

# Report of the Directors

The Directors have pleasure in submitting to shareholders their Report and the Audited Accounts for the year ended 31st December 2006 which are to be presented at the Annual General Meeting to be held in the Four Seasons Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 21st May 2007.

## Principal Activities

The principal activities of the Group continue to be the production, distribution and marketing of gas, water and related activities in Hong Kong and mainland China. The particulars of the principal subsidiaries are shown on pages 118 to 120 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and mainland China.

## Results and Appropriations

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement on page 66 of this Annual Report.

An interim dividend of HK 12 cents per share was paid to shareholders on 23rd October 2006 and the Directors recommend a final dividend of HK 23 cents per share payable on 22nd May 2007 to shareholders whose names are on the register of members on 14th May 2007.

## Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every ten existing shares held by the shareholders of the Company whose names are on the register of members on 14th May 2007. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this annual report.

## Financial Summary

A summary of the results of the Group for the past nine financial years is set out on pages 52 and 53 of this Annual Report.

## Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 34 to the Accounts.

## Property, Plant and Equipment

Movements in property, plant and equipment of the Group and the Company including the details of property under development are shown in Note 16 to the Accounts.

## Share Capital

Movements in share capital of the Company are shown in Note 32 to the Accounts.

## Borrowings

Particulars of the borrowings of the Group are provided in Note 30 to the Accounts.

## Events After Balance Sheet Date

Details of the events after balance sheet date of the Group are described in Note 38 to the Accounts.

## Financial Assistance and Guarantees to Affiliated Companies

As at 31st December 2006, the Group has provided financial assistance to certain of its associated companies and jointly controlled entities (collectively, “the affiliated companies”) totalling HK\$4,110 million, representing approximately 19 per cent of the Group’s net assets. Pursuant to rule 13.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), a combined balance sheet of the affiliated companies and the Group’s attributable interests as at 31st December 2006 is set out below:

	Combined Balance Sheet HK\$ Million	Group's attributable interests HK\$ Million
Non-Current Assets	40,827	8,565
Current Assets	4,442	1,978
Current Liabilities	(21,268)	(4,450)
Non-Current Liabilities	(4,364)	(1,326)
<b>Net Assets</b>	<b>19,637</b>	<b>4,767</b>
Share Capital	1,658	838
Reserves	17,978	3,929
Minority Interests	1	–
<b>Total Equity</b>	<b>19,637</b>	<b>4,767</b>

Particulars of the financial assistance and committed capital injection for the affiliated companies are shown in Notes 20, 21 and 36 to the accounts.

## Charitable Donations

Charitable donations made by the Group in 2006 amounted to HK\$1,470,000 (2005: HK\$4,452,000, of which HK\$3,351,000 was donated for the purpose of Southeast Asia tsunami relief).

## Directors

At the Annual General Meeting held on 19th May 2006, Dr. Lee Shau Kee, Mr. Liu Lit Man, Dr. The Hon. David Li Kwok Po and Mr. Ronald Chan Tat Hung were re-elected as Directors of the Company. Mr. Leung Hay Man, Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi and Mr. Lee Ka Shing held office throughout the year.

According to the Company’s Articles of Association, one-third of the non-executive directors and one-third of the executive directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97, Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing, non-executive directors, and Mr. Alfred Chan Wing Kin, an executive director, are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

## Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 13 and 14 of this Annual Report.

# Report of the Directors

## Disclosure of Interests

### A. Directors

As at 31st December 2006, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Shares (Long Positions)

Name of Company	Director	Personal Interests	Family Interests	Corporate Interests	Other	Total	%**
The Hong Kong and China Gas Company Limited	Dr. Lee Shau Kee	3,226,174		2,203,861,776 (Note 5)		2,207,087,950	40.07
	Mr. Liu Lit Man	1,778,681				1,778,681	0.03
	Dr. The Hon. David Li Kwok Po	15,000,000				15,000,000	0.27
	Mr. Ronald Chan Tat Hung	1,940				1,940	0.00
	Mr. Lee Ka Kit				2,203,861,776 (Note 4)	2,203,861,776	40.01
	Mr. Alfred Chan Wing Kin	102,825*				102,825*	0.00
	Mr. James Kwan Yuk Choi	36,300	41,129			77,429	0.00
	Mr. Lee Ka Shing				2,203,861,776 (Note 4)	2,203,861,776	40.01
Lane Success Development Limited	Dr. Lee Shau Kee			9,500 (Note 6)		9,500	95
	Mr. Lee Ka Kit				9,500 (Note 6)	9,500	95
	Mr. Lee Ka Shing				9,500 (Note 6)	9,500	95
Primeland Investment Limited	Dr. Lee Shau Kee			95 (Note 7)		95	100
	Mr. Lee Ka Kit				95 (Note 7)	95	100
	Mr. Lee Ka Shing				95 (Note 7)	95	100
Yieldway International Limited	Dr. Lee Shau Kee			2 (Note 8)		2	100
	Mr. Lee Ka Kit				2 (Note 8)	2	100
	Mr. Lee Ka Shing				2 (Note 8)	2	100
Panva Gas Holdings Limited	Dr. Lee Shau Kee			772,911,729 (Note 9)		772,911,729	80.65
	Mr. Lee Ka Kit				772,911,729 (Note 9)	772,911,729	80.65
	Mr. Lee Ka Shing				772,911,729 (Note 9)	772,911,729	80.65

\* These shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.

\*\* Percentage which the aggregate long position in the shares represents to the issued share capital of the Company or any of its associated corporations.

## Disclosure of Interests (continued)

### A. Directors (continued)

Save as mentioned above, as at 31st December 2006, there were no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### B. Substantial Shareholders and Others (Long Positions)

As at 31st December 2006, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of Company	No. of Shares in which interested	%**
<b>Substantial Shareholders</b> (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,159,024,597	21.04
	Timpani Investments Limited (Note 1)	1,643,249,599	29.83
	Henderson Investment Limited (Note 1)	2,119,415,545	38.47
	Kingslee S.A. (Note 1)	2,119,415,545	38.47
	Henderson Land Development Company Limited (Note 1)	2,119,415,545	38.47
	Henderson Development Limited (Note 2)	2,123,382,017	38.55
	Hopkins (Cayman) Limited (Note 3)	2,203,861,776	40.01
	Riddick (Cayman) Limited (Note 4)	2,203,861,776	40.01
	Rimmer (Cayman) Limited (Note 4)	2,203,861,776	40.01
<b>Persons other than Substantial Shareholders</b>	Macrostar Investment Limited (Note 1)	476,165,946	8.64
	Medley Investment Limited (Note 1)	484,225,002	8.79

\*\* Percentage which the aggregate long position in the shares represents to the issued share capital of the Company.

Save as mentioned above, as at 31st December 2006, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

- These 2,119,415,545 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Henderson Investment Limited ("HI"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of HI. Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"), owned 67.94% of total issued shares in HI.
- Henderson Development Limited ("HD") beneficially owned 57.80% of the total issued shares of HLD. Of these 2,123,382,017 shares, 2,119,415,545 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.
- Of these 2,203,861,776 shares, 2,123,382,017 shares represented the shares described in Notes 1 and 2 and 80,479,759 shares were beneficially owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust ("Unit Trust").
- These 2,203,861,776 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
- These 2,203,861,776 shares included the shares described in Notes 1 to 4. Dr. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.

# Report of the Directors

## Disclosure of Interests (continued)

6. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
7. These 95 shares in Primeland Investment Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 30 shares) and a wholly-owned subsidiary of HLD (as to 65 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
8. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
9. Hong Kong & China Gas (China) Limited (“HK&CG(China)”), a wholly-owned subsidiary of the Company, was deemed to have acquired 772,911,729 shares in Panva Gas Holdings Limited (“Panva Gas”) by virtue of its entering into a conditional agreement with Panva Gas and the Company on 4th December 2006 pursuant to which Panva Gas agreed to acquire certain shares and shareholder loans in 8 wholly-owned subsidiaries of HK&CG(China) in consideration of the allotment and issue of 772,911,729 shares in Panva Gas to HK&CG(China). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.

## Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## Interests in Contracts

No contracts of significance in relation to the Group’s business to which any controlling shareholder of the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Purchase, Sale or Redemption of Own Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its own shares during the year.

## Major Customers and Suppliers

The percentages of the purchases attributable to the Group’s largest supplier and the five largest suppliers were 23.2 per cent and 52 per cent respectively during the year. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company’s share capital) had any interest in the Group’s five largest suppliers. The percentage of the turnover attributable to the Group’s five largest customers is less than 30 per cent during the year.

## **Corporate Governance**

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 60 to 64 of this Annual Report.

## **Public Float**

As at the date of this report, being also the latest practicable date prior to the issue of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

## **Auditor**

The Accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment at a fee to be agreed by the Board.

**Lee Shau Kee**

*Chairman*

Hong Kong, 19th March 2007