Consolidated Income Statement

for the year ended 31st December 2008

	Note	2008 HK$'M	2007 HK$'M
Revenue	5	**12,352.2**	14,225.5
Total operating expenses	6	**(8,738.2)**	(8,922.5)
		3,614.0	5,303.0
Other (losses) / gains, net	7	**(584.6)**	2,622.7
Interest expense	9	**(416.8)**	(364.0)
Share of profits less losses of associated companies		**1,820.3**	1,616.3
Share of profits less losses of jointly controlled entities		**524.5**	1,130.0
Profit before taxation	10	**4,957.4**	10,308.0
Taxation	13	**(562.6)**	(974.3)
Profit for the year		**4,394.8**	9,333.7
Attributable to:			
Shareholders of the Company		**4,302.5**	9,269.6
Minority interests		**92.3**	64.1
		4,394.8	9,333.7
Dividends	15	**2,333.0**	2,120.9
Earnings per share - basic and diluted, HK cents	16	**64.5**	139.1#

Adjusted for the bonus issue in 2008

The notes on pages 67 to 128 form part of these accounts.

Consolidated Balance Sheet

as at 31st December 2008

	Note	2008 HK$'M	2007 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**15,077.0**	13,051.6
Investment property	18	**523.0**	410.0
Leasehold land	19	**561.0**	534.1
Intangible asset	20	**196.4**	185.1
Associated companies	22	**10,465.4**	8,386.5
Jointly controlled entities	23	**6,164.0**	6,501.7
Available-for-sale financial assets	24	**1,105.2**	1,066.9
Retirement benefit assets	25	**64.7**	42.2
Other non-current assets	26	**89.1**	105.8
		34,245.8	30,283.9
Current assets			
Completed property for sale		**110.1**	99.4
Inventories	27	**1,806.0**	987.8
Trade and other receivables	28	**2,429.9**	4,791.9
Loans to associated companies	22	**29.4**	175.0
Loans to jointly controlled entities	23	**86.6**	63.0
Loans to minority interests		**85.4**	36.1
Housing loans to staff		**46.8**	62.5
Financial assets at fair value through profit or loss	29	**767.4**	1,906.8
Time deposits over three months	30	**55.7**	19.9
Time deposits up to three months, cash and bank balances	30	**12,290.9**	4,818.8
		17,708.2	12,961.2
Current liabilities			
Trade and other payables	31	**(2,746.7)**	(3,140.7)
Amounts due to jointly controlled entities	23	**(34.0)**	(43.9)
Provision for taxation		**(384.5)**	(498.9)
Borrowings	32	**(2,242.5)**	(3,504.8)
		(5,407.7)	(7,188.3)
Net current assets		**12,300.5**	5,772.9
Total assets less current liabilities		**46,546.3**	36,056.8
Non-current liabilities			
Customers' deposits	33	**(1,074.3)**	(1,046.3)
Deferred taxation	34	**(1,272.9)**	(1,228.2)
Borrowings	32	**(12,342.5)**	(4,273.4)
Loans from minority interests		**(44.7)**	(9.6)
Derivative financial instruments	35	**(312.1)**	–
		(15,046.5)	(6,557.5)
Net assets		**31,499.8**	29,499.3
Capital and reserves			
Share capital	36	**1,666.4**	1,514.9
Share premium	37	**3,618.6**	3,770.1
Reserves	38	**23,833.5**	22,098.5
Proposed dividend	38	**1,533.1**	1,393.7
Shareholders' funds		**30,651.6**	28,777.2
Minority interests		**848.2**	722.1
Total equity		**31,499.8**	29,499.3

Approved by the Board of Directors on 17th March 2009

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 67 to 128 form part of these accounts.

Balance Sheet

as at 31st December 2008

	Note	2008 HK$'M	2007 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**8,673.2**	8,208.9
Leasehold land	19	**248.4**	254.8
Subsidiaries	21	**12,798.5**	11,125.5
Loans to an associated company	22	**456.2**	195.0
Jointly controlled entities	23	**931.9**	931.9
Available-for-sale financial assets	24	**60.9**	25.8
Retirement benefit assets	25	**64.7**	42.2
		23,233.8	20,784.1
Current assets			
Inventories	27	**739.9**	823.3
Trade and other receivables	28	**1,211.8**	1,234.1
Loan to a subsidiary	21	**68.9**	–
Loans to associated companies	22	**28.0**	21.6
Amounts due from jointly controlled entities	23	**–**	4.7
Housing loans to staff		**46.8**	62.5
Financial assets at fair value through profit or loss	29	**5.3**	130.5
Time deposits up to three months, cash and bank balances	30	**798.2**	556.6
		2,898.9	2,833.3
Current liabilities			
Trade and other payables	31	**(390.2)**	(690.2)
Amount due to an associated company	22	**–**	(98.4)
Amounts due to jointly controlled entities	23	**(0.8)**	–
Provision for taxation		**(168.5)**	(105.1)
Borrowings	32	**–**	(1,360.0)
		(559.5)	(2,253.7)
Net current assets		**2,339.4**	579.6
Total assets less current liabilities		**25,573.2**	21,363.7
Non-current liabilities			
Amounts due to subsidiaries	21	**(10,022.1)**	(6,884.5)
Customers' deposits	33	**(1,068.4)**	(1,042.5)
Deferred taxation	34	**(1,030.2)**	(1,032.2)
Borrowings	32	**(1,700.0)**	(1,200.0)
		(13,820.7)	(10,159.2)
Net assets		**11,752.5**	11,204.5
Capital and reserves			
Share capital	36	**1,666.4**	1,514.9
Share premium	37	**3,618.6**	3,770.1
Reserves	38	**4,934.4**	4,525.8
Proposed dividend	38	**1,533.1**	1,393.7
		11,752.5	11,204.5

Approved by the Board of Directors on 17th March 2009

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 67 to 128 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31st December 2008

	Note	2008 HK$'M	2007 HK$'M
Net cash from operating activities	42	**4,964.9**	4,821.1
Investing activities			
Receipt from sale of property, plant and equipment		**3.9**	1.9
Receipt from sale of leasehold land		**0.3**	–
Purchase of property, plant and equipment		**(2,865.6)**	(1,566.9)
Payment for leasehold land		**(29.4)**	(28.3)
Payment for property under development		**–**	(47.6)
Increase in investments in associated companies		**(199.7)**	(479.8)
Increase in loans to associated companies		**(266.5)**	(206.7)
Repayment of loans by associated companies		**150.9**	2,783.4
Increase in investments in jointly controlled entities		**(44.6)**	(86.5)
Increase in loans to jointly controlled entities		**(39.7)**	(140.5)
Repayment of loans by jointly controlled entities		**5.6**	162.8
Acquisition of a subsidiary		**–**	(71.2)
Disposal of interests in subsidiaries		**–**	(8.3)
Sale of financial assets at fair value through profit or loss		**1,402.0**	2,884.2
Purchase of available-for-sale financial assets		**(172.5)**	–
Purchase of financial assets at fair value through profit or loss		**(1,771.8)**	(3,311.0)
(Increase) / decrease in time deposits over three months		**(34.6)**	13.7
Interest received		**328.2**	468.3
Dividends received from investments in securities		**59.9**	35.8
Dividends received from associated companies		**468.9**	396.3
Dividends received from jointly controlled entities		**1,202.1**	282.8
Net cash (used in) / from investing activities		**(1,802.6)**	1,082.4
Financing activities			
Change in loans with minority interests		**(12.6)**	(74.5)
Capital injection by minority interests		**48.2**	84.3
Increase in borrowings		**8,882.5**	2,231.5
Repayment of borrowings		**(2,120.3)**	(2,713.5)
Interest paid		**(281.0)**	(364.2)
Dividends paid	38	**(2,193.6)**	(1,994.2)
Dividends paid to minority interests		**(66.7)**	(17.3)
Net cash from / (used in) financing activities		**4,256.5**	(2,847.9)
Increase in cash and cash equivalents		**7,418.8**	3,055.6
Cash and cash equivalents at 1st January		**4,808.8**	1,720.3
Effect of foreign exchange rate changes		**63.3**	32.9
Cash and cash equivalents at 31st December		**12,290.9**	4,808.8
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**976.0**	1,419.4
Time deposits up to three months		**11,314.9**	3,399.4
Bank overdrafts		**–**	(10.0)
		12,290.9	4,808.8

The notes on pages 67 to 128 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2008

	Attributable to shareholders of the Company HK$'M	Minority interests HK$'M	Total HK$'M
Total equity as at 1st January 2008	**28,777.2**	**722.1**	**29,499.3**
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**
Net income recognised directly in equity	**(234.5)**	**52.3**	**(182.2)**
Profit for the year	**4,302.5**	**92.3**	**4,394.8**
Total recognised net income for the year	**4,068.0**	**144.6**	**4,212.6**
Capital injection	**–**	**48.2**	**48.2**
Dividends paid	**(2,193.6)**	**–**	**(2,193.6)**
Dividends paid to minority interests	**–**	**(66.7)**	**(66.7)**
Total equity as at 31st December 2008	**30,651.6**	**848.2**	**31,499.8**
Total equity as at 1st January 2007	20,693.7	524.5	21,218.2
Revaluation surplus of available-for-sale financial assets transferred to equity	185.1	–	185.1
Capital reserve	4.8	1.6	6.4
Recognition of exchange reserve on disposal of subsidiaries	(21.3)	–	(21.3)
Exchange differences	639.5	45.5	685.0
Net income recognised directly in equity	808.1	47.1	855.2
Profit for the year	9,269.6	64.1	9,333.7
Total recognised net income for the year	10,077.7	111.2	10,188.9
Capital injection	–	84.3	84.3
Acquisition of a subsidiary	–	40.0	40.0
Disposal of interests in subsidiaries	–	(20.6)	(20.6)
Dividends paid	(1,994.2)	–	(1,994.2)
Dividends paid to minority interests	–	(17.3)	(17.3)
Total equity as at 31st December 2007	28,777.2	722.1	29,499.3

The notes on pages 67 to 128 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 its principal activities continue to be the 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 17th March 2009.

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 2008

HK(IFRIC) - Interpretation 12 "Service Concession Arrangements", applies to entities that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. The Group applied this interpretation from 1st January 2008, but there was no significant impact on the Group's accounts.

HK(IFRIC) - Interpretation 14 "HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction", provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The interpretation does not have any impact on the Group's accounts, as the Group is not subject to any minimum funding requirements.

The HKAS 39, "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the financial assets at fair value through profit or loss and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial Instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the financial assets at fair value through profit or loss and available-for-sale categories. The Group has adopted this amendment prospectively from 1st July 2008 and further details are disclosed in Note 24.

HK(IFRIC) - Interpretation 11, "HKFRS 2 - Group and Treasury Share Transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's accounts.

Notes to the Accounts

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 2008 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 2008 and have not been early adopted by the Group:

New or revised standards, interpretations and amendments		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	"Presentation of Financial Statements"	1st January 2009
HKAS 23 (Revised)	"Borrowing Costs"	1st January 2009
HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"	1st July 2009
HKAS 32 and HKAS 1 Amendments	"Puttable Financial Instruments and Obligations Arising on Liquidation"	1st January 2009
HKAS 39 Amendment	"Financial Instruments: Recognition and Measurement" - "Eligible Hedged Items"	1st July 2009
HKFRS 1 and HKAS 27 Amendments	"Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"	1st July 2009
HKFRS 3 (Revised)	"Business Combination"	1st July 2009
HKFRS 8	"Operating Segments"	1st January 2009
HK(IFRIC)-Interpretation 13	"Customer Loyalty Programmes"	1st July 2008
HK(IFRIC)-Interpretation 16	"Hedges of a Net Investment in a Foreign Operation"	1st October 2008
HK(IFRIC)-Interpretation 18	"Transfers of Assets from Customers"	1st July 2009
HKICPA's Improvements to HKFRS published in October 2008		1st January 2009

The Group will apply the above standards, interpretations and amendments from 1st January 2009 or a later date, as appropriate. 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.

2 Summary of significant accounting policies (Continued)

(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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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 associates 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's financial reporting system, the Group has determined the geographical segments as the primary reporting format and business segments as the secondary reporting format.

(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 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 or, if shorter, the relevant finance lease periods as follows:

Vehicles, office furniture and equipment	5 - 15 years
Compressors	10 years
Production plant	10 - 30 years
Meters and installations	5 - 20 years
Risers, gasholders, office, store and buildings	30 years
Gas mains	40 years
Water mains	40 - 50 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 property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible asset". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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). Non-financial assets other than 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. 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 losses / gains, 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 losses / gains, 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. The translation differences on monetary securities are recognised in the income statement, while the translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale 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 losses / gains, net".

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of "other losses / gains, net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of "other losses / gains, 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. 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 losses / gains, 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 losses / gains, net". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), 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 fixed assets.

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 losses / gains, 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.

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 presented within 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.

(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. 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"). 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 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.

(ii) *Price risk*

The Group is exposed to equity securities price risk for the 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$628.4 million (2007: HK$857.9 million) and HK$32.3 million (2007: HK$419.2 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	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
Hang Seng Index	**0.3**	0.3	**50.9**	51.4
S&P 500 Index	**4.8**	30.1	**13.2**	–
FTSE 100 Index	**1.5**	4.8	**–**	–
CAC Index	**–**	0.5	**2.0**	–
Swiss Market Index	**–**	4.5	**1.6**	–
Tokyo Stock Price Index	**–**	–	**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.

(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$606.5 million (2007: HK$1,419.0 million) and floating and fixed rate bank deposits of HK$12,346.6 million (2007: HK$4,838.7 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$6,972.0 million (2007: HK$7,778.2 million), fixed rate borrowings of HK$7,613.0 million (2007:nil) and floating rate deposits received from customers of HK$1,074.3 million (2007: HK$1,046.3 million).

3 Financial risk management (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk (Continued)

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 2008, 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$85.7 million (2007: HK$37.1 million) higher / lower, mainly as a result of higher / lower interest income on floating rate bank deposits.

At 31st December 2008, 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$119.3 million (2007: HK$87.5 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$798.2 million (2007: HK$556.6 million). The Company's interest rate risk arises from floating rate borrowings of HK$1,700 million (2007: HK$2,560.0 million) and floating rate deposits received from customers of HK$1,068.4 million (2007: HK$1,042.5 million).

At 31st December 2008, 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$5.9 million (2007: HK$4.2 million) higher / lower, mainly as a result of higher / lower bank deposits interest income on floating rate bank deposits.

At 31st December 2008, 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$35.6 million (2007: HK$37.1 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings and customers' deposits.

(b) Credit risk

Credit risk of the Group and Company mainly arises from:

	Group		Company	
	2008 HK$'M	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
Cash and bank deposits	**12,346.6**	4,838.7	**798.2**	556.6
Debt securities and derivative instruments	**879.5**	1,696.6	**1.1**	5.3
Trade receivables	**1,360.5**	1,386.8	**1,103.6**	1,144.2
Other receivables	**549.3**	504.1	**92.2**	76.9
Instalment receivables	**239.7**	2,590.9	**–**	–
Loans to jointly controlled entities	**831.0**	797.3	**82.6**	87.3
Loans to associated companies	**485.6**	370.0	**484.2**	216.6
Loans to minority interests	**85.4**	36.1	**–**	–

Notes to the Accounts

3 Financial risk management (Continued)

(b) Credit risk (Continued)

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 5 per cent of the total sales. 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 and that can be assessed by reference to external credit ratings is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	%	%	**%**	%
Cash and bank deposits				
AA	**27.9**	42.1	**34.6**	63.6
A	**56.8**	29.3	**65.3**	35.9
BBB	**14.5**	26.1	**–**	0.4
Unrated	**0.8**	2.5	**0.1**	0.1
	100.0	100.0	**100.0**	100.0
Debt securities and derivative instruments				
AAA	**4.2**	0.9	**N/A**	N/A
AA	**17.9**	86.5	**N/A**	100.0
A	**73.2**	11.6	**N/A**	N/A
BBB	**1.0**	1.0	**N/A**	N/A
Unrated	**3.7**	N/A	**N/A**	N/A
	100.0	100.0	**N/A**	100.0

Credit ratings are quoted from Bloomberg.

Credit quality of loans to associated companies, loans to jointly controlled entities and trade and instalment receivables are disclosed in Notes 22, 23 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.

3 Financial risk management (Continued)

(c) Liquidity risk (Continued)

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 2008				
Trade and other payables	**2,746.7**	**–**	**–**	**–**
Borrowings and derivative financial instruments	**2,735.6**	**1,658.2**	**4,804.1**	**9,740.4**
At 31st December 2007				
Trade and other payables	3,140.7	–	–	–
Borrowings	3,938.3	194.9	4,200.1	2.7
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**	**–**	**–**	**–**
At 31st December 2007				
Trade and other payables	690.2	–	–	–
Borrowings	1,625.9	36.4	1,030.1	–

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, issue new shares, drawdown and repay borrowings or sell assets to reduce debt.

Consistent with others in the industry, 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 deposit, cash and bank deposits as shown in the consolidated balance sheet.

3 Financial risk management (Continued)

Capital risk management (Continued)

The gearing ratios at 31st December 2008 and 2007 are as follows:

	2008 **HK$'M**	2007 HK$'M
Total borrowings	**(14,585.0)**	(7,778.2)
Less: Time deposit, cash and bank deposits	**12,346.6**	4,838.7
Net borrowing	**(2,238.4)**	(2,939.5)
Shareholders' funds	**(30,651.6)**	(28,777.2)
	(32,890.0)	(31,716.7)
Gearing ratio	**7%**	9%

Fair value estimation

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss and available-for-sale financial assets) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade and other receivables and payables (including current balances with associated companies, jointly controlled entities and minority interests) are assumed to approximate their fair values as they are current in nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(i) Estimated impairment of assets (Continued)

During the year, the Group has prepared value-in-use assessments for certain investments in the PRC. These assessments use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates ranging from 0 per cent to 7.0 per cent. Also, discount rates adopted for these calculations ranged from 7.5 per cent to 10.0 per cent. There was no evidence of impairment arising from these assessments.

(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.

(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.

4 Critical accounting estimates and judgements (Continued)

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

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee and historical price volatility of these investments.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss of HK$329.3 million in its 2008 accounts, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale financial assets to the consolidated income statement.

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:

	2008 HK$'M	2007 HK$'M
Gas sales before fuel cost adjustment	**8,379.7**	7,524.0
Fuel cost adjustment	**1,677.0**	1,021.5
Gas sales after fuel cost adjustment	**10,056.7**	8,545.5
Equipment sales	**908.3**	770.1
Maintenance and services	**285.3**	272.1
Water sales	**289.1**	260.9
Property sales	**33.2**	3,806.3
Rental income	**24.6**	9.6
Other sales	**755.0**	561.0
	12,352.2	14,225.5

5 Segment information (Continued)

(a) Primary reporting format - geographical segment

The Company, its subsidiaries, associated companies and jointly controlled entities operate in Hong Kong and mainland China. Information about the Group's operations by geographical segments is as follows:

	Hong Kong		Mainland China		Total	
	2008 HK$'M	2007 HK$'M	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
Revenue	**9,235.2**	11,883.5	**3,117.0**	2,342.0	**12,352.2**	14,225.5
Segment results	**3,504.8**	5,338.1	**559.7**	370.0	**4,064.5**	5,708.1
Unallocated corporate expenses					**(450.5)**	(405.1)
					3,614.0	5,303.0
Other (losses) / gains, net					**(584.6)**	2,622.7
Interest expense					**(416.8)**	(364.0)
Share of profits less losses of associated companies	**1,600.8**	1,486.9	**219.5**	129.4	**1,820.3**	1,616.3
Share of profits less losses of jointly controlled entities	**47.1**	866.7	**477.4**	263.3	**524.5**	1,130.0
Profit before taxation					**4,957.4**	10,308.0
Taxation					**(562.6)**	(974.3)
Profit for the year					**4,394.8**	9,333.7
Attributable to:						
Shareholders of the Company					**4,302.5**	9,269.6
Minority interests					**92.3**	64.1
					4,394.8	9,333.7

Share of profits of associated companies includes HK$1,357.4 million (2007: HK$1,269.4 million), being the Group's share of post-tax change in valuation of investment properties at the International Finance Centre ("IFC") complex.

Share of profits of jointly controlled entities includes HK$47.6 million (2007: HK$866.3 million), being the Group's share of post-tax profits arising from the sale of a portion of the residential units of the Grand Promenade.

	Hong Kong		Mainland China		Total	
	2008 HK$'M	2007 HK$'M	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
Segment assets	**19,061.9**	18,865.1	**8,146.1**	6,033.5	**27,208.0**	24,898.6
Associated companies	**4,959.3**	3,912.8	**5,535.5**	4,648.7	**10,494.8**	8,561.5
Jointly controlled entities	**645.4**	1,699.2	**5,605.2**	4,865.5	**6,250.6**	6,564.7
Unallocated assets					**8,000.6**	3,220.3
Total assets					**51,954.0**	43,245.1
Segment liabilities	**(2,072.3)**	(2,034.9)	**(1,748.7)**	(1,105.8)	**(3,821.0)**	(3,140.7)
Jointly controlled entities	**(32.8)**	(28.1)	**(1.2)**	(15.8)	**(34.0)**	(43.9)
Unallocated liabilities					**(16,599.2)**	(10,561.2)
Total liabilities					**(20,454.2)**	(13,745.8)
Capital expenditures	**594.4**	981.5	**1,923.0**	702.1	**2,517.4**	1,683.6
Depreciation	**471.1**	493.7	**223.1**	181.4	**694.2**	675.1
Amortisation	**8.5**	8.5	**5.7**	4.0	**14.2**	12.5

Notes to the Accounts

5 Segment information (Continued)

(a) Primary reporting format - geographical segment (Continued)

Segment assets comprise operating assets such as property, plant and equipment, investment property, leasehold land, intangible asset, completed property for sale, inventories, trade and other receivables and time deposits, cash and bank balances for operation. Unallocated assets comprise available-for-sale financial assets, retirement benefit assets, other non-current assets, loans to minority interests, housing loans to staff, financial assets at fair value through profit or loss and time deposits, cash and bank balances other than those included under segment assets for operation purposes.

Segment liabilities comprise operating liabilities including trade and other payables and customers' deposits. Unallocated liabilities comprise mainly provision for taxation, borrowings, deferred taxation, derivative financial instruments and loans from minority interests.

Capital expenditures comprise additions to property, plant and equipment (Note 17) and leasehold land (Note 19).

(b) Secondary reporting format – business segment

The Group's revenue is mainly generated from the production, distribution and marketing of gas, water and related activities ("Gas and Water businesses"). In 2007, significant revenue was also generated from the Ma Tau Kok South property development project which is known as Grand Waterfront ("Property business").

	2008 **HK$'M**	2007 HK$'M
Revenue		
Gas and Water businesses	**12,294.4**	10,409.6
Property business	**57.8**	3,815.9
	12,352.2	14,225.5
Total assets		
Gas and Water businesses	**26,306.3**	21,790.7
Property business	**901.7**	3,107.9
	27,208.0	24,898.6
Associated companies	**10,494.8**	8,561.5
Jointly controlled entities	**6,250.6**	6,564.7
Unallocated assets	**8,000.6**	3,220.3
	51,954.0	43,245.1
Capital expenditures		
Gas and Water businesses	**2,517.4**	1,600.5
Property business	**–**	83.1
	2,517.4	1,683.6

6 Total operating expenses

	Group	
	2008 **HK$'M**	2007 HK$'M
Stores and materials used	**5,598.6**	4,353.8
Cost of property sold	**9.9**	1,280.4
Manpower costs (Note 11)	**1,006.2**	993.0
Depreciation and amortisation	**708.4**	687.6
Other operating items	**1,415.1**	1,607.7
	8,738.2	8,922.5

7 Other (losses) / gains, net

	Group 2008 HK$'M	Group 2007 HK$'M
Fair value gains on investment property (Note 18)	**113.0**	231.5
Net investment (losses) / gains (Note 8)	**(723.2)**	364.3
Gain on disposal of interests in subsidiaries (Note)	**–**	2,235.7
Provision for investment in a jointly controlled entity (Note 23(a))	**–**	(208.8)
Ineffective portion on cash flow hedges (Note 35)	**(2.1)**	–
Others	**27.7**	–
	(584.6)	2,622.7

Note
On 1st March 2007, the Group completed the disposal of the eight wholly-owned subsidiaries, which hold ten piped city-gas joint ventures, to Towngas China Company Limited ("Towngas China"), formally known as Panva Gas Holdings Limited. The disposal gain was determined based on the difference in the fair value of the Towngas China shares issued as the consideration as at 1st March 2007 of HK$3.77 per Towngas China share over the aggregate of the net asset value of the subsidiaries, the carrying amount of shareholder loans and the related transaction costs. The exchange reserve attributable to the disposed subsidiaries has also been recognised in the gain on disposal.

8 Net investment (losses) / gain

	Group 2008 HK$'M	Group 2007 HK$'M
(a) Interest income		
Bank deposits	**194.4**	170.1
Listed available-for-sale financial assets	**0.9**	1.4
Loans to associated companies and jointly controlled entities	**23.5**	44.8
Others	**22.1**	30.1
	240.9	246.4
(b) Net realised and unrealised (losses) / gains and interest income on financial assets at fair value through profit or loss		
Listed securities	**(180.9)**	71.6
Unlisted securities	**(865.7)**	(12.8)
Exchange differences	**0.4**	17.9
	(1,046.2)	76.7
(c) Gains on disposal and maturity of available-for-sale financial assets	**–**	0.7
(d) Dividend income		
Listed available-for-sale financial assets	**25.0**	20.7
Unlisted available-for-sale financial assets	**29.2**	13.7
Listed financial assets at fair value through profit or loss	**5.7**	1.4
	59.9	35.8
(e) Other investment income	**22.2**	4.7
	(723.2)	364.3

9 Interest expense

	Group 2008 HK$'M	Group 2007 HK$'M
Interest on bank loans and overdrafts wholly repayable within five years	**259.3**	364.0
Interest on guaranteed notes not wholly repayable within five years	**170.1**	–
Interest on customers' deposits	**3.1**	7.7
	432.5	371.7
Less: Amount capitalised	**(15.7)**	(7.7)
	416.8	364.0

The interest expense is capitalised at an average rate of 2.99 per cent (2007: 4.48 per cent) per annum.

10 Profit before taxation

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

	Group 2008 HK$'M	Group 2007 HK$'M
Cost of inventories sold	**6,086.9**	4,768.2
Depreciation and amortisation	**708.4**	687.6
Loss on disposal / write off of property, plant and equipment	**26.2**	223.7
Impairment loss of trade receivables	**26.1**	13.9
Impairment loss of instalment receivables	**26.3**	–
Operating lease rentals		
– land and buildings	**39.4**	35.2
– plant and equipment	**9.3**	6.2
Rental income from investment property		
– gross rental income	**(24.6)**	(9.6)
– outgoing expenses	**17.5**	6.9
Auditors' remuneration	**6.9**	6.6
Net loss on residential maintenance (Note)	**19.3**	14.3
Note		
Analysis of net loss on residential maintenance:		
Residential maintenance revenue	**(181.0)**	(178.2)
Less expenses:		
Manpower costs	**106.9**	100.4
Other operating and administrative expenses	**93.4**	92.1
Net loss	**19.3**	14.3

11 Manpower costs

	Group 2008 HK$'M	2007 HK$'M
Salaries and wages	901.3	886.2
Pension costs – defined contribution retirement schemes	123.0	108.6
Pension costs – defined benefit retirement scheme (Note 25)	(18.1)	(1.8)
	1,006.2	993.0

12 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director 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

Notes to the Accounts

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

(a) Directors' emoluments (Continued)

The remuneration of every director for the year ended 31st December 2007 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	5.1	16.5	2.6	24.3
Ronald Chan Tat Hung	0.1	3.4	4.5	2.4	10.4
James Kwan Yuk Choi	0.1	3.2	6.1	2.3	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	12.0	27.1	7.3	47.9

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK$40.4 million (2007: HK$40.6 million) and post-employment benefits of HK$7.4 million (2007: HK$7.3 million) paid to the Group's key management during the year ended 31st December 2008. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2007: nil).

(b) Five highest paid individuals

The above analysis includes three (2007: three) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining two (2007: two) individuals are as follows:

	2008 HK$'M	2007 HK$'M
Salaries, allowances and benefits in kind	**3.4**	3.4
Performance bonus	**4.3**	6.3
Contributions to retirement scheme	**1.4**	1.0
	9.1	10.7

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	2008	2007
5.0 – 6.0	**1**	1
4.0 – 5.0	**1**	1

13 Taxation

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

	Group	
	2008 **HK$'M**	2007 HK$'M
Current taxation – provision for Hong Kong Profits Tax at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year	**515.8**	881.1
Current taxation – provision for PRC Enterprise Income Tax at the prevailing rates on the estimated assessable profit for the year	**38.4**	14.8
Current taxation – over provision in prior years	**(29.4)**	(10.9)
Deferred taxation – origination and reversal of temporary differences	**99.9**	88.3
Deferred taxation – change of tax rate for entities operated in the PRC	**–**	1.0
Deferred taxation – change of tax rate for entities operated in Hong Kong	**(62.1)**	–
	562.6	974.3

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	
	2008 **HK$'M**	2007 HK$'M
Profit before taxation	**4,957.4**	10,308.0
Less: Share of profits less losses of associated companies	**(1,820.3)**	(1,616.3)
Share of profits less losses of jointly controlled entities	**(524.5)**	(1,130.0)
	2,612.6	7,561.7
Calculated at a tax rate of 16.5% (2007: 17.5%)	**431.1**	1,323.3
Effect of different tax rates in other countries	**38.0**	11.6
Income not subject to taxation	**(74.5)**	(600.0)
Expenses not deductible for taxation purposes	**254.6**	240.4
Utilisation of previously unrecognised tax losses	**(17.2)**	(2.3)
Over provision in prior years	**(29.4)**	(10.9)
Others	**22.1**	11.2
Change of tax rate for entities operated in the PRC	**–**	1.0
Change of tax rate for entities operated in Hong Kong	**(62.1)**	–
	562.6	974.3

Share of associated companies' taxation for the year ended 31st December 2008 of HK$327.1 million (2007: HK$341.9 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 2008 of HK$132.3 million (2007: HK$240.8 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$2,816.9 million (2007: HK$2,267.3 million).

15 Dividends

	Company 2008 HK$'M	2007 HK$'M
Interim, paid of HK 12 cents per ordinary share (2007: HK 12 cents per ordinary share)	**799.9**	727.2
Final, proposed of HK 23 cents per ordinary share (2007: HK 23 cents per ordinary share)	**1,533.1**	1,393.7
	2,333.0	2,120.9

At a meeting held on 17th March 2009, the directors declared a final dividend of HK 23 cents per ordinary share for the year ended 31st December 2008. 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$4,302.5 million (2007: HK$9,269.6 million) and the weighted average of 6,665,599,584 shares (2007: 6,665,599,584 shares#) in issue during the year.

As there were no diluted potential ordinary shares outstanding during the year (2007: nil), the diluted earnings per share for the year ended 31st December 2008 is the same as the basic earnings per share.

Adjusted for the bonus issue in 2008

17 Property, plant and equipment

	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

17 Property, plant and equipment (Continued)

	Property under development HK$'M	Buildings, plant and equipment HK$'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 2007	95.4	5,646.5	9,385.4	2,058.6	1,600.6	18,786.5
Additions	83.1	153.1	97.1	166.0	1,156.0	1,655.3
Acquisition of a subsidiary	–	24.7	17.4	–	–	42.1
Transfers from capital work in progress	–	72.3	486.5	3.9	(562.7)	–
Transfers to investment property	(178.5)	–	–	–	–	(178.5)
Disposals of subsidiaries	–	(54.5)	(135.4)	–	(42.3)	(232.2)
Disposals / write off	–	(15.9)	(33.4)	(425.1)	(0.3)	(474.7)
Exchange differences	–	87.8	174.4	7.9	21.1	291.2
At 31st December 2007	–	5,914.0	9,992.0	1,811.3	2,172.4	19,889.7
Accumulated depreciation						
At 1st January 2007	–	2,801.5	2,467.4	1,131.7	–	6,400.6
Charge for the year	–	284.3	253.4	137.4	–	675.1
Disposals of subsidiaries	–	(8.3)	(6.1)	–	–	(14.4)
Disposals / write off	–	(8.2)	(20.8)	(220.1)	–	(249.1)
Exchange differences	–	12.1	12.1	1.7	–	25.9
At 31st December 2007	–	3,081.4	2,706.0	1,050.7	–	6,838.1
Net book value						
At 31st December 2007	–	2,832.6	7,286.0	760.6	2,172.4	13,051.6
At 31st December 2006	95.4	2,845.0	6,918.0	926.9	1,600.6	12,385.9
Company						
Cost						
At 1st January 2007	–	4,163.3	6,921.1	1,954.9	918.2	13,957.5
Additions	–	65.1	126.6	166.9	506.6	865.2
Transfers from capital work in progress	–	20.6	149.4	2.1	(172.1)	–
Disposals / write off	–	(3.6)	(24.0)	(425.1)	–	(452.7)
At 31st December 2007	–	4,245.4	7,173.1	1,698.8	1,252.7	14,370.0
Accumulated depreciation						
At 1st January 2007	–	2,540.8	2,268.8	1,108.7	–	5,918.3
Charge for the year	–	174.1	178.9	130.0	–	483.0
Disposals / write off	–	(3.6)	(16.6)	(220.0)	–	(240.2)
At 31st December 2007	–	2,711.3	2,431.1	1,018.7	–	6,161.1
Net book value						
At 31st December 2007	–	1,534.1	4,742.0	680.1	1,252.7	8,208.9
At 31st December 2006	–	1,622.5	4,652.3	846.2	918.2	8,039.2

As at 31st December 2008, there were no mains and risers under finance lease (2007: HK$259.8 million).

18 Investment property

	Group 2008 HK$'M	Group 2007 HK$'M
At 1st January	**410.0**	–
Transferred from property under development	**–**	178.5
Fair value gains (Note 7)	**113.0**	231.5
At 31st December	**523.0**	410.0

The construction of the commercial complex of Ma Tau Kok South property development project, namely, Grand Waterfront was completed in 2007 and the costs were transferred to investment property. 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 2008 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 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Held in Hong Kong:				
Leases of 10 to 50 years	**327.4**	335.8	**248.4**	254.8
Held outside Hong Kong:				
Leases of 10 to 50 years	**231.6**	196.4	**–**	–
Leases of over 50 years	**2.0**	1.9	**–**	–
	561.0	534.1	**248.4**	254.8

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

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
At 1st January	**534.1**	478.8	**254.8**	261.2
Additions	**29.4**	28.3	**–**	–
Acquisition of a subsidiary	**–**	44.2	**–**	–
Disposal of subsidiaries	**–**	(13.6)	**–**	–
Disposals	**(0.4)**	–	**–**	–
Amortisation	**(14.2)**	(12.5)	**(6.4)**	(6.4)
Exchange differences	**12.1**	8.9	**–**	–
At 31st December	**561.0**	534.1	**248.4**	254.8

20 Intangible asset

	Group 2008 HK$'M	Group 2007 HK$'M
Goodwill		
At 1st January	**185.1**	48.6
Addition	**–**	131.9
Disposal of a subsidiary	**–**	(4.8)
Exchange differences	**11.3**	9.4
At 31st December	**196.4**	185.1

There is no impairment for intangible asset as at 31st December 2007 and 2008.

21 Subsidiaries

	Company 2008 HK$'M	Company 2007 HK$'M
Unlisted shares and registered capital at cost	**307.7**	307.7
Amounts due from subsidiaries	**12,490.8**	10,817.8
	12,798.5	11,125.5
Loan to a subsidiary	**68.9**	–
Amounts due to subsidiaries	**(10,022.1)**	(6,884.5)

Loan to a subsidiary in the PRC of 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 in 2009.

Amounts due to subsidiaries denominated in HKD, USD and Renminbi ("RMB") amount to HK$9,568.4 million (2007: HK$5,916.9 million), HK$325.2 million (2007: HK$745.2 million) and HK$128.0 million (2007: HK$112.8 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 125 to 128 of the accounts.

22 Associated companies

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Investments in associated companies, including goodwill	**10,009.2**	8,191.5	**–**	–
Loans to an associated company – non-current	**456.2**	195.0	**456.2**	195.0
	10,465.4	8,386.5	**456.2**	195.0
Loans to associated companies – current	**29.4**	175.0	**28.0**	21.6
Amount due to an associated company – current	**–**	–	**–**	(98.4)

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 (2007: HK$195.0 million) are denominated in HKD and USD. The loans are unsecured, bear interest at Hong Kong Inter-bank Offered Rate plus 1.25 per cent and fully repayable in 2013. As at 31st December 2008, the unutilised facility amount is HK$53.4 million and is available for the drawdown in any time before 7th April 2009.

(b) Loans to an associated company in Hong Kong of HK$0.7 million (2007: HK$151.6 million) for the financing of properties development projects are denominated in HKD, unsecured, interest free and have no fixed terms of repayment.

(c) Other loans of HK$28.7 million (2007: HK$23.4 million) made to the PRC gas related associated companies are mainly denominated in USD, unsecured, interest free and have no fixed terms of repayment.

Loans to associated companies are neither past due nor impaired and there is no history of default.

Amount due to an associated company is denominated in HKD, unsecured, interest free and with no fixed terms of repayment.

22 Associated companies (Continued)

Particulars of the associated companies as at 31st December 2008 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		RMB 200.0 million	25.0	PRC	Mid-stream natural gas project
GH-Fusion Limited		200 shares of US$1 each	50.0	British Virgin Islands	Investment holding
Hebei Natural Gas Company Limited		RMB 220.0 million	45.0	PRC	Mid-stream natural gas project
Lane Success Development Limited	(i)	10,000 shares of HK$1 each	45.0	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		RMB 772.0 million	30.0	PRC	Gas sales and related businesses
Towngas China Company Limited	(iii)	1,957,556,330 shares of HK$0.1 each	45.6	Cayman Island / PRC	Investment holding
[1] Jiangxi Feng Long Mining Company Limited		RMB 236.1 million	25.0	PRC	Coal mining and related businesses
[1] Dalian DETA Hong Kong and China Gas Company Limited		RMB 137.2 million	40.0	PRC	Gas sales and related businesses

1 Newly acquired during the year

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.

22 Associated companies (Continued)

(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) Towngas China is a listed company in The Stock Exchange of Hong Kong Limited. On 1st March 2007, the Group obtained 772,911,729 new shares of Towngas China. In 2007 and 2008, the Group further acquired an aggregate of 120,261,172 shares of Towngas China. As at 31st December 2008, the Group held 893,172,901 shares of Towngas China or approximately 45.63 per cent equity interest of Towngas China. The carrying value and the market value of the Group's investment as at 31st December 2008 in Towngas China amounted to HK$3,797.3 million (2007: HK$3,564.8 million) and HK$1,366.6 million (2007: HK$3,683.8 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	
	2008	2007
	HK$'M	HK$'M
Assets		
Non-current assets	**14,415.2**	11,801.5
Current assets	**1,773.9**	1,514.4
	16,189.1	13,315.9
Liabilities		
Non-current liabilities	**(5,383.2)**	(4,791.7)
Current liabilities	**(1,984.6)**	(1,398.5)
	(7,367.8)	(6,190.2)
Net assets	**8,821.3**	7,125.7
Income	**6,070.2**	5,708.6
Expenses, including taxation	**(4,249.9)**	(4,092.3)
Profit after taxation	**1,820.3**	1,616.3

23 Jointly controlled entities

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Investments in jointly controlled entities, including goodwill (Note (a))	**5,419.6**	5,767.4	**849.3**	849.3
Loans to jointly controlled entities – non-current (Note (b))	**744.4**	734.3	**82.6**	82.6
	6,164.0	6,501.7	**931.9**	931.9
Loans to jointly controlled entities – current (Note (b))	**86.6**	63.0	**–**	4.7
Amounts due to jointly controlled entities – current (Note (c))	**(34.0)**	(43.9)	**(0.8)**	–

Notes

(a) The recoverable amount of investments in jointly controlled entities is determined by a value-in-use calculation which uses cash flow projections based on management's best estimation of growth rates and discount rates. For the year ended 31st December 2007, management adjusted down the carrying value of a PRC jointly controlled entity by HK$208.8 million to reflect the investment's recoverable value (Note 7).

(b) Loans to jointly controlled entities are mainly provided to the PRC joint ventures, which are mainly denominated in USD, unsecured, interest free and with no fixed terms of repayment for the current amounts and fully repayable from 2013 to 2015 for the non-current amounts except for the following:

- HK$33.8 million (2007: HK$31.8 million) to Hangzhou joint venture at a fixed interest rate ranging from 5.76 per cent to 7.74 per cent per annum and fully repayable in 2012.
- HK$193.2 million (2007: HK$188.1 million) to Nanjing joint venture with fixed rates ranging from 2.88 per cent to 3.06 per cent per annum and fully repayable in 2013.
- HK$24.6 million (2007: HK$22.5 million) to Jilin Tianyuan joint venture at a fixed interest rate of 6.12 per cent per annum and fully repayable in 2009.

Loans to jointly controlled entities are neither past due nor impaired and there is no history of default.

(c) Amounts due to jointly controlled entities are denominated in HKD, unsecured, interest free and with no fixed terms of repayment. An amount due to Changzhou joint venture of HK$10.6 million as at 31st December 2007, which was denominated in RMB and borne interest at 5.8 per cent per annum, was fully repaid during the year.

23 Jointly controlled entities (Continued)

Particulars of the jointly controlled entities as at 31st December 2008 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$1 each	50	Hong Kong	Property development
# Beijing Beiran & HKCG Gas Company Limited	RMB 44.4 million	50	PRC	Gas sales and related businesses
Changzhou Hong Kong and China Gas Company Limited	RMB 166.0 million	50	PRC	Gas sales and related businesses
Hangzhou Hong Kong and China Gas Company Limited	US$ 20.0 million	50	PRC	Gas sales and related businesses
吉林天元石油有限公司 (Jilin Tianyuan Company Limited)	RMB 5.0 million	50	PRC	Natural gas exploitation
Jilin Province Natural Gas Exploitation Company Limited	RMB 120.0 million	49	PRC	Mid stream natural gas project
Jinan Hong Kong and China Gas Company Limited	RMB 470.0 million	50	PRC	Gas sales and related businesses
Maanshan ECO Auto Fuel Company Limited	RMB 10.5 million	30	PRC	Natural gas filling station
Nanjing Hong Kong and China Gas Company Limited	RMB 600.0 million	50	PRC	Gas sales and related businesses
Suzhou Hong Kong and China Gas Company Limited	RMB 100.0 million	55	PRC	Gas sales and related businesses
Suzhou Industrial Park Qingyuan Hong Kong & China Water Company Limited	RMB 2,197.0 million	50	PRC	Water supply and sewage treatment
# Tongling Hong Kong and China Gas Company Limited	RMB 100.0 million	70	PRC	Gas sales and related businesses
Towngas TelChina (Shandong) Company Limited	RMB 40.0 million	50	PRC	Telecommunication Pipe-laying Project
Wuhan Natural Gas Company Limited	RMB 420.0 million	50	PRC	Gas sales and related businesses
# Xian Qinhua Natural Gas Company Limited	RMB 1,000.0 million	49	PRC	Gas sales and related businesses

Direct jointly controlled entities of the Company

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	
	2008	2007
	HK$'M	HK$'M
Assets		
Non-current assets	**7,205.7**	6,379.8
Current assets	**2,103.6**	2,734.1
	9,309.3	9,113.9
Liabilities		
Non-current liabilities	**(1,576.5)**	(1,192.0)
Current liabilities	**(2,692.5)**	(2,512.4)
	(4,269.0)	(3,704.4)
Net assets	**5,040.3**	5,409.5
Income	**3,528.3**	4,386.0
Expenses, including taxation	**(3,003.8)**	(3,256.0)
Profit after taxation	**524.5**	1,130.0

24 Available-for-sale financial assets

	Group		Company	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
Debt securities (Note (a))	**144.4**	209.0	**–**	–
Equity securities (Note (b))	**960.8**	857.9	**60.9**	25.8
	1,105.2	1,066.9	**60.9**	25.8
Market value of listed investments	**759.5**	728.8	**60.9**	25.8

24 Available-for-sale financial assets (Continued)

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Notes				
(a) Debt securities				
Listed – overseas	**131.0**	188.1	**–**	–
Unlisted	**13.4**	20.9	**–**	–
	144.4	209.0	**–**	–
(b) Equity securities				
Listed – Hong Kong	**440.0**	540.7	**30.5**	25.8
Listed – overseas	**188.5**	–	**30.4**	–
Unlisted	**332.3**	317.2	**–**	–
	960.8	857.9	**60.9**	25.8

During the year, 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. Fair value of these debt and equity investments at date of reclassification amounted to HK$414.9 million. The Group believes that the deterioration of the world's financial markets that occurred during the third quarter of 2008 represents a rare circumstance that allows such a reclassification.

As at 31st December 2008, the fair values of debt and equity securities assets reclassified during the current year are HK$265.3 million (2007: no such reclassification permitted).

During the year ended 31st December 2008, the Group recognised fair value loss of HK$8.0 million before the reclassification of debt and equity securities (year ended 31st December 2007: HK$22.7 million).

A fair value decrease of HK$149.6 million was recognised in revaluation reserve in equity in the current year after the reclassification on the debt and equity securities.

If the Group had not reclassified the debt and equity securities during the year, fair value losses recognised for the year in the consolidated income statement will be increased by HK$149.6 million.

Available-for-sale financial assets denominated in HKD, USD, RMB, EUR, CHF and JPY amount to HK$440.1 million (2007: HK$540.7 million), HK$286.3 million (2007: HK$209.0 million), and HK$332.3 million (2007: HK$317.2 million), HK$21.5 million (2007: nil), HK$19.1 million (2007: nil) and HK$5.9 million (2007: nil) respectively. No provision for impairment on available-for-sale financial assets was made in 2008 (2007: nil).

25 Retirement benefit assets

	Group and Company 2008 HK$'M	2007 HK$'M
At 31st December	**64.7**	42.2

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 2008 HK$'M	2007 HK$'M	2006 HK$'M	2005 HK$'M
Fair value of plan assets	**325.1**	512.9	376.8	1,891.9
Present value of funded obligations	**(394.5)**	(260.6)	(272.0)	(1,832.4)
Present value of (underfunded) / overfunded obligations	**(69.4)**	252.3	104.8	59.5
Unrecognised actuarial losses / (gains)	**134.1**	(210.1)	(687.0)	(75.6)
Assets / (liabilities) in the balance sheet	**64.7**	42.2	(582.2)	(16.1)
Experience adjustments arising on plan liabilities – (losses) / gains	**(6.9)**	3.2	5.5	6.7
Experience adjustments arising on plan assets – (losses) / gains	**(215.4)**	116.4	119.3	2.2

The plan assets included the Company's ordinary shares with a fair value of HK$0.3 million (2007: nil) as at 31st December 2008.

The amounts recognised in the income statement are as follows:

	Group and Company 2008 HK$'M	2007 HK$'M
Current service cost	**10.9**	12.2
Interest cost	**8.6**	9.7
Expected return on plan assets	**(28.9)**	(22.0)
Net actuarial gains recognised for the year	**(8.7)**	(1.7)
Total (Note 11)	**(18.1)**	(1.8)

The movement in the defined benefit obligation is as follows:

	Group and Company 2008 HK$'M	2007 HK$'M
At 1st January	**260.6**	272.0
Current service cost	**10.8**	12.2
Interest cost	**8.7**	9.7
Benefits paid	**(5.7)**	(6.6)
Actuarial losses / (gains)	**120.1**	(26.7)
At 31st December	**394.5**	260.6

25 Retirement benefit assets (Continued)

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

	Group and Company 2008 HK$'M	2007 HK$'M
At 1st January	**512.9**	376.8
Expected return on plan assets	**28.9**	22.0
Actuarial (losses) / gains	**(215.4)**	116.4
Contribution paid	**4.4**	4.3
Benefits paid	**(5.7)**	(6.6)
At 31st December	**325.1**	512.9

The movement in the asset recognised in the balance sheet:

	Group and Company 2008 HK$'M	2007 HK$'M
At 1st January	**42.2**	36.1
Total income (Note 11)	**18.1**	1.8
Contribution paid	**4.4**	4.3
At 31st December	**64.7**	42.2

The actual losses on plan assets were HK$186.5 million (2007: return of HK$138.4 million).

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

	Group and Company 2008 %	2007 %
Equity securities	**57.0**	71.0
Debt securities	**29.0**	16.0
Cash	**14.0**	13.0

The principal actuarial assumptions used are as follows:

	Group and Company 2008 %	2007 %
Discount rate	**1.3**	3.5
Expected rate of return on plan assets	**5.3**	5.8
Expected rate of future salary increases	**3.5**	3.5

Expected contributions to the scheme for the year ending 31st December 2009 are HK$4.4 million.

26 Other non-current assets

Included in other non-current assets are non-current portion of second mortgage loans to buyers of the Grand Waterfront developed by the Group of HK$89.1 million (2007: HK$105.8 million), which are denominated in HKD. Second mortgage loans are secured by the mortgaged properties, bear interest at prime rate and are repayable in periods ranging from 15 to 25 years from the dates of draw down.

27 Inventories

	Group		Company	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
Stores and materials	**563.8**	617.3	**390.2**	494.0
Work in progress	**1,242.2**	370.5	**349.7**	329.3
	1,806.0	987.8	**739.9**	823.3

The Group wrote inventories down by HK$2.8 million (2007: wrote down by HK$5.8 million) to net realisable value during the year.

28 Trade and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
Trade receivables (Note (a))	**1,360.5**	1,386.8	**1,103.6**	1,144.2
Instalment receivables (Note (b))	**239.7**	2,590.9	**–**	–
Other receivables	**549.3**	504.1	**92.2**	76.9
Payments in advance	**280.4**	310.1	**16.0**	13.0
	2,429.9	4,791.9	**1,211.8**	1,234.1

Trade and other receivables of the Group denominated in HKD, USD and RMB amount to HK$1,602.2 million (2007: HK$4,016.5 million), HK$82.2 million (2007: HK$130.0 million) and HK$739.7 million (2007: HK$632.7 million) respectively. Remaining balances are denominated in other currencies.

Trade and other receivables of the Company denominated in HKD and USD amount to HK$1,202.6 million (2007: HK$1,224.8 million) and HK$7.8 million (2007: HK$9.2 million) respectively. Remaining balances are denominated in other currencies.

28 Trade and other receivables (Continued)

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 2008, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
0 – 30 days	**1,128.9**	1,148.4	**946.2**	978.4
31 – 60 days	**35.8**	56.7	**25.2**	42.2
61 – 90 days	**28.6**	27.4	**20.2**	17.4
Over 90 days	**167.2**	154.3	**112.0**	106.2
	1,360.5	1,386.8	**1,103.6**	1,144.2

(i) At 31st December 2008, trade receivables of the Group and the Company that were neither past due nor impaired amount to HK$973.4 million (2007: HK$1,094.9 million) and HK$871.1 million (2007: HK$963.5 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.

(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	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
0 – 30 days	**155.5**	53.5	**75.1**	14.9
31 – 60 days	**35.8**	56.7	**25.2**	42.2
61 – 90 days	**28.6**	27.4	**20.2**	17.4
Over 90 days	**167.2**	154.3	**112.0**	106.2
	387.1	291.9	**232.5**	180.7

28 Trade and other receivables (Continued)

(a) (Continued)

(iii) As at 31st December 2008, trade receivables of the Group and the Company amounting to HK$55.6 million (2007: HK$47.7 million) and HK$41.9 million (2007: HK$41.2 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	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
At 1st January	**47.7**	48.9	**41.2**	46.4
Impairment loss recognised	**26.1**	13.9	**19.7**	7.6
Uncollectible amounts written off	**(19.2)**	(15.4)	**(19.0)**	(12.8)
Exchange differences	**1.0**	0.3	**–**	–
At 31st December	**55.6**	47.7	**41.9**	41.2

(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 2008, balances of HK$231.9 million were past due (2007: HK$121.3 million). The management had critically assessed the impairment of the balances and provision for impairment of HK$26.3 million was made (2007: nil). 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.

29 Financial assets at fair value through profit or loss

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Debt securities (Note (a))	**735.1**	1,487.6	**1.1**	5.3
Equity securities (Note (b))	**32.3**	419.2	**4.2**	125.2
	767.4	1,906.8	**5.3**	130.5
Market value of listed investments	**138.1**	445.2	**4.2**	125.2
Notes				
(a) Debt securities				
Listed – Hong Kong	**97.9**	–	**–**	–
Listed – overseas	**7.9**	26.0	**–**	–
Unlisted	**629.3**	1,461.6	**1.1**	5.3
	735.1	1,487.6	**1.1**	5.3
(b) Equity securities				
Listed – Hong Kong	**9.1**	5.4	**–**	1.8
Listed – overseas	**23.2**	413.8	**4.2**	123.4
	32.3	419.2	**4.2**	125.2

Unlisted debt securities include equity linked investments of HK$606.5 million (2007: HK$1,419.0 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 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
USD	**559.3**	1,802.1	**1.1**	109.4
EUR	**–**	7.1	**–**	3.1
GBP	**7.7**	22.6	**4.2**	16.2
CHF	**–**	69.5	**–**	–
HKD	**96.7**	5.5	**–**	1.8
RMB	**32.4**	–	**–**	–
AUD	**58.5**	–	**–**	–
NZD	**12.8**	–	**–**	–
	767.4	1,906.8	**5.3**	130.5

30 Time deposits, cash and bank balances

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Time deposits over three months	**55.7**	19.9	**–**	–
Time deposits up to three months	**11,314.9**	3,399.4	**755.6**	444.7
Cash and bank balances	**976.0**	1,419.4	**42.6**	111.9
	12,290.9	4,818.8	**798.2**	556.6

The effective interest rates on time deposits in Hong Kong and mainland China are 1.33 per cent and 2.58 per cent respectively (2007: 4.76 per cent and 3.1 per cent). 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$5,710.1 million (2007: HK$883.1 million), HK$5,791.3 million (2007: HK$3,124.5 million) and HK$759.6 million (2007: HK$759.3 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$554.6 million (2007: HK$148.4 million) and HK$161.8 million (2007: HK$364.0 million) respectively. Remaining balances are denominated in other currencies.

31 Trade and other payables

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
Trade payables (Note (a))	**463.4**	536.9	**72.1**	140.8
Other payables and accruals (Note (b))	**2,283.3**	2,603.8	**318.1**	549.4
	2,746.7	3,140.7	**390.2**	690.2

Notes

(a) At 31st December 2008, the aging analysis of the trade payables is as follows:

	Group 2008 HK$'M	Group 2007 HK$'M	Company 2008 HK$'M	Company 2007 HK$'M
0 – 30 days	**294.6**	370.3	**70.3**	140.4
31 – 60 days	**35.2**	40.1	**1.7**	0.3
61 – 90 days	**14.2**	15.2	**0.1**	0.1
Over 90 days	**119.4**	111.3	**–**	–
	463.4	536.9	**72.1**	140.8

(b) The balance includes an amount of approximately HK$109.5 million (2007: HK$695.0 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.

31 Trade and other payables (Continued)

(c) Trade and other payables of the Group denominated in HKD, USD and RMB amount to HK$816.2 million (2007: HK$1,727.9 million), HK$95.5 million (2007: HK$185.6 million) and HK$1,768.8 million (2007: HK$1,131.6 million) respectively. Remaining balances are denominated in other currencies.

Trade and other payables of the Company denominated in HKD and USD amount to HK$241.1 million (2007: HK$383.2 million) and HK$74.7 million (2007: HK$231.5 million) respectively. Remaining balances are denominated in other currencies.

32 Borrowings

	Group		Company	
	2008 HK$'M	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
Non-current				
Bank loans	**4,729.5**	4,255.6	**1,700.0**	1,200.0
Finance lease liability	**–**	17.8	**–**	–
Guaranteed notes (Note (a))	**7,613.0**	–	**–**	–
	12,342.5	4,273.4	**1,700.0**	1,200.0
Current				
Bank overdrafts	**–**	10.0	**–**	10.0
Bank loans	**2,242.5**	3,427.2	**–**	1,350.0
Finance lease liability	**–**	67.6	**–**	–
	2,242.5	3,504.8	**–**	1,360.0
Total borrowings	**14,585.0**	7,778.2	**1,700.0**	2,560.0

Notes

(a) On 7th August 2008, HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes in the aggregate principal amount of US$1.0 billion. The guaranteed notes are 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. During the year, the Group repurchased US$5.0 million principal amount of the notes. The market value of the notes as at 31st December 2008 was HK$8,373.5 million.

(b) All bank loans, overdrafts and guaranteed notes are unsecured. In 2007, the finance lease was effectively secured as, in the event of default, the rights of the leased plant and equipment would be reverted to the lessor.

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 guaranteed notes as they are subjected to fixed interest rate.

32 Borrowings (Continued)

The maturity of borrowings is as follows:

	Group						Company	
	Bank loans and overdrafts		Finance lease		Guaranteed notes		Bank loans and overdrafts	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M	**HK$'M**	HK$'M	**HK$'M**	HK$'M
Within 1 year	**2,242.5**	3,437.2	**–**	67.6	**–**	–	**–**	1,360.0
Between 1 and 2 years	**1,200.0**	21.4	**–**	17.8	**–**	–	**1,200.0**	–
Between 2 and 5 years	**3,527.2**	4,232.1	**–**	–	**–**	–	**500.0**	1,200.0
Wholly repayable within 5 years	**6,969.7**	7,690.7	**–**	85.4	**–**	–	**1,700.0**	2,560.0
Over 5 years	**2.3**	2.1	**–**	–	**7,613.0**	–	**–**	–

The effective interest rates at the balance sheet date are as follows:

	Group			
	2008		2007	
	HKD	**RMB**	HKD	RMB
Bank overdrafts	**N/A**	**N/A**	6.8%	N/A
Bank loans	**0.8%**	**6%**	3.8%	5.8%
Finance lease liability	**N/A**	**N/A**	N/A	7.8%
Guaranteed notes	**5.4%**	**N/A**	N/A	N/A

All the bank borrowings are at variable rates and the carrying amounts of all borrowings approximate their fair value.

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'M	HK$'M	**HK$'M**	HK$'M
HKD	**4,858.4**	6,048.8	**1,700.0**	2,560.0
RMB	**2,113.6**	1,729.4	**–**	–
USD	**7,613.0**	–	**–**	–
	14,585.0	7,778.2	**1,700.0**	2,560.0

	Group	
	2008	2007
	HK$'M	HK$'M
Finance lease liability - minimum lease payments:		
Not later than 1 year	**–**	83.3
Later than 1 year and not later than 5 years	**–**	18.5
	–	101.8
Future finance charges on finance leases	**–**	(16.4)
Present value of finance lease liabilities	**–**	85.4

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 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	
	2008 HK$'M	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
At 1st January	**1,228.2**	1,131.3	**1,032.2**	1,021.9
Charged / (credited) to income statement (Note 13)	**37.8**	89.3	**(2.0)**	10.3
Exchange differences	**6.9**	7.6	**–**	–
At 31st December	**1,272.9**	1,228.2	**1,030.2**	1,032.2

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		Others		Total	
Deferred tax liabilities	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
At 1st January	**1,173.3**	1,124.6	**40.5**	–	**32.2**	25.2	**1,246.0**	1,149.8
Charged to income statement	**39.8**	41.5	**16.3**	40.5	**2.7**	6.6	**58.8**	88.6
Exchange differences	**6.7**	7.2	**–**	–	**0.2**	0.4	**6.9**	7.6
At 31st December	**1,219.8**	1,173.3	**56.8**	40.5	**35.1**	32.2	**1,311.7**	1,246.0

	Provisions		Tax losses		Total	
Deferred tax assets	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M	**2008 HK$'M**	2007 HK$'M
At 1st January	**(8.7)**	(9.4)	**(9.1)**	(9.1)	**(17.8)**	(18.5)
(Credited) / charged to income statement	**(1.5)**	0.7	**(19.5)**	–	**(21.0)**	0.7
At 31st December	**(10.2)**	(8.7)	**(28.6)**	(9.1)	**(38.8)**	(17.8)
Net deferred tax liabilities at 31st December					**1,272.9**	1,228.2

34 Deferred taxation (Continued)

Company

Deferred tax liabilities	Accelerated tax depreciation 2008 HK$'M	2007 HK$'M
At 1st January	**1,040.8**	1,031.2
(Credited) / charged to income statement	**(2.4)**	9.6
At 31st December	**1,038.4**	1,040.8

Deferred tax assets	Provisions 2008 HK$'M	2007 HK$'M
At 1st January	**(8.6)**	(9.3)
Charged to income statement	**0.4**	0.7
At 31st December	**(8.2)**	(8.6)
Net deferred tax liabilities at 31st December	**1,030.2**	1,032.2

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$67.4 million (2007: HK$63.0 million) in respect of losses amounting to HK$311.8 million (2007: HK$281.7 million) that can be carried forward against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$187.8 million (2007: HK$182.7 million) which will expire at various date up to and including 2013 (2007: 2012).

Deferred tax liabilities of HK$43.0 million (2007: nil) 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

Liabilities	2008 HK$'M
Cross currency swaps contracts – cash flow hedges	**312.1**

The full fair value of a hedging derivative is classified as a non-current liability 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 loss of HK$2.1 million (Note 7).

The notional principal amounts of the outstanding interest rate swap contracts at 31st December 2008 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 interest rate swap contracts as of 31st December 2008 will be continuously released to the consolidated income statement until the repayment of the guaranteed notes (Note 32).

36 Share capital

	Ordinary shares of HK$0.25 each			
	Number of shares		Nominal Value	
	2008	2007	2008 HK$'M	2007 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	**6,059,635,986**	5,508,759,988	**1,514.9**	1,377.2
Bonus Issue	**605,963,598**	550,875,998	**151.5**	137.7
At 31st December	**6,665,599,584**	6,059,635,986	**1,666.4**	1,514.9

By an ordinary resolution passed on 19th May 2008, the issued share capital was increased by way of a bonus issue by applying HK$151.5 million charging to the share premium account in payment in full at par of 605,963,598 shares of HK$0.25 each on the basis of one new share for every ten shares held on 9th May 2008. These shares rank pari passu with the existing shares.

37 Share premium

	Group and Company	
	2008 HK$'M	2007 HK$'M
At 1st January	**3,770.1**	3,907.8
Less: Bonus issue	**(151.5)**	(137.7)
At 31st December	**3,618.6**	3,770.1

Notes to the Accounts

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 2008	249.3	3,320.0	189.7	–	141.9	888.8	17,308.8	22,098.5
Profit attributable to shareholders	–	–	–	–	–	–	4,302.5	4,302.5
Change in fair value	(565.9)	–	–	–	–	–	–	(565.9)
Cash flow hedges:								
– Fair values charges	–	–	–	(286.9)	–	–	–	(286.9)
– Transfer to consolidated income statement	–	–	–	(0.3)	–	–	–	(0.3)
Capital reserve from jointly controlled entities	–	–	–	–	13.6	–	–	13.6
Exchange differences	–	–	–	–	–	605.0	–	605.0
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 attributable to shareholders	–	–	–	–	–	–	2,816.9	2,816.9
Change in fair value	(75.3)	–	–	–	–	–	–	(75.3)
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)

	Investment revaluation reserve HK$'M	General reserve HK$'M	Capital redemption reserve HK$'M	Capital reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group							
At 1st January 2007	64.2	3,320.0	189.7	137.4	270.6	10,159.8	14,141.7
Profit attributable to shareholders	–	–	–	–	–	9,269.6	9,269.6
Change in fair value	185.1	–	–	–	–	–	185.1
Capital reserve from subsidiaries	–	–	–	4.8	–	–	4.8
Exchange differences	–	–	–	–	639.5	–	639.5
Disposals of subsidiaries	–	–	–	(0.3)	(21.3)	0.3	(21.3)
2006 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
2006 final dividend paid	–	–	–	–	–	(1,267.0)	(1,267.0)
2007 interim dividend paid	–	–	–	–	–	(727.2)	(727.2)
At 31st December 2007	249.3	3,320.0	189.7	141.9	888.8	18,702.5	23,492.2
Company and subsidiaries	249.3	3,320.0	189.7	13.7	305.0	12,464.6	16,542.3
Associated companies	–	–	–	–	149.3	2,994.0	3,143.3
Jointly controlled entities	–	–	–	128.2	434.5	3,243.9	3,806.6
	249.3	3,320.0	189.7	141.9	888.8	18,702.5	23,492.2
Balance after 2007 final dividend proposed	249.3	3,320.0	189.7	141.9	888.8	17,308.8	22,098.5
2007 final dividend proposed	–	–	–	–	–	1,393.7	1,393.7
	249.3	3,320.0	189.7	141.9	888.8	18,702.5	23,492.2
Company							
At 1st January 2007	2.2	3,320.0	189.7	–	–	856.6	4,368.5
Profit attributable to shareholders	–	–	–	–	–	2,267.3	2,267.3
Change in fair value	10.9	–	–	–	–	–	10.9
2006 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
2006 final dividend paid	–	–	–	–	–	(1,267.0)	(1,267.0)
2007 interim dividend paid	–	–	–	–	–	(727.2)	(727.2)
At 31st December 2007	13.1	3,320.0	189.7	–	–	2,396.7	5,919.5
Balance after 2007 final dividend proposed	13.1	3,320.0	189.7	–	–	1,003.0	4,525.8
2007 final dividend proposed	–	–	–	–	–	1,393.7	1,393.7
	13.1	3,320.0	189.7	–	–	2,396.7	5,919.5

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 2008, comprising general reserve and unappropriated profits, amounted to HK$6,340.0 million (2007: HK$5,716.7 million) before the proposed final dividend for the year ended 31st December 2008.

39 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2008.

40 Commitments

(a) Capital expenditures for property, plant and equipment

	Group		Company	
	2008 **HK$'M**	2007 HK$'M	**2008** **HK$'M**	2007 HK$'M
Authorised but not brought into the accounts at 31st December	**1,883.2**	2,091.3	**758.8**	764.1
Of which, contracts had been entered into at 31st December	**1,647.2**	1,786.6	**758.8**	764.1

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

	2008 **HK$'M**	2007 HK$'M
Authorised but not brought into the accounts at 31st December	**2,246.9**	1,206.0
Of which, contracts had been entered into at 31st December	**1,182.1**	726.9

(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 estimate that as at 31st December 2008, the Group's commitments to these projects were approximately HK$585.1 million (2007: HK$62.0 million).

40 Commitments (Continued)

(d) Lease commitments

Lessee

At 31st December 2008, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

	Group		Company	
	2008 **HK$'M**	2007 HK$'M	**2008** **HK$'M**	2007 HK$'M
Not later than 1 year	**43.1**	35.8	**18.0**	13.9
Later than 1 year and not later than 5 years	**80.7**	73.9	**44.4**	38.9
Later than 5 years	**239.2**	250.9	**170.5**	179.8
	363.0	360.6	**232.9**	232.6

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 2008, future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2008 **HK$'M**	2007 HK$'M	**2008** **HK$'M**	2007 HK$'M
Not later than 1 year	**11.8**	12.3	**–**	–
Later than 1 year and not later than 5 years	**18.1**	25.7	**–**	–
Later than 5 years	**–**	1.6	**–**	–
	29.9	39.6	**–**	–

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 two banks with common directors with the Company. 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 2008 HK$'M	Group 2007 HK$'M
Associated companies		
Sale of goods and services (Note (ii))	**0.3**	–
Loan interest income (Note (i))	**19.6**	10.4
Jointly controlled entities		
Sale of goods and services (Note (ii))	**7.3**	21.5
Loan interest income (Note (i))	**9.1**	34.4
Other related parties		
Sale of goods and services (Note (ii))	**8.8**	7.8
Interest income from bank deposits (Note (ii))	**53.2**	46.4

(b) Interest expense and purchase of goods and services

	Group 2008 HK$'M	Group 2007 HK$'M
Associated companies		
Purchase of goods and services (Note (ii))	**10.5**	6.4
Jointly controlled entities		
Purchase of goods and services (Note (ii))	**20.6**	77.6
Other related parties		
Purchase of goods and services (Note (ii))	**15.9**	14.4
Interest expense on bank loans (Note (ii))	**51.4**	27.2

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 2008 HK$'M	Group 2007 HK$'M
Loans and interest receivables from:		
Associated companies	**485.6**	370.0
Jointly controlled entities	**797.0**	753.4
Time deposits and interest receivable from:		
Other related parties	**4,381.1**	1,093.5
Bank loans and interest payable to:		
Other related parties	**1,246.6**	582.9
Trade receivables from:		
Jointly controlled entities	**10.4**	10.1
Other related parties	**1.7**	4.8
Trade payables to:		
Associated companies	**0.4**	0.7
Jointly controlled entities	**–**	5.8
Other related parties	**0.8**	0.3

(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	
	2008	2007
	HK$'M	HK$'M
Profit before taxation	**4,957.4**	10,308.0
Share of profits less losses of associated companies	**(1,820.3)**	(1,616.3)
Share of profits less losses of jointly controlled entities	**(524.5)**	(1,130.0)
Gain on disposal of interests in subsidiaries	**–**	(2,235.7)
Fair value gains on investment property	**(113.0)**	(231.5)
Provision for investment in a jointly controlled entity	**–**	208.8
Gain on repurchasing of guaranteed notes	**(4.1)**	–
Ineffective portion on cash flow hedges	**2.1**	–
Interest income	**(286.8)**	(518.7)
Interest expense	**416.8**	364.0
Dividend income from investments in securities	**(59.9)**	(35.8)
Depreciation and amortisation	**708.4**	687.6
Loss on disposal / write off of property, plant and equipment	**26.2**	223.7
Net realised and unrealised losses on investments in financial assets at fair value through profit or loss	**1,092.1**	195.6
Profits tax paid	**(639.2)**	(1,220.6)
Exchange differences	**(22.5)**	(5.4)
Changes in working capital		
Increase in customers' deposits	**28.0**	33.1
(Increase) / decrease in completed property for sale	**(10.7)**	1,048.3
Increase in inventories	**(422.7)**	(56.9)
Decrease / (increase) in trade and other receivables	**2,343.5**	(563.7)
Decrease in housing loans to staff	**15.7**	18.0
Decrease in trade and other payables	**(699.1)**	(645.3)
Increase in retirement benefit assets	**(22.5)**	(6.1)
Net cash from operating activities	**4,964.9**	4,821.1

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2008:

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
Planwise Properties Limited	2,000 ordinary shares of HK$1 each	100	British Virgin Islands / Hong Kong	Property holding
Prominence Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / Hong Kong	Investment holding

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

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2008:

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	7,600,000 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 2008:

Name	Registered capital	Percentage of registered capital held	Place of incorporation / operation	Principal activity
Chaozhou Hong Kong and China Limited	RMB 100.0 million	60	PRC	Gas sales and related businesses
Danyang Hong Kong and China Gas Company Limited	RMB 60.0 million	80	PRC	Gas sales and related businesses
†1 Dalian Changxing Hong Kong and China Gas Company Limited	USD 14.0 million	100	PRC	Gas sales and related businesses
†1 ECO Services Management Company Limited	RMB 50.0 million	100	PRC	Project management
Fengcheng Hong Kong and China Gas Company Limited	RMB 88.0 million	55	PRC	Gas sales and related businesses
Guangzhou Dongyong Hong Kong & China Gas Limited	RMB 53.3 million	80	PRC	Gas sales and related businesses
Guangzhou Hong Kong and China Gas Company Limited	RMB 105.0 million	80	PRC	Gas sales and related businesses
† Guangzhou Jianke Hong Kong and China Gas Company Limited	RMB 22.5 million	100	PRC	Gas sales and related businesses
Huzhou Hong Kong and China Gas Company Limited	RMB 86.9 million	95	PRC	Gas sales and related businesses
Jilin Hong Kong and China Gas Company Limited	RMB 100.0 million	63	PRC	Gas sales and related businesses
Jintan Hong Kong and China Gas Company Limited	RMB 60.0 million	60	PRC	Gas sales and related businesses
Shanxi Hong Kong & China Coalbed Gas Company Limited	RMB 200.0 million	70	PRC	Gas sales and related businesses
# Shunde Hong Kong and China Gas Company Limited	RMB 100.0 million	60	PRC	Gas sales and related businesses

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

Notes to the Accounts

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 2008:

Name	Issued share capital / registered capital	Percentage of registered capital held	Place of incorporation / operation	Principal activity
Taizhou Hong Kong and China Gas Company Limited	RMB 83.0 million	65	PRC	Gas sales and related businesses
Tongxiang Hong Kong and China Gas Company Limited	RMB 58.1 million	76	PRC	Gas sales and related businesses
† Towngas Telecommunications (Shenzhen) Limited	RMB 1.0 million	100	PRC	Telecom businesses
Wujiang Hong Kong and China Gas Company Limited	RMB 60.0 million	80	PRC	Gas sales and related businesses
Wujiang Hong Kong and China Water Company Limited	RMB 500.0 million	80	PRC	Water supply and related businesses
# Wuhu Hong Kong and China Water Company Limited	RMB 300.0 million	75	PRC	Water supply and related businesses
Xuzhou Hong Kong and China Gas Company Limited	RMB 125.0 million	80	PRC	Gas sales and related businesses
Yixing Hong Kong and China Gas Company Limited	RMB 124.0 million	80	PRC	Gas sales and related businesses
† Yingkou Hong Kong and China Gas Company Limited	US$ 5.0 million	100	PRC	Gas sales and related businesses
Zhongshan Hong Kong and China Gas Limited	RMB 96.0 million	70	PRC	Gas sales and related businesses
Zhangjiagang Hong Kong and China Gas Company Limited	RMB 60.0 million	51	PRC	Gas sales and related businesses

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