

# **2002**

# **Interim Report**



**Towngas**

The Hong Kong and China Gas Company Limited

# THE HONG KONG AND CHINA GAS COMPANY LIMITED

## 2002 INTERIM REPORT

To Shareholders

Dear Sir or Madam,

### HALF-YEARLY RESULTS

I am pleased to report that the unaudited profit attributable to shareholders of the Group for the six months ended 30th June 2002 amounted to a record of HK\$1,704.1 million, a slight increase of HK\$2.6 million as compared with the corresponding period in 2001, representing a growth of 0.2 per cent.

Highlights of the unaudited results of the Group for the six months ended 30th June 2002 with comparative unaudited figures for the corresponding period in 2001 are shown in the following summary:

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2002</b>	2001
Turnover before Fuel Cost Adjustment, HK million dollars	<b>3,790.6</b>	3,691.7
Turnover after Fuel Cost Adjustment, HK million dollars	<b>3,673.9</b>	3,713.8
Profit Attributable to Shareholders, HK million dollars	<b>1,704.1</b>	1,701.5
Earnings per Share, HK cents	<b>29.9</b>	27.6*
Interim Dividends per Share, HK cents	<b>12.0</b>	12.0
<i>* Adjusted for the one for ten bonus issue of shares in 2002</i>		
Town Gas Sold in Hong Kong, million MJ	<b>14,565</b>	14,525
Number of Customers in Hong Kong as at 30th June	<b>1,436,984</b>	1,366,231

After adjusting for the number of shares repurchased in the past year, earnings per share amounted to HK cents 29.9, an increase of 8.3 per cent as compared with the corresponding period in 2001.

Details of the financial statements and notes to the accounts are shown on pages 4 to 14 of this Interim Report.

### SHARE REPURCHASES

For the six months ended 30th June 2002, the Company repurchased 30,219,000 shares at an aggregate consideration of HK\$290,570,360 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term.

## **BUSINESS DEVELOPMENT IN CHINA**

Investment in mainland gas projects has been a long term strategic priority for the Group's core business development. Following China's entry into the World Trade Organisation, the national economy will continue to prosper and the demand for clean fuel will surge. According to the state policy of China, natural gas will be widely used to improve air quality in the cities. In line with this environmental policy of the mainland China, the Group has actively participated in some of the major national environmentally-friendly energy projects, including the Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline Project and the West-to-East gas pipeline project. Investments in these two national energy projects have helped the Group in tapping downstream city gas business in the region. We are also negotiating with some major cities in the South, East and Central China on a number of gas investment projects with good progress.

During the first eight months of 2002, the Group concluded Sino-foreign joint venture projects in three mainland cities in preparation for the transmission of natural gas. These new joint ventures are respectively based in Zhuhai, Guangdong Province (as to 75 per cent interest owned by the Group), Taizhou, Jiangsu Province (as to 65 per cent interest owned by the Group), and Zibo, Shandong Province (as to 50 per cent interest owned by the Group). With a vast territory, large population and prosperous commercial and industrial activities in Guangdong, Jiangsu and Shandong Provinces etc., it is planned that natural gas will become available to these regions in the next few years. By that time, the piped gas business will be further flourishing. Currently with 11 city piped gas joint venture projects in the mainland China, the Group will continue negotiations with more mainland cities for prime piped gas joint ventures.

The Group strives to strengthen the development of the energy business in the mainland China and set up an investment holding company, Hong Kong & China Gas Investment Limited, the incorporation of which was approved by the State Ministry of Foreign Trade and Economic Cooperation at the end of February this year. Incorporated in Shenzhen, this holding company is responsible for managing the Group's investments in the mainland China.

## **ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES**

The business of ECO Stations is run by the Group's wholly-owned subsidiary company. As at the end of July 2002, there were nine dedicated liquefied petroleum gas (LPG) filling stations, of which four were ECO Stations, and 26 petrol filling stations retrofitted with LPG filling facilities in Hong Kong to meet the demand for LPG from the existing 16,000 taxis and 200 light buses. ECO Stations' current market share is approximately 32 per cent. The station located at Wan Chai was commissioned recently in late August 2002 and the market share is expected to increase further. The business of ECO Stations generates steady revenue for the Group.

## **PROPERTY DEVELOPMENTS**

After studying various development plans for the Ma Tau Kok South Plant site, the Group announced on 2nd August 2002 that Henderson Land Development Company Limited (Henderson Land) would participate in the development of the residential portion of the project. Henderson Land will be entitled to 27 per cent of the net sales proceeds of the residential portion at a total consideration of HK\$380,529,324. The shopping mall and car park portion will be developed solely by the Group. The site will comprise five residential apartment buildings, providing approximately 2,000 units. The residential floor area will be approximately 978,000 square feet and the total floor area of the project will exceed 1.1 million square feet. Development of the site will commence shortly and is expected to be completed in 2005.

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station project. The office tower and the shopping mall of Phase One have been mostly leased. Phase Two will comprise the 88-storey Two International Finance Centre office tower, the development of which is expected to be completed in 2003. The upper 14 floors of the office tower have been sold to the Hong Kong Monetary Authority for self-use at HK\$3,699 million. Two hotel blocks will be built. Being the largest six-star hotel facility in Hong Kong, the hotels will be managed by Four Seasons Hotels and Resorts. There will also be a 510,000 square-foot Phase Two shopping mall, which is anticipated to become the largest entertainment hub in Central, Hong Kong.

The Group has a 50 per cent interest in the Sai Wan Ho concourse development project. Construction of the superstructure is now in progress and the project is expected to be completed in 2005. Residential buildings with a total gross floor area of approximately 1.4 million square feet will be developed. Since it is a waterfront site providing the residential units with scenic seaview, a promising demand for the residential apartments provided by this development is expected.

## **EMPLOYEES AND PRODUCTIVITY**

The number of employees for the town gas business was 1,943 as at 30th June 2002, a reduction of 0.9 per cent as compared with the corresponding period in 2001; at the same time the number of customers grew by 5.2 per cent and overall productivity rose by 6.2 per cent. Total remuneration for the town gas business employees amounted to HK\$314 million for the six months ended 30th June 2002 and HK\$325 million for the corresponding period in 2001. The Group provides our employees with rewarding careers with compensation based on their capabilities and performances. The Group also provides various types of training to employees in the areas of technical know-how and management skills. The Group will continue to enhance productivity while providing our customers with quality services.

## **DIVIDEND**

Your Directors have declared an interim dividend of HK cents 12 per share payable to shareholders whose names are on the register of shareholders of the Company as of 11th October 2002. To enable our Registrars to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 10th October 2002 and Friday, 11th October 2002, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 21st October 2002.

## **FUTURE OUTLOOK**

The Board of Directors anticipates that the Group's businesses will maintain steady development in 2002.

## **LEE Shau Kee**

Chairman

Hong Kong, 5th September 2002

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June 2002

		Unaudited	
		Six months ended 30th June	
	Note	2002	2001
		HK\$ M	HK\$ M
Turnover	2	<u>3,673.9</u>	<u>3,713.8</u>
Operating Profit before Returns on Investments	3	<b>1,924.1</b>	1,761.4
Investment Income		<b>49.7</b>	119.9
Interest Income		<b>63.0</b>	185.6
Interest Expense		<b>(2.3)</b>	(17.9)
Share of Profits less Losses of Associated Companies		<b>(2.7)</b>	(18.2)
Profit before Taxation	4	<b>2,031.8</b>	2,030.8
Taxation	5	<b>(321.7)</b>	(327.2)
Profit after Taxation		<b>1,710.1</b>	1,703.6
Minority Interests		<b>(6.0)</b>	(2.1)
Profit Attributable to Shareholders		<b>1,704.1</b>	<u>1,701.5</u>
Dividends-Interim Proposed	6	<b>682.9</b>	<u>633.7</u>
Earnings per Share, HK cents	7	<b>29.9</b>	<u>27.6*</u>

\* Adjusted for bonus issue in 2002

**CONSOLIDATED BALANCE SHEET**

as at 30th June 2002

	Note	Unaudited At 30th June 2002 HK\$ M	Audited At 31st December 2001 HK\$ M
<b>Assets</b>			
<b>Non-Current Assets</b>			
Fixed Assets	8	11,901.1	11,862.6
Associated Companies		2,491.8	2,460.2
Jointly Controlled Entities		212.2	208.7
Investment Securities		1,363.6	1,490.2
		<u>15,968.7</u>	<u>16,021.7</u>
<b>Current Assets</b>			
Inventories		602.8	512.8
Debtors and Payment in Advance	9	1,394.5	1,264.9
Housing Loans to Staff		178.1	185.8
Trading Securities		438.5	796.6
Time Deposits, Cash and Bank Balances		2,663.7	1,848.1
		<u>5,277.6</u>	<u>4,608.2</u>
<b>Current Liabilities</b>			
Trade and Other Payables	10	(673.1)	(666.0)
Provision for Taxation		(427.8)	(216.2)
Bank Loans and Overdrafts		(1,538.3)	(1,348.9)
		<u>(2,639.2)</u>	<u>(2,231.1)</u>
<b>Net Current Assets</b>		<u>2,638.4</u>	<u>2,377.1</u>
<b>Total Assets Less Current Liabilities</b>		<u>18,607.1</u>	<u>18,398.8</u>
<b>Non-Current Liabilities</b>			
Customers' Deposits		(861.4)	(839.6)
Deferred Taxation		(13.8)	(13.8)
		<u>(875.2)</u>	<u>(853.4)</u>
<b>Minority Interests</b>		<u>(92.4)</u>	<u>(128.7)</u>
<b>Net Assets</b>		<u>17,639.5</u>	<u>17,416.7</u>
<b>Capital and Reserves</b>			
Share Capital	11	1,422.7	1,300.9
Share Premium	12	3,907.8	4,037.1
Reserves	13	11,626.1	10,881.8
Proposed Dividend		682.9	1,196.9
		<u>17,639.5</u>	<u>17,416.7</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

for the six months ended 30th June 2002

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$ M</b>	<b>HK\$ M</b>
Net Cash Inflow From Operating Activities	<b>1,825.2</b>	1,880.7
Net Cash Inflow From/ (Used In) Investing Activities	<b>248.8</b>	(484.2)
Net Cash Used In Financing Activities	<b>(1,347.6)</b>	(1,329.5)
Increase in Cash and Cash Equivalents	<b>726.4</b>	67.0
Cash and Cash Equivalents at 1st January	<b>1,547.2</b>	3,293.3
Cash and Cash Equivalents at 30th June	<b>2,273.6</b>	3,360.3
Analysis of Balances of Cash and Cash Equivalents		
Net Cash at Bank and in Hand	<b>154.1</b>	44.6
Time Deposits up to three months	<b>2,127.9</b>	3,324.8
Bank Overdrafts	<b>(8.4)</b>	(9.1)
	<b>2,273.6</b>	3,360.3
Analysis of Net Cash Balances		
Balances of Cash and Cash Equivalents	<b>2,273.6</b>	3,360.3
Time Deposits over three months	<b>381.7</b>	2,090.7
Bank Borrowings	<b>(1,529.9)</b>	(1,140.1)
	<b>1,125.4</b>	4,310.9

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the six months ended 30th June 2002

		<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
		<b>2002</b>	<b>2001</b>
	<b>Note</b>	<b>HK\$ M</b>	<b>HK\$ M</b>
At 1st January		<b>17,416.7</b>	20,293.3
Profit Attributable to Shareholders for the period	13	<b>1,704.1</b>	1,701.5
Dividends paid	6		
2000 Final Dividend Paid		–	(1,181.6)
2001 Final Dividend Paid		<b>(1,189.9)</b>	–
Repurchase of Shares	13	<b>(291.4)</b>	–
Effect of Bonus Issue on Share Capital	11	<b>129.3</b>	128.4
Effect of Bonus Issue on Share Premium	12	<b>(129.3)</b>	(128.4)
At 30th June		<b><u>17,639.5</u></b>	<u>20,813.2</u>



## NOTES TO THE INTERIM ACCOUNTS (UNAUDITED)

### 1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. These interim accounts should be read in conjunction with the 2001 annual accounts.

These interim accounts have been prepared on a basis consistent with the principal accounting policies adopted in the annual accounts for the year ended 31st December 2001 with the exception of changes in accounting policies to comply with new and revised SSAPs and certain changes in accounting estimates, all of which are effective for accounting periods commencing on or after 1st January 2002 as set out below.

- (a) In 2002, the Group adopted SSAP 34 “Employee Benefits” and assessed each of the Group’s retirement schemes in accordance with the requirements of this standard. The adoption of this new standard has no material impact to the Group’s opening revenue reserve at 1st January 2002 and accordingly no adjustment has been made thereto.
- (b) During the period, the Directors have reviewed the useful lives of risers, meters, systems development, motor vehicles and considered it appropriate to revise their estimated useful lives as follows:

Risers	from 15 to 30 years
Meters	from 15 to 20 years
Systems development	from 5 to 10 years
Motor vehicles	from 5 to 6 years

This represents a change in accounting estimates and the Group’s depreciation charge for the current period was reduced by approximately HK\$30.8 million.

- (c) Certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of Financial Statements” and SSAP 15 (revised) “Cash Flow Statements”.

## 2. Turnover

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

	Six months ended 30th June	
	2002	2001
	HK\$ M	HK\$ M
Gas Sales before Fuel Cost Adjustment	3,149.2	3,077.3
Fuel Cost Adjustment	(116.7)	22.1
Gas Sales after Fuel Cost Adjustment	3,032.5	3,099.4
Equipment Sales	480.4	476.1
Maintenance and Services	114.9	110.3
Other Sales	46.1	28.0
	<u>3,673.9</u>	<u>3,713.8</u>

## 3. Operating Profit before Returns on Investments

	Six months ended 30th June	
	2002	2001
	HK\$ M	HK\$ M
Turnover	3,673.9	3,713.8
Less Expenses:		
Stores and Materials Used	918.0	1,049.2
Salaries and Wages	336.0	340.5
Depreciation	204.7	224.4
Other Operating Items	291.1	338.3
Operating Profit before Returns on Investments	<u>1,924.1</u>	<u>1,761.4</u>

## 4. Profit Before Taxation

	Six months ended 30th June	
	2002	2001
	HK\$ M	HK\$ M
Profit Before Taxation is stated after crediting and charging the following:		
Crediting:		
Dividend Income from Equity Securities		
– Listed	24.1	17.2
– Unlisted	0.5	4.7
Interest Income from Debt Securities		
– Listed	33.9	23.2
– Unlisted	4.7	12.2
Net Realised and Unrealised Gains on Investments in Securities	18.1	92.8
Charging:		
Cost of Inventories Sold	<u>1,092.3</u>	<u>1,213.2</u>

## 5. Taxation

Hong Kong Profits Tax is provided at the tax rate of 16% (2001: 16%) on the estimated assessable profit for the period.

## 6. Dividends

	<b>Six months ended 30th June</b>	
	<b>2002</b>	2001
	<b>HK\$ M</b>	HK\$ M
2001 Final Dividend paid, of HK cents 23 per share (2000 Final Dividend paid: HK cents 23 per share)	<b>1,189.9</b>	1,181.6
2002 Interim, proposed on 5th September 2002, of HK cents 12 per share (2001 Interim: HK cents 12 per share)	<b>682.9</b>	633.7
	<b><u>1,872.8</u></b>	<u>1,815.3</u>

## 7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,704.1 million (2001: HK\$1,701.5 million) and the weighted average of 5,691,097,821 shares in issue (2001: 6,168,694,214 shares \*) after adjusting for the bonus issue and shares repurchased during the period.

\* *Adjusted for bonus issue in 2002.*

## 8. Fixed Assets

	<b>Land</b>	<b>Properties</b>	<b>Buildings, Plant,</b>	<b>Total</b>
	<b>HK\$ M</b>	<b>under</b>	<b>Mains and</b>	<b>HK\$ M</b>
		<b>Development</b>	<b>Other</b>	
		<b>HK\$ M</b>	<b>Equipment</b>	
			<b>HK\$ M</b>	
Cost				
At 1st January 2002	<b>1,810.1</b>	<b>3,093.0</b>	<b>11,484.2</b>	<b>16,387.3</b>
Additions	<b>1.9</b>	<b>7.1</b>	<b>234.7</b>	<b>243.7</b>
Disposals	<b>(0.2)</b>	<b>–</b>	<b>(8.4)</b>	<b>(8.6)</b>
At 30th June 2002	<b><u>1,811.8</u></b>	<b><u>3,100.1</u></b>	<b><u>11,710.5</u></b>	<b><u>16,622.4</u></b>
Accumulated Depreciation				
At 1st January 2002	<b>257.8</b>	<b>–</b>	<b>4,266.9</b>	<b>4,524.7</b>
Charge for the period	<b>18.7</b>	<b>–</b>	<b>186.0</b>	<b>204.7</b>
Disposals	<b>–</b>	<b>–</b>	<b>(8.1)</b>	<b>(8.1)</b>
At 30th June 2002	<b><u>276.5</u></b>	<b><u>–</u></b>	<b><u>4,444.8</u></b>	<b><u>4,721.3</u></b>
Net Book Value				
At 30th June 2002	<b><u>1,535.3</u></b>	<b><u>3,100.1</u></b>	<b><u>7,265.7</u></b>	<b><u>11,901.1</u></b>
At 31st December 2001	<b><u>1,552.3</u></b>	<b><u>3,093.0</u></b>	<b><u>7,217.3</u></b>	<b><u>11,862.6</u></b>

## 9. Debtors and Payment in Advance

	<b>At 30th June 2002 HK\$ M</b>	At 31st December 2001 HK\$ M
Trade Debtors ( <i>Note</i> )	<b>1,037.2</b>	888.8
Other Debtors and Receivables	<b>120.8</b>	153.9
Payment in Advance	<b>236.5</b>	222.2
	<b><u>1,394.5</u></b>	<u>1,264.9</u>

### *Note*

The Group has established credit policies for different types of customers. The credit period offered for trade debtors ranges from 30 to 60 days. These are subject to periodic review by management. As at 30th June 2002, the aging analysis of the Trade Debtors, net of provision, is as follows:

	<b>At 30th June 2002 HK\$ M</b>	At 31st December 2001 HK\$ M
0 – 30 days	<b>916.1</b>	785.8
31 – 60 days	<b>37.7</b>	42.0
61 – 90 days	<b>15.0</b>	13.5
Over 90 days	<b>68.4</b>	47.5
	<b><u>1,037.2</u></b>	<u>888.8</u>

## 10. Trade and Other Payables

	<b>At 30th June 2002 HK\$ M</b>	At 31st December 2001 HK\$ M
Trade Creditors ( <i>Note</i> )	<b>107.8</b>	153.5
Other Creditors and Accruals	<b>565.3</b>	512.5
	<b><u>673.1</u></b>	<u>666.0</u>

## 10. Trade and Other Payables (continued)

Note

At 30th June 2002, the aging analysis of the Trade Creditors is as follows:

	At 30th June 2002 HK\$ M	At 31st December 2001 HK\$ M
0 – 30 days	95.5	140.5
31 – 60 days	3.1	5.1
61 – 90 days	1.1	2.1
Over 90 days	8.1	5.8
	<u>107.8</u>	<u>153.5</u>

## 11. Share Capital

	Number of Shares		Nominal Value	
	At 30th June 2002	At 31st December 2001	At 30th June 2002 HK\$ M	At 31st December 2001 HK\$ M
Authorised:				
Ordinary Shares of HK\$0.25 each	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>2,500.0</u>	<u>2,500.0</u>
Issued and Fully Paid:				
At beginning of period/ year	5,203,724,444	5,137,585,155	1,300.9	1,284.4
Bonus Issue (Note 12)	517,350,544	513,758,515	129.3	128.4
Repurchase of Shares	<u>(30,219,000)</u>	<u>(447,619,226)</u>	<u>(7.5)</u>	<u>(111.9)</u>
At end of period/ year	<u>5,690,855,988</u>	<u>5,203,724,444</u>	<u>1,422.7</u>	<u>1,300.9</u>

By an ordinary resolution passed on 9th May 2002, the issued share capital was increased by way of a bonus issue by applying HK\$129,337,636 charging to the share premium account in payment in full at par of 517,350,544 shares of HK\$0.25 each on the basis of one new share for every ten shares held on 26th April 2002. These shares rank pari passu with the existing shares.

## 12. Share Premium

	At 30th June 2002 HK\$ M	At 31st December 2001 HK\$ M
At beginning of period/ year	4,037.1	4,165.5
Less: Bonus Issue (Note 11)	<u>(129.3)</u>	<u>(128.4)</u>
At end of period/ year	<u>3,907.8</u>	<u>4,037.1</u>

### 13. Reserves

	Properties Revaluation Reserve HK\$ M	General Reserve HK\$ M	Capital Redemption Reserve HK\$ M	Unappropriated Profits HK\$ M	Total HK\$ M
At 1st January 2002	4,538.5	3,820.0	136.7	2,386.6	10,881.8
2001 Final Dividend proposed	—	—	—	1,196.9	1,196.9
	4,538.5	3,820.0	136.7	3,583.5	12,078.7
Profit Attributable to Shareholders	—	—	—	1,704.1	1,704.1
Shares Repurchased	—	—	7.5	(291.4)	(283.9)
2001 Final Dividend paid	—	—	—	(1,189.9)	(1,189.9)
2002 Interim Dividend proposed	—	—	—	(682.9)	(682.9)
At 30th June 2002	4,538.5	3,820.0	144.2	3,123.4	11,626.1
Company and Subsidiaries	4,420.8	3,820.0	144.2	3,068.2	11,453.2
Associated Companies	117.7	—	—	55.2	172.9
	4,538.5	3,820.0	144.2	3,123.4	11,626.1

### 14. Contingent Liabilities

The Group has executed guarantees in respect of bank borrowing facilities as follows:

	At 30th June 2002 HK\$ M	At 31st December 2001 HK\$ M
Associated Companies	1,056.2	1,082.9
Jointly Controlled Entities	1,138.5	1,200.0
	2,194.7	2,282.9

Save as disclosed above, the Group did not have any further contingent liabilities as at 30th June 2002.

## 15. Capital Commitments

	<b>At 30th June 2002 HK\$ M</b>	At 31st December 2001 HK\$ M
Capital expenditure authorised but not provided for at end of period/ year	<u>570.0</u>	<u>452.9</u>
Of which, contracts had been entered into at end of period/ year	<u>321.6</u>	<u>194.4</u>

## 16. Related Party Transactions

There were no significant related party transactions undertaken by the Group at any time during the six-month period.

## 17. Subsequent Event

On 2nd August 2002, the Company announced that the Group had entered into a development agreement with Henderson Land and its subsidiaries ("Henderson") in connection with the Ma Tau Kok South property development project. Under the development agreement, Henderson agreed to pay to the Group a sum of HK\$380,529,324 and participate in the residential properties of the development. The consideration paid will entitle Henderson to receive 27% of the future net sales proceeds of the residential portion of the development.

The development agreement also provided that subsidiaries of Henderson Land should be appointed as the project and sales manager, the construction manager and main contractor, the suppliers of certain materials, the leasing agent and the estate manager of the property development. Total estimated amount payable in relation to the above appointments would not exceed a maximum amount of HK\$97 million.

## **FINANCIAL RESOURCES REVIEW**

### **Liquidity and Capital Resources**

As at 30th June 2002, the Group had a healthy net cash position of HK\$1,125 million (31st December 2001: HK\$499 million).

During the first half of 2002, the Company repurchased 30.2 million shares. The total consideration paid to the shareholders and the related expenses amounted to HK\$291 million in cash.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and bank loans. The Group has adequate sources of fund and unutilised banking facilities of HK\$2,455 million (31st December 2001: HK\$2,418 million) to meet its future capital expenditure and working capital requirements.

### **Borrowing Structure**

As at 30th June 2002, the Group's bank borrowings amounted to HK\$1,538 million (31st December 2001: HK\$1,349 million).

All the Group's borrowings are unsecured and floating interest rate revolving credit or term loan facilities with maturity within one year.

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations.

There is no net gearing for the Group as it was in net cash positions throughout 2001 and the first half of 2002.

### **Contingent Liabilities**

As at 30th June 2002, the Group provided guarantees totalling HK\$2,195 million (31st December 2001: HK\$2,283 million) in respect of bank borrowing facilities made available to associated companies and jointly controlled entities.

### **Currency Profile**

The Group's operations and activities are predominantly based in Hong Kong. As such, both its cash and cash equivalents and borrowings are denominated in either Hong Kong dollars or United States dollars. Borrowings for our Group's joint ventures in the mainland China are however predominantly in the local currency, Renminbi.

### **Group's Investments in Securities**

Under the Group's Treasury Committee's guidance, investments have been made in equity and debt securities. As at 30th June 2002, the investments in securities amounted to HK\$1,802 million (31st December 2001: HK\$2,287 million). The performance of the Group's investments in securities was satisfactory.



## OTHER INFORMATION

### Corporate Governance

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this Interim Report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Audit Committee

An audit committee was formed in May 1996 to review and supervise the financial reporting process and internal control of the Company. An audit committee meeting was held in August 2002 to review the unaudited interim accounts for the six months ended 30th June 2002. PricewaterhouseCoopers, the Group's external auditors, have carried out a review of the unaudited interim accounts for the six months ended 30th June 2002 in accordance with the Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. An unmodified review report was issued subsequent to the review.

### Purchase, Sale or Redemption of Own Shares

For the six months ended 30th June 2002, the Company repurchased 30,219,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$290,570,360 before expenses. The repurchased shares were subsequently cancelled. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the aggregate consideration was charged to unappropriated profits. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share		Aggregate Consideration Paid
		Highest	Lowest	
		HK\$	HK\$	HK\$
January 2002	28,768,000	9.70	9.50	276,495,660
February 2002	<u>1,451,000</u>	9.70	9.70	<u>14,074,700</u>
Total	<u>30,219,000</u>			<u>290,570,360</u>

Save as mentioned above, the Company and any of its subsidiaries had not purchased, sold or redeemed any of its own shares during the six months ended 30th June 2002.

## Disclosure of Interests

As at 30th June 2002, the interests of each Director of the Company in the equity securities of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Shares

Director	Personal	Family	Corporate	Other
Dr. Lee Shau Kee	3,226,174	–	–	2,157,017,776 (Note 4)
Mr. Liu Lit Man	1,539,795	–	–	–
Mr. Leung Hay Man	–	–	–	–
Dr. Lee Hon Chiu	–	–	–	–
Mr. Colin Lam Ko Yin	–	–	–	–
Dr. The Hon. David Li Kwok Po	10,964,082	–	–	–
Mr. Ronald Chan Tat Hung	1,940	–	–	–
Mr. Lee Ka Kit	–	–	–	–
Mr. Chan Wing Kin	102,825 (Note 5)	–	–	–
Mr. Kwan Yuk Choi	36,300	41,129	–	–
Mr. Lee Ka Shing	–	–	–	–

Save as mentioned above, as at 30th June 2002, the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests of the directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) nor any rights to subscribe for equity or debt securities of the Company granted to any directors or their respective spouse or children under 18 years of age nor the exercise of any such rights.

### Substantial Shareholders

As at 30th June 2002, the following interests in the shares of the Company were recorded in the register required to be kept under section 16(1) of the SDI Ordinance:

Name of Company	No. of shares in which interested
Disralei Investment Limited (Note 1)	1,159,024,597
Timpani Investments Limited (Note 1)	1,643,249,599
Henderson Investment Limited (Note 1)	2,072,571,545
Kingslee S.A. (Note 1)	2,072,571,545
Henderson Land Development Company Limited (Note 1)	2,072,571,545
Henderson Development Limited (Note 2)	2,076,538,017
Hopkins (Cayman) Limited (Note 3)	2,157,017,776
Rimmer (Cayman) Limited (Note 3)	2,157,017,776

Notes:–

1. Kingslee S.A., a subsidiary of Henderson Land Development Company Limited has a controlling interest in Henderson Investment Limited. The 2,072,571,545 shares were beneficially owned by some of the subsidiaries of Henderson Investment Limited. Timpani Investments Limited is a subsidiary of Henderson Investment Limited and, together with its subsidiary Disraei Investment Limited, beneficially owned 1,643,249,599 shares out of 2,072,571,545 shares.
2. Henderson Development Limited beneficially owned more than one third of the share capital in Henderson Land Development Company Limited. Of the 2,076,538,017 shares, 2,072,571,545 shares represented the shares described in Note 1 and the other shares were beneficially owned by a subsidiary of Henderson Development Limited.
3. Of these 2,157,017,776 shares, 2,076,538,017 shares represented the shares described in Notes 1 and 2. Rimmer (Cayman) Limited as trustee of a discretionary trust held a majority of units in a unit trust (“Unit Trust”). Hopkins (Cayman) Limited as trustee of the Unit Trust beneficially owned all the issued shares which carry the voting rights in the share capitals of Henderson Development Limited and Fu Sang Company Limited.
4. Dr. Lee Shau Kee beneficially owned all the issued shares in Rimmer (Cayman) Limited and Hopkins (Cayman) Limited. These 2,157,017,776 shares included the shares described in Notes 1, 2 and 3.
5. These shares were jointly held by Mr. Chan Wing Kin and his spouse.

## **CORPORATE INFORMATION**

### **Registered Office**

23rd Floor, 363 Java Road, North Point,  
Hong Kong

### **Company’s Website**

[www.towngas.com](http://www.towngas.com)

### **Registrars**

Computershare Hong Kong Investor Services Limited  
Rooms 1901-5, 19th Floor, Hopewell Centre,  
183 Queen’s Road East,  
Hong Kong