

# **2004**

# **Interim Report**



**Towngas**

**The Hong Kong and China Gas Company Limited**

# THE HONG KONG AND CHINA GAS COMPANY LIMITED

## 2004 INTERIM REPORT

*To Shareholders*

Dear Sir or Madam,

### HALF-YEARLY RESULTS

The Directors are pleased to report that the unaudited profit attributable to shareholders of the Group for the six months ended 30th June 2004 amounted to HK\$1,766.0 million.

Highlights of the unaudited results of the Group for the six months ended 30th June 2004 with comparative unaudited figures for the corresponding period in 2003 are shown in the following summary:

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
Turnover before Fuel Cost Adjustment, HK million dollars	<b>3,972.7</b>	3,850.7
Turnover after Fuel Cost Adjustment, HK million dollars	<b>4,266.9</b>	3,975.6
Profit Attributable to Shareholders, HK million dollars	<b>1,766.0</b>	1,805.1
Earnings per Share, HK cents	<b>31.3</b>	31.8
Interim Dividends per Share, HK cents	<b>12.0</b>	12.0
Town Gas Sold in Hong Kong, million MJ	<b>15,142</b>	14,851
Number of Customers in Hong Kong as at 30th June	<b>1,538,751</b>	1,492,860

Profit attributable to shareholders of the Group for the six months ended 30th June 2003 included a sum of over HK\$200 million which represented the Group's share of profits arising from the sale of 14 floors of Two International Finance Centre to the Hong Kong Monetary Authority. After adjusting for profits from property investment made by the associated companies and the number of shares repurchased, earnings per share for the six months ended 30th June 2003 amounted to HK31.8 cents. Earnings per share for the six months ended 30th June 2004 amounted to HK31.3 cents, a slight decrease of 1.6 per cent as compared with the corresponding period in 2003.

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

### GAS BUSINESS IN HONG KONG

The Group's gas business in Hong Kong maintained steady growth. Total gas sales volume in Hong Kong for the six months ended 30th June 2004 rose by 2.0 per cent over the same period last year. In 2003, commercial and industrial gas sales volume decreased as a result of the adverse impact of the SARS outbreak on the hotel and beverage business. Compared with the same period last year, commercial and industrial gas sales volume for the six months ended 30th June 2004 increased by 5.4 per cent whereas residential gas sales volume maintained a similar level to 2003. As at 30th June 2004, the number of customers was 1,538,751, an increase of 45,891 over the same period last year.

## **BUSINESS DEVELOPMENT IN CHINA**

Geographically, China has immense potential for the development of gas markets and gas projects and its need for energy is substantial. Due to the recent widespread shortage of electricity and coal, coal and petroleum prices remain high. Natural gas, being both environmentally-friendly and economical, has thus become a priority form of energy. The Central Government is now therefore striving to accelerate the growth of natural gas consumption, creating good prospects for the development of the natural gas business on the mainland.

In developing its mainland gas business, the Group has so far concluded city piped gas joint venture projects in 26 cities covering Guangdong Province, East China, Shandong Province and Central China. These joint venture projects include two new projects in Shunde District of Foshan in Guangdong Province and Danyang in Jiangsu Province with joint venture agreements signed this year. The Group has also acquired a 25 per cent equity interest in Anhui Province's midstream natural gas project in order to develop city piped gas projects there.

Since late 2003, the West-to-East gas pipeline project has been supplying natural gas to East China. The Group's joint ventures in Nanjing, Changzhou, Suzhou Industrial Park, Yixing, Maanshan, etc. are now undertaking natural gas conversions and are making good progress. With the foundation of our mainland business being gradually strengthened and our brand name increasingly recognised, the Group is now well-placed to allocate more resources towards developing its business in large-scale cities where investment amounts tend to be higher.

Leveraging its development of city piped gas projects, the Group is now exploring potential investment opportunities in the construction and operation of natural gas distribution networks between cities within provincial areas. Investment in both midstream and downstream city piped gas projects will have a strategic impact on the consolidation of the Group's business in the clean fuel market. In addition, capitalising on our experience and technical know-how obtained in Hong Kong, the Group is also exploring business prospects for developing other natural gas businesses including natural gas filling stations for vehicles and regional natural gas air-conditioning systems.

The Group's business development on the mainland is progressing in a proper sequence and at an appropriate pace. Market growth of those joint ventures having natural gas supply has been accelerated. This smooth operation underpins good business prospects for the Group's joint ventures.

## **ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES**

The business of liquefied petroleum gas (LPG) filling stations is run by the Group's wholly-owned subsidiary company, ECO Energy Company Limited (ECO). As at the end of July 2004, there were 12 dedicated LPG filling stations in Hong Kong, of which five were ECO Stations, and 36 petrol filling stations retrofitted with LPG filling facilities to meet the demand for LPG from the territory's approximately 18,000 taxis and 1,000 light buses. With current market share of approximately 30 per cent, the business of ECO Stations generates steady revenue for the Group.

ECO also entered into an agreement with the operator of the North East New Territories (NENT) landfill in 2003 to install a landfill gas treatment facility at the Ta Kwu Ling site and to connect a 19 km pipeline to the Tai Po gas production plant so as to utilise methane recovered from the landfill gas as an energy source for town gas production. Completion of this project will help both mitigate global warming through reducing emissions on site at NENT and conserve natural resources as the treated landfill gas is used as a fuel to partially replace naphtha.

## **PROPERTY DEVELOPMENTS**

The Group has a 15 per cent interest in the Airport Railway Hong Kong Station project. Over 90 per cent of the shopping mall and office tower of Two International Finance Centre has been leased out. The project's six-star hotel tower and service apartment tower, both to be managed by Four Seasons Hotels and Resorts, are under construction and scheduled for completion by mid-2005.

The Group has a 50 per cent interest in the Grand Promenade, Sai Wan Ho development project. Pre-sale, commencing from early August this year, is progressing well and has received a good response. On completion in 2005, this project will provide 2,020 units, with a total floor area of approximately 1.7 million square feet. The project is expected to yield substantial returns.

The Ma Tau Kok South Plant site is being developed into five residential apartment buildings, providing approximately 2,000 units, with a residential floor area of approximately 980,000 square feet. Including the commercial area, total floor area exceeds 1.1 million square feet. Foundation work has already been completed; construction of the superstructure is now in progress. The project is due for completion in 2006.

## **EMPLOYEES AND PRODUCTIVITY**

The number of employees engaged in the town gas business was 1,969 as at 30th June 2004; the number of customers increased by approximately 46,000 compared with the corresponding period in 2003. Overall productivity rose by 3.4 per cent. Total remuneration for employees involved directly in the town gas business amounted to HK\$312 million for the six months ended 30th June 2004 compared to HK\$313 million for the corresponding period in 2003. The Group offers our employees rewarding careers based on their capabilities and performance and arranges a variety of training programmes in order to constantly enhance the quality of customer services.

## **DIVIDEND**

Your Directors have declared an interim dividend of HK12 cents per share payable to shareholders whose names are on the register of shareholders of the Company as of 8th October 2004. To enable our Registrars to complete the necessary work associated with this payment, the register of shareholders will be closed on Thursday, 7th October 2004 and Friday, 8th October 2004, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Monday, 25th October 2004.

## **BUSINESS OUTLOOK FOR 2004**

The Company has not increased its basic gas tariff for the past six years. Nevertheless the Board of Directors will make every effort to maintain its current business performance throughout the year.

## **LEE Shau Kee**

Chairman

Hong Kong, 7th September 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**

for the six months ended 30th June

	Note	2004 HK\$ M	2003 HK\$ M
Turnover	2	<u>4,266.9</u>	<u>3,975.6</u>
Operating Profit before Returns on Investments	3	<b>1,966.5</b>	1,912.6
Investment Income		<b>88.1</b>	83.6
Interest Income		<b>41.2</b>	47.1
Interest Expense		<b>(2.9)</b>	(4.5)
Share of Profits less Losses of Associated Companies		<b>38.7</b>	209.7
Share of Profits less Losses of Jointly Controlled Entities		<u>16.1</u>	<u>4.0</u>
Profit before Taxation	4	<b>2,147.7</b>	2,252.5
Taxation	5	<u>(370.5)</u>	<u>(438.5)</u>
Profit after Taxation		<b>1,777.2</b>	1,814.0
Minority Interests		<u>(11.2)</u>	<u>(8.9)</u>
Profit Attributable to Shareholders		<u>1,766.0</u>	<u>1,805.1</u>
Dividends – Interim Proposed	6	<u>677.2</u>	<u>677.2</u>
Earnings per Share, HK cents	7	<u>31.3</u>	<u>31.8</u>

## CONSOLIDATED BALANCE SHEET

as at 30th June 2004

	Note	Unaudited At 30th June 2004 HK\$ M	Audited At 31st December 2003 HK\$ M
<b>Assets</b>			
<b>Non-Current Assets</b>			
Fixed Assets	8	10,019.4	9,644.3
Associated Companies		2,654.2	2,703.8
Jointly Controlled Entities		3,108.1	2,558.9
Investment Securities		698.7	861.3
		<u>16,480.4</u>	<u>15,768.3</u>
<b>Current Assets</b>			
Property under Development for Sale		1,143.8	1,105.7
Inventories		665.5	658.5
Debtors and Payment in Advance	9	1,804.2	1,688.9
Housing Loans to Staff		137.1	147.5
Trading Securities		250.8	392.6
Time Deposits, Cash and Bank Balances		2,639.2	1,998.2
		<u>6,640.6</u>	<u>5,991.4</u>
<b>Current Liabilities</b>			
Trade and Other Payables	10	(718.9)	(700.4)
Provision for Taxation		(395.5)	(221.8)
Bank Loans and Overdrafts		(2,830.6)	(2,281.5)
		<u>(3,945.0)</u>	<u>(3,203.7)</u>
<b>Net Current Assets</b>		<u>2,695.6</u>	<u>2,787.7</u>
<b>Total Assets Less Current Liabilities</b>		<u>19,176.0</u>	<u>18,556.0</u>
<b>Non-Current Liabilities</b>			
Customers' Deposits		(913.5)	(890.3)
Deferred Taxation		(938.3)	(905.0)
Deferred Liabilities		(86.4)	(56.7)
		<u>(1,938.2)</u>	<u>(1,852.0)</u>
<b>Minority Interests</b>		<u>(288.3)</u>	<u>(222.5)</u>
<b>Net Assets</b>		<u>16,949.5</u>	<u>16,481.5</u>
<b>Capital and Reserves</b>			
Share Capital	11	1,410.9	1,410.9
Share Premium		3,907.8	3,907.8
Reserves	12	10,953.6	9,864.8
Proposed Dividend	12	677.2	1,298.0
		<u>16,949.5</u>	<u>16,481.5</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

for the six months ended 30th June

	<b>2004</b> <b>HK\$ M</b>	2003 HK\$ M
Net Cash Inflow from Operating Activities	<b>1,966.8</b>	1,695.9
Net Cash (Used in)/Inflow from Investing Activities	<b>(683.1)</b>	620.4
Net Cash Used in Financing Activities	<b>(737.0)</b>	<u>(2,952.3)</u>
Increase/(Decrease) in Cash and Cash Equivalents	<b>546.7</b>	(636.0)
Cash and Cash Equivalents at 1st January	<b>1,589.9</b>	2,142.7
Effect of Foreign Exchange Rate Changes	<b>1.9</b>	<u>–</u>
Cash and Cash Equivalents at 30th June	<b><u>2,138.5</u></b>	<u>1,506.7</u>
Analysis of Balances of Cash and Cash Equivalents		
Net Cash at Bank and in Hand	<b>377.6</b>	128.5
Time Deposits up to three months	<b>1,769.8</b>	1,394.4
Bank Overdrafts	<b>(8.9)</b>	<u>(16.2)</u>
	<b><u>2,138.5</u></b>	<u>1,506.7</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

for the six months ended 30th June

	Note	2004 HK\$ M	2003 HK\$ M
Total Equity as at 1st January		<b>16,481.5</b>	15,828.6
Profit Attributable to Shareholders for the period	12	<b>1,766.0</b>	1,805.1
Dividends Paid	6		
2002 Final Dividend Paid		–	(1,305.3)
2003 Final Dividend Paid		<b>(1,298.0)</b>	–
Shares Repurchased		–	(450.6)
Total Equity as at 30th June		<b><u>16,949.5</u></b>	<u>15,877.8</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 2003 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 2003.

During the period, the Directors have reviewed the useful life of the production plant at Tai Po and considered it appropriate to revise the estimated useful life from 25 years to 30 years. This represents a change in accounting estimates and the Group’s depreciation charge for the current period was reduced by approximately HK\$10.4 million.

### 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	
	2004	2003
	HK\$ M	HK\$ M
Gas Sales before Fuel Cost Adjustment	3,366.7	3,244.5
Fuel Cost Adjustment	294.2	124.9
Gas Sales after Fuel Cost Adjustment	3,660.9	3,369.4
Equipment Sales	383.3	424.6
Maintenance and Services	117.5	115.9
Other Sales	105.2	65.7
	<u>4,266.9</u>	<u>3,975.6</u>

### 3. Operating Profit before Returns on Investments

	Six months ended 30th June	
	2004 HK\$ M	2003 HK\$ M
Turnover	4,266.9	3,975.6
Less Expenses:		
Stores and Materials Used	(1,425.4)	(1,197.6)
Manpower Costs	(354.3)	(351.3)
Depreciation	(222.1)	(217.5)
Other Operating Items	(298.6)	(296.6)
Operating Profit before Returns on Investments	<u>1,966.5</u>	<u>1,912.6</u>

### 4. Profit before Taxation

	Six months ended 30th June	
	2004 HK\$ M	2003 HK\$ M
Profit before Taxation is stated after crediting and charging the following:		
Crediting:		
Dividend Income from Equity Securities		
– Listed	17.8	24.5
– Unlisted	0.8	–
Interest Income from Debt Securities		
– Listed	5.9	19.7
– Unlisted	6.7	5.5
Net Realised and Unrealised Gains on Investments in Securities	57.9	53.3
Charging:		
Cost of Inventories Sold	<u>1,584.6</u>	<u>1,363.2</u>

## 5. Taxation

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$ M</b>	HK\$ M
Company and Subsidiaries		
Current Taxation – Provision for Hong Kong Profits Tax at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period	<b>353.5</b>	350.3
Current Taxation – Over provision in prior years	<b>(26.6)</b>	–
Deferred Taxation relating to the origination and reversal of temporary differences	<b>33.3</b>	13.7
Deferred Taxation resulting from the increase in tax rate from 16% in 2002 to 17.5% in 2003	<b>–</b>	74.5
	<b>360.2</b>	438.5
Share of Taxation attributable to:		
Associated Companies	<b>(1.2)</b>	–
Jointly Controlled Entities	<b>11.5</b>	–
	<b>370.5</b>	438.5

## 6. Dividends

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$ M</b>	HK\$ M
2003 Final, paid, of HK23 cents per share (2002 Final: HK23 cents per share)	<b>1,298.0</b>	1,305.3
2004 Interim, proposed, of HK12 cents per share (2003 Interim: HK12 cents per share)	<b>677.2</b>	677.2
	<b>1,975.2</b>	1,982.5

## 7. Earnings per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,766.0 million (2003: HK\$1,805.1 million) and the weighted average of 5,643,651,988 shares in issue (2003: 5,667,556,821 shares after adjusting for the shares repurchased) during the period.

## 8. Fixed Assets

	Land HK\$ M	Properties under Development HK\$ M	Buildings, Plant, Mains and Other Equipment HK\$ M	Total HK\$ M
Cost				
At 1st January 2004	1,921.3	204.4	12,849.7	14,975.4
Additions	0.7	5.4	591.5	597.6
Disposals	–	–	(67.0)	(67.0)
At 30th June 2004	<u>1,922.0</u>	<u>209.8</u>	<u>13,374.2</u>	<u>15,506.0</u>
Accumulated Depreciation				
At 1st January 2004	335.0	–	4,996.1	5,331.1
Charge for the period	19.9	–	202.2	222.1
Disposals	–	–	(66.6)	(66.6)
At 30th June 2004	<u>354.9</u>	<u>–</u>	<u>5,131.7</u>	<u>5,486.6</u>
Net Book Value				
At 30th June 2004	<u>1,567.1</u>	<u>209.8</u>	<u>8,242.5</u>	<u>10,019.4</u>
At 31st December 2003	<u>1,586.3</u>	<u>204.4</u>	<u>7,853.6</u>	<u>9,644.3</u>

## 9. Debtors and Payment in Advance

	At 30th June 2004 HK\$ M	At 31st December 2003 HK\$ M
Trade Debtors ( <i>Note a</i> )	1,128.1	1,034.0
Other Debtors and Receivables ( <i>Note b</i> )	631.3	596.0
Payment in Advance	44.8	58.9
	<u>1,804.2</u>	<u>1,688.9</u>

## 9. Debtors and Payment in Advance (continued)

### Notes

- (a) 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 2004, the aging analysis of the trade debtors, net of provision, was as follows:

	<b>At 30th June 2004 HK\$ M</b>	At 31st December 2003 HK\$ M
0 – 30 days	943.3	870.7
31 – 60 days	46.6	43.2
61 – 90 days	20.3	25.8
Over 90 days	117.9	94.3
	<u>1,128.1</u>	<u>1,034.0</u>

- (b) Other debtors and receivables include HK\$256.0 million (31st December 2003: HK\$256.0 million) prepayment for investment in a PRC joint venture.

## 10. Trade and Other Payables

	<b>At 30th June 2004 HK\$ M</b>	At 31st December 2003 HK\$ M
Trade Creditors (Note)	142.8	126.3
Other Creditors and Accruals	576.1	574.1
	<u>718.9</u>	<u>700.4</u>

### Note

At 30th June 2004, the aging analysis of the trade creditors was as follows:

	<b>At 30th June 2004 HK\$ M</b>	At 31st December 2003 HK\$ M
0 – 30 days	114.9	109.9
31 – 60 days	14.3	5.3
61 – 90 days	2.1	1.9
Over 90 days	11.5	9.2
	<u>142.8</u>	<u>126.3</u>

## 11. Share Capital

	Number of Shares		Nominal Value	
	At 30th June 2004	At 31st December 2003	At 30th June 2004 HK\$ M	At 31st December 2003 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	<u>5,643,651,988</u>	<u>5,690,855,988</u>	<u>1,410.9</u>	<u>1,422.7</u>
Shares Repurchased	<u>–</u>	<u>(47,204,000)</u>	<u>–</u>	<u>(11.8)</u>
At end of period/year	<u>5,643,651,988</u>	<u>5,643,651,988</u>	<u>1,410.9</u>	<u>1,410.9</u>

## 12. 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 2004	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>3,327.4</u>	<u>9,864.8</u>
Profit Attributable to Shareholders	–	–	–	1,766.0	1,766.0
2003 Final Dividend proposed	–	–	–	1,298.0	1,298.0
2003 Final Dividend paid	–	–	–	(1,298.0)	(1,298.0)
At 30th June 2004	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>5,093.4</u>	<u>11,630.8</u>
Balance after 2004 Interim Dividend proposed	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>4,416.2</u>	<u>10,953.6</u>
2004 Interim Dividend proposed	–	–	–	677.2	677.2
	<u>3,061.4</u>	<u>3,320.0</u>	<u>156.0</u>	<u>5,093.4</u>	<u>11,630.8</u>

### 13. Contingent Liabilities

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

	<b>At 30th June 2004 HK\$ M</b>	At 31st December 2003 HK\$ M
Associated Companies	<b>998.0</b>	998.0
Jointly Controlled Entities	<b>110.9</b>	–
	<b><u>1,108.9</u></b>	<u>998.0</u>

Save as disclosed above, the Group did not have any further contingent liabilities as at 30th June 2004.

### 14. Commitments

(a) Capital expenditure for fixed assets

	<b>At 30th June 2004 HK\$ M</b>	At 31st December 2003 HK\$ M
Authorised but not brought into the accounts at end of period/year	<b><u>760.3</u></b>	<u>691.0</u>
Of which, contracts had been entered into at end of period/year	<b><u>447.6</u></b>	<u>379.6</u>

(b) 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 the Group's share of projected funds requirements of these projects would be approximately HK\$255.6 million (31st December 2003: HK\$358.7 million) which represents the attributable portion of the capital and loan contributions to be made to the joint ventures.

### 15. Related Party Transactions

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

## **FINANCIAL RESOURCES REVIEW**

### **Liquidity and Capital Resources**

As at 30th June 2004, the Group had a net borrowing position of HK\$192 million (31st December 2003: HK\$284 million). After taking into account of the trading securities portfolio of HK\$251 million (31st December 2003: HK\$393 million), the total liquid funds as at 30th June 2004 amounted to HK\$59 million (31st December 2003: HK\$109 million). In addition, banking facilities available for ready use amounted to HK\$1,540 million (31st December 2003: HK\$1,465 million).

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 to meet its future capital expenditure and working capital requirements.

### **Borrowing Structure**

As at 30th June 2004, the Group's bank borrowings amounted to HK\$2,831 million (31st December 2003: HK\$2,282 million). All the Group's borrowings are unsecured and have a floating interest rate with maturity within one year on revolving credit or term loan facility.

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations. The net gearing ratio (net borrowing/shareholders' funds) for the Group as at 30th June 2004 and 31st December 2003 stayed healthily at around 1 per cent and 2 per cent respectively.

### **Contingent Liabilities**

As at 30th June 2004, the Group provided guarantees totalling HK\$1,109 million (31st December 2003: HK\$998 million) in respect of bank borrowing facilities and financial undertaking 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 the Group's subsidiaries and joint ventures in mainland China are however predominantly denominated in the local currency, Renminbi.

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

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 30th June 2004, the investments in securities amounted to HK\$950 million (31st December 2003: HK\$1,254 million). The performance of the Group's investments in securities was satisfactory.



## OTHER INFORMATION

### Corporate Governance

None of the Directors is aware of any 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 (the "Listing Rules").

### 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 2004 to review the unaudited interim accounts for the six months ended 30th June 2004. PricewaterhouseCoopers, the Group's external auditors, have carried out a review of the unaudited interim accounts for the six months ended 30th June 2004 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its own shares during the six months ended 30th June 2004.

During the month of July 2004, the Company repurchased 4,923,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$64,392,650 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term.

### Financial Assistance and Guarantees to Affiliated Companies

As at 30th June 2004, the Group has provided financial assistance and guarantees to its associated companies and jointly controlled entities (collectively "affiliated companies") totalling HK\$5,507 million, representing approximately 32 per cent of the Group's net assets. Pursuant to Practice Note 19 of the Listing Rules in force prior to 31st March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1st July 2004 under the transitional arrangements, a proforma combined balance sheet of the affiliated companies as at 30th June 2004 is set out below:

	HK\$ M
Non-Current Assets	26,757
Current Assets	2,064
Current Liabilities	(1,570)
Non-Current Liabilities	(22,256)
<b>Net Assets</b>	<b>4,995</b>
Share Capital	1,621
Reserves	3,374
<b>Capital and Reserves</b>	<b>4,995</b>

As at 30th June 2004, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$1,328 million.

Loans to associated companies of HK\$2,126 million are mainly for the financing of properties development projects and the amounts are unsecured, interest free and have no fixed terms of repayment.

Loans to jointly controlled entities of HK\$2,272 million include loan to a joint venture with Henderson Land Development Limited for the Sai Wan Ho property development project, which is unsecured, interest bearing and has no fixed terms of repayment. Other loans to jointly controlled entities are all provided to our PRC joint ventures, which are unsecured, interest free and have no fixed terms of repayment.

Particulars of the guarantees of banking facilities and committed capital injection for the affiliated companies are shown in Notes 13 and 14(b) to the interim accounts.

## Disclosure of Interests

### A. Directors

As at 30th June 2004 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

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		2,157,017,776 (Note 5)		2,160,243,950	38.28	
	Mr. Liu Lit Man	1,672,894				1,672,894	0.03	
	Dr. The Hon. David Li Kwok Po	12,022,832				12,022,832	0.21	
	Mr. Ronald Chan Tat Hung	1,940				1,940	0.00	
	Mr. Lee Ka Kit				2,157,017,776 (Note 4)	2,157,017,776	38.22	
	Mr. Chan Wing Kin	102,825*				102,825*	0.00	
	Mr. Kwan Yuk Choi	36,300	41,129			77,429	0.00	
	Mr. Lee Ka Shing				2,157,017,776 (Note 4)	2,157,017,776	38.22	

Name of Company	Director	Personal Interests	Family Interests	Corporate Interests	Other	Total	%**
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

\* These shares were jointly held by Mr. 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.

Save as mentioned above, as at 30th June 2004, 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

As at 30th June 2004, the interests and short positions of every person, other than the 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 per cent or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,159,024,597	20.54
	Timpani Investments Limited (Note 1)	1,643,249,599	29.12
	Henderson Investment Limited (Note 1)	2,072,571,545	36.72
	Kingslee S.A. (Note 1)	2,072,571,545	36.72
	Henderson Land Development Company Limited (Note 1)	2,072,571,545	36.72
	Henderson Development Limited (Note 2)	2,076,538,017	36.79
	Hopkins (Cayman) Limited (Note 3)	2,157,017,776	38.22
	Riddick (Cayman) Limited (Note 4)	2,157,017,776	38.22
	Rimmer (Cayman) Limited (Note 4)	2,157,017,776	38.22
<b>Persons other than Substantial Shareholders</b>	Macrostar Investment Limited (Note 1)	429,321,946	7.61
	Medley Investment Limited (Note 1)	484,225,002	8.58

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

Save as mentioned above, as at 30th June 2004, 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 2,072,571,545 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 73.48 per cent of total issued shares in HI.
- Henderson Development Limited ("HD") beneficially owned 61.87 per cent of the total issued shares of HLD. Of these 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 wholly-owned subsidiary of HD.
- Of these 2,157,017,776 shares, 2,076,538,017 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 2,157,017,776 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the 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.

5. These 2,157,017,776 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.
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.

## **CORPORATE INFORMATION**

### **Board of Directors**

As at the date of this report, the board of directors of the Company comprises: Dr. Lee Shau Kee (Chairman), Mr. Liu Lit Man\*, Mr. Leung Hay Man\*, Dr. Lee Hon Chiu\*, Mr. Colin Lam Ko Yin, Dr. The Hon. David Li Kwok Po\*, Mr. Ronald Chan Tat Hung, Mr. Lee Ka Kit, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi and Mr. Lee Ka Shing.

*\* Independent Non-executive Director*

### **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  
46th Floor, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

*A printed version of this Interim Report is available on request from the Company and the Company's Registrars free of charge. The website version of this Interim Report is also available on the Company's website.*

*If a shareholder wishes to change his choice of language and/or means of receipt of future corporate communications, the shareholder may at any time free of charge notify the Company's Registrars by reasonable notice in writing, stating his name(s) in both English and Chinese (if applicable), address, contact telephone number, number of shares held and details of his change of choice.*