

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 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed its depreciation policy for gas mains and the accounting for proposed dividends.

In prior years, gas mains were depreciated on a straight line basis over 30 years. The Directors have reviewed the useful lives of these assets and considered it appropriate to depreciate them on a straight line basis over 40 years. This represents a change in accounting estimate and the Group's depreciation charge for the current period has been reduced by approximately HK\$21.8 million.

In accordance with the revised SSAP 9 issued by the Hong Kong Society of Accountants and effective for accounting periods beginning on or after 1st January 2001, dividends proposed or declared after the balance sheet date are no longer recognized as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated. The effect of this change is to increase shareholders' funds at 31st December 1999 and 2000 by HK\$1,082.9 million and HK\$1,181.6 million respectively.

2. Turnover

The Group is principally engaged in the production, distribution and marketing of town gas and related activities. Turnover comprises the following:

	Six months ended 30th June	
	2001	2000
	HK\$ M	HK\$ M
Gas Sales before Fuel Cost Adjustment	3,017.4	2,923.8
Fuel Cost Adjustment	22.1	17.1
Gas Sales after Fuel Cost Adjustment	3,039.5	2,940.9
Equipment Sales	476.1	430.0
Maintenance and Services	110.3	105.3
Other Sales	87.9	21.9
	3,713.8	3,498.1

3. Operating Profit

	Six months ended 30th June	
	2001	2000
	HK\$ M	HK\$ M
Turnover	3,713.8	3,498.1
Less Expenses:		
Stores and Materials Used	1,049.2	938.9
Salaries and Wages	340.5	331.7
Depreciation	224.4	231.1
Other Operating Items	218.4	255.6
Operating Profit	1,881.3	1,740.8

No geographical analysis of the Group's turnover and trading results is presented as more than 90% of the Group's turnover and trading results are generated in Hong Kong.

4. Profit Before Taxation

	Six months ended 30th June	
	2001	2000
	HK\$ M	HK\$ M
Profit Before Taxation is stated after crediting and charging the following:		
Crediting:		
Dividend and Interest Income from Listed Investments	40.4	17.9
Dividend and Interest Income from Unlisted Investments	16.9	9.7
Realized and Unrealized Gains on Investments in Securities	92.8	36.9
Charging:		
Cost of Inventories Sold	1,213.2	1,094.1

5. Taxation

Hong Kong Profits Tax is provided at the tax rate of 16% (2000: 16%) on the estimated assessable profit for the period.

6. Dividends

	Six months ended 30th June	
	2001	2000
	HK\$ M	HK\$ M
2000 Final Dividend paid, of HK cents 23 per share (1999 Final Dividend paid: HK cents 23 per share)	1,181.6	1,082.9
2001 Interim, proposed on 18th September 2001, of HK cents 12 per share (2000 Interim: HK cents 12 per share)	633.7	621.5
	1,815.3	1,704.4

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,701.5 million (2000: HK\$1,594.8 million) and the weighted average of 5,651,343,670 shares in issue (2000: 5,693,072,670 shares *).

* Adjusted for bonus issue in 2001.

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 2001	1,797.7	3,090.2	10,842.9	15,730.8
Additions	–	0.8	317.3	318.1
Disposals	–	–	(12.2)	(12.2)
At 30th June 2001	1,797.7	3,091.0	11,148.0	16,036.7
Accumulated Depreciation				
At 1st January 2001	220.5	–	3,874.4	4,094.9
Charge for the period	18.5	–	205.9	224.4
Disposals	–	–	(12.1)	(12.1)
At 30th June 2001	239.0	–	4,068.2	4,307.2
Net Book Value				
At 30th June 2001	1,558.7	3,091.0	7,079.8	11,729.5
At 31st December 2000	1,577.2	3,090.2	6,968.5	11,635.9

9. Debtors and Payment in Advance

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
Trade Debtors (<i>Note</i>)	1,040.8	829.6
Other Debtors and Receivables	144.0	114.0
Payment in Advance	129.4	128.4
	<u>1,314.2</u>	<u>1,072.0</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 2001, the aging analysis of the Trade Debtors, net of provision, is as follows:

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
0 – 30 days	865.8	682.4
31 – 60 days	79.8	66.8
61 – 90 days	21.4	19.3
Over 90 days	73.8	61.1
	<u>1,040.8</u>	<u>829.6</u>

10. Trade and Other Payables

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
Trade Creditors (<i>Note</i>)	117.1	109.6
Other Creditors and Accruals	618.6	541.7
	<u>735.7</u>	<u>651.3</u>

Note

At 30th June 2001, the aging analysis of the Trade Creditors is as follows:

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
0 – 30 days	105.2	100.7
31 – 60 days	4.5	2.4
61 – 90 days	1.4	1.0
Over 90 days	6.0	5.5
	<u>117.1</u>	<u>109.6</u>

11. Share Capital

	Number of Shares		Nominal Value	
	At 30th June 2001	At 31st December 2000	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
Authorized:				
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	5,137,585,155	4,708,467,414	1,284.4	1,177.1
Bonus Issue (Note 12)	513,758,515	470,846,741	128.4	117.7
Repurchase of Shares	–	(41,729,000)	–	(10.4)
At end of period	<u>5,651,343,670</u>	<u>5,137,585,155</u>	<u>1,412.8</u>	<u>1,284.4</u>

By an ordinary resolution passed on 3rd May 2001, the issued share capital was increased by way of a bonus issue by applying HK\$128,439,629 charging to the share premium account in payment in full at par of 513,758,515 shares of HK\$0.25 each on the basis of one new share for every ten shares held on 20th April 2001. These shares rank pari passu with the existing shares.

12. Share Premium

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
At beginning of period	4,165.5	4,283.2
Less: Bonus Issue (Note 11)	<u>(128.4)</u>	<u>(117.7)</u>
At end of period	<u>4,037.1</u>	<u>4,165.5</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 2001	4,420.8	7,320.0	24.8	1,896.2	13,661.8
Effect of adopting revised SSAP 9 (Note 1)	—	—	—	1,181.6	1,181.6
At 1st January 2001 as restated	4,420.8	7,320.0	24.8	3,077.8	14,843.4
2000 Final Dividend paid	—	—	—	(1,181.6)	(1,181.6)
Profit Attributable to Shareholders	—	—	—	1,701.5	1,701.5
2001 Interim Dividend proposed	—	—	—	(633.7)	(633.7)
At 30th June 2001	4,420.8	7,320.0	24.8	2,964.0	14,729.6
Company and Subsidiaries Associated Companies	4,420.8 —	7,320.0 —	24.8 —	2,921.4 42.6	14,687.0 42.6
	4,420.8	7,320.0	24.8	2,964.0	14,729.6
At 1st January 2000	4,420.8	6,920.0	14.4	1,357.0	12,712.2
Effect of adopting revised SSAP 9 (Note 1)	—	—	—	1,082.9	1,082.9
At 1st January 2000 as restated	4,420.8	6,920.0	14.4	2,439.9	13,795.1
1999 Final Dividend paid	—	—	—	(1,082.9)	(1,082.9)
Profit Attributable to Shareholders	—	—	—	3,131.0	3,131.0
Transfer to General Reserve	—	400.0	—	(400.0)	—
Shares Repurchased	—	—	10.4	(393.7)	(383.3)
2000 Interim Dividend Paid	—	—	—	(616.5)	(616.5)
2000 Final Dividend Proposed	—	—	—	(1,181.6)	(1,181.6)
At 31st December 2000	4,420.8	7,320.0	24.8	1,896.2	13,661.8
Company and Subsidiaries Associated Companies	4,420.8 —	7,320.0 —	24.8 —	1,835.3 60.9	13,600.9 60.9
	4,420.8	7,320.0	24.8	1,896.2	13,661.8

14. Contingent Liabilities

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

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
Associated companies	1,050.0	1,050.0
Jointly controlled entities	1,100.0	—
	<u>2,150.0</u>	<u>1,050.0</u>

15. Capital Commitments

	At 30th June 2001 HK\$ M	At 31st December 2000 HK\$ M
Capital expenditure authorized but not provided for at end of period	492.7	1,605.0
Of which, contracts had been entered into at end of period	251.7	1,361.5

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 13th June 2001, the Company announced a conditional cash offer to repurchase up to 300 million shares (subject to adjustment for increase up to 400 million shares) at an offer price of between HK\$9.7 and HK\$10.3 in cash per share. The proposed offer was approved by ordinary resolutions passed at the Extraordinary General Meeting of the Company held on 21st July 2001. On 6th August 2001, the Company announced its acceptance of a total of 364,487,226 shares at HK\$9.7 per share under the offer. The total consideration of approximately HK\$3,535.5 million was paid on 9th August 2001 by the Company.