Consolidated Income Statement

for the year ended 31st December 2006

	Note	2006 HK$'M	2005 HK$'M
Revenue	5	**13,465.3**	9,350.9
Operating profit before returns on investments	6	**5,169.1**	3,314.8
Investment income	7	**527.2**	338.2
Operating profit		**5,696.3**	3,653.0
Interest expense	8	**(310.2)**	(114.6)
Share of profits less losses of associated companies		**1,102.0**	699.0
Share of profits less losses of jointly controlled entities		**316.1**	1,683.0
Profit before taxation	9	**6,804.2**	5,920.4
Taxation	12	**(914.6)**	(628.6)
Profit for the year		**5,889.6**	5,291.8
Attributable to:			
Shareholders of the Company		**5,862.6**	5,281.4
Minority interests		**27.0**	10.4
		5,889.6	5,291.8
Dividends	14	**1,928.1**	1,935.7
Earnings per share – basic and diluted, HK cents	15	**106.4**	94.9

The notes on pages 71 to 120 form part of these accounts.

Consolidated Balance Sheet

as at 31st December 2006

	Note	2006 HK$'M	2005 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	16	**12,385.9**	10,604.5
Leasehold land	17	**478.8**	462.5
Intangible asset	18	**48.6**	45.8
Associated companies	20	**3,457.0**	2,060.9
Jointly controlled entities	21	**5,815.0**	5,197.5
Available-for-sale financial assets	22	**848.5**	768.0
Retirement benefit assets	23	**36.1**	–
Other non-current assets		**64.6**	–
		23,134.5	19,139.2
Current assets			
Property under development for sale	24	**–**	579.8
Completed property for sale		**1,147.7**	–
Inventories	25	**934.2**	921.3
Trade and other receivables	26	**4,153.2**	2,104.2
Loans to associated companies	20	**2,991.7**	2,221.0
Loans to jointly controlled entities	21	**283.3**	1,154.2
Housing loans to staff		**80.5**	102.8
Financial assets at fair value through profit or loss	27	**1,675.6**	1,891.0
Time deposits over three months	28	**31.3**	8.7
Time deposits up to three months, cash and bank balances	28	**1,730.7**	1,474.7
		13,028.2	10,457.7
Current liabilities			
Trade and other payables	29	**(3,737.9)**	(1,747.5)
Provision for taxation		**(834.5)**	(577.8)
Borrowings	30	**(2,568.6)**	(5,857.2)
		(7,141.0)	(8,182.5)
Net current assets		**5,887.2**	2,275.2
Total assets less current liabilities		**29,021.7**	21,414.4
Non-current liabilities			
Customers' deposits		**(1,013.2)**	(982.3)
Deferred taxation	31	**(1,131.3)**	(1,072.7)
Retirement benefit liabilities	23	**–**	(16.1)
Borrowings	30	**(5,609.2)**	(2,424.8)
Loans from minority interests		**(49.8)**	(74.2)
		(7,803.5)	(4,570.1)
Net assets		**21,218.2**	16,844.3
Capital and reserves			
Share capital	32	**1,377.2**	1,377.2
Share premium	33	**3,907.8**	3,907.8
Reserves	34	**14,141.7**	9,863.9
Proposed dividend	34	**1,267.0**	1,267.0
Shareholders' funds		**20,693.7**	16,415.9
Minority interests		**524.5**	428.4
Total equity		**21,218.2**	16,844.3

Approved by the Board of Directors on 19th March 2007

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 71 to 120 form part of these accounts.

Balance Sheet

as at 31st December 2006

	Note	2006 HK$'M	2005 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	16	**8,039.2**	7,802.0
Leasehold land	17	**261.2**	258.7
Subsidiaries	19	**307.7**	247.2
Jointly controlled entities	21	**849.3**	98.1
Available-for-sale financial assets	22	**14.9**	12.5
Retirement benefit assets	23	**36.1**	–
		9,508.4	8,418.5
Current assets			
Inventories	25	**792.6**	818.2
Trade and other receivables	26	**1,291.2**	1,632.1
Amounts due from subsidiaries	19	**10,864.3**	12,751.8
Loans to associated companies	20	**12.1**	107.8
Amounts due from jointly controlled entities	21	**4.5**	–
Housing loans to staff		**80.5**	102.8
Financial assets at fair value through profit or loss	27	**49.6**	81.4
Time deposits up to three months, cash and bank balances	28	**472.9**	227.3
		13,567.7	15,721.4
Current liabilities			
Trade and other payables	29	**(659.5)**	(765.9)
Amounts due to subsidiaries	19	**(5,801.5)**	(3,460.5)
Amount due to an associated company	20	**(20.7)**	–
Provision for taxation		**(457.0)**	(523.0)
Borrowings	30	**(632.0)**	(4,817.0)
		(7,570.7)	(9,566.4)
Net current assets		**5,997.0**	6,155.0
Total assets less current liabilities		**15,505.4**	14,573.5
Non-current liabilities			
Customers' deposits		**(1,013.0)**	(982.3)
Deferred taxation	31	**(1,021.9)**	(997.3)
Retirement benefit liabilities	23	**–**	(16.1)
Borrowings	30	**(2,550.0)**	(2,350.0)
		(4,584.9)	(4,345.7)
Net assets		**10,920.5**	10,227.8
Capital and reserves			
Share capital	32	**1,377.2**	1,377.2
Share premium	33	**3,907.8**	3,907.8
Reserves	34	**4,368.5**	3,675.8
Proposed dividend	34	**1,267.0**	1,267.0
		10,920.5	10,227.8

Approved by the Board of Directors on 19th March 2007

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 71 to 120 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31st December 2006

	Note	2006 HK$'M	2005 HK$'M
Net cash from operating activities	39	**4,578.6**	3,097.2
Investing activities			
Receipt from sale of property, plant and equipment		**1.0**	15.5
Receipt from disposal of leasehold land		**–**	1.3
Purchase of property, plant and equipment		**(2,281.0)**	(2,332.9)
Payment for leasehold land		**(15.8)**	(62.4)
Payment for property under development		**(34.6)**	(24.0)
Increase in investments in associated companies		**(352.4)**	(73.2)
Increase in loans to associated companies		**(1,188.8)**	(318.9)
Repayment of loans by associated companies		**468.1**	227.7
Increase in investments in jointly controlled entities		**(830.2)**	(1,577.0)
Increase in loans to jointly controlled entities		**(864.2)**	(679.8)
Repayment of loans by jointly controlled entities		**1,678.3**	398.2
Acquisition of further interest in a subsidiary	40	**(7.4)**	(116.9)
Consolidation of a subsidiary		**8.0**	–
Deconsolidation of a subsidiary to a jointly controlled entity		**–**	(38.5)
Sale of available-for-sale financial assets		**22.5**	51.3
Sale of financial assets at fair value through profit or loss		**2,781.7**	2,451.2
Purchase of available-for-sale financial assets		**(9.5)**	(241.9)
Purchase of financial assets at fair value through profit or loss		**(2,445.3)**	(3,154.5)
(Increase)/ decrease in time deposits over three months		**(22.3)**	23.9
Interest received		**313.2**	158.6
Dividends received from investments in securities		**44.5**	34.3
Dividends received from an associated company		**23.8**	11.1
Dividends received from jointly controlled entities		**794.8**	4.2
Net cash used in investing activities		**(1,915.6)**	(5,242.7)
Financing activities			
Shares repurchased	34	**–**	(1,681.2)
(Decrease)/ increase in loans from minority interests		**(27.0)**	20.0
Capital injection by minority interests		**23.7**	144.4
Increase in borrowings		**9,303.1**	10,912.8
Repayment of borrowings		**(9,426.4)**	(5,538.9)
Interest paid		**(359.3)**	(129.0)
Dividends paid	34	**(1,928.1)**	(1,953.0)
Dividends paid to minority interests		**(5.5)**	–
Net cash (used in)/ from financing activities		**(2,419.5)**	1,775.1
Increase/ (decrease) in cash and cash equivalents		**243.5**	(370.4)
Cash and cash equivalents at 1st January		**1,465.6**	1,840.0
Effect of foreign exchange rate changes		**11.2**	(4.0)
Cash and cash equivalents at 31st December		**1,720.3**	1,465.6
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**653.9**	537.5
Time deposits up to three months		**1,076.8**	937.2
Bank overdrafts		**(10.4)**	(9.1)
		1,720.3	1,465.6

The notes on pages 71 to 120 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2006

	Attributable to shareholders of the Company HK$'M	Minority interests HK$'M	Total HK$'M
Total equity as at 1st January 2006	**16,415.9**	**428.4**	**16,844.3**
Revaluation surplus of available-for-sale financial assets transferred to equity	**69.4**	**–**	**69.4**
Capital reserve	**69.0**	**1.2**	**70.2**
Exchange differences	**212.1**	**16.8**	**228.9**
Net income recognised directly in equity	**350.5**	**18.0**	**368.5**
Profit for the year	**5,862.6**	**27.0**	**5,889.6**
Total recognised net income for the year	**6,213.1**	**45.0**	**6,258.1**
Capital injection	**–**	**23.7**	**23.7**
Consolidation of a subsidiary	**–**	**40.0**	**40.0**
Acquisition of further interest in a subsidiary	**–**	**(7.1)**	**(7.1)**
Revaluation surplus of available-for-sale financial assets removed on disposals	**(7.2)**	**–**	**(7.2)**
Dividends paid	**(1,928.1)**	**–**	**(1,928.1)**
Dividends paid to minority interests	**–**	**(5.5)**	**(5.5)**
Total equity as at 31st December 2006	**20,693.7**	**524.5**	**21,218.2**
Total equity as at 1st January 2005	14,778.6	285.0	15,063.6
Revaluation deficits of available-for-sale financial assets transferred to equity	(32.5)	–	(32.5)
Reserve taken up on recognition of an associated company	70.8	–	70.8
Capital reserve	68.4	2.6	71.0
Exchange differences	58.5	5.6	64.1
Net income recognised directly in equity	165.2	8.2	173.4
Profit for the year	5,281.4	10.4	5,291.8
Total recognised net income for the year	5,446.6	18.6	5,465.2
Capital injection	–	144.4	144.4
Acquisition of a subsidiary	–	35.6	35.6
Acquisition of further interest in a subsidiary	–	(11.8)	(11.8)
Deconsolidation of a subsidiary to a jointly controlled entity	–	(43.4)	(43.4)
Revaluation surplus of available-for-sale financial assets removed on disposals/ transfer	(175.1)	–	(175.1)
Shares repurchased	(1,681.2)	–	(1,681.2)
Dividends paid	(1,953.0)	–	(1,953.0)
Total equity as at 31st December 2005	16,415.9	428.4	16,844.3

The notes on pages 71 to 120 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, water and related activities in Hong Kong and the People's Republic of China (the "PRC").

The Company is a company incorporated and domiciled in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in millions of units of Hong Kong dollars (HK$'M), unless otherwise stated and have been approved for issue by the Board of Directors on 19th March 2007.

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 the two 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"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, 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) New and revised standards effective in 2006

Hong Kong Accounting Standard ("HKAS") 19 (Amendment) "Actuarial Gains and Losses, Group Plans and Disclosures" is mandatory for the Group's accounting periods beginning on or after 1st January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

HK(IFRIC)-Interpretation 4 "Determining whether an Arrangement contains a Lease" is mandatory for the Group's accounting periods beginning on or after 1st January 2006. This interpretation requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. The Group determined that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 "Leases". There is however no significant impact on the Group's results and financial position.

HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" is mandatory for the Group's accounting periods beginning on or after 1st January 2006. This amendment requires issued financial guarantees, other than those previously asserted by an entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received or deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Group did not provide any financial guarantee against liabilities outside the Group as at the balance sheet date.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and revised standards that are not yet effective and have not been early adopted by the Group

HKFRS 7 "Financial Instruments: Disclosures" and a complementary Amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures" will be effective for the Group's accounting periods beginning on or after 1st January 2007. HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32 "Financial Instruments: Disclosure and Presentation". The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of these new and revised standards and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by these new and revised standards.

HK(IFRIC)-Interpretation 10 "Interim Financial Reporting and Impairment" will be effective for the Group's accounting periods beginning on or after 1st January 2007. This interpretation prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply this interpretation from 1st January 2007, but it is not expected to have any impact on the Group's accounts.

HK(IFRIC)-Interpretation 12 "Service Concession Arrangements" will be effective for the Group's accounting periods beginning on or after 1st January 2008. This interpretation 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 has already commenced an assessment of the potential impact of this interpretation but is not yet in a position to quantify the impact of this interpretation on its results of operations and financial position.

(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 but considered an impairment indicator of an impairment of the asset transferred. 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.

2. Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(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 that 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.

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

(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.

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.

2. Summary of significant accounting policies (continued)

(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, 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. 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.

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 security, and other changes in the carrying amount of the security. Translation differences 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 (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.

2. Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment other than property under development 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.

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. Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement.

Property under development is an investment in building in which construction work has not been completed and which, upon completion, management intends to hold for investment purposes. The property is carried at cost which includes development expenditures incurred, capitalised interest and other direct costs attributable to the development less provision for impairment. On completion, the property will be transferred to investment properties.

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

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
Property under development	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 properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group companies, 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 prices, 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 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. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the accounts.

2. Summary of significant accounting policies (continued)

(f) Investment properties (continued)

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 and subsequently accounted for as investment property.

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.

(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.

(h) Intangible asset

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies and jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is stated on the consolidated balance sheet as a separate intangible asset. Goodwill on acquisitions of associated companies and jointly controlled entities are included in investments in associated companies and jointly controlled entities respectively. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment. Impairment on goodwill is 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 (Note 2 (i)).

2. Summary of significant accounting policies (continued)

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

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. Assets that are subject to amortisation 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.

(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 and re-evaluates this designation at every reporting date.

(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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. 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. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2 (m)).

(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 investment income, 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 investment income when the Group's right to receive payment is established.

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

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 security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; 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 investment income.

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of investment income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of investment income 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.

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 loss 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 (m).

(k) Property under development for sale and completed property for sale

Property under development for sale is stated at the lower of carrying amount and net realisable value. Carrying amount mainly includes project development costs incurred, capitalised borrowing costs and other direct costs attributable to the development. Net realisable value is determined on the basis of estimated selling price as determined by reference to prevailing market conditions, less the estimated costs to be incurred in completing and selling the property.

Upon completion of the development, property under development is transferred to completed property for sale, which 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.

(l) Inventories

Inventories comprise stores and materials, work in progress and finished goods 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.

(m) Trade and other receivables

Trade and other 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 enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade 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 effective interest rate. The amount of provision is recognised in the income statement.

2. Summary of significant accounting policies (continued)

(n) 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.

(o) Trade payables

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

(p) 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.

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.

(q) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred taxation is not accounted for if it arises from 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.

(r) 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 and invoiced.

2. Summary of significant accounting policies (continued)

(r) Revenue and income recognition (continued)

(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 investments in securities – recognised upon the conclusion of the contract notes.

(ix) 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.

(s) Employee benefits

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

(ii) The Group operates a number of defined contribution and defined benefit retirement schemes and the assets of the schemes are held separately from those of the Group in independently administered funds. The retirement schemes are funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

Defined contribution retirement schemes

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

Defined benefit retirement schemes

The Group also operated two defined benefit retirement schemes in Hong Kong during the year. The Workmen Retirement Scheme provides benefit to employees based on final salary and the Local Employees Provident Scheme provides benefit based on fixed contributions with a guaranteed return. For the Local Employees Provident Scheme, as the contributions made by the Group and the employees before 1st July 2003 are subject to minimum guaranteed return, this part of the scheme constituted a defined benefit scheme. Effective from 1st July 2003, members have been offered investment choices without any minimum guaranteed return, this part of the scheme is therefore a defined contribution scheme as described above because the minimum guaranteed return is no longer applicable. Effective from 15th February 2006, the accrued benefits for contributions made before 1st July 2003 were converted to member choices where members were given investment choices without any minimum guaranteed return. Since that date, the Local Employees Provident Scheme has been converted into a defined contribution scheme.

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

2. Summary of significant accounting policies (continued)

(t) 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

(a) 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 and price risk), credit risk, liquidity risk and cash flow interest-rate 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 a central treasury department (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. Nevertheless, no derivative financial instruments were accounted for as hedging instruments as the conditions for hedge accounting were not met during the year.

(i) Market risk

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 Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in mainland China operations.

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. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts and other suitable financial instruments.

The Group has certain investments in mainland China businesses, whose net assets are exposed to foreign currency translation risk. It does not hedge translation exposure arising from consolidation of the Group's net assets outside Hong Kong because the investments are long term and effective hedging are costly.

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

Price risk

The Group is exposed to debt and equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk in Hong Kong, as there is a Fuel Cost Adjustment mechanism for passing through any fluctuation in the price of fuel for producing gas.

(ii) Credit risk

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 sale to individual customer. The top five largest customers accounted for less than 1 per cent of the total sale. Furthermore, security deposits are required for customers. This also applies to PRC joint ventures where there is no significant concentration of sale to any individual customer. Derivative and cash transactions counter parties are limited to financial institutions of high credit quality. The Group has policies that limit the amount of credit exposure to any financial institution.

(iii) 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 credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At the year end, the Group's borrowings were at floating rates and denominated primarily in Hong Kong dollars with some amounts in Renminbi ("RMB").

(b) 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 nominal value less impairment provision of trade and other receivables and payables are assumed to approximate their fair values. 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.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) Useful lives of property, plant and equipment

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

(iii) Estimate of fair value of investment properties

The valuation of investment properties held through an associated company is made on the basis of the 'Market Value' adopted by the HKIS. It is performed in accordance with the HKIS Valuation Standards on Properties published by HKIS. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and ii) 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 parties.

(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.

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:

	Group	
	2006 **HK$'M**	2005 HK$'M
Gas sales before fuel cost adjustment	**6,988.9**	6,739.9
Fuel cost adjustment	**1,359.4**	1,140.5
Gas sales after fuel cost adjustment	**8,348.3**	7,880.4
Equipment sales	**784.8**	832.7
Maintenance and services	**255.9**	247.8
Water sales	**209.6**	27.0
Property sales	**3,366.5**	–
Other sales	**500.2**	363.0
	13,465.3	9,350.9

(a) Primary reporting format – geographical segment

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

	Hong Kong		Mainland China		Total	
	2006 **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M
Revenue	**11,811.9**	8,266.9	**1,653.4**	1,084.0	**13,465.3**	9,350.9
Segment results	**5,318.1**	3,525.5	**209.2**	118.5	**5,527.3**	3,644.0
Unallocated corporate expenses					**(358.2)**	(329.2)
Operating profit before returns on investments					**5,169.1**	3,314.8
Investment income					**527.2**	338.2
Operating profit					**5,696.3**	3,653.0
Interest expense					**(310.2)**	(114.6)
Share of profits less losses of associated companies	**1,059.1**	670.1	**42.9**	28.9	**1,102.0**	699.0
Share of profits less losses of jointly controlled entities	**170.5**	1,584.6	**145.6**	98.4	**316.1**	1,683.0
Profit before taxation					**6,804.2**	5,920.4
Taxation					**(914.6)**	(628.6)
Profit for the year					**5,889.6**	5,291.8
Attributable to:						
Shareholders of the Company					**5,862.6**	5,281.4
Minority interests					**27.0**	10.4
					5,889.6	5,291.8

Share of profits of associated companies includes HK$858.8 million (2005: HK$598.1 million), being the Group's share of change in valuation of investment properties at the International Finance Centre ("IFC") complex.

Share of profits of jointly controlled entities includes HK$170.0 million (2005: HK$1,583.8 million), being the Group's share of profits arising from the sale of a portion of the residential units of the Grand Promenade.

5. Segment information (continued)

(a) Primary reporting format – geographical segment (continued)

	Hong Kong		Mainland China		Total	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Segment assets	**16,178.9**	12,942.2	**4,731.5**	3,259.3	**20,910.4**	16,201.5
Associated companies	**5,593.6**	3,812.4	**855.1**	469.5	**6,448.7**	4,281.9
Jointly controlled entities	**1,161.6**	2,711.8	**4,936.7**	3,639.9	**6,098.3**	6,351.7
Unallocated assets					**2,705.3**	2,761.8
Total assets					**36,162.7**	29,596.9
Segment liabilities	**(2,865.9)**	(1,269.5)	**(872.0)**	(478.0)	**(3,737.9)**	(1,747.5)
Unallocated liabilities					**(11,206.6)**	(11,005.1)
Total liabilities					**(14,944.5)**	(12,752.6)
Capital expenditures	**1,026.0**	1,133.4	**1,329.6**	1,232.5	**2,355.6**	2,365.9
Depreciation	**443.7**	411.4	**148.6**	83.0	**592.3**	494.4
Amortisation	**8.3**	8.2	**2.7**	1.5	**11.0**	9.7

Segment assets comprise operating assets such as property, plant and equipment, leasehold land, inventories, completed property for sale, trade and other receivables and cash and bank. Unallocated assets comprise available-for-sale financial assets and financial assets at fair value through profit or loss, retirement benefit assets, other non-current assets and housing loan to staff.

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

Capital expenditures comprise additions to property, plant and equipment (Note 16) and leasehold land (Note 17).

5. Segment information (continued)

(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") and the Ma Tau Kok South property development project which is known as Grand Waterfront ("Property business").

	2006 HK$'M	2005 HK$'M
Revenue		
Gas and Water businesses	**10,098.8**	9,350.9
Property business	**3,366.5**	–
	13,465.3	9,350.9
Total assets		
Gas and Water businesses	**17,371.7**	15,558.6
Property business	**3,538.7**	642.9
	20,910.4	16,201.5
Associated companies	**6,448.7**	4,281.9
Jointly controlled entities	**6,098.3**	6,351.7
Unallocated assets	**2,705.3**	2,761.8
	36,162.7	29,596.9
Capital expenditures		
Gas and Water businesses	**2,317.7**	2,340.5
Property business	**37.9**	25.4
	2,355.6	2,365.9

6. Operating profit before returns on investments

	Group	
	2006 **HK$'M**	2005 HK$'M
Revenue	**13,465.3**	9,350.9
Less expenses:		
Stores and materials used	**(4,362.3)**	(3,917.4)
Cost of property sold	**(1,230.2)**	–
Manpower costs (Note 10)	**(854.9)**	(759.0)
Depreciation and amortisation	**(603.3)**	(504.1)
Other operating items	**(1,245.5)**	(855.6)
Operating profit before returns on investments	**5,169.1**	3,314.8

7. Investment income

	Group 2006 HK$'M	2005 HK$'M
(a) Interest income		
Bank deposits	**82.1**	39.0
Listed available-for-sale financial assets	**1.4**	1.4
Loans to associated companies and jointly controlled entities	**22.3**	66.1
Others	**6.3**	4.1
	112.1	110.6
(b) Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
Listed securities	**97.0**	53.6
Unlisted securities	**229.8**	144.3
Exchange differences	**12.2**	(6.0)
	339.0	191.9
(c) Gains on disposal and maturity of available-for-sale financial assets		
Listed securities	**12.7**	8.0
Exchange differences	**0.7**	(0.5)
	13.4	7.5
(d) Dividend income		
Listed available-for-sale financial assets	**21.9**	22.2
Unlisted available-for-sale financial assets	**14.4**	1.1
Listed financial assets at fair value through profit or loss	**8.2**	11.0
	44.5	34.3
(e) Other investment income/ (expenses)	**18.2**	(6.1)
Total investment income	**527.2**	338.2

8. Interest expense

	Group 2006 HK$'M	2005 HK$'M
Interest on bank loans and overdrafts	**345.9**	150.9
Interest on customers' deposits	**7.3**	4.7
	353.2	155.6
Less: Amount capitalised	**(43.0)**	(41.0)
	310.2	114.6

The interest expense is capitalised at an average rate of 4.37 per cent (2005: 2.72 per cent) per annum.

9. Profit before taxation

Profit before taxation is stated after charging the following:

	Group	
	2006 **HK$'M**	2005 HK$'M
Cost of inventories sold	**4,640.7**	4,195.5
Depreciation and amortisation	**603.3**	504.1
Loss on disposal/ write off of property, plant and equipment	**111.9**	57.8
Operating lease rentals – land and buildings	**30.9**	26.4
Auditors' remuneration	**6.1**	4.7
Net loss on residential maintenance (Note)	**4.8**	2.3
Note		
Analysis of net loss on residential maintenance:		
Residential maintenance revenue	**(177.1)**	(173.0)
Less expenses:		
Manpower costs	**93.0**	92.4
Other operating and administrative expenses	**88.9**	82.9
Net loss	**4.8**	2.3

10. Manpower costs

	Group	
	2006 **HK$'M**	2005 HK$'M
Salaries and wages	**752.7**	687.0
Pension costs – defined contribution retirement schemes	**101.6**	93.2
Pension costs – defined benefit retirement schemes (Note 23)	**0.6**	(21.2)
	854.9	759.0

11. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director for the year ended 31st December 2006 is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin	**0.1**	**4.3**	**12.3**	**2.5**	**19.2**
Ronald Chan Tat Hung	**0.1**	**3.4**	**4.4**	**2.4**	**10.3**
James Kwan Yuk Choi	**0.1**	**3.3**	**4.8**	**2.3**	**10.5**
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	**11.3**	**21.5**	**7.2**	**41.5**

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin	0.1	4.3	9.7	2.2	16.3
Ronald Chan Tat Hung	0.1	3.3	4.0	2.2	9.6
James Kwan Yuk Choi	0.1	3.2	4.1	2.1	9.5
Lee Shau Kee	0.3	0.1	–	–	0.4
Liu Lit Man	0.1	0.1	–	–	0.2
Leung Hay Man	0.1	–	–	–	0.1
Colin Lam Ko Yin	0.1	–	–	–	0.1
Lee Ka Kit	0.1	–	–	–	0.1
Lee Ka Shing	0.1	–	–	–	0.1
David Li Kwok Po	0.1	0.1	–	–	0.2
	1.2	11.1	17.8	6.5	36.6

The above remuneration paid to directors also represents the amount of short-term employee benefits of HK$34.3 million (2005: HK$30.1 million) and post-employment benefits of HK$7.2 million (2005: HK$6.5 million) paid to the Group's key management during the year ended 31st December 2006. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2005: nil).

11. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The above analysis includes three (2005: three) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining two (2005: two) individuals are as follows:

	2006 HK$'M	2005 HK$'M
Salaries, allowances and benefits in kind	**3.1**	3.4
Performance bonus	**5.5**	4.3
Contributions to retirement scheme	**0.5**	1.1
	9.1	8.8

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	2006	2005
4 – 5	**2**	2

12. Taxation

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

	Group	
	2006 HK$'M	2005 HK$'M
Current taxation – provision for Hong Kong profits tax at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year	**861.0**	541.2
Current taxation – provision for PRC profits tax at the prevailing rates on the estimated assessable profit for the year	**2.3**	–
Current taxation – over provision in prior years	**(7.3)**	–
Deferred taxation relating to the origination and reversal of temporary differences	**58.6**	87.4
	914.6	628.6

12. Taxation (continued)

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

	Group	
	2006 **HK$'M**	2005 HK$'M
Profit before taxation	**6,804.2**	5,920.4
Less: Share of profits less losses of associated companies	**(1,102.0)**	(699.0)
Share of profits less losses of jointly controlled entities	**(316.1)**	(1,683.0)
	5,386.1	3,538.4
Calculated at a taxation rate of 17.5%	**942.6**	619.2
Effect of different taxation rates in other countries	**14.3**	5.9
Income not subject to taxation	**(199.4)**	(23.8)
Expenses not deductible for taxation purposes	**151.9**	30.2
Utilisation of previously unrecognised tax losses	**(5.0)**	(3.0)
Unrecognised tax losses	**12.5**	8.2
Recognition of previously unrecognised temporary differences	**5.0**	(8.1)
Over provision in prior years	**(7.3)**	–
	914.6	628.6

Share of associated companies' taxation for the year ended 31st December 2006 of HK$194.9 million (2005: HK$150.4 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 2006 of HK$76.4 million (2005: HK$379.1 million) is included in the consolidated income statement as share of profits less losses of jointly controlled entities.

13. 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$2,618.5 million (2005: HK$2,687.9 million).

14. Dividends

	Company	
	2006 **HK$'M**	2005 HK$'M
Interim, paid of HK 12 cents per ordinary share (2005: HK 12 cents per ordinary share)	**661.1**	668.7
Final, proposed of HK 23 cents per ordinary share (2005: HK 23 cents per ordinary share)	**1,267.0**	1,267.0
	1,928.1	1,935.7

At a meeting held on 19th March 2007, the directors declared a final dividend of HK 23 cents per ordinary share for the year ended 31st December 2006. 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 2007.

15. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$5,862.6 million (2005: HK$5,281.4 million) and the weighted average of 5,508,759,988 shares (2005: 5,565,195,905 shares) in issue during the year.

As there were no diluted potential ordinary shares outstanding during the year (2005: nil), the diluted earnings per share for the year ended 31st December 2006 is the same as the basic earnings per share.

16. Property, plant and equipment

	Property under development HK$'M	Buildings, plant & equipment HK$'M	Mains & risers HK$'M	Meters & installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Group						
Cost						
At 1st January 2006	**57.5**	**4,856.0**	**7,587.2**	**1,789.0**	**2,163.3**	**16,453.0**
Additions	**37.9**	**423.3**	**627.0**	**156.3**	**1,095.3**	**2,339.8**
Consolidation of a subsidiary	**–**	**62.9**	**–**	**–**	**–**	**62.9**
Transfers	**–**	**378.8**	**1,150.4**	**131.6**	**(1,660.8)**	**–**
Disposals/ write off	**–**	**(99.2)**	**(30.8)**	**(21.6)**	**(8.7)**	**(160.3)**
Exchange differences	**–**	**24.7**	**51.6**	**3.3**	**11.5**	**91.1**
At 31st December 2006	**95.4**	**5,646.5**	**9,385.4**	**2,058.6**	**1,600.6**	**18,786.5**
Accumulated depreciation						
At 1st January 2006	**–**	**2,569.6**	**2,323.5**	**955.4**	**–**	**5,848.5**
Charge for the year	**–**	**254.2**	**219.9**	**118.2**	**–**	**592.3**
Transfers	**–**	**–**	**(59.5)**	**59.5**	**–**	**–**
Disposals/ write off	**–**	**(25.5)**	**(19.9)**	**(2.0)**	**–**	**(47.4)**
Exchange differences	**–**	**3.2**	**3.4**	**0.6**	**–**	**7.2**
At 31st December 2006	**–**	**2,801.5**	**2,467.4**	**1,131.7**	**–**	**6,400.6**
Net book value						
At 31st December 2006	**95.4**	**2,845.0**	**6,918.0**	**926.9**	**1,600.6**	**12,385.9**
At 31st December 2005	57.5	2,286.4	5,263.7	833.6	2,163.3	10,604.5
Company						
Cost						
At 1st January 2006	**–**	**3,894.5**	**6,090.5**	**1,693.3**	**1,650.6**	**13,328.9**
Additions	**–**	**69.1**	**–**	**151.6**	**549.8**	**770.5**
Transfers	**–**	**283.5**	**858.3**	**131.6**	**(1,273.4)**	**–**
Disposals/ write off	**–**	**(83.8)**	**(27.7)**	**(21.6)**	**(8.8)**	**(141.9)**
At 31st December 2006	**–**	**4,163.3**	**6,921.1**	**1,954.9**	**918.2**	**13,957.5**
Accumulated depreciation						
At 1st January 2006	**–**	**2,394.4**	**2,193.2**	**939.3**	**–**	**5,526.9**
Charge for the year	**–**	**164.6**	**154.8**	**111.9**	**–**	**431.3**
Transfers	**–**	**–**	**(59.5)**	**59.5**	**–**	**–**
Disposals/ write off	**–**	**(18.2)**	**(19.7)**	**(2.0)**	**–**	**(39.9)**
At 31st December 2006	**–**	**2,540.8**	**2,268.8**	**1,108.7**	**–**	**5,918.3**
Net book value						
At 31st December 2006	**–**	**1,622.5**	**4,652.3**	**846.2**	**918.2**	**8,039.2**
At 31st December 2005	–	1,500.1	3,897.3	754.0	1,650.6	7,802.0

As at 31st December 2006, mains and risers with net book value of HK$262.6 million (2005: HK$273.8 million) were under a finance lease.

16. Property, plant and equipment (continued)

	Property under development HK$'M	Buildings, plant & equipment HK$'M	Mains & risers HK$'M	Meters & installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Group						
Cost						
At 1st January 2005	32.1	4,180.6	6,754.2	1,605.4	1,350.8	13,923.1
Additions	25.4	488.6	404.2	183.4	1,264.3	2,365.9
Acquisition of a subsidiary	–	39.6	266.8	–	15.2	321.6
Transfers from capital work in progress	–	198.2	190.7	60.1	(449.0)	–
Deconsolidation of a subsidiary	–	(6.0)	(38.9)	–	(20.3)	(65.2)
Disposals/ write off	–	(50.0)	(5.1)	(60.3)	(0.4)	(115.8)
Exchange differences	–	5.0	15.3	0.4	2.7	23.4
At 31st December 2005	57.5	4,856.0	7,587.2	1,789.0	2,163.3	16,453.0
Accumulated depreciation						
At 1st January 2005	–	2,370.6	2,139.2	846.7	–	5,356.5
Charge for the year	–	221.0	149.4	124.0	–	494.4
Acquisition of a subsidiary	–	5.0	34.4	–	–	39.4
Deconsolidation of a subsidiary	–	(0.8)	(1.0)	–	–	(1.8)
Disposals/ write off	–	(27.2)	(0.1)	(15.3)	–	(42.6)
Exchange differences	–	1.0	1.6	–	–	2.6
At 31st December 2005	–	2,569.6	2,323.5	955.4	–	5,848.5
Net book value						
At 31st December 2005	57.5	2,286.4	5,263.7	833.6	2,163.3	10,604.5
At 31st December 2004	32.1	1,810.0	4,615.0	758.7	1,350.8	8,566.6
Company						
Cost						
At 1st January 2005	–	3,692.4	5,955.0	1,584.5	1,133.4	12,365.3
Additions	–	52.5	8.9	110.1	830.0	1,001.5
Transfers from capital work in progress	–	186.2	126.6	–	(312.8)	–
Disposals/ write off	–	(36.6)	–	(1.3)	–	(37.9)
At 31st December 2005	–	3,894.5	6,090.5	1,693.3	1,650.6	13,328.9
Accumulated depreciation						
At 1st January 2005	–	2,252.0	2,055.8	844.1	–	5,151.9
Charge for the year	–	162.8	137.4	96.5	–	396.7
Disposals/ write off	–	(20.4)	–	(1.3)	–	(21.7)
At 31st December 2005	–	2,394.4	2,193.2	939.3	–	5,526.9
Net book value						
At 31st December 2005	–	1,500.1	3,897.3	754.0	1,650.6	7,802.0
At 31st December 2004	–	1,440.4	3,899.2	740.4	1,133.4	7,213.4

17. Leasehold land

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

	Group		Company	
	2006 **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M
Held in Hong Kong:				
Leases of 10 to 50 years	**344.3**	343.8	**261.2**	258.7
Held outside Hong Kong:				
Leases of 10 to 50 years	**132.6**	118.2	**–**	–
Leases of over 50 years	**1.9**	0.5	**–**	–
	478.8	462.5	**261.2**	258.7

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

	Group		Company	
	2006 **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M
At 1st January	**462.5**	403.3	**258.7**	260.4
Additions	**15.8**	62.4	**8.8**	4.5
Consolidation/ acquisition of a subsidiary	**7.1**	6.7	**–**	–
Disposal	**–**	(1.3)	**–**	–
Exchange differences	**4.4**	1.1	**–**	–
Amortisation	**(11.0)**	(9.7)	**(6.3)**	(6.2)
At 31st December	**478.8**	462.5	**261.2**	258.7

18. Intangible asset

	Group	
	2006 **HK$'M**	2005 HK$'M
Goodwill		
At 1st January	**45.8**	–
Additions	**0.3**	45.8
Exchange differences	**2.5**	–
At 31st December	**48.6**	45.8
Cost	**48.6**	45.8
Accumulated impairment	**–**	–
Net book value	**48.6**	45.8

19. Subsidiaries

	Company 2006 HK$'M	2005 HK$'M
Unlisted shares and registered capital at cost	**307.7**	247.2
Amounts due from subsidiaries	**10,864.3**	12,751.8
Amounts due to subsidiaries	**(5,801.5)**	(3,460.5)

The amounts due from/ (to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The principal subsidiaries of the Company are shown on pages 118 to 120 of the accounts.

20. Associated companies

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Investments in associated companies, including goodwill	**3,457.0**	2,012.6	**–**	–
Loans to associated companies – non-current	**–**	48.3	**–**	–
	3,457.0	2,060.9	**–**	–
Loans to associated companies – current	**2,991.7**	2,221.0	**12.1**	107.8
Amount due to an associated company – current	**–**	–	**(20.7)**	–

Loans to associated companies of HK$2,930.1 million (2005: HK$2,209.9 million) are for the financing of properties development projects. Other loans to associated companies of HK$61.6 million (2005: HK$59.4 million) are all provided to our PRC gas related projects. Except for a loan of HK$50.0 million (2005: HK$48.3 million) to Zibo Lubo Gas Company Limited which is at a fixed interest rate of 3.86 per cent per annum and fully repayable in 2007, all loans to associated companies are unsecured, interest free and have no fixed terms of repayment.

20. Associated companies (continued)

Particulars of the associated companies as at 31st December 2006 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	PRC	Mid-stream natural gas project
GH-Fusion Limited		200 shares of US$1 each	50	British Virgin Islands	Investment holding
* Hebei Natural Gas Company Limited		RMB 220.0 million	45	PRC	Mid-stream natural gas project
Henderson Cyber Limited		4,235,913,616 shares of HK$0.1 each	21.3	Cayman Islands	Investment holding
Lane Success Development Limited	(i)	10,000 shares of HK$1 each	45	Hong Kong	Property development
Primeland Investment Limited	(ii)	95 shares of US$1 each	31.6	British Virgin Islands/ Hong Kong	Investment holding
Shenzhen Gas Corporation Limited	(iii)	RMB 772.0 million	30	PRC	Gas sales and related businesses
Zibo Lubo Gas Company Limited		RMB 50.0 million	27	PRC	Gas sales and related businesses

* 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.

(ii) The Group has an effective interest of approximately 15.8 per cent in the IFC complex through its interest in Primeland Investment Limited.

(iii) The Group holds a 30 per cent equity interest in Shenzhen Gas Corporation Limited whose principal activity is city gas business in the Shenzhen Special Economic Zone. The registered capital was increased from RMB472.0 million to RMB772.0 million during the year.

20. Associated companies (continued)

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	
	2006 HK$'M	2005 HK$'M
Assets		
Non-current assets	**6,926.0**	5,241.8
Current assets	**1,071.1**	1,188.6
	7,997.1	6,430.4
Liabilities		
Non-current liabilities	**(1,043.9)**	(1,335.5)
Current liabilities	**(3,570.6)**	(3,082.3)
	(4,614.5)	(4,417.8)
Net assets	**3,382.6**	2,012.6
Income	**3,450.3**	3,126.8
Expenses, including taxation	**(2,348.3)**	(2,427.8)
Profit after taxation	**1,102.0**	699.0

21. Jointly controlled entities

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Investments in jointly controlled entities, including goodwill	**4,980.1**	4,417.3	**849.3**	97.9
Loans to jointly controlled entities – non-current	**834.9**	780.2	**–**	0.2
	5,815.0	5,197.5	**849.3**	98.1
Loans to jointly controlled entities – current	**283.3**	1,154.2	**4.5**	–

21. Jointly controlled entities (continued)

Loans to jointly controlled entities include a HK$76.5 million loan to Yieldway International Limited ("Yieldway") for the Sai Wan Ho property development project, also known as Grand Promenade, which is a joint development with Henderson Land Development Company Limited. This loan is unsecured, interest free and with no fixed term of repayment. The interest bearing loan to Yieldway of HK$1,051.2 million brought forward from 2005 was fully repaid during the year. Other loan to jointly controlled entities of HK$1,041.7 million (2005: HK$883.2 million) are mainly provided to our PRC joint ventures, which are unsecured, interest free and with no fixed terms of repayment for the current amounts and fully repayable from 2013 to 2014 for the non-current amounts except for the following:

- HK$80.0 million (2005: HK$48.1 million) to Maanshan joint venture with fixed interest rates ranging from 4.86 per cent to 5.02 per cent per annum and fully repayable up to 2009.
- HK$29.9 million (2005: HK$29.2 million) to Wuhan joint venture at a fixed interest rate of 4.20 per cent per annum and fully repayable in 2007.
- HK$79.7 million (2005: HK$19.2 million) to Weihai joint venture with fixed interest rates ranging from 3.60 per cent to 5.02 per cent per annum and fully repayable in 2007.
- HK$64.8 million (2005: HK$24.1 million) to Taian joint venture with fixed interest rates ranging from 4.86 per cent to 5.02 per cent per annum and fully repayable up to 2008.
- HK$188.1 million (2005: HK$189.0 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$3.0 million (2005: nil) to Zibo joint venture at a fixed interest rate of 4.86 per cent per annum and fully repayable in 2007.
- HK$11.8 million (2005: nil) to Tongling joint venture at a fixed interest rate of 5.02 per cent per annum and fully repayable in 2007.

21. Jointly controlled entities (continued)

Particulars of the jointly controlled entities as at 31st December 2006 are listed below:

Name	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Yieldway International Limited	2 shares of HK$1 each	50	Hong Kong	Property development
Anqing Hong Kong and China Gas Company Limited	RMB 73.0 million	50	PRC	Gas sales and related businesses
# Beijing Beiran & HKCG Gas Company Limited	RMB 44.4 million	50	PRC	Gas sales and related businesses
Changzhou Hong Kong and China Gas Company Limited	RMB 166.0 million	50	PRC	Gas sales and related businesses
* Hangzhou Hong Kong and China Gas Company Limited	US$ 20.0 million	50	PRC	Gas sales and related businesses
Jinan Hong Kong and China Gas Company Limited	RMB 390.0 million	50	PRC	Gas sales and related businesses
* Maanshan ECO Auto Fuel Company Limited	RMB 10.5 million	30	PRC	Natural gas filling station
Maanshan Hong Kong and China Gas Company Limited	RMB 107.5 million	50	PRC	Gas sales and related businesses
Nanjing Hong Kong and China Gas Company Limited	RMB 600.0 million	50	PRC	Gas sales and related businesses
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 2,123.0 million	50	PRC	Water Supply
Taian Taishan Hong Kong and China Gas Company Limited	RMB 80.0 million	50	PRC	Gas sales and related businesses
#*Tongling Hong Kong and China Gas Company Limited	RMB 100.0 million	70	PRC	Gas sales and related businesses
Weifang Hong Kong and China Gas Company Limited	RMB 140.0 million	50	PRC	Gas sales and related businesses
Weihai Hong Kong and China Gas Company Limited	RMB 99.2 million	50	PRC	Gas sales and related businesses
Wuhan Natural Gas Company Limited	RMB 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
Zibo Hong Kong and China Gas Company Limited	RMB 56.0 million	50	PRC	Gas sales and related businesses

* Newly formed during the year
# Direct jointly controlled entities of the Company

21. 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	
	2006 HK$'M	2005 HK$'M
Assets		
Non-current assets	**5,927.1**	4,234.0
Current assets	**1,978.2**	3,826.4
	7,905.3	8,060.4
Liabilities		
Non-current liabilities	**(1,364.9)**	(1,195.2)
Current liabilities	**(1,880.9)**	(2,505.8)
	(3,245.8)	(3,701.0)
Net assets	**4,659.5**	4,359.4
Income	**2,294.3**	4,835.9
Expenses, including taxation	**(1,978.2)**	(3,152.9)
Profit after taxation	**316.1**	1,683.0

22. Available-for-sale financial assets

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Debt securities (Note a)	**234.2**	230.5	**–**	–
Equity securities (Note b)	**614.3**	537.5	**14.9**	12.5
	848.5	768.0	**14.9**	12.5
Market value of listed investments	**541.8**	488.9	**14.9**	12.5
Notes				
(a) Debt securities				
Listed – overseas	**212.1**	208.5	**–**	–
Unlisted	**22.1**	22.0	**–**	–
	234.2	230.5	**–**	–
(b) Equity securities				
Listed – Hong Kong	**329.7**	280.4	**14.9**	12.5
Unlisted	**284.6**	257.1	**–**	–
	614.3	537.5	**14.9**	12.5

No provision for impairment on available-for-sale financial assets was made in 2006 (2005: nil).

23. Retirement benefit assets and liabilities

	Group		Company	
	2006 **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M
At 31st December	**36.1**	(16.1)	**36.1**	(16.1)

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

Effective from 15th February 2006, the Local Employees Provident Scheme was converted into a defined contribution scheme as described in Note 2 (s).

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

	Group and Company	
	2006 **HK$'M**	2005 HK$'M
Fair value of plan assets	**376.8**	1,891.9
Present value of funded obligations	**(272.0)**	(1,832.4)
Present value of overfunded obligations	**104.8**	59.5
Unrecognised actuarial gains	**(68.7)**	(75.6)
Asset/ (liability) in the balance sheet	**36.1**	(16.1)
Experience adjustments arising on plan liabilities – gain	**5.5**	6.7
Experience adjustments arising on plan assets – gain	**119.3**	2.2

The plan assets did not include any ordinary shares of the Company as at 31st December 2006 (2005: HK$80.4 million).

The amounts recognised in the income statement are as follows:

	Group and Company	
	2006 **HK$'M**	2005 HK$'M
Current service cost	**11.5**	11.1
Interest cost	**18.7**	78.3
Expected return on plan assets	**(29.6)**	(110.6)
Total	**0.6**	(21.2)

23. Retirement benefit assets and liabilities (continued)

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

	Group and Company	
	2006 **HK$'M**	2005 HK$'M
At 1st January	**1,891.9**	1,847.3
Expected return on plan assets	**29.6**	110.6
Actuarial gain	**119.3**	2.2
Contribution paid	**9.1**	9.1
Benefits paid	**(31.5)**	(77.3)
Settlements on curtailment	**(1,641.6)**	–
At 31st December	**376.8**	1,891.9

The actual return on plan assets was HK$148.9 million (2005: HK$112.8 million).

Movement in the asset/ (liability) recognised in the balance sheet:

	Group and Company	
	2006 **HK$'M**	2005 HK$'M
At 1st January	**(16.1)**	(46.4)
Total (expense)/ income (Note 10)	**(0.6)**	21.2
Contribution paid	**9.1**	9.1
Gains on curtailment	**43.7**	–
At 31st December	**36.1**	(16.1)

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

	Group and Company	
	2006 **%**	2005 %
Equity securities	**70.0**	78.3
Debt securities	**19.5**	18.0
Cash	**10.5**	3.7

The principal actuarial assumptions used are as follows:

	Group and Company	
	2006 **%**	2005 %
Discount rate	**3.8**	4.3
Expected rate of return on plan assets	**6.0**	6.0
Expected rate of future salary increases	**3.5**	3.5

24. Property under development for sale

Property under development for sale represented the residential portion of the Ma Tau Kok South property development project (the "Project"), also known as Grand Waterfront. On 2nd August 2002, the Group entered into a development agreement with Henderson Land Development Company Limited and its subsidiaries (collectively "Henderson") under which Henderson paid to the Group a sum of HK$380.5 million for an entitlement to 27 per cent of the net sales proceeds of the residential portion of the Project. Under the same agreement, Henderson was appointed to provide certain property development related services and materials to the Project for a total amount not exceeding HK$97.0 million. During the year, the Group incurred HK$39.2 million (2005: HK$15.6 million) in respect of this.

During 2006, the residential portion of the Project was completed. The related costs were transferred from property under development for sale to completed property for sale.

	Group	
	2006 **HK$'M**	2005 HK$'M
Cost		
At 1st January	**579.8**	242.8
Additions	**1,779.2**	325.9
Interest capitalised	**18.9**	11.1
Transfer to completed property for sale	**(2,377.9)**	–
At 31st December	**–**	579.8

25. Inventories

	Group		Company	
	2006 **HK$'M**	2005 HK$'M	**2006** **HK$'M**	2005 HK$'M
Stores and materials	**508.1**	490.9	**410.8**	420.0
Work in progress	**426.1**	430.4	**381.8**	398.2
	934.2	921.3	**792.6**	818.2

The Group wrote inventories back by HK$0.5 million (2005: wrote down by HK$3.8 million) to net realisable value during the year.

26. Trade and other receivables

	Group 2006 HK$'M	Group 2005 HK$'M	Company 2006 HK$'M	Company 2005 HK$'M
Trade receivables (Note a)	**1,296.2**	1,322.4	**1,130.3**	1,203.3
Instalment receivables (Note b)	**2,287.1**	–	**–**	–
Other receivables (Note c)	**434.1**	670.3	**148.3**	407.4
Payment in advance	**135.8**	111.5	**12.6**	21.4
	4,153.2	2,104.2	**1,291.2**	1,632.1

The Group recognised a loss of HK$28.6 million (2005: HK$27.1 million) for the impairment of its trade receivables during the year. The impairment has been included in other operating items (Note 6).

Notes

(a) The Group has established credit policies for different types of customers. The credit period offered for trade receivables ranges from 30 to 60 days. These are subject to periodic review by management. As at 31st December 2006, the aging analysis of the trade receivables, net of impairment provision, was as follows:

	Group 2006 HK$'M	Group 2005 HK$'M	Company 2006 HK$'M	Company 2005 HK$'M
0 – 30 days	**1,074.3**	1,142.9	**967.9**	1,057.1
31 – 60 days	**55.9**	50.2	**43.1**	46.0
61 – 90 days	**24.0**	15.8	**17.7**	13.8
Over 90 days	**142.0**	113.5	**101.6**	86.4
	1,296.2	1,322.4	**1,130.3**	1,203.3

(b) This represents the instalment receivables for the sale of residential units of Grand Waterfront.

(c) Other receivables include HK$65.7 million (2005: HK$290.3 million) deposits paid for further investment in PRC projects.

27. Financial assets at fair value through profit or loss

	Group		Company	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Debt securities (Note a)	**1,555.1**	1,639.4	**38.8**	77.5
Equity securities (Note b)	**118.3**	248.1	**8.6**	–
Derivative financial instruments	**2.2**	3.5	**2.2**	3.9
	1,675.6	1,891.0	**49.6**	81.4
Market value of listed investments	**126.5**	261.7	**8.6**	–
Notes				
(a) Debt securities				
Listed – overseas	**8.2**	13.6	**–**	–
Unlisted	**1,546.9**	1,625.8	**38.8**	77.5
	1,555.1	1,639.4	**38.8**	77.5
(b) Equity securities				
Listed – Hong Kong	**34.8**	182.5	**4.4**	–
Listed – overseas	**83.5**	65.6	**4.2**	–
	118.3	248.1	**8.6**	–

As at 31st December 2006, no financial assets were designated as at fair value through profit or loss.

28. Time deposits, cash and bank balances

	Group		Company	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Time deposits over three months	**31.3**	8.7	**–**	–
Time deposits up to three months	**1,076.8**	937.2	**413.4**	140.9
Cash and bank balances	**653.9**	537.5	**59.5**	86.4
	1,730.7	1,474.7	**472.9**	227.3

The effective interest rates on time deposits in Hong Kong and the PRC were 5.08 per cent and 2.33 per cent respectively (2005: 4.04 per cent and 2.47 per cent). These deposits have an average maturity within 60 days.

29. Trade and other payables

	Group		Company	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Trade payables (Note a)	**442.7**	400.4	**121.1**	216.6
Other payables and accruals (Note b)	**3,295.2**	1,347.1	**538.4**	549.3
	3,737.9	1,747.5	**659.5**	765.9

Notes

(a) At 31st December 2006, the aging analysis of the trade payables was as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
0 – 30 days	**325.4**	313.2	**120.4**	216.3
31 – 60 days	**34.9**	13.6	**0.7**	0.3
61 – 90 days	**7.3**	6.9	**–**	–
Over 90 days	**75.1**	66.7	**–**	–
	442.7	400.4	**121.1**	216.6

(b) The balance includes an amount of approximately HK$637 million (2005: HK$380.5 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront.

30. Borrowings

	Group		Company	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Non-current				
Bank loans	**5,576.9**	2,370.2	**2,550.0**	2,350.0
Finance lease liability	**32.3**	54.6	**–**	–
	5,609.2	2,424.8	**2,550.0**	2,350.0
Current				
Bank overdrafts	**10.4**	9.1	**10.4**	9.1
Bank loans	**2,510.9**	5,825.8	**621.6**	4,807.9
Finance lease liability	**47.3**	22.3	**–**	–
	2,568.6	5,857.2	**632.0**	4,817.0
Total borrowings	**8,177.8**	8,282.0	**3,182.0**	7,167.0

All bank loans and overdrafts are unsecured. The finance lease which is effectively secured as the rights to the leased plant and equipment revert to the lessor in the event of default.

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.

30. Borrowings (continued)

The maturity of borrowings is as follows:

	Group				Company	
	Bank loans and overdrafts		Finance lease		Bank loans and overdrafts	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Within 1 year	**2,521.3**	5,834.9	**47.3**	22.3	**632.0**	4,817.0
Between 1 and 2 years	**1,574.9**	7.7	**21.1**	18.5	**1,550.0**	–
Between 2 and 5 years	**4,000.0**	2,360.6	**11.2**	36.1	**1,000.0**	2,350.0
Wholly repayable within 5 years	**8,096.2**	8,203.2	**79.6**	76.9	**3,182.0**	7,167.0
Over 5 years	**2.0**	1.9	**–**	–	**–**	–

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

	Group			
	2006		2005	
	HK$	**RMB**	HK$	RMB
Bank overdrafts	**7.8%**	**N/ A**	7.8%	N/ A
Bank loans	**4.2%**	**4.9%**	4.3%	4.7%
Finance lease liability	**N/ A**	**7.8%**	N/ A	7.8%

The carrying amounts of all borrowings approximate their fair values.

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

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Hong Kong dollar	**6,846.6**	7,773.4	**3,182.0**	7,167.0
Renminbi	**1,331.2**	508.6	**–**	–
	8,177.8	8,282.0	**3,182.0**	7,167.0

30. Borrowings (continued)

	Group 2006 HK$'M	Group 2005 HK$'M
Finance lease liability – minimum lease payments:		
Not later than 1 year	**60.3**	30.5
Later than 1 year and not later than 5 years	**34.5**	61.1
	94.8	91.6
Future finance charges on finance leases	**(15.2)**	(14.7)
Present value of finance lease liability	**79.6**	76.9
The present value of finance lease liability is as follows:		
Not later than 1 year	**47.3**	22.3
Later than 1 year and not later than 5 years	**32.3**	54.6
	79.6	76.9

31. Deferred taxation

The movement in the deferred taxation is as follows:

	Group 2006 HK$'M	Group 2005 HK$'M	Company 2006 HK$'M	Company 2005 HK$'M
At 1st January	**1,072.7**	985.3	**997.3**	931.0
Charged to income statement (Note 12)	**58.6**	87.4	**24.6**	66.3
At 31st December	**1,131.3**	1,072.7	**1,021.9**	997.3

31. Deferred taxation (continued)

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

Group

Deferred tax liabilities

	Accelerated tax depreciation		Others		Total	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
At 1st January	**1,065.5**	971.7	**22.8**	20.5	**1,088.3**	992.2
Charged to income statement	**59.1**	93.8	**2.4**	2.3	**61.5**	96.1
At 31st December	**1,124.6**	1,065.5	**25.2**	22.8	**1,149.8**	1,088.3

Deferred tax assets

	Provisions		Tax losses		Total	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
At 1st January	**(7.9)**	(4.5)	**(7.7)**	(2.4)	**(15.6)**	(6.9)
Credited to income statement	**(1.5)**	(3.4)	**(1.4)**	(5.3)	**(2.9)**	(8.7)
At 31st December	**(9.4)**	(7.9)	**(9.1)**	(7.7)	**(18.5)**	(15.6)

Net deferred taxation at 31st December	**1,131.3**	1,072.7

Company

Deferred tax liabilities

	Accelerated tax depreciation	
	2006 HK$'M	2005 HK$'M
At 1st January	**1,005.2**	936.2
Charged to income statement	**26.0**	69.0
At 31st December	**1,031.2**	1,005.2

Deferred tax assets

	Provisions	
	2006 HK$'M	2005 HK$'M
At 1st January	**(7.9)**	(5.2)
Credited to income statement	**(1.4)**	(2.7)
At 31st December	**(9.3)**	(7.9)

Net deferred taxation at 31st December	**1,021.9**	997.3

32. Share capital

	Ordinary shares of HK$0.25 each			
	Number of shares		Nominal Value	
	2006	2005	**2006 HK$'M**	2005 HK$'M
Authorised:				
At 1st January and at 31st December	**10,000,000,000**	10,000,000,000	**2,500.0**	2,500.0
Issued and fully paid:				
At 1st January	**5,508,759,988**	5,614,769,988	**1,377.2**	1,403.7
Repurchase of shares	**–**	(106,010,000)	**–**	(26.5)
At 31st December	**5,508,759,988**	5,508,759,988	**1,377.2**	1,377.2

33. Share premium

	Group and Company	
	2006 HK$'M	2005 HK$'M
At 1st January and 31st December	**3,907.8**	3,907.8

34. Reserves

	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 2006	2.0	3,320.0	189.7	68.4	58.5	6,225.3	9,863.9
Profit attributable to shareholders	–	–	–	–	–	5,862.6	5,862.6
Change in fair value	69.4	–	–	–	–	–	69.4
Revaluation surplus of available-for-sale financial asset removed on disposals	(7.2)	–	–	–	–	–	(7.2)
Capital reserve from jointly controlled entities	–	–	–	67.7	–	–	67.7
Capital reserve from subsidiaries	–	–	–	1.3	–	–	1.3
Exchange differences	–	–	–	–	212.1	–	212.1
2005 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
2005 final dividend paid	–	–	–	–	–	(1,267.0)	(1,267.0)
2006 interim dividend paid	–	–	–	–	–	(661.1)	(661.1)
At 31st December 2006	64.2	3,320.0	189.7	137.4	270.6	11,426.8	15,408.7
Company and subsidiaries	64.2	3,320.0	189.7	9.2	119.3	7,448.9	11,151.3
Associated companies	–	–	–	–	9.8	1,864.0	1,873.8
Jointly controlled entities	–	–	–	128.2	141.5	2,113.9	2,383.6
	64.2	3,320.0	189.7	137.4	270.6	11,426.8	15,408.7
Balance after 2006 final dividend proposed	64.2	3,320.0	189.7	137.4	270.6	10,159.8	14,141.7
2006 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
	64.2	3,320.0	189.7	137.4	270.6	11,426.8	15,408.7
Company							
At 1st January 2006	(0.1)	3,320.0	189.7	–	–	166.2	3,675.8
Profit attributable to shareholders	–	–	–	–	–	2,618.5	2,618.5
Change in fair value	2.3	–	–	–	–	–	2.3
2005 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
2005 final dividend paid	–	–	–	–	–	(1,267.0)	(1,267.0)
2006 interim dividend paid	–	–	–	–	–	(661.1)	(661.1)
At 31st December 2006	2.2	3,320.0	189.7	–	–	2,123.6	5,635.5
Balance after 2006 final dividend proposed	2.2	3,320.0	189.7	–	–	856.6	4,368.5
2006 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
	2.2	3,320.0	189.7	–	–	2,123.6	5,635.5

34. 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 2005	209.6	3,320.0	163.2	–	–	4,482.9	8,175.7
Profit attributable to shareholders	–	–	–	–	–	5,281.4	5,281.4
Change in fair value	(32.5)	–	–	–	–	–	(32.5)
Recognition of Henderson Cyber as an associated company	(168.3)	–	–	–	–	70.8	(97.5)
Revaluation surplus of available-for-sale financial asset removed on disposals	(6.8)	–	–	–	–	–	(6.8)
Capital reserve from jointly controlled entities	–	–	–	68.4	–	–	68.4
Exchange differences	–	–	–	–	58.5	–	58.5
Shares repurchased	–	–	26.5	–	–	(1,681.2)	(1,654.7)
2004 final dividend proposed	–	–	–	–	–	1,291.4	1,291.4
2004 final dividend paid	–	–	–	–	–	(1,284.3)	(1,284.3)
2005 interim dividend paid	–	–	–	–	–	(668.7)	(668.7)
At 31st December 2005	2.0	3,320.0	189.7	68.4	58.5	7,492.3	11,130.9
Company and subsidiaries	2.0	3,320.0	189.7	7.9	36.9	4,934.1	8,490.6
Associated companies	–	–	–	–	–	762.0	762.0
Jointly controlled entities	–	–	–	60.5	21.6	1,796.2	1,878.3
	2.0	3,320.0	189.7	68.4	58.5	7,492.3	11,130.9
Balance after 2005 final dividend proposed	2.0	3,320.0	189.7	68.4	58.5	6,225.3	9,863.9
2005 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
	2.0	3,320.0	189.7	68.4	58.5	7,492.3	11,130.9
Company							
At 1st January 2005	1.3	3,320.0	163.2	–	–	1,088.1	4,572.6
Profit attributable to shareholders	–	–	–	–	–	2,687.9	2,687.9
Change in fair value	(1.4)	–	–	–	–	–	(1.4)
Shares repurchased	–	–	26.5	–	–	(1,681.2)	(1,654.7)
2004 final dividend proposed	–	–	–	–	–	1,291.4	1,291.4
2004 final dividend paid	–	–	–	–	–	(1,284.3)	(1,284.3)
2005 interim dividend paid	–	–	–	–	–	(668.7)	(668.7)
At 31st December 2005	(0.1)	3,320.0	189.7	–	–	1,433.2	4,942.8
Balance after 2005 final dividend proposed	(0.1)	3,320.0	189.7	–	–	166.2	3,675.8
2005 final dividend proposed	–	–	–	–	–	1,267.0	1,267.0
	(0.1)	3,320.0	189.7	–	–	1,433.2	4,942.8

34. Reserves (continued)

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

The distributable reserves of the Company at 31st December 2006, comprising general reserve and unappropriated profits, amounted to HK$5,443.6 million (2005: HK$4,753.2 million) before the proposed final dividend for the year ended 31st December 2006.

35. Contingent liabilities

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

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Subsidiaries	**–**	–	**3,096.5**	606.4
Associated companies	**–**	840.0	**–**	840.0
	–	840.0	**3,096.5**	1,446.4

Save as disclosed above, the Company and the Group did not have any further contingent liabilities as at 31st December 2006.

36. Commitments

(a) Capital expenditures for property, plant and equipment

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Authorised but not brought into the accounts at 31st December	**1,019.9**	1,159.3	**398.3**	716.7
Of which, contracts had been entered into at 31st December	**684.6**	841.1	**398.3**	484.5

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

	2006 HK$'M	2005 HK$'M
Authorised but not brought into the accounts at 31st December	**988.4**	747.1
Of which, contracts had been entered into at 31st December	**375.6**	494.0

36. Commitments (continued)

(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 PRC gas projects. The directors estimate that as at 31st December 2006, the Group's commitments to these projects were approximately HK$767 million (2005: HK$126 million).

(d) Lease commitments

At 31st December 2006, future aggregate minimum lease payments of land, buildings and equipment under non-cancellable operating leases were as follows:

	Group		Company	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Not later than 1 year	**26.2**	22.4	**20.3**	17.1
Later than 1 year and not later than 5 years	**22.8**	23.9	**14.7**	14.0
Later than 5 years	**45.7**	39.6	**–**	–
	94.7	85.9	**35.0**	31.1

37. 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:

(i) Interest income and sales of goods and services

	Group	
	2006 HK$'M	2005 HK$'M
Associated companies		
Loan interest income (Note a)	**1.9**	1.9
Jointly controlled entities		
Sale of goods and services (Note b)	**22.9**	–
Loan interest income (Note a)	**20.4**	64.2
Other related parties		
Sale of goods and services (Note b)	**2.4**	11.7
Interest income from bank deposits (Note b)	**21.0**	9.9

37. Related party transactions (continued)

(ii) Interest expense and purchase of goods and services

	Group	
	2006 **HK$'M**	2005 HK$'M
Associated company		
Purchase of goods and services (Note b)	**6.9**	–
Jointly controlled entities		
Purchase of goods and services (Note b)	**4.4**	–
Other related parties		
Purchase of goods and services (Note b)	**52.2**	16.5
Interest expense for bank loans (Note b)	**30.2**	18.3

Notes

(a) For the terms of loans, please refer to Notes 20 and 21.

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

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

	Group As at 31st December	
	2006 **HK$'M**	2005 HK$'M
Loans and interest receivables from:		
Associated companies	**2,991.7**	2,269.3
Jointly controlled entities	**1,118.2**	1,934.4
Time deposits and interest receivable from:		
Other related parties	**424.9**	83.6
Bank loans and interest payable to:		
Other related parties	**587.2**	891.4
Trade receivables from:		
Jointly controlled entity	**12.7**	–
Other related parties	**1.1**	0.9
Trade payables to:		
Associated company	**1.6**	–
Jointly controlled entities	**0.1**	–
Other related parties	**14.7**	–

(iv) Other related party transactions are also disclosed in Notes 11, 20, 21, 24, 29 and 35.

38. Events after balance sheet date

On 4th December 2006, the Company and Hong Kong & China Gas (China) Limited ("HK&CG (China)") entered into an agreement with Panva Gas Holdings Limited ("Panva Gas") pursuant to which Panva Gas has conditionally agreed to purchase eight wholly owned subsidiaries ("Target Companies") from HK&CG (China) and to take assignment of the outstanding loans due from the Target Companies to HK&CG (China) as at the date of Completion ("Shareholder Loans"). HK&CG (China) is a wholly owned subsidiary of the Company.

In consideration for this transaction, Panva Gas agreed to allot and issue 772,911,729 of its ordinary shares of HK$0.10 each (each credited as fully paid), representing 45% of the share capital of Panva Gas as at the date of the agreement as enlarged by the issue of these shares to HK&CG (China).

The acquisition was completed on 1st March 2007. Immediately upon the completion, the Target Companies ceased to be subsidiaries of the Group. The Company, through HK&CG (China), owns approximately 43.97% of the enlarged issued share capital of Panva Gas and becomes the largest shareholder of Panva Gas. Panva Gas is treated as an associated company at an initial carrying value of approximately HK$2.9 billion, which represents the fair value of the Panva Gas shares issued and the post-acquisition consolidated results of Panva Gas will be accounted for by the Company by equity method of accounting. The Company will determine the amount of goodwill arising from the acquisition in accordance with the HKFRS 3 "Business Combinations" which will be included in the investment in associated company. Such goodwill is subject to impairment assessment as required by the HKAS 28 "Investment in Associates" and the HKAS 36 "Impairment of Assets".

The Group has recorded a gain on disposal of approximately HK$2.2 billion as a result of the disposal of its interest in the Target Companies in 2007. The disposal gain is determined based on the difference in the fair value of the Panva Gas shares issued as the consideration as at 1st March 2007 of HK$3.77 per Panva Gas share over the aggregate net assets value of the Target Companies attributable to the Company as at the date of completion, 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.

39. Reconciliation of profit before taxation to net cash from operating activities

	Group 2006 HK$'M	2005 HK$'M
Profit before taxation	**6,804.2**	5,920.4
Share of profits less losses of associated companies	**(1,102.0)**	(699.0)
Share of profits less losses of jointly controlled entities	**(316.1)**	(1,683.0)
Interest income	**(330.1)**	(243.0)
Interest expense	**310.2**	114.6
Dividend income from equity securities	**(44.5)**	(34.3)
Depreciation and amortisation	**603.3**	504.1
Loss on disposal/ write off of property, plant and equipment	**111.9**	57.8
Net realised and unrealised gains on investments in financial assets at fair value through profit or loss	**(121.0)**	(59.0)
Gain on disposal of available-for-sale financial assets	**(12.7)**	(8.0)
Profits tax paid	**(599.3)**	(144.2)
Exchange differences	**(20.0)**	–
Changes in working capital		
Increase in customers' deposits	**30.9**	45.3
Increase in completed property for sale/ property under development for sale	**(549.0)**	(325.8)
Increase in inventories	**(13.8)**	(198.6)
Increase in trade and other receivables	**(2,178.7)**	(557.7)
Decrease in housing loans to staff	**22.3**	24.3
Increase in trade and other payables	**2,025.7**	413.6
Changes in retirement benefit assets/ liabilities	**(42.7)**	(30.3)
Net cash from operating activities	**4,578.6**	3,097.2

40. Acquisition of further interest in a subsidiary

In August 2006, the Group acquired a further 30 per cent interest of Guangzhou Jianke Hong Kong & China Gas Company Limited and thereafter it became a wholly owned subsidiary of the Group. The goodwill is calculated as follows:

	Group 2006 HK$'M
Purchase consideration:	
Cash paid for acquisition of further interest in a subsidiary	**7.4**
Carrying value of net assets acquired for further interest in a subsidiary	**(7.1)**
Goodwill (Note 18)	**0.3**

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2006:

	Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
	Barnaby Assets Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Securities investment
	Danetop Services Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Securities investment
#	Eagle Legend International Company Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
	ECO Energy Company 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
Δ	HKCG (Finance) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
Δ	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 each	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 each	100	British Virgin Islands/ Hong Kong	Investment holding
	Planwise Properties Limited	2,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Property holding
	Prominence Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding

Δ Newly formed during the year
† Wholly foreign-owned enterprise
# Direct subsidiaries of the Company

Subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31st December 2006:

	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 each	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 each	100	British Virgin Islands/ Hong Kong	Investment holding
#	Towngas Investment Company Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
	Towngas 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 each	100	British Virgin Islands/ Hong Kong	Securities investment
	U-Tech Engineering Company Limited	5,500,000 ordinary shares of HK$1 each	100	Hong Kong	Engineering and related businesses
	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 PRC project companies which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2006:

	Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
	Danyang Hong Kong and China Gas Company Limited	RMB 60.0 million	80	PRC	Gas sales and related businesses
	Guangzhou Dongyong Hong Kong & China Gas Limited	RMB 53.3 million	80	PRC	Gas sales and related businesses
^	Guangzhou 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
Δ	Jintan Hong Kong and China Gas Company Limited	RMB 60.0 million	60	PRC	Gas sales and related businesses
†	Longkou Hong Kong and China Gas Company Limited	RMB 42.0 million	100	PRC	Gas sales and related businesses
	Qingdao Dong Yi Hong Kong and China Gas Company Limited	RMB 30.0 million	60	PRC	Gas Sales and related businesses
	Qingdao Zhongji Hong Kong and China Gas Company Limited	RMB 18.5 million	90	PRC	Gas sales and related businesses
Δ	Shanxi Hong Kong & China Coalbed Gas Company Limited	RMB 140.0 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
	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 57.9 million	76	PRC	Gas sales and related 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 300.0 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
† Δ	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

Δ Newly formed during the year
^ Formally known as Panyu Hong Kong and China Gas Limited
* A jointly controlled entity of the Company prior to January 2006
† Wholly foreign-owned enterprises
# Direct subsidiaries of the Company