

report of the directors

The Directors have pleasure in submitting to Shareholders their Report and the Audited Accounts for the year ended 31st December 2004 which are to be presented at the Annual General Meeting to be held in the Pheasant Room, Mandarin Oriental Hotel, Hong Kong on Wednesday, 4th May 2005.

Principal activities

The principal activities of the Company continue to be the production, distribution and marketing of gas and related activities. The particulars of the principal subsidiaries are shown on pages 90 to 92 of this Annual Report. Turnover and contribution to operating profit are mainly derived from activities carried out in Hong Kong.

Results and appropriations

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 54 of this Annual Report.

An interim dividend of HK 12 cents per share was paid to shareholders on 25th October 2004 and the Directors recommend a final dividend of HK 23 cents per share payable on 5th May 2005 to shareholders whose names are on the register of members on 22nd April 2005.

Financial summary

A summary of the results of the Group for the past nine financial years is set out on pages 46 and 47 of this Annual Report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 29 to the Accounts.

Fixed assets

Movements in fixed assets of the Group and the Company including the details of properties under development are shown in Note 12 to the Accounts.

Share capital

Movements in share capital of the Company are shown in Note 27 to the Accounts.

Bank loans and overdrafts

Particulars of the bank loans and overdrafts of the Group are provided in Note 24 to the Accounts.

Financial assistance and guarantees to affiliated companies

As at 31st December 2004, the Group has provided financial assistance and guarantees to certain of its associated companies and jointly controlled entities (collectively "the affiliated companies") totalling HK\$4,716 million, representing approximately 27 per cent of the Group's net assets. Pursuant to Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 31st December 2004 is set out below:

	HK\$ Million
Non-Current Assets	29,921
Current Assets	2,134
Current Liabilities	(6,076)
Non-Current Liabilities	(19,348)
Net Assets	6,631
Share Capital	1,452
Reserves	5,179
Capital and Reserves	6,631

As at 31st December 2004, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$1,593 million. Particulars of the financial assistance and guarantees provided to the affiliated companies are shown in Notes 14, 15 and 30 and committed capital injection for the affiliated companies is shown in 31(b) to the Accounts.

Charitable donations

Charitable donations made by the Group in 2004 amounted to HK\$1,098,000 (2003: HK\$1,072,000).

Directors

At the Annual General Meeting held on 5th May 2004, Mr. Colin Lam Ko Yin and Mr. Lee Ka Shing were re-elected as Directors of the Company. Dr. Lee Shau Kee, Mr. Liu Lit Man, Mr. Leung Hay Man, Dr. Lee Hon Chiu, Dr. The Hon. David Li Kwok Po, Mr. Ronald Chan Tat Hung, Mr. Lee Ka Kit, Mr. Chan Wing Kin and Mr. Kwan Yuk Choi held office throughout the year. Dr. Lee Hon Chiu retired as Director effective 1st January 2005.

According to the Company's Articles of Association, one-third of the non-executive directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97, Mr. Lee Ka Kit and Mr. Leung Hay Man are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment.

Biographical details of directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 11 and 12 of this Annual Report.

Disclosure of interests

A. Directors

As at 31st December 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	38.47
	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	0.00
	Mr. Lee Ka Kit			2,157,017,776 (Note 4)		2,157,017,776	38.42
	Mr. Chan Wing Kin	102,825*				102,825*	0.00
	Mr. Kwan Yuk Choi	36,300	41,129			77,429	0.00
Lane Success Development Limited	Mr. Lee Ka Shing			2,157,017,776 (Note 4)		2,157,017,776	38.42
	Dr. Lee Shau Kee			9,500 (Note 6)		9,500	95
	Mr. Lee Ka Kit				9,500 (Note 6)	9,500	95
Primeland Investment Limited	Mr. Lee Ka Shing				9,500 (Note 6)	9,500	95
	Dr. Lee Shau Kee			95 (Note 7)		95	100
Yieldway International Limited	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 associated corporation.

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Save as mentioned above, as at 31st December 2004, there were no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (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 31st December 2004, 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	%**
Substantial Shareholders (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	20.64
	Timpani Investments Limited (Note 1)	1,643,249,599	29.27
	Henderson Investment Limited (Note 1)	2,072,571,545	36.91
	Kingslee S.A. (Note 1)	2,072,571,545	36.91
	Henderson Land Development Company Limited (Note 1)	2,072,571,545	36.91
	Henderson Development Limited (Note 2)	2,076,538,017	36.98
	Hopkins (Cayman) Limited (Note 3)	2,157,017,776	38.42
	Riddick (Cayman) Limited (Note 4)	2,157,017,776	38.42
	Rimmer (Cayman) Limited (Note 4)	2,157,017,776	38.42
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	429,321,946	7.65
	Medley Investment Limited (Note 1)	484,225,002	8.62

** 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 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% of total issued shares in HI.
- Henderson Development Limited ("HD") beneficially owned 61.87% 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 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 SFO.
- 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 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 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 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 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 and connected transactions

During the year, the Group has entered into the following transactions and arrangements as described below with persons who are “connected” for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

Yieldway International Limited (“Yieldway”) is the holding company of the residential development at Inland Lot No. 8955, also known as Grand Promenade (“Development”). The Company, through Pathview Properties Limited (“Pathview”), a wholly-owned subsidiary of the Company, and Henderson Land Development Company Limited, through its wholly-owned subsidiary, hold 50% each of the issued share capital in Yieldway. Pathview had entered into a loan facility letter (“Loan Facility”) with Yieldway on 22nd September 2004 in relation to the Development. Pursuant to the Loan Facility, Pathview agreed, upon demand by Yieldway, to provide loans to Yieldway in proportion to its shareholding in Yieldway. The maximum amount of Loans available to Yieldway under the Loan Facility was limited to HK\$110,000,000.

Between 31st March 2004 and 29th July 2004, Pathview had also advanced, in aggregate, an amount of approximately HK\$108,000,000 to Yieldway on the same terms and conditions as the Loan Facility. This principal amount, together with accrued interest of approximately HK\$624,000, had been fully repaid by Yieldway on 16th August 2004.

Save as the above, no Director has, or at any time during the year had, an interest, in any way, directly or indirectly, in any contract with the Company or its subsidiaries which was significant in relation to the business of the Company.

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

During the year, the Company repurchased 28,882,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$412,720,900 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 HK\$
		Highest HK\$	Lowest HK\$	
July 2004	4,923,000	13.50	12.65	64,392,650
September 2004	11,296,000	14.75	13.70	161,162,750
October 2004	12,663,000	14.95	14.45	187,165,500
Total	28,882,000			412,720,900

Save as mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its own shares during the year.

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Major customers and suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 26 per cent and 57 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 Group understands that its business legitimacy – with shareholders, with investors, with customers, with suppliers, with employees, with the community – relies on all stakeholders having trust and faith in the Group to take care of their needs and fulfil its responsibility to the society in which it operates. The Group's value system defines its approach to corporate governance. The Group is dedicated to disclosing accurate accounting and financial information, abiding by sound business and ethical principles, following Hong Kong laws, listing rules and regulations, benchmarking itself against applicable codes and standards, and setting realistic objectives to ensure healthy investment returns and a realistically robust share price. As such, the Company fully complied with the Code of Best Practice as previously set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board has three Executive Directors and eight Non-executive Directors. Four of the eight Non-executive Directors, including Dr. Lee Hon Chiu, Independent Non-executive Director, who retired as Director with effect from 1st January 2005 are independent to ensure that proposed strategies protect all shareholders' interests. Directors' fees are recommended by the Board and then submitted to shareholders for approval. The Company does not operate any share option scheme. Board Committees monitor effective compliance. The Audit Committee reviews the Company's current financial standing, considers the nature and scope of audit reports, and ensures internal control systems operate in accordance with applicable standards and conventions. The Investment Committee of the Retirement Schemes manages retirement schemes and advises the trustees on investment policy. The Treasury Committee reviews, advises and formulates strategies related to investment activities.

Audit committee

The Audit Committee was formed in May 1996. During the year under review, members of the Audit Committee were Dr. The Hon. David Li Kwok Po, Mr. Liu Lit Man, Dr. Lee Hon Chiu (retired as Director with effect from 1st January 2005) and Mr. Leung Hay Man (all of the above were Independent Non-executive Directors). The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2004. Audit Committee meetings were held twice during the financial year.

Auditors

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, 11th March 2005