
| Acquisition of subsidiaries (Note 44(a)) | 10.9 | – | – | 1,531.6 | 7.1 | 882.4 | 2,432.0 |
| Consolidation of a subsidiary (Note 44(b)) | 734.8 | 3,067.5 | – | – | 182.2 | 274.9 | 4,259.4 |
| Transfers from capital work in progress | 105.9 | 1,047.5 | 1.6 | – | – | (1,155.0) | – |
| Disposals/write off | (132.6) | (53.2) | (26.1) | – | – | – | (211.9) |
| Exchange differences | 2.9 | 7.0 | 0.2 | 0.3 | – | 1.8 | 12.2 |
| At 31st December 2009 | 7,675.6 | 16,433.6 | 2,269.0 | 1,531.9 | 189.3 | 3,611.0 | 31,710.4 |
| Accumulated depreciation | | | | | | | |
| At 1st January 2009 | 3,309.3 | 2,961.3 | 1,160.1 | – | – | – | 7,430.7 |
| Charge for the year | 340.8 | 326.6 | 155.8 | – | – | – | 823.2 |
| Disposals/write off | (79.1) | (23.6) | (15.3) | – | – | – | (118.0) |
| Exchange differences | 0.6 | 0.6 | – | – | – | – | 1.2 |
| At 31st December 2009 | 3,571.6 | 3,264.9 | 1,300.6 | – | – | – | 8,137.1 |
| Net book value | | | | | | | |
| At 31st December 2009 | 4,104.0 | 13,168.7 | 968.4 | 1,531.9 | 189.3 | 3,611.0 | 23,573.3 |
| At 31st December 2008 | 3,141.5 | 9,221.6 | 863.7 | – | – | 1,850.2 | 15,077.0 |

## 17 Property, plant and equipment (Continued)

| | Buildings, plant and equipment HK$'M | Mains and risers HK$'M | Meters and installations HK$'M | Capital work in progress HK$'M | Total HK$'M |
|---|---|---|---|---|---|
| **Company** | | | | | |
| Cost | | | | | |
| At 1st January 2009 | 4,379.2 | 8,036.3 | 1,903.6 | 851.2 | 15,170.3 |
| Additions | 52.3 | – | 269.3 | 488.2 | 809.8 |
| Transfers from capital work in progress | 0.4 | 354.6 | – | (355.0) | – |
| Disposals/write off | (85.4) | (22.5) | (26.1) | – | (134.0) |
| At 31st December 2009 | 4,346.5 | 8,368.4 | 2,146.8 | 984.4 | 15,846.1 |
| Accumulated depreciation | | | | | |
| At 1st January 2009 | 2,800.8 | 2,577.1 | 1,119.2 | – | 6,497.1 |
| Charge for the year | 174.2 | 205.6 | 148.4 | – | 528.2 |
| Disposals/write off | (57.1) | (15.2) | (15.4) | – | (87.7) |
| At 31st December 2009 | 2,917.9 | 2,767.5 | 1,252.2 | – | 6,937.6 |
| Net book value | | | | | |
| At 31st December 2009 | 1,428.6 | 5,600.9 | 894.6 | 984.4 | 8,908.5 |
| At 31st December 2008 | 1,578.4 | 5,459.2 | 784.4 | 851.2 | 8,673.2 |

## 17 Property, plant and equipment (Continued)

| | Buildings, plant and equipment HK$'M | Mains and risers HK$'M | Meters and installations HK$'M | Capital work in progress HK$'M | Total HK$'M |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Cost | | | | | |
| At 1st January 2008 | 5,914.0 | 9,992.0 | 1,811.3 | 2,172.4 | 19,889.7 |
| Additions | 272.7 | 107.2 | 228.0 | 1,880.1 | 2,488.0 |
| Transfers from capital work in progress | 286.2 | 1,945.0 | – | (2,231.2) | – |
| Disposals/write off | (107.2) | (35.2) | (22.7) | – | (165.1) |
| Exchange differences | 85.1 | 173.9 | 7.2 | 28.9 | 295.1 |
| At 31st December 2008 | 6,450.8 | 12,182.9 | 2,023.8 | 1,850.2 | 22,507.7 |
| Accumulated depreciation | | | | | |
| At 1st January 2008 | 3,081.4 | 2,706.0 | 1,050.7 | – | 6,838.1 |
| Charge for the year | 307.8 | 263.4 | 123.0 | – | 694.2 |
| Disposals/write off | (96.2) | (23.0) | (15.6) | – | (134.8) |
| Exchange differences | 16.3 | 14.9 | 2.0 | – | 33.2 |
| At 31st December 2008 | 3,309.3 | 2,961.3 | 1,160.1 | – | 7,430.7 |
| Net book value | | | | | |
| At 31st December 2008 | 3,141.5 | 9,221.6 | 863.7 | 1,850.2 | 15,077.0 |
| At 31st December 2007 | 2,832.6 | 7,286.0 | 760.6 | 2,172.4 | 13,051.6 |
| **Company** | | | | | |
| Cost | | | | | |
| At 1st January 2008 | 4,245.4 | 7,173.1 | 1,698.8 | 1,252.7 | 14,370.0 |
| Additions | 89.5 | – | 226.9 | 626.0 | 942.4 |
| Transfers from capital work in progress | 129.1 | 898.4 | – | (1,027.5) | – |
| Disposals/write off | (84.8) | (35.2) | (22.1) | – | (142.1) |
| At 31st December 2008 | 4,379.2 | 8,036.3 | 1,903.6 | 851.2 | 15,170.3 |
| Accumulated depreciation | | | | | |
| At 1st January 2008 | 2,711.3 | 2,431.1 | 1,018.7 | – | 6,161.1 |
| Charge for the year | 174.1 | 169.0 | 115.8 | – | 458.9 |
| Disposals/write off | (84.6) | (23.0) | (15.3) | – | (122.9) |
| At 31st December 2008 | 2,800.8 | 2,577.1 | 1,119.2 | – | 6,497.1 |
| Net book value | | | | | |
| At 31st December 2008 | 1,578.4 | 5,459.2 | 784.4 | 851.2 | 8,673.2 |
| At 31st December 2007 | 1,534.1 | 4,742.0 | 680.1 | 1,252.7 | 8,208.9 |

## 18 Investment property

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| At 1st January | 523.0 | 410.0 |
| Fair value (loss)/gain (Note 7) | (22.0) | 113.0 |
| At 31st December | 501.0 | 523.0 |

The Group's interest in investment property is held in Hong Kong under leases of over 50 years. The investment property was revalued at 31st December 2009 by an independent professionally qualified valuer, Knight Frank Petty Limited, on an open market value basis.

## 19 Leasehold land

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Held in Hong Kong: | | | | |
| Leases of 10 to 50 years | 318.9 | 327.4 | 241.9 | 248.4 |
| Held outside Hong Kong: | | | | |
| Leases of 10 to 50 years | 558.5 | 231.6 | – | – |
| Leases of over 50 years | 1.9 | 2.0 | – | – |
| | 879.3 | 561.0 | 241.9 | 248.4 |

The Group's interests in leasehold land and land use rights movements during the year are analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 561.0 | 534.1 | 248.4 | 254.8 |
| Additions | 40.1 | 29.4 | – | – |
| Acquisition of subsidiaries (Note 44(a)) | 72.7 | – | – | – |
| Consolidation of a subsidiary (Note 44(b)) | 222.8 | – | – | – |
| Disposals | (2.1) | (0.4) | – | – |
| Amortisation | (15.6) | (14.2) | (6.5) | (6.4) |
| Exchange differences | 0.4 | 12.1 | – | – |
| At 31st December | 879.3 | 561.0 | 241.9 | 248.4 |

## 20 Intangible asset

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Goodwill | | |
| At 1st January | 196.4 | 185.1 |
| Additions | 2,264.8 | – |
| Exchange differences | 0.5 | 11.3 |
| At 31st December | 2,461.7 | 196.4 |

Goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired. For the purpose of impairment test, the recoverable amount of the cash-generating units is determined based on value in use calculations, which is derived from cash flow projections based on the most recent financial budget for the next five years approved by management. Cash flows beyond five year period have been extrapolated using growth rates of 7.0 per cent per annum which are determined by considering both internal and external factors relating to the cash-generating units. Discount rate used of 7.5 per cent is adopted to reflect specific risks relating to the relevant cash-generating units. Based on impairment tests prepared, there is no impairment for intangible asset as at 31st December 2008 and 2009.

Assuming growth rate decreased by 25 basis points or discount rate increased by 25 basis points, there is still headroom and no impairment charge is required.

## 21 Subsidiaries

| | Company 2009 HK$'M | Company 2008 HK$'M |
|---|---|---|
| Unlisted shares and registered capital at cost | 307.7 | 307.7 |
| Loans and amounts due from subsidiaries | 15,217.1 | 12,490.8 |
| | 15,524.8 | 12,798.5 |
| Loans to subsidiaries | 163.1 | 68.9 |
| Amounts due to subsidiaries | (14,657.1) | (10,022.1) |

Loans to subsidiaries in the PRC of HK$163.1 million (2008: HK$68.9 million) is denominated in USD, unsecured and bear interest at the prevailing lending rate quoted by The People's Bank of China Rate and repayable on demand.

Amounts due to subsidiaries denominated in HKD, USD and RMB amount to HK$9,571.1 million (2008: HK$9,568.4 million), HK$4,967.9 million (2008: HK$325.2 million) and HK$101.9 million (2008: HK$128.0 million) respectively. Remaining balances are denominated in other currencies. Amounts due from subsidiaries are neither past due nor impaired and there is no history of default. The principal subsidiaries of the Company are shown on pages 138 to 144 of the accounts.

Towngas China is a listed company in The Stock Exchange of Hong Kong Limited. As at 31st December 2009, the Group held 45.6 per cent interest in Towngas China, which was previously treated as an associated company of the Group. Due to the change in the composition of the board of directors of Towngas China on 31st December 2009, the Group obtained effective control over the majority of the board of directors of Towngas China, which was then accounted for and consolidated into the consolidated accounts of the Company as a subsidiary. The market value of the Group's investment as at 31st December 2009 in Towngas China amounted to HK$2,795.6 million (2008: HK$1,366.6 million).

## 22 Associated companies

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Investments in associated companies, including goodwill | 8,290.4 | 10,009.2 | – | – |
| Loans to an associated company – non-current | 47.6 | 456.2 | – | 456.2 |
| | 8,338.0 | 10,465.4 | – | 456.2 |
| Loan and other receivables from associated companies – current | 41.2 | 29.4 | 28.8 | 28.0 |

Notes

Carrying amount of loans to associated companies approximate their fair value and comprises the following:

(a) Loans to Towngas China of HK$456.2 million as at 31st December 2008 are fully eliminated at year ended 31st December 2009 after it became a subsidiary of the Group.

(b) Loan to Jiangxi Feng Long Mining Company Limited of HK$47.6 million (2008: nil), which is denominated in USD, unsecured, bears interest at the prevailing lending rate quoted by The People's Bank of China Rate and fully repayable in 2015.

(c) Loan and other receivables from associated companies of HK$41.2 million (2008: HK$29.4 million) are mainly for financing PRC gas business related projects and are denominated in USD, unsecured, interest free and have no fixed terms of repayment.

Loan and other receivables from associated companies are neither past due nor impaired and there is no history of default.

## 22 Associated companies (Continued)

Particulars of the principal associated companies as at 31st December 2009 are listed below:

| Name | Note | Issued share capital/ registered capital | Percentage of the Group's equity interest | Place of incorporation/ operation | Principal activity |
|---|---|---|---|---|---|
| Anhui Province Natural Gas Development Company Limited | | RMB200.0 million | 25 | PRC | Mid-stream natural gas project |
| GH-Fusion Limited | | 200 shares of US$1 each | 50 | British Virgin Islands | Investment holding |
| Hebei Natural Gas Company Limited | | RMB220.0 million | 45 | PRC | Mid-stream natural gas project |
| Lane Success Development Limited | (i) | 10,000 shares of HK$1 each | 45 | Hong Kong | Property development |
| Central Waterfront Property Investment Holdings Limited | (ii) | 100 shares of US$1 each | 15.8 | British Virgin Islands/ Hong Kong | Investment holding |
| Shenzhen Gas Corporation Limited | (iii) | RMB1,230.0 million | 26.8 | PRC | Gas sales and related businesses |
| Jiangxi Feng Long Mining Company Limited | | RMB236.1 million | 25 | PRC | Coal mining and related businesses |
| Dalian DETA Hong Kong and China Gas Company Limited | | RMB137.2 million | 40 | PRC | Gas sales and related businesses |
| [1] Hainan Petrochina Kunlun Hong Kong & China Gas Company Limited | | RMB50.4 million | 49 | PRC | Gas sales and related businesses |
| [2] Suzhou Petrochina Kunlun Hong Kong and China Gas Company Limited | | RMB40.0 million | 29 | PRC | Mid-stream natural gas project |
| [2] Fengcheng Xingao Coking Company Limited | | RMB350.0 million | 30 | PRC | Coal-based chemical and related businesses |
| [3] Foshan Gas Group Ltd. | | RMB276.0 million | 43 | PRC | Gas sales and related businesses |
| [3] Changchun Gas Holdings Limited | | RMB589.8 million | 48 | PRC | Gas sales and related businesses |
| [3] Shandong Jihua Gas Co., Ltd. | | RMB400.0 million | 48 | PRC | Gas sales and related businesses |
| [3] Zibo Lubo Gas Company Ltd. | | RMB100.0 million | 27 | PRC | Gas sales and related businesses |

1 Newly acquired during the year
2 Newly formed during the year
3 Consolidation of a subsidiary

## 22 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 completed property development project is a joint development with Henderson Land Development Company Limited.

(ii) The Group has an effective interest of approximately 15.8 per cent in the IFC complex through its interest in Central Waterfront Property Investment Holdings Limited ("CWPI"). With the Group's presence in the board of directors of CWPI and participation in the financial and operating policies of the IFC complex, the Group could exercise a significant influence over CWPI and accordingly the investment is accounted for as an associated company.

(iii) On 25th December 2009, Shenzhen Gas Corporation Limited ("SGCL") was listed on the Shanghai Stock Exchange. As at 31st December 2009, the Group held 330,000,000 shares of SGCL or approximately 26.8 per cent equity interest of SGCL. The carrying value and the market value of the Group's investment as at 31st December 2009 in SGCL amounted to HK$791.7 million and HK$6,289.4 million respectively.

The following amounts represent the Group's share of the assets and liabilities, and income and results of the associated companies and are included in the consolidated balance sheet and income statement:

| | Group | |
|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M |
| **Assets** | | |
| Non-current assets | 12,572.6 | 14,415.2 |
| Current assets | 2,090.4 | 1,773.9 |
| | 14,663.0 | 16,189.1 |
| **Liabilities** | | |
| Non-current liabilities | (5,108.2) | (5,383.2) |
| Current liabilities | (1,622.8) | (1,984.6) |
| | (6,731.0) | (7,367.8) |
| **Net assets** | 7,932.0 | 8,821.3 |
| Income | 3,189.3 | 6,070.2 |
| Expenses, including taxation | (2,024.9) | (4,249.9) |
| Profit after taxation | 1,164.4 | 1,820.3 |

## 23 Jointly controlled entities

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Investments in jointly controlled entities, including goodwill | 6,163.3 | 5,419.6 | 850.8 | 849.3 |
| Loans to jointly controlled entities – non-current | 847.9 | 744.4 | 82.6 | 82.6 |
| | 7,011.2 | 6,164.0 | 933.4 | 931.9 |
| Loan and other receivables from jointly controlled entities – current | 83.2 | 86.6 | – | – |
| Amounts due to jointly controlled entities – current | (22.2) | (34.0) | (1.3) | (0.8) |

Notes

(a) Loan and other receivables from jointly controlled entities of the Group are unsecured, interest free and with no fixed terms of repayment except those disclosed as below. Amount due within twelve months are shown as current and the remaining are fully repayable in 2012 to 2016.

- HK$10.7 million (2008: HK$33.8 million) to Hangzhou joint venture at a fixed interest rates ranging from 5.76 per cent to 7.74 per cent per annum and fully repayable in 2012.
- HK$188.8 million (2008: HK$193.2 million) to Nanjing joint venture with fixed interest rates ranging from 2.88 per cent to 3.06 per cent per annum and fully repayable in 2013.
- HK$5.7 million (2008: nil) to Jiangxi Jihua Energy Development Company Limited with fixed interest rate of 5.31 per cent per annum and repayable in June 2010.

Loan and other receivables from jointly controlled entities are neither past due nor impaired and there is no history of default.

Loan and other receivables from jointly controlled entities denominated in HKD, USD and RMB amount to HK$255.9 million (2008: HK$ 262.3 million), HK$487.1 million (2008: HK$ 487.1 million) and HK$188.1 million (2008: HK$ 81.6 million), respectively.

(b) Amounts due to jointly controlled entities are denominated in HKD and RMB amount to HK$9.9 million (2008: HK$34.0 million) and HK$12.3 million (2008: nil) respectively. The amounts are unsecured, interest free and with no fixed terms of repayment.

## 23 Jointly controlled entities (Continued)

Particulars of the principal jointly controlled entities as at 31st December 2009 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 |
| # Beijing Beiran & HKCG Gas Company Limited | RMB44.4 million | 50 | PRC | Gas sales and related businesses |
| Changzhou Hong Kong and China Gas Company Limited | RMB166.0 million | 50 | PRC | Gas sales and related businesses |
| Hangzhou Hong Kong and China Gas Company Limited | US$20.0 million | 50 | PRC | Gas sales and related businesses |
| 吉林天元石油有限公司 | RMB5.0 million | 50 | PRC | Natural gas exploitation |
| Jilin Province Natural Gas Company Limited (Formerly known as Jilin Province Natural Gas Exploitation Company Limited) | RMB220.0 million | 49 | PRC | Mid stream natural gas project |
| Jinan Hong Kong and China Gas Company Limited | RMB470.0 million | 50 | PRC | Gas sales and related businesses |
| Maanshan ECO Auto Fuel Company Limited | RMB10.5 million | 30 | PRC | Natural gas filling station |
| Nanjing Hong Kong and China Gas Company Limited | RMB600.0 million | 50 | PRC | Gas sales and related businesses |
| Suzhou Hong Kong and China Gas Company Limited | RMB100.0 million | 55 | PRC | Gas sales and related businesses |
| Suzhou Industrial Park Qingyuan Hong Kong & China Water Company Limited | RMB2,197.0 million | 50 | PRC | Water supply and sewage treatment |
| # Tongling Hong Kong and China Gas Company Limited | RMB100.0 million | 70 | PRC | Gas sales and related businesses |
| Wuhan Natural Gas Company Limited | RMB420.0 million | 50 | PRC | Gas sales and related businesses |
| # Xian Qinhua Natural Gas Company Limited | RMB1,000.0 million | 49 | PRC | Gas sales and related businesses |
| 1 Zibo Hong Kong and China Gas Company Limited | RMB56.0 million | 50 | PRC | Gas sales and related businesses |
| 1 Weifang Hong Kong and China Gas Company Limited | RMB140.0 million | 50 | PRC | Gas sales and related businesses |
| 1 Weihai Hong Kong and China Gas Company Limited | RMB99.2 million | 50 | PRC | Gas sales and related businesses |
| 1 Taian Tai Shan Hong Kong and China Gas Company Limited | RMB80.0 million | 50 | PRC | Gas sales and related businesses |
| 1 Maanshan Hong Kong and China Gas Company Limited | RMB107.5 million | 50 | PRC | Gas sales and related businesses |
| 1 Anqing Hong Kong and China Gas Company Limited | RMB73.0 million | 50 | PRC | Gas sales and related businesses |
| 1 Chongqing Hong Kong and China Gas Company Limited | RMB18.9 million | 50 | PRC | Gas sales and related businesses |
| 1 Jiangxi Jihua Energy Development Company Limited | RMB20.0 million | 60 | PRC | Gas sales and related businesses |

# Direct jointly controlled entities of the Company
1 Consolidation of a subsidiary

## 23 Jointly controlled entities (Continued)

The following amounts represent the Group's share of the assets and liabilities, and income and results of the jointly controlled entities and are included in the consolidated balance sheet and income statement:

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| **Assets** | | |
| Non-current assets | 8,816.2 | 7,205.7 |
| Current assets | 2,286.1 | 2,103.6 |
| | 11,102.3 | 9,309.3 |
| **Liabilities** | | |
| Non-current liabilities | (1,660.8) | (1,576.5) |
| Current liabilities | (3,658.6) | (2,692.5) |
| | (5,319.4) | (4,269.0) |
| **Net assets** | 5,782.9 | 5,040.3 |
| Income | 4,389.8 | 3,528.3 |
| Expenses, including taxation | (3,618.8) | (3,003.8) |
| Profit after taxation | 771.0 | 524.5 |

## 24 Available-for-sale financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Debt securities (Note (a)) | 678.4 | 144.4 | – | – |
| Equity securities (Note (b)) | 2,317.6 | 960.8 | 104.6 | 60.9 |
| | 2,996.0 | 1,105.2 | 104.6 | 60.9 |
| Market value of listed investments | 2,472.5 | 759.5 | 104.6 | 60.9 |

## 24 Available-for-sale financial assets (Continued)

| | Group 2009 HK$'M | Group 2008 HK$'M | Company 2009 HK$'M | Company 2008 HK$'M |
|---|---|---|---|---|
| Notes | | | | |
| (a) Debt securities | | | | |
| Listed – overseas | 658.4 | 131.0 | – | – |
| Unlisted | 20.0 | 13.4 | – | – |
| | 678.4 | 144.4 | – | – |
| (b) Equity securities | | | | |
| Listed – Hong Kong | 1,210.5 | 440.0 | 58.6 | 30.5 |
| Listed – overseas | 603.6 | 188.5 | 46.0 | 30.4 |
| Unlisted (Note (c)) | 503.5 | 332.3 | – | – |
| | 2,317.6 | 960.8 | 104.6 | 60.9 |

(c) The unlisted equity securities are carried at cost less impairment as these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

(d) In 2008 under a rare circumstance, the Group reclassified debt and equity securities that are no longer held for the purpose of selling in the near term out of the financial assets at fair value through profit or loss category into available-for-sale category.

As at 31st December 2009, the fair values of debt and equity securities assets reclassified during 2008 are HK$389.5 million (2008: HK$265.3 million).

If the Group had not reclassified the debt and equity securities during 2008, fair value gain (2008: loss) recognised for the year in the consolidated income statement will be increased by HK$165.1 million (2008: increased by HK$149.6).

(e) Available-for-sale financial assets denominated in HKD, USD, RMB, EUR, GBP, CHF, JPY and AUD amount to HK$1,210.4 million (2008: HK$440.1 million), HK$1,008.4 million (2008: HK$286.3 million), and HK$503.5 million (2008: HK$332.3 million), HK$138.5 million (2008: HK$21.5 million), HK$82.2 million (2008: nil), HK$21.2 million (2008: HK$19.1 million), HK$17.3 million (2008: HK$5.9 million) and HK$14.5 million (2008: nil) respectively.

## 25 Retirement benefit assets

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| At 31st December | 59.3 | 64.7 |

The Group operates a defined benefit retirement scheme in Hong Kong, namely the Workmen Retirement Scheme which is a final salary defined benefit scheme.

The amounts recognised in the balance sheet and the history of experience adjustments are shown as follows:

| | Group and Company | | | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2007 HK$'M | 2006 HK$'M |
| Fair value of plan assets | 434.9 | 325.1 | 512.9 | 376.8 |
| Present value of funded obligations | (332.4) | (394.5) | (260.6) | (272.0) |
| Present value of overfunded/(underfunded) obligations | 102.5 | (69.4) | 252.3 | 104.8 |
| Unrecognised actuarial (gains)/losses | (43.2) | 134.1 | (210.1) | (687.0) |
| Assets/(liabilities) in the balance sheet | 59.3 | 64.7 | 42.2 | (582.2) |
| Experience adjustments arising on plan liabilities – gains/(losses) | 9.9 | (6.9) | 3.2 | 5.5 |
| Experience adjustments arising on plan assets – gains/(losses) | 94.5 | (215.4) | 116.4 | 119.3 |

The plan assets did not include any ordinary shares of the Company as at 31st December 2009 (2008: HK$0.3 million).

The amounts recognised in the income statement are as follows:

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Current service cost | 16.2 | 10.9 |
| Interest cost | 4.8 | 8.6 |
| Expected return on plan assets | (16.5) | (28.9) |
| Net actuarial losses/(gains) recognised for the year | 5.4 | (8.7) |
| Total (Note 11) | 9.9 | (18.1) |

The movement in the defined benefit obligation is as follows:

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 394.5 | 260.6 |
| Current service cost | 16.2 | 10.8 |
| Interest cost | 4.8 | 8.7 |
| Benefits paid | (5.7) | (5.7) |
| Actuarial (gains)/losses | (77.4) | 120.1 |
| At 31st December | 332.4 | 394.5 |

## 25 Retirement benefit assets (Continued)

The movement in the fair value of plan assets is as follows:

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 325.1 | 512.9 |
| Expected return on plan assets | 16.5 | 28.9 |
| Actuarial gains/(losses) | 94.5 | (215.4) |
| Contribution paid | 4.5 | 4.4 |
| Benefits paid | (5.7) | (5.7) |
| At 31st December | 434.9 | 325.1 |

The movement in the asset recognised in the balance sheet:

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 64.7 | 42.2 |
| Total (expense)/income (Note 11) | (9.9) | 18.1 |
| Contribution paid | 4.5 | 4.4 |
| At 31st December | 59.3 | 64.7 |

The actual returns on plan assets were HK$111.1 million. (2008: losses of HK$186.5 million).

The major categories of plan assets as a percentage of total plan assets are as follows:

| | Group and Company | |
|---|---|---|
| | 2009 % | 2008 % |
| Equity securities | 66.0 | 57.0 |
| Debt securities | 28.0 | 29.0 |
| Cash | 6.0 | 14.0 |

The principal actuarial assumptions used are as follows:

| | Group and Company | |
|---|---|---|
| | 2009 % | 2008 % |
| Discount rate | 2.5 | 1.3 |
| Expected rate of return on plan assets | 6.0 | 5.3 |
| Expected rate of future salary increases | 3.5 | 3.5 |

Expected contributions to the scheme for the year ending 31st December 2010 are HK$4.4 million.

## 26 Other non-current assets

| | Group | |
|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M |
| Second mortgage loans receivable (Note (a)) | 96.9 | 89.1 |
| Deferred consideration receivable (Note (b)) | 283.3 | – |
| Other receivable (Note (c)) | 96.8 | – |
| | 477.0 | 89.1 |

(a) Balance represents non-current portion of second mortgage loans to buyers of the Grand Waterfront developed by the Group which are denominated in HKD. Second mortgage loans are secured by the mortgaged properties, bear interest at prime rate and are repayable by instalments in periods ranging from 15 to 25 years from the dates of drawdown.

(b) The balance represents consideration receivable in relation to disposal of certain subsidiaries of Towngas China (Note 44(b)) in June 2009 for HK$379.0 million which is to be settled in cash by the purchaser under five annual instalments of HK$40.0 million each commencing from June 2010 for five years, and a balancing sum of HK$179.0 million in June 2015. The amount is secured against the entire share capital of the holding company of the disposed subsidiaries of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3.0 per cent per annum. The carrying value of the loan balance approximates the fair value as the impact of discount is not significant. The carrying amounts are analysed for reporting purpose as follows:

| | 2009<br>HK$'M | 2008<br>HK$'M |
|---|---|---|
| Non-current assets | 283.3 | – |
| Current assets (included under trade and other receivables) | 39.3 | – |
| | 322.6 | – |

The amount of deferred consideration receivable is within credit period. The directors of the Company consider the amounts will be recoverable because the purchaser is of sound financial position.

(c) Balance represents a loan to joint venture partner of Jilin Province Natural Gas Exploitation Company Limited, a jointly controlled entity of the Group. The loan balance is denominated in RMB, secured by the borrower's interest in Jilin Province Natural Gas Exploitation Company Limited, bear interest at a fixed interest rate of 2.4 per cent per annum and repayable in 2015. The carrying value of the loan balance approximates the fair value as the impact of discount is not significant.

The loan balance is neither past due nor impaired and there is no history of default.

## 27 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M | 2009<br>HK$'M | 2008<br>HK$'M |
| Stores and materials | 722.3 | 563.8 | 458.1 | 390.2 |
| Work in progress | 1,865.7 | 1,242.2 | 379.9 | 349.7 |
| | 2,588.0 | 1,806.0 | 838.0 | 739.9 |

The Group wrote inventories down by HK$2.6 million (2008: wrote down by HK$2.8 million) to net realisable value during the year.

## 28 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Trade receivables (Note (a)) | 1,646.4 | 1,360.5 | 1,223.4 | 1,103.6 |
| Instalment receivables (Note (b)) | 57.4 | 239.7 | – | – |
| Payments in advance (Note (c)) | 627.6 | 280.4 | 17.4 | 16.0 |
| Other receivables | 833.3 | 549.3 | 141.8 | 92.2 |
| | 3,164.7 | 2,429.9 | 1,382.6 | 1,211.8 |

Trade and other receivables of the Group denominated in HKD, USD and RMB amount to HK$1,628.9 million (2008: HK$1,602.2 million), HK$112.1 million (2008: HK$82.2 million) and HK$1,385.1 million (2008: HK$739.7 million) respectively. Remaining balances are denominated in other currencies.

Trade and other receivables of the Company denominated in HKD and USD amount to HK$1,374.2 million (2008: HK$1,202.6 million) and HK$7.5 million (2008: HK$7.8 million) respectively. Remaining balances are denominated in other currencies.

Notes

(a) The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 31st December 2009, the aging analysis of the trade receivables, net of impairment provision, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| 0 – 30 days | 1,404.6 | 1,128.9 | 1,066.4 | 946.2 |
| 31 – 60 days | 38.5 | 35.8 | 24.9 | 25.2 |
| 61 – 90 days | 26.3 | 28.6 | 22.3 | 20.2 |
| Over 90 days | 177.0 | 167.2 | 109.8 | 112.0 |
| | 1,646.4 | 1,360.5 | 1,223.4 | 1,103.6 |

(i) At 31st December 2009, trade receivables of the Group and the Company that were neither past due nor impaired amount to HK$1,256.3 million (2008: HK$973.4 million) and HK$1,000.6 million (2008: HK$871.1 million) respectively. These balances mainly relate to individuals or companies that have been the Group's or the Company's customers for more than 6 months and with no history of default in the past.

## 28 Trade and other receivables (Continued)

(a) (Continued)

(ii) Receivables that were past due but not impaired relate to a wide range of customers and management believes that no impairment provision is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The aging analysis of trade receivables that were past due but not impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| 0 – 30 days | 148.3 | 155.5 | 65.8 | 75.1 |
| 31 – 60 days | 38.5 | 35.8 | 24.9 | 25.2 |
| 61 – 90 days | 26.3 | 28.6 | 22.3 | 20.2 |
| Over 90 days | 177.0 | 167.2 | 109.8 | 112.0 |
| | 390.1 | 387.1 | 222.8 | 232.5 |

(iii) As at 31st December 2009, trade receivables of the Group and the Company amounting to HK$56.1 million (2008: HK$55.6 million) and HK$42.3 million (2008: HK$41.9 million) respectively were impaired, all of which are aged over 90 days. The individually impaired receivables mainly relate to customers that have either been placed under liquidation or in severe financial difficulties.

The movements in the provision for impairment of trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 55.6 | 47.7 | 41.9 | 41.2 |
| Impairment loss recognised | 20.2 | 26.1 | 19.6 | 19.7 |
| Uncollectible amounts written off | (19.7) | (19.2) | (19.2) | (19.0) |
| Exchange differences | – | 1.0 | – | – |
| At 31st December | 56.1 | 55.6 | 42.3 | 41.9 |

(b) This represents the instalment receivables for the sale of residential units of Grand Waterfront. The balances are denominated in HKD, interest free and repayable in accordance with the terms of the contracts. As at 31st December 2009, balances of HK$19.1 million were past due (2008: HK$231.9 million). The management had critically assessed the impairment of the balances and no provision for impairment was made (2008: HK$26.3 million). The remaining balances are neither past due nor impaired. Before full settlement of the balances, the legal titles of the units are retained by the Group.

(c) Balance mainly represents prepayment for purchase of material, services and equipments in relation to the Group's gas business in Hong Kong and mainland China. As at 31st December 2009, the directors of the Company reviewed the composition of the balance and considered the amount recoverable.

## 29 Financial assets at fair value through profit or loss

| | Group 2009 HK$'M | Group 2008 HK$'M | Company 2009 HK$'M | Company 2008 HK$'M |
|---|---|---|---|---|
| Debt securities (Note (a)) | 257.2 | 735.1 | – | 1.1 |
| Equity securities (Note (b)) | 137.0 | 32.3 | 2.7 | 4.2 |
| Derivative instruments | 11.0 | – | – | – |
| | 405.2 | 767.4 | 2.7 | 5.3 |
| Market value of listed investments | 214.8 | 138.1 | 2.7 | 4.2 |
| Notes | | | | |
| (a) Debt securities | | | | |
| Listed – Hong Kong | 77.8 | 97.9 | – | – |
| Listed – overseas | – | 7.9 | – | – |
| Unlisted | 179.4 | 629.3 | – | 1.1 |
| | 257.2 | 735.1 | – | 1.1 |
| (b) Equity securities | | | | |
| Listed – Hong Kong | 33.6 | 9.1 | – | – |
| Listed – overseas | 103.4 | 23.2 | 2.7 | 4.2 |
| | 137.0 | 32.3 | 2.7 | 4.2 |

Unlisted debt securities include equity linked investments of HK$135.3 million (2008: HK$606.5 million), whose fair values are determined by valuation technique taking into account market interest rate and share price of underlying equity securities.

Financial assets at fair value through profit or loss are denominated in the following currencies:

| | Group 2009 HK$'M | Group 2008 HK$'M | Company 2009 HK$'M | Company 2008 HK$'M |
|---|---|---|---|---|
| USD | 111.5 | 559.3 | – | 1.1 |
| GBP | 14.4 | 7.7 | 2.7 | 4.2 |
| HKD | 135.0 | 96.7 | – | – |
| RMB | 9.1 | 32.4 | – | – |
| AUD | 111.2 | 58.5 | – | – |
| NZD | 24.0 | 12.8 | – | – |
| | 405.2 | 767.4 | 2.7 | 5.3 |

## 30 Time deposits, cash and bank balances

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Time deposits over three months | 351.9 | 55.7 | – | – |
| Time deposits up to three months | 8,810.2 | 11,314.9 | 627.6 | 755.6 |
| Cash and bank balances | 4,007.2 | 976.0 | 605.5 | 42.6 |
| | 12,817.4 | 12,290.9 | 1,233.1 | 798.2 |

The effective interest rates on time deposits in Hong Kong and mainland China are 0.20 per cent and 1.22 per cent per annum respectively (2008: 1.33 per cent and 2.58 per cent per annum). These deposits have an average maturity within 60 days.

Time deposits, cash and bank balances of the Group denominated in HKD, USD and RMB amount to HK$5,984.9 million (2008: HK$5,710.1 million), HK$4,702.1 million (2008: HK$5,791.3 million) and HK$2,359.1 million (2008: HK$759.6 million) respectively. Remaining balances are denominated in other currencies.

Time deposits, cash and bank balances of the Company denominated in HKD and USD amount to HK$424.5 million (2008: HK$554.6 million) and HK$776.2 million (2008: HK$161.8 million) respectively. Remaining balances are denominated in other currencies.

## 31 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Trade payables (Note (a)) | 1,171.7 | 463.4 | 182.0 | 72.1 |
| Other payables and accruals (Note (b)) | 4,019.0 | 2,283.3 | 484.8 | 318.1 |
| | 5,190.7 | 2,746.7 | 666.8 | 390.2 |

Notes

(a) At 31st December 2009, the aging analysis of the trade payables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| 0 – 30 days | 581.4 | 294.6 | 177.0 | 70.3 |
| 31 – 60 days | 63.6 | 35.2 | 4.9 | 1.7 |
| 61 – 90 days | 40.4 | 14.2 | 0.1 | 0.1 |
| Over 90 days | 486.3 | 119.4 | – | – |
| | 1,171.7 | 463.4 | 182.0 | 72.1 |

(b) The balance includes an amount of approximately HK$60.7 million (2008: HK$109.5 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront. Remaining balances mainly represents advance received from customers for construction work and accrual for services or goods received from suppliers.

## 31 Trade and other payables (Continued)

(c) Trade and other payables of the Group denominated in HKD, USD and RMB amount to HK$974.7 million (2008: HK$816.2 million), HK$235.7 million (2008: HK$95.5 million) and HK$3,939.8 million (2008: HK$1,768.8 million) respectively. Remaining balances are denominated in other currencies.

Trade and other payables of the Company denominated in HKD and USD amount to HK$386.5 million (2008: HK$241.1 million) and HK$227.5 million (2008: HK$74.7 million) respectively. Remaining balances are denominated in other currencies.

## 32 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M | 2009<br>HK$'M | 2008<br>HK$'M |
| **Non-current** | | | | |
| Bank and other loans | 4,226.1 | 4,729.5 | 500.0 | 1,700.0 |
| Guaranteed notes (Note (a)) | 11,445.9 | 7,613.0 | – | – |
| | 15,672.0 | 12,342.5 | 500.0 | 1,700.0 |
| **Current** | | | | |
| Bank and other loans | 4,747.6 | 2,242.5 | 1,200.0 | – |
| | 4,747.6 | 2,242.5 | 1,200.0 | – |
| **Total borrowings** | 20,419.6 | 14,585.0 | 1,700.0 | 1,700.0 |

Notes

(a) Guaranteed notes comprise of:

(i) The US$1 billion guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company on 7th August 2008. The notes are unsecured and guaranteed by the Company as to repayment, carry a fixed coupon rate of 6.25 per cent per annum payable semi-annually in arrear and have a maturity term of 10 years. The notes are listed on The Stock Exchange of Hong Kong Limited. The market value of the notes as at 31st December 2009 was HK$8,266.7 million (2008: HK$8,373.5 million).

(ii) The HK$2,760,000,000 guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company between 2nd June 2009 and 3rd December 2009. The notes are unsecured and guaranteed by the Company as to repayment, carry fixed coupon rates ranging from 3.90 per cent to 4.95 per cent per annum payable quarterly in arrear and have maturity terms between 10 and 40 years.

(iii) The US$200,000,000 8.25 per cent guaranteed senior notes were issued by Towngas China on 23rd September 2004. The notes are listed on the Singapore Exchange Securities Trading Limited and secured by a pledge of shares of certain subsidiaries of Towngas China. The notes bear interest at 8.25 per cent per annum, payable semi-annually in arrears. The outstanding principal amount of the notes will be repaid in 2011 at 100 per cent. At 31st December 2009, notes with a principal amount of US$141,000,000 (2008: US$141,000,000) are still outstanding in the market and the market value of the notes was HK$1,188.4 million.

## 32 Borrowings (Continued)

(b) The maturity of borrowings is as follows:

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Bank and other loans | | Guarantee notes | | Bank loans | |
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Within 1 year | 4,747.6 | 2,242.5 | – | – | 1,200.0 | – |
| Between 1 and 2 years | 3,526.2 | 1,200.0 | 1,109.7 | – | 200.0 | 1,200.0 |
| Between 2 and 5 years | 638.2 | 3,527.2 | – | – | 300.0 | 500.0 |
| Wholly repayable within 5 years | 8,912.0 | 6,969.7 | 1,109.7 | – | 1,700.0 | 1,700.0 |
| Over 5 years | 61.7 | 2.3 | 10,336.2 | 7,613.0 | – | – |

(c) The exposure of the Group's and Company's borrowings to interest rate changes and the contractual repricing dates are all within 6 months from the balance sheet date, except for guaranteed notes as they are subjected to fixed interest rate and with maturity date ranged from 2 to 40 years. The effective interest rates of the Group's borrowings at the balance sheet date are as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | 2009 | | | 2008 | |
| | HKD | USD | RMB | HKD | RMB |
| Bank and other loans | 0.4% | N/A | 4.5% | 0.8% | 6.0% |
| Guaranteed notes | 5.1% | 8.7% | N/A | 5.4% | N/A |

(d) Saved as disclosed above, carrying value of borrowings approximate their fair value as the balances either at variable rates or the impact of discount is not significant.

(e) The carrying amounts of the borrowings are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| HKD | 8,387.3 | 4,858.4 | 1,700.0 | 1,700.0 |
| RMB | 3,259.7 | 2,113.6 | – | – |
| USD | 8,736.4 | 7,613.0 | – | – |
| Others | 36.2 | – | – | – |
| | 20,419.6 | 14,585.0 | 1,700.0 | 1,700.0 |

## 33 Customers' deposits

Customers' deposits mainly represent deposits received from customers pursuant to gas supply contracts agreed with customers and are repayable upon termination of gas supply contracts. The carrying values of the deposits approximate the fair value as the impact of discount is not significant.

The balances are denominated in HKD and bear interest at bank saving rate.

## 34 Deferred taxation

The movement in the deferred taxation is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 1,272.9 | 1,228.2 | 1,030.2 | 1,032.2 |
| Charged/(credited) to income statement | 139.8 | 37.8 | 26.1 | (2.0) |
| Acquisition of subsidiaries (Note 44(a)) | 390.7 | – | – | – |
| Consolidation of a subsidiary (Note 44(b)) | 86.5 | – | – | – |
| Exchange differences | 0.1 | 6.9 | – | – |
| At 31st December | 1,890.0 | 1,272.9 | 1,056.3 | 1,030.2 |

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

**Group**

| | Accelerated tax depreciation | | Revaluation surplus of investment property | | Revaluation surplus of mining rights | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 1,219.8 | 1,173.3 | 56.8 | 40.5 | – | – | 35.1 | 32.2 | 1,311.7 | 1,246.0 |
| Charged/(credited) to income statement | 70.7 | 39.8 | (3.6) | 16.3 | – | – | 53.3 | 2.7 | 120.4 | 58.8 |
| Acquisition of subsidiaries | – | – | – | – | 347.7 | – | 43.0 | – | 390.7 | – |
| Consolidation of a subsidiary | 24.5 | – | – | – | – | – | 62.0 | – | 86.5 | – |
| Exchange differences | – | 6.7 | – | – | – | – | 0.1 | 0.2 | 0.1 | 6.9 |
| At 31st December | 1,315.0 | 1,219.8 | 53.2 | 56.8 | 347.7 | – | 193.5 | 35.1 | 1,909.4 | 1,311.7 |

| | Provisions | | Tax losses | | Total | |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| At 1st January | (10.2) | (8.7) | (28.6) | (9.1) | (38.8) | (17.8) |
| Charged/(credited) to income statement | 1.9 | (1.5) | 17.5 | (19.5) | 19.4 | (21.0) |
| At 31st December | (8.3) | (10.2) | (11.1) | (28.6) | (19.4) | (38.8) |
| **Net deferred tax liabilities at 31st December** | | | | | 1,890.0 | 1,272.9 |

## 34 Deferred taxation (Continued)

### Company

| Deferred tax liabilities | Accelerated tax depreciation 2009 HK$'M | 2008 HK$'M |
|---|---|---|
| At 1st January | 1,038.4 | 1,040.8 |
| Charged/(credited) to income statement | 26.1 | (2.4) |
| At 31st December | 1,064.5 | 1,038.4 |

| Deferred tax assets | Provisions 2009 HK$'M | 2008 HK$'M |
|---|---|---|
| At 1st January | (8.2) | (8.6) |
| Charged to income statement | – | 0.4 |
| At 31st December | (8.2) | (8.2) |
| **Net deferred tax liabilities at 31st December** | 1,056.3 | 1,030.2 |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$85.7 million (2008: HK$67.4 million) in respect of losses amounting to HK$432.8 million (2008: HK$311.8 million) that can be carried forward against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$167.8 million (2008: HK$187.8 million) which will expire at various dates up to and including 2014 (2008: 2013).

In 2008, deferred tax liabilities of HK$43.0 million have not been recognised for the withholding tax that would be payable on the unappropriated earnings of certain subsidiaries. Such amounts are expected to be reinvested.

## 35 Derivative financial instruments

| Assets/(liabilities) | Group 2009 HK$'M | 2008 HK$'M |
|---|---|---|
| Cross currency swaps contracts- cash flow hedges | 186.4 | (312.1) |

The full fair value of a hedging derivative is classified as non-current assets/(liabilities) as the remaining maturity of the hedged items is more than 12 months.

The ineffective portion recognised in the consolidated income statement that arises from cash flow hedges amounts to a gain of HK$5.5 million (2008: loss of HK$2.1 million) (Note 7).

The notional principal amounts of the outstanding cross currency swaps contracts at 31st December 2009 amounting to US$1 billion has been exchanged at inception and will be re-exchanged on expiry date at an exchange rate of US$1 to HK$7.8. Under these contracts, the fixed interest rates ranging from 5.20 per cent to 5.65 per cent per annum on the exchanged HKD principal amounts would be paid quarterly or semi-annually and the fixed interest rate at 6.25 per cent per annum on the original USD principal amounts would be received semi-annually.

Gains and losses recognised in the hedging reserve in equity (Note 38) on cross currency swaps contracts as of 31st December 2009 will be continuously released to the consolidated income statement until the repayment of the guaranteed notes (Note 32).

## 36 Share capital

| | Group and Company Ordinary shares of HK$0.25 each | | | |
|---|---|---|---|---|
| | Number of shares | | Nominal Value | |
| | 2009 | 2008 | 2009 HK$'M | 2008 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 | 6,665,599,584 | 6,059,635,986 | 1,666.4 | 1,514.9 |
| Share repurchased | (136,216,000) | – | (34.1) | – |
| Bonus issue | – | 605,963,598 | – | 151.5 |
| At 31st December | 6,529,383,584 | 6,665,599,584 | 1,632.3 | 1,666.4 |

During the year, 136,216,000 ordinary shares of the Company were repurchased at a total consideration of HK$1,999.0 million, including transaction cost of HK$4.7 million, at the price per share between HK$10.94 and HK$19.44. All of the repurchased shares have been cancelled.

## 37 Share premium

| | Group and Company | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| At 1st January | 3,618.6 | 3,770.1 |
| Less: Bonus issue | – | (151.5) |
| At 31st December | 3,618.6 | 3,618.6 |

## 38 Reserves

| | Investment revaluation reserve HK$'M | General reserve HK$'M | Capital redemption reserve HK$'M | Hedging reserve HK$'M | Capital reserve HK$'M | Exchange reserve HK$'M | Unappropriated profits HK$'M | Total HK$'M |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| At 1st January 2009 | (316.6) | 3,320.0 | 189.7 | (287.2) | 155.5 | 1,493.8 | 19,278.3 | 23,833.5 |
| Profit for the year | – | – | – | – | – | – | 5,175.0 | 5,175.0 |
| Other comprehensive income: | | | | | | | | |
| Revaluation surplus of available-for-sale financial assets transferred to equity | 830.2 | – | – | – | – | – | – | 830.2 |
| Change in fair value of cash flow hedges | – | – | – | 486.9 | – | – | – | 486.9 |
| Exchange differences | – | – | – | – | – | 3.8 | – | 3.8 |
| Total comprehensive income for the year | 830.2 | – | – | 486.9 | – | 3.8 | 5,175.0 | 6,495.9 |
| 2008 final dividend proposed | – | – | – | – | – | – | 1,533.1 | 1,533.1 |
| 2008 final dividend paid | – | – | – | – | – | – | (1,519.2) | (1,519.2) |
| 2009 interim dividend paid | – | – | – | – | – | – | (783.5) | (783.5) |
| Share repurchased | – | – | 34.1 | – | – | – | (1,999.0) | (1,964.9) |
| Transfer from general reserve | – | (3,320.0) | – | – | – | – | 3,320.0 | – |
| At 31st December 2009 | 513.6 | – | 223.8 | 199.7 | 155.5 | 1,497.6 | 25,004.7 | 27,594.9 |
| Company and subsidiaries | 513.6 | – | 223.8 | 199.7 | 13.7 | 495.2 | 14,486.6 | 15,932.6 |
| Associated companies | – | – | – | – | – | 295.9 | 5,978.7 | 6,274.6 |
| Jointly controlled entities | – | – | – | – | 141.8 | 706.5 | 4,539.4 | 5,387.7 |
| | 513.6 | – | 223.8 | 199.7 | 155.5 | 1,497.6 | 25,004.7 | 27,594.9 |
| Balance after 2009 final dividend proposed | 513.6 | – | 223.8 | 199.7 | 155.5 | 1,497.6 | 23,502.9 | 26,093.1 |
| 2009 final dividend proposed | – | – | – | – | – | – | 1,501.8 | 1,501.8 |
| | 513.6 | – | 223.8 | 199.7 | 155.5 | 1,497.6 | 25,004.7 | 27,594.9 |
| **Company** | | | | | | | | |
| At 1st January 2009 | (62.2) | 3,320.0 | 189.7 | – | – | – | 1,486.9 | 4,934.4 |
| Profit for the year | – | – | – | – | – | – | 2,610.1 | 2,610.1 |
| Other comprehensive income: | | | | | | | | |
| Revaluation surplus of available-for-sale financial assets transferred to equity | 77.2 | – | – | – | – | – | – | 77.2 |
| Total comprehensive income for the year | 77.2 | – | – | – | – | – | 2,610.1 | 2,687.3 |
| 2008 final dividend proposed | – | – | – | – | – | – | 1,533.1 | 1,533.1 |
| 2008 final dividend paid | – | – | – | – | – | – | (1,519.2) | (1,519.2) |
| 2009 interim dividend paid | – | – | – | – | – | – | (783.5) | (783.5) |
| Share repurchased | – | – | 34.1 | – | – | – | (1,999.0) | (1,964.9) |
| Transfer from general reserve | – | (3,320.0) | – | – | – | – | 3,320.0 | – |
| At 31st December 2009 | 15.0 | – | 223.8 | – | – | – | 4,648.4 | 4,887.2 |
| Balance after 2009 final dividend proposed | 15.0 | – | 223.8 | – | – | – | 3,146.6 | 3,385.4 |
| 2009 final dividend proposed | – | – | – | – | – | – | 1,501.8 | 1,501.8 |
| | 15.0 | – | 223.8 | – | – | – | 4,648.4 | 4,887.2 |

## 38 Reserves (Continued)

| | Investment revaluation reserve HK$'M | General reserve HK$'M | Capital redemption reserve HK$'M | Hedging reserve HK$'M | Capital reserve HK$'M | Exchange reserve HK$'M | Unappropriated profits HK$'M | Total HK$'M |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| At 1st January 2008 | 249.3 | 3,320.0 | 189.7 | – | 141.9 | 888.8 | 17,308.8 | 22,098.5 |
| Profit for the year | – | – | – | – | – | – | 4,302.5 | 4,302.5 |
| Other comprehensive income: | | | | | | | | |
| Revaluation deficit of available-for-sale financial assets transferred to equity | (565.9) | – | – | – | – | – | – | (565.9) |
| Capital reserve from jointly controlled entities | – | – | – | – | 13.6 | – | – | 13.6 |
| Change in fair value of cash flow hedges | – | – | – | (287.2) | – | – | – | (287.2) |
| Exchange differences | – | – | – | – | – | 605.0 | – | 605.0 |
| Total comprehensive income for the year | (565.9) | – | – | (287.2) | 13.6 | 605.0 | 4,302.5 | 4,068.0 |
| 2007 final dividend proposed | – | – | – | – | – | – | 1,393.7 | 1,393.7 |
| 2007 final dividend paid | – | – | – | – | – | – | (1,393.7) | (1,393.7) |
| 2008 interim dividend paid | – | – | – | – | – | – | (799.9) | (799.9) |
| At 31st December 2008 | (316.6) | 3,320.0 | 189.7 | (287.2) | 155.5 | 1,493.8 | 20,811.4 | 25,366.6 |
| Company and subsidiaries | (316.6) | 3,320.0 | 189.7 | (287.2) | 13.7 | 491.4 | 12,228.7 | 15,639.7 |
| Associated companies | – | – | – | – | – | 295.9 | 4,814.3 | 5,110.2 |
| Jointly controlled entities | – | – | – | – | 141.8 | 706.5 | 3,768.4 | 4,616.7 |
| | (316.6) | 3,320.0 | 189.7 | (287.2) | 155.5 | 1,493.8 | 20,811.4 | 25,366.6 |
| Balance after 2008 final dividend proposed | (316.6) | 3,320.0 | 189.7 | (287.2) | 155.5 | 1,493.8 | 19,278.3 | 23,833.5 |
| 2008 final dividend proposed | – | – | – | – | – | – | 1,533.1 | 1,533.1 |
| | (316.6) | 3,320.0 | 189.7 | (287.2) | 155.5 | 1,493.8 | 20,811.4 | 25,366.6 |
| **Company** | | | | | | | | |
| At 1st January 2008 | 13.1 | 3,320.0 | 189.7 | – | – | – | 1,003.0 | 4,525.8 |
| Profit for the year | – | – | – | – | – | – | 2,816.9 | 2,816.9 |
| Other comprehensive income: | | | | | | | | |
| Revaluation deficit of available-for-sale financial assets transferred to equity | (75.3) | – | – | – | – | – | – | (75.3) |
| Total comprehensive income for the year | (75.3) | – | – | – | – | – | 2,816.9 | 2,741.6 |
| 2007 final dividend proposed | – | – | – | – | – | – | 1,393.7 | 1,393.7 |
| 2007 final dividend paid | – | – | – | – | – | – | (1,393.7) | (1,393.7) |
| 2008 interim dividend paid | – | – | – | – | – | – | (799.9) | (799.9) |
| At 31st December 2008 | (62.2) | 3,320.0 | 189.7 | – | – | – | 3,020.0 | 6,467.5 |
| Balance after 2008 final dividend proposed | (62.2) | 3,320.0 | 189.7 | – | – | – | 1,486.9 | 4,934.4 |
| 2008 final dividend proposed | – | – | – | – | – | – | 1,533.1 | 1,533.1 |
| | (62.2) | 3,320.0 | 189.7 | – | – | – | 3,020.0 | 6,467.5 |

## 38 Reserves (Continued)

The general reserve represents unappropriated profits set aside by and at the discretion of the Board of Directors. It is applicable for any purpose to which the profits of the Company may properly be applied, for employment in the business of the Company or for investments as the Board of Directors from time to time thinks fit.

The distributable reserves of the Company at 31st December 2009, comprising general reserve and unappropriated profits, amounted to HK$4,648.4 million (2008: HK$6,340.0 million) before the proposed final dividend for the year ended 31st December 2009.

## 39 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2009.

## 40 Commitments

(a) Capital expenditures for property, plant and equipment

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M | 2009<br>HK$'M | 2008<br>HK$'M |
| Authorised but not brought into the accounts at 31st December | 2,382.8 | 1,883.2 | 691.2 | 758.8 |
| Of which, contracts had been entered into at 31st December | 2,252.0 | 1,647.2 | 691.2 | 758.8 |

(b) Share of capital expenditures for property, plant and equipment of jointly controlled entities

| | Group | |
|---|---|---|
| | 2009<br>HK$'M | 2008<br>HK$'M |
| Authorised but not brought into the accounts at 31st December | 2,098.1 | 2,246.9 |
| Of which, contracts had been entered into at 31st December | 1,199.1 | 1,182.1 |

(c) 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 gas and new energy projects in mainland China. The directors of the Company estimate that as at 31st December 2009, the Group's commitments to these projects were approximately HK$851.9 million (2008: HK$585.1 million).

## 40 Commitments (Continued)

(d) Lease commitments

*Lessee*

At 31st December 2009, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 HK$'M | 2008 HK$'M | 2009 HK$'M | 2008 HK$'M |
| Not later than 1 year | 53.8 | 43.1 | 15.2 | 18.0 |
| Later than 1 year and not later than 5 years | 88.3 | 80.7 | 38.6 | 44.4 |
| Later than 5 years | 230.9 | 239.2 | 161.2 | 170.5 |
| | 373.0 | 363.0 | 215.0 | 232.9 |

*Lessor*

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront under operating leases. Except for certain car parks are rented out on an hourly or a monthly basis, these leases typically run for an initial period of 2 to 3 years. Further details of the carrying value of the property are contained in Note 18. At 31st December 2009, future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Not later than 1 year | 12.1 | 11.8 |
| Later than 1 year and not later than 5 years | 16.7 | 18.1 |
| | 28.8 | 29.9 |

## 41 Related party transactions

Henderson Land Development Company Limited ("Henderson") is a related party of the Group by virtue of its significant interest in and influence over the Group. Other related parties include subsidiaries of Henderson and three banks with common directors with the Company during the year. During the year, the transactions carried out and year end balances with the associated companies, jointly controlled entities and other related parties are shown as follows:

(a) Interest income and sales of goods and services

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Associated companies | | |
| Sale of goods and services (Note (ii)) | 1.7 | 0.3 |
| Loan interest income (Note (i)) | 18.3 | 19.6 |
| Jointly controlled entities | | |
| Sale of goods and services (Note (ii)) | 42.3 | 7.3 |
| Loan interest income (Note (i)) | 12.8 | 9.1 |
| Other related parties | | |
| Sale of goods and services (Note (ii)) | 23.0 | 8.8 |
| Interest income from bank deposits (Note (ii)) | 18.8 | 53.2 |

(b) Interest expense and purchase of goods and services

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Associated companies | | |
| Purchase of goods and services (Note (ii)) | 7.2 | 10.5 |
| Jointly controlled entities | | |
| Purchase of goods and services (Note (ii)) | 15.2 | 20.6 |
| Other related parties | | |
| Purchase of goods and services (Note (ii)) | 16.3 | 15.9 |
| Interest expense on bank loans (Note (ii)) | 42.5 | 51.4 |

Notes

(i) For the terms of loans, please refer to Notes 22 and 23.

(ii) These related party transactions were conducted at prices and terms as agreed by parties involved.

## 41 Related party transactions (Continued)

(c) Year end balances arising from interest income, interest expense and sale or purchase of goods and services

| | Group | |
|---|---|---|
| | 2009 HK$'M | 2008 HK$'M |
| Loans and interest receivables from: | | |
| Associated companies | 88.8 | 485.6 |
| Jointly controlled entities | 908.9 | 797.0 |
| Time deposits and interest receivable from: | | |
| Other related parties | 5,439.4 | 4,381.1 |
| Bank loans and interest payable to: | | |
| Other related parties | 1,815.7 | 1,246.6 |
| Trade receivables from: | | |
| Associated companies | 2.3 | – |
| Jointly controlled entities | 11.5 | 10.4 |
| Other related parties | 6.6 | 1.7 |
| Trade payables to: | | |
| Associated companies | 0.8 | 0.4 |
| Jointly controlled entities | 1.2 | – |
| Other related parties | 0.4 | 0.8 |

(d) Other related party transactions are also disclosed in Notes 12, 22, 23 and 31.

## 42 Notes to consolidated cash flow statement

### Reconciliation of profit before taxation to net cash from operating activities

| | Group 2009 HK$'M | Group 2008 HK$'M |
|---|---|---|
| Profit before taxation | 6,056.2 | 4,957.4 |
| Share of profits less losses of associated companies | (1,164.4) | (1,820.3) |
| Share of profits less losses of jointly controlled entities | (771.0) | (524.5) |
| Gain on acquisition of a subsidiary | (259.9) | – |
| Gain on deemed disposal of interests in associated company | (194.9) | – |
| Fair value loss/(gain) on investment property | 22.0 | (113.0) |
| Provision for investment in a jointly-controlled entity | 50.1 | – |
| Gain on repurchasing of guaranteed notes | – | (4.1) |
| Ineffective portion on cash flow hedges | (5.5) | 2.1 |
| Interest income | (218.9) | (286.8) |
| Interest expense | 567.8 | 416.8 |
| Dividend income from investments in securities | (97.1) | (59.9) |
| Depreciation and amortisation | 836.3 | 708.4 |
| Loss on disposal/write off of property, plant and equipment | 89.9 | 26.2 |
| Loss on disposal of leasehold land | 2.1 | – |
| Loss on disposal of available-for-sale financial assets | 88.5 | – |
| Net realised and unrealised (gains)/losses on investments in financial assets at fair value through profit or loss | (326.5) | 1,092.1 |
| Tax paid | (624.3) | (639.2) |
| Exchange differences | 6.7 | (22.5) |
| Changes in working capital | | |
| Increase in customers' deposits | 40.1 | 28.0 |
| Decrease/(increase) in completed property for sale | 81.1 | (10.7) |
| Increase in inventories | (678.6) | (422.7) |
| (Increase)/decrease in trade and other receivables | (244.1) | 2,343.5 |
| Decrease in housing loans to staff | 11.8 | 15.7 |
| Increase/(decrease) in trade and other payables | 702.6 | (699.1) |
| Decrease/(increase) in retirement benefit assets | 5.4 | (22.5) |
| Net cash from operating activities | 3,975.4 | 4,964.9 |

## 43 Share option schemes

Pursuant to share option scheme (the "Share Option Scheme") adopted by shareholders of Towngas China on 4th April 2001, 24th April 2005 and 28th November 2005, Towngas China may grant options to employees of Towngas China and its subsidiaries for the recognition of their contributions to the Towngas China. Share options granted must be taken up within 28 days from the date of grant, upon payment of HK$1 per option and the vesting period of share options is from the date of grant until the commencement of the exercisable period. Share options granted are exercisable in accordance with the terms of the Share Option Scheme at any time for a period to be determined by the directors of Towngas China, which shall not be more than 10 years after the date of grant.

As at 31st December 2009, total number of share options outstanding and exercisable are 33,225,300 and 27,356,100 respectively. The weighted average exercise price for the outstanding and exercisable options are HK$3.3 and HK$3.2 respectively. Had all the outstanding vested share options been exercised on 31st December 2009, the Group would have received cash proceeds of approximately HK$95.5 million.

## 44 Business combinations

(a) On 28th April 2009, the Group acquired 70.1 per cent of Inner Mongolia SanWei Resource Group Xiao Yu Gou Coal Company Limited ("XYGCCL") and Inner Mongolia SanWei Coal Chemical Technology Company Limited ("CCTCL") for cash consideration of approximately HK$477.6 million and HK$431.9 million respectively.

The inclusion of the acquired businesses do not have a significant impact of the Group's turnover and profit for the year.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

| | XYGCCL HK$'M | CCTCL HK$'M | Total HK$'M |
|---|---|---|---|
| Purchase consideration | 477.6 | 431.9 | 909.5 |
| Fair value of net identifiable assets acquired (see below) | (737.5) | (409.1) | (1,146.6) |
| (Gain on acquisition)/goodwill (Note 7) | (259.9) | 22.8 | |

The goodwill is attributable to the future profitability of the acquired business of CCTCL and the synergies expected to arise after the Group's acquisitions.

The identifiable assets and liabilities arising from the acquisition are as follows:

| | Acquirees' carrying amount HK$'M | Acquirees' fair value amount HK$'M |
|---|---|---|
| Cash and bank balances | 39.9 | 39.9 |
| Property, plant and equipment (Note 17) | 910.0 | 2,432.0 |
| Leasehold land (Note 19) | 32.0 | 72.7 |
| Trade and other receivables | 81.6 | 81.6 |
| Trade and other payables | (323.8) | (323.8) |
| Borrowings | (276.0) | (276.0) |
| Deferred tax liabilities | – | (390.7) |
| Net assets | 463.7 | 1,635.7 |
| Minority interests | (138.6) | (489.1) |
| Net identifiable assets acquired | 325.1 | 1,146.6 |

| | HK$'M |
|---|---|
| Purchase consideration for acquisition of subsidiaries, settled in cash | 670.7 |
| Cash and cash equivalents in subsidiaries acquired | (39.9) |
| Cash outflow on acquisition of subsidiaries | 630.8 |

As at 31st December 2009, purchase consideration of HK$238.8 million for XYGCCL remained unpaid and included in trade and other payables.

## 44 Business combinations (Continued)

(b) As at 31st December 2009, the Group held 45.6 per cent interest in Towngas China, which was previously treated as an associated company of the Group. Due to the change in the composition of the board of directors of Towngas China on 31st December 2009, the Group obtained effective control over the majority of the board of directors of Towngas China, which was then accounted for and consolidated into the consolidated accounts of the Company as a subsidiary. If the acquisition had occurred on 1st January 2009, the Group's revenue and profit before taxation would have been increased by HK$2,906.0 million and HK$294.2 million respectively.

The identifiable assets and liabilities as of 31st December 2009 arising from the acquisition are as follows:

| | Acquirees' carrying amount and fair value HK$'M |
|---|---|
| Property, plant and equipment (Note 17) | 4,259.4 |
| Leasehold land (Note 19) | 222.8 |
| Associated companies | 1,186.5 |
| Jointly controlled entities | 887.4 |
| Available-for-sale financial assets | 168.9 |
| Other non-current assets | 283.3 |
| Inventories | 101.9 |
| Loan to a jointly controlled entity | 5.7 |
| Trade and other receivables | 483.8 |
| Amounts due from minority interests | 14.1 |
| Time deposits over three months | 40.0 |
| Cash and bank balances | 923.9 |
| Trade and other payables | (1,319.0) |
| Amounts due to minority interests | (82.6) |
| Taxation | (189.5) |
| Borrowings | (2,293.3) |
| Deferred tax liabilities (Note 34) | (86.5) |
| Loan from a shareholder | (471.4) |
| Minority interests | (454.5) |
| Net assets | 3,680.9 |
| Minority interests | (2,002.0) |
| Net identifiable assets acquired | 1,678.9 |
| Further acquisition of interests | – |
| Goodwill | 2,242.0 |
| | 3,920.9 |
| Cash and cash equivalents in subsidiary acquired and cash inflow on acquisition | 923.9 |

The goodwill is attributable to the acquired customer base and economies of scale expected from combining the operations of the Group and Towngas China and its subsidiaries.

(c) There were no other material acquisitions during the year ended 31st December 2008.

## Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2009:

| 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 | 100 | British Virgin Islands/ Hong Kong | Securities investment |
| Danetop Services Limited | 1 ordinary share of US$1 | 100 | British Virgin Islands/ Hong Kong | Securities investment |
| # Eagle Legend International Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Financing |
| ECO Environmental Investments Limited | 2 ordinary shares of HK$1 each | 100 | Hong Kong | LPG filling stations |
| ECO Landfill Gas (NENT) Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Landfill gas project |
| HKCG (Finance) Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Financing |
| HDC Data Centre Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Data centre operation |
| 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 |
| Hong Kong & China Water Limited | 1 ordinary share of US$1 | 100 | British Virgin Islands | Investment holding |
| Investstar Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Securities investment |
| 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 | 100 | British Virgin Islands/ Hong Kong | Investment holding |
| Prominence Properties Limited | 1,000 ordinary shares of US$1 each | 100 | British Virgin Islands/ Hong Kong | Investment holding |

† Wholly foreign-owned enterprises
# Direct subsidiaries of the Company

## Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2009:

| Name | Issued share capital/ registered capital | Percentage of issued/ registered capital held | Place of incorporation/ operation | Principal activity |
|---|---|---|---|---|
| # P-Tech Engineering Company Limited | 2 ordinary shares of HK$1 each | 100 | Hong Kong | Engineering, 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 Developments Limited | 100 ordinary shares of HK$1 each | 100 | Hong Kong | Investment holding |
| Superfun Enterprises Limited | 1 ordinary share of US$1 | 100 | British Virgin Islands/ Hong Kong | Securities investment |
| Towngas Enterprise Limited | 2 ordinary shares of HK$1 each | 100 | Hong Kong | Café, restaurant and retail sales |
| # Towngas International Company Limited | 1 ordinary share of US$1 | 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 Telecommunications Fixed Network Limited | 35,000,000 ordinary shares of HK$1 each | 100 | Hong Kong | Telecommunications business |
| Upwind International Limited | 1 ordinary share of US$1 | 100 | British Virgin Islands/ Hong Kong | Securities investment |
| U-Tech Engineering Company Limited | 10,200,000 ordinary shares of HK$1 each | 100 | Hong Kong | Engineering and related businesses |
| Uticom Limited | 100 ordinary shares of HK$1 each | 60 | Hong Kong | Development of automatic meter reading system |

# Direct subsidiaries of the Company

## Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2009:

| Name | Registered capital | Percentage of registered capital held | Place of Incorporation/ operation | Principal activity |
|---|---|---|---|---|
| Chaozhou Hong Kong and China Limited | HK$100.0 million | 60 | PRC | Gas sales and related businesses |
| Danyang Hong Kong and China Gas Company Limited | RMB60.0 million | 80 | PRC | Gas sales and related businesses |
| † Dalian Changxing Hong Kong and China Gas Company Limited | US$14.0 million | 100 | PRC | Gas sales and related businesses |
| † ECO Services Management Company Limited | RMB50.0 million | 100 | PRC | Project management |
| Fengcheng Hong Kong and China Gas Company Limited | RMB88.0 million | 55 | PRC | Gas sales and related businesses |
| Guangzhou Dongyong Hong Kong & China Gas Limited | HK$50.0 million | 80 | PRC | Gas sales and related businesses |
| Guangzhou Hong Kong and China Gas Company Limited | RMB105.0 million | 80 | PRC | Gas sales and related businesses |
| † Guangzhou Jianke Hong Kong and China Gas Company Limited | RMB22.5 million | 100 | PRC | Gas sales and related businesses |
| Huzhou Hong Kong and China Gas Company Limited | US$10.5 million | 98.9 | PRC | Gas sales and related businesses |
| 2 Inner Mongolia SanWei Resource Group Xiao Yu Gou Coal Company Limited | RMB120.0 million | 70.1 | PRC | Coal mining and related businesses |
| 2 Inner Mongolia SanWei Coal Chemical Technology Company Limited | RMB400.0 million | 70.1 | PRC | Coal-based chemical and related businesses |
| Jilin Hong Kong and China Gas Company Limited | RMB100.0 million | 63 | PRC | Gas sales and related businesses |
| Jintan Hong Kong and China Gas Company Limited | RMB60.0 million | 60 | PRC | Gas sales and related businesses |
| 1 Pingxiang Hong Kong & China Gas Company Limited | US$5.1 million | 100 | PRC | Gas sales and related businesses |
| Shanxi ECO Coalbed Gas Company Limited | RMB200.0 million | 70 | PRC | Gas sales and related businesses |
| # Shunde Hong Kong and China Gas Company Limited | RMB100.0 million | 60 | PRC | Gas sales and related businesses |

† Wholly foreign-owned enterprises
# Direct subsidiaries of the Company
1 Newly formed during the year
2 Newly acquired during the year

## Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2009:

| Name | Registered capital | Percentage of registered capital held | Place of Incorporation/ operation | Principal activity |
|---|---|---|---|---|
| 1 Suining Hong Kong and China Gas Company Limited | US$5.0 million | 100 | PRC | Gas sales and related businesses |
| Taizhou Hong Kong and China Gas Company Limited | RMB83.0 million | 65 | PRC | Gas sales and related businesses |
| Tongxiang Hong Kong and China Gas Company Limited | RMB58.1 million | 76 | PRC | Gas sales and related businesses |
| Towngas TelChina (Shandong) Company Limited | RMB40.0 million | 90.1 | PRC | Telecommunication Pipe-laying Project |
| † Towngas Telecommunications (Shenzhen) Limited | RMB1.0 million | 100 | PRC | Telecom businesses |
| Wujiang Hong Kong and China Gas Company Limited | RMB60.0 million | 80 | PRC | Gas sales and related businesses |
| Wujiang Hong Kong and China Water Company Limited | RMB560.0 million | 80 | PRC | Water supply and related businesses |
| # Wuhu Hong Kong and China Water Company Limited | RMB300.0 million | 75 | PRC | Water supply and related businesses |
| 1 Xinmi Hong Kong and China Gas Company Limited | US$12.5 million | 100 | PRC | Gas sales and related businesses |
| Xuzhou Hong Kong and China Gas Company Limited | RMB125.0 million | 80 | PRC | Gas sales and related businesses |
| Yixing Hong Kong and China Gas Company Limited | RMB124.0 million | 80 | PRC | Gas sales and related businesses |
| † Yingkou Hong Kong and China Gas Company Limited | US$9.4 million | 100 | PRC | Gas sales and related businesses |
| 1 Zhang Shu Hong Kong & China Gas Company Limited | US$5.01 million | 100 | PRC | Gas sales and related businesses |
| Zhongshan Hong Kong and China Gas Limited | RMB96.0 million | 70 | PRC | Gas sales and related businesses |
| Zhangjiagang Hong Kong and China Gas Company Limited | RMB60.0 million | 51 | PRC | Gas sales and related businesses |

† Wholly foreign-owned enterprises
\# Direct subsidiaries of the Company
1 Newly formed during the year

## Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2009:

| Name | Registered capital | Percentage of registered capital held | Place of Incorporation/ operation | Principal activity |
|---|---|---|---|---|
| 1 豐縣港華燃氣有限公司 | US$4.5 million | 100 | PRC | Gas sales and related businesses |
| 1 江西港華天然氣有限公司 | RMB25.9 million | 56 | PRC | Gas sales and related businesses |
| 渾源縣油頁岩開發利用有限責任公司 | RMB30.0 million | 80 | PRC | Oil shale project |
| **Consolidation of a subsidiary** | | | | |
| Benxi Hong Kong and China Gas Company Limited | RMB97.8 million | 80 | PRC | Gas sales and related businesses |
| Cangxi Hong Kong and China Gas Co., Ltd. | RMB10.0 million | 100 | PRC | Gas sales and related businesses |
| Chaoyang Hong Kong and China Gas Company Limited | RMB89.2 million | 90 | PRC | Gas sales and related businesses |
| Chi Pang Hong Kong & China Gas Company Limited | RMB40.0 million | 85 | PRC | Gas sales and related businesses |
| Dayi Hong Kong and China Gas Company Limited | RMB10.0 million | 100 | PRC | Gas sales and related businesses |
| Fuxin Hong Kong and China Gas Co., Ltd. | RMB77.2 million | 90 | PRC | Gas sales and related businesses |
| † Gao Chun Hong Kong and China Gas Co., Ltd. | US$1.0 million | 100 | PRC | Gas sales and related businesses |
| † Gongzhuling Towngas Limited | RMB53.0 million | 100 | PRC | Gas sales and related businesses |
| † Huangshan Hong Kong and China Gas Co., Ltd. | RMB40.0 million | 100 | PRC | Gas sales and related businesses |
| † Huangshan Huizhou Hong Kong and China Gas Co., Ltd. | US$2.1 million | 100 | PRC | Gas sales and related businesses |
| † Huangshan Taiping Hong Kong and China Gas Co., Ltd. | US$3.5 million | 100 | PRC | Gas sales and related businesses |
| Jianyang Hong Kong and China Gas Co., Ltd. | RMB10.0 million | 100 | PRC | Gas sales and related businesses |

† Wholly foreign-owned enterprises
1 Newly formed during the year

## Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2009:

| Name | Registered capital | Percentage of registered capital held | Place of Incorporation/ operation | Principal activity |
|---|---|---|---|---|
| **Consolidation of a subsidiary** (Continued) | | | | |
| Jinan Jihua Gas Co., Ltd. (formerly known as Jianan Panva Gas Co., Ltd.) | RMB100.0 million | 51 | PRC | Gas sales and related businesses |
| † Lezhi Hong Kong and China Gas Co., Ltd. | RMB10.0 million | 100 | PRC | Gas sales and related businesses |
| † Longkou Hong Kong and China Gas Company Limited | RMB30.0 million | 100 | PRC | Gas sales and related businesses |
| Mianyang Hong Kong and China Gas Company Limited | RMB90.0 million | 100 | PRC | Gas sales and related businesses |
| Qingdao Zhongji Hong Kong and China Gas Company Limited | RMB30.0 million | 90 | PRC | Gas sales and related businesses |
| Qing Yuan Hong Kong and China Gas Company Limited | RMB10.0 million | 80 | PRC | Gas sales and related businesses |
| Qiqihar Hong Kong and China Gas Company Limited | RMB80.0 million | 61.7 | PRC | Gas sales and related businesses |
| Shao Guan Hong Kong and China Gas Co., Ltd. | RMB20.0 million | 100 | PRC | Gas sales and related businesses |
| † Shenyang Hong Kong and China Gas Company Limited | US$8.0 million | 100 | PRC | Gas sales and related businesses |
| Tieling Hong Kong and China Gas Company Limited | US$12.5 million | 80 | PRC | Gas sales and related businesses |
| † Towngas Investments Limited | US$200.0 million | 100 | PRC | Investment holding |
| Weiyuan Hong Kong and China Gas Company Limited | RMB5.0 million | 99.5 | PRC | Gas sales and related businesses |
| † Chizhou Hong Kong and China Gas Company Limited | RMB20.0 million | 100 | PRC | Gas sales and related businesses |

† Wholly foreign-owned enterprises

## Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2009:

| Name | Registered capital | Percentage of registered capital held | Place of Incorporation/ operation | Principal activity |
|---|---|---|---|---|
| **Consolidation of a subsidiary** (Continued) | | | | |
| Pengshan Hong Kong and China Gas Company Limited | RMB10.0 million | 70 | PRC | Gas sales and related businesses |
| Pengxi Hong Kong and China Gas Company Limited | RMB3.6 million | 90 | PRC | Gas sales and related businesses |
| Pingchang Hong Kong and China Gas Company Limited | RMB4.9 million | 90 | PRC | Gas sales and related businesses |
| Qingdao Dong Yi Hong Kong and China Gas Company Limited | RMB30.0 million | 60 | PRC | Gas sales and related businesses |
| Towngas China Company Limited | 1,957,556,330 shares of HK$0.1 each | 45.6 | Cayman Islands/ PRC | Investment holding |
| Townages China Group Limited (formerly known as China Pan River Group Ltd.) | US$12,821 | 100 | British Virgin Islands | Investment holding |
| Xin Du Hong Kong and China Gas Company Limited, Cheng Du | RMB22.0 million | 100 | PRC | Gas sales and related businesses |
| Xinjin Diyuan Natural Gas Co., Ltd. | RMB12.0 million | 60 | PRC | Gas sales and related businesses |
| Xinjin Nanfang Natural Gas Company Limited | RMB11.5 million | 60 | PRC | Gas sales and related businesses |
| † Yang Jiang Hong Kong and China Gas Company Limited | RMB50.0 million | 100 | PRC | Gas sales and related businesses |
| Yuechi Hong Kong and China Gas Company Limited | RMB8.0 million | 90 | PRC | Gas sales and related businesses |
| Zhongjiang Hong Kong and China Gas Company Limited | RMB8.0 million | 100 | PRC | Gas sales and related businesses |
| Ziyang Hong Kong and China Gas Company Limited | RMB18.9 million | 90 | PRC | Gas sales and related businesses |

† Wholly foreign-owned enterprises

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.