港華燃氣有限公司
Towngas China Company Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

Annual Report 2011

Mission

To provide our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.

Contents

Corporate Information

Board of Directors

Executive Directors
Chan Wing Kin, Alfred *(Chairman)*
Wong Wai Yee, Peter *(Chief Executive Officer)*
Kwan Yuk Choi, James
Ho Hon Ming, John *(Company Secretary)*
Law Wai Fun, Margaret

Independent Non-Executive Directors
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David *(Chairman)*
Chow Yei Ching
Cheng Mo Chi, Moses

Remuneration Committee

Chow Yei Ching *(Chairman)*
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred *(Chairman)*
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

23rd Floor, 363 Java Road
North Point, Hong Kong
Telephone : (852) 2963 3298
Facsimile : (852) 2561 6618
Stock Code : 1083
Website : www.towngaschina.com

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
China Merchants Bank, Shenzhen Branch

Geographical Coverage

Heilongjiang	Qiqihar
Jilin	Changchun, Gongzhuling
Liaoning	Anshan, Beipiao, Benxi, Chaoyang, Dalian Changxingdao, Dalian Economic and Technical Development Zone, Fuxin, Kazuo, Lvshun, Shenyang, Tieling, Wafangdian, Wafangdian (midstream), Yingkou
Shandong	Chiping, Jimo, Jinan Changqing, Jinan West, Laiyang, Laoshan, Linqu, Longkou, Taian, Weifang, Weihai, Zibo, Zibo Lubo
Jiangsu	Nanjing Gaochun
Anhui	Anqing, Bowang, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi
Jiangxi	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui
Sichuan	Cangxi, Chengdu, Dayi, Jianyang, Lezhi, Mianyang, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
Chongqing	Qijiang
Guangdong	Foshan, Qingyuan, Shaoguan, Yangdong
Guangxi	Guilin
Zhejiang	Huzhou, Tongxiang, Yuhang
Hunan	Miluo

● **Piped Gas Projects: 68**

Five-Year Financial Summary

	For the year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
RESULTS					
Turnover	3,195,434	4,409,198	2,905,953	2,981,420	**4,321,344**
Profit before taxation	241,391	361,126	414,214	626,248	**1,033,536**
Taxation	(37,013)	(89,939)	(102,071)	(136,442)	**(256,943)**
Profit for the year	204,378	271,187	312,143	489,806	**776,593**
Profit for the year attributable to:					
Shareholders of the Company*	144,504	202,282	265,090	435,797	**708,754**
Non-controlling interests	59,874	68,905	47,053	54,009	**67,839**
Profit for the year	204,378	271,187	312,143	489,806	**776,593**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	8.36	10.33	13.54	19.93	**28.84**
Diluted	8.30	10.32	13.52	19.93	**28.82**

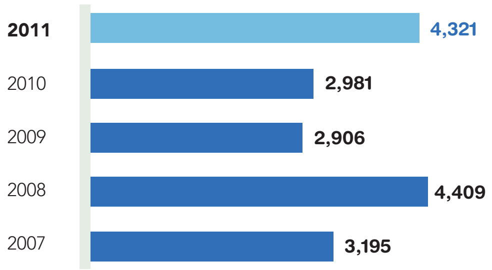
	As at 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
ASSETS AND LIABILITIES					
Total assets	9,115,192	10,386,545	11,330,417	14,882,799	**18,183,406**
Total liabilities	(2,780,469)	(3,473,711)	(4,442,294)	(5,747,672)	**(7,884,151)**
	6,334,723	6,912,834	6,888,123	9,135,127	**10,299,255**
Equity attributable to shareholders of the Company	5,730,203	6,177,801	6,433,588	8,563,437	**9,615,314**
Non-controlling interests	604,520	735,033	454,535	571,690	**683,941**
Total equity	6,334,723	6,912,834	6,888,123	9,135,127	**10,299,255**

* the Company: Towngas China Company Limited

Financial Highlights

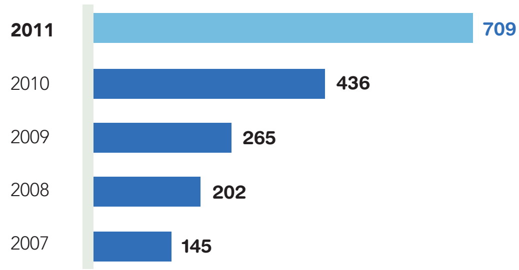
Turnover

(HK$ Millions)



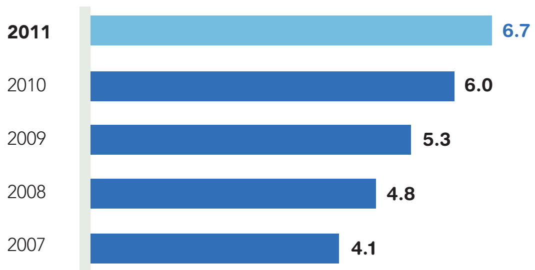
Profit Attributable to Shareholders of the Company

(HK$ Millions)

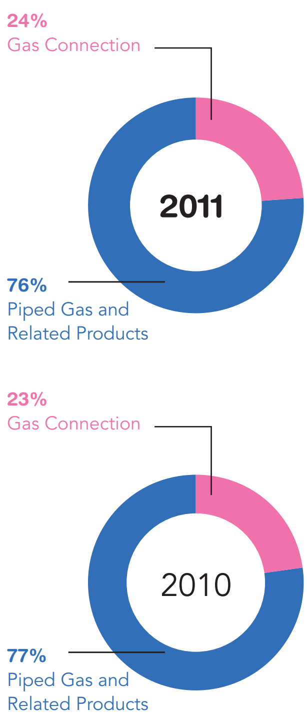


Number of Customers (All Entities)

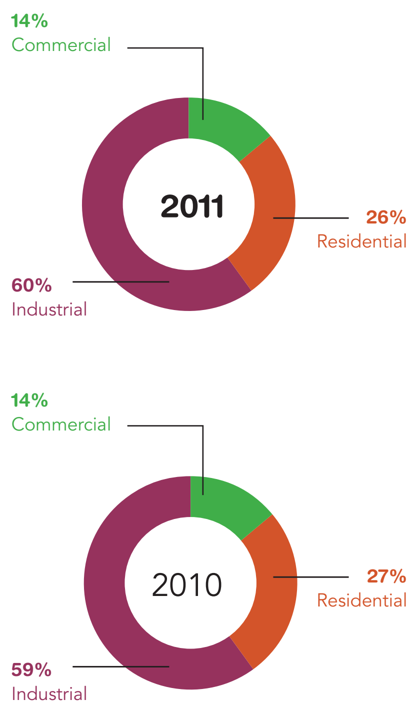
(Millions)



Turnover Analysis



Percentage of Gas Volume by Customer Mix (All Entities)



Chairman's Statement

Chan Wing Kin, Alfred
Chairman

Business Performance in 2011

In 2011, China managed to record an increase of 9.2% in Gross Domestic Product over the previous year despite the debt crisis in the West led to greater instability in global economy and affected the pace of the global economic recovery. The continuous growth of the economies and attention to the environmental protection made the demand for clean energy in China remain strong, contributing to the rapid growth in the city gas industry. Together with the endeavours of staff within the Group, we achieved favourable results in 2011. Turnover of the Group increased by 44.9% to HK$4,321 million during the year as compared to 2010, while profit after taxation attributable to shareholders of the Company amounted to HK$709 million, representing a 62.6% growth over 2010.

Development of the Gas Industry

According to the forecast of the National Energy Bureau, the total consumption of natural gas in China will amount to 260 billion cubic metres by 2015, accounting for 8.3% of the primary energy consumption. During the "12th Five-Year Plan" period, China will be committed to the development of natural gas. A number of long distance natural gas pipelines will start operation during the period, ranging from phase two and three of the West-to-East gas pipeline; Sichuan-to-East gas pipeline; phase three of the Shaanxi-to-Beijing pipeline and the China-Myanmar pipeline, to a number of large liquefied natural gas receiving terminals which will be built sequentially along the coastal regions.

In 2011, major developments included the official launch of phase two of the West-to-East gas pipeline connecting Shenzhen in November, and China's fourth and fifth liquefied natural gas receiving terminals, namely Rudong Receiving Terminal in Jiangsu and Dalian Receiving Terminal, which commenced operation in November and December respectively.

Business Development Strategy

Under the "12th Five-Year Plan", China is committed to developing the use of natural gas. In addition to entering a large number of natural gas import agreements with international suppliers, it has also made substantial investments in long distance pipeline projects and liquefied natural gas receiving terminals. The central and local governments will further pay close attention to the downstream natural gas markets to improve the business environment and encourage city gas enterprises in the gas distribution market to speed up investment, enabling the country to attain its goal to double the natural gas consumption during the "12th Five-Year Plan" period. The Group is therefore supporting the Group companies, investments for market development and accelerating our development of new projects mainly located in industrial park areas along phase one, two and three of the West-to-East gas pipeline, as well as industrial base in the Pearl River Delta, the Yangtze River Delta and the Bohai-rim region. The Group is also investing in city gas projects located in "demonstration areas of the central and western industries relocation" that support the relocation of industries from the developed coastal areas to the developing regions, in response to the country's economic development trend. 2011 was the first year of the "12th Five-Year Plan". Under the above development strategy, the Group successfully established five new projects in 2011, recording encouraging results.

Chairman's Statement

Awards

The European debt crisis, which has troubled the Western economies since 2011, has continuously affected exports and industrial output in China. Nevertheless, China remains one of the most promising countries to invest in worldwide and the city gas industry represents one of the most valuable industries for investment in China. As a recognition to the Group, the award of "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" under the Golden Bauhinia Awards of China Securities presented jointly by "Takungpao", The Hong Kong Chinese Enterprises Association, Hong Kong Securities Association, Securities Association of China and China Enterprise Confederation was honoured to the Group in 2011. During the year, the Group was also honoured with the "Hong Kong Outstanding Enterprises Award 2011" presented by the Economics Digest. The Group will continue to strengthen its investment in China's city gas industry.

Corporate Social Responsibility

The Group has been participating actively in community welfare activities in the mainland. A number of community activities are organized each year to encourage our employees to promote community welfare together with people from all walks of life, contributing to the sustainable development of the domestic community welfare.

In 2011, through organising various study aids and fund raising projects, the Group demonstrated its care about the education assistance and the physical and mental development of children living in poverty. Also, the Group placed special focus on environmental protection and launched the "Month of Tree Plantation and Carbon Reduction" programme aiming to actively promote and realise the concept of energy conservation and a reduction of carbon emissions.

In recognition of the Group's activities and achievements in terms of corporate social responsibility over the years, the Group was awarded the honor of the "China's Outstanding Corporate Citizenship", "The Best Model Brand of Public Service to Users' Satisfaction among Public Utilities in China" and "The Enterprise with Outstanding Community Service in China" during the year.

2012 Outlook

China's commitment to promote the extensive use of natural gas during the "12th Five-Year Plan" period is highly favourable to the development of the city gas industry. The Group will not only strengthen its investment to match the development of China's natural gas market, it will also be focusing on improving the competitive edges, corporate governance, safe operations, environmental protection, management efficiencies as well as the profitability of Group companies, building its reputation as a model enterprise in the city gas industry of China.

Looking forward to 2012, it will be a critical year for the rapid development of natural gas industry in China. Following the "Regulations on Administration of Urban Fuel Gas" which became effective on 1 March 2011, the "Regulations on Administration of Construction and Operation Management of Natural Gas Infrastructure" is currently at drafting stage and expected to see huge progress in 2012. Coupled with the trial reform in the natural gas pricing mechanism as announced on 26 December 2011, the regulatory chain for the entire natural gas industry is gradually being established. Closely monitoring the progress of this reform, the Group is well poised for seizing any opportunities that would immensely facilitate its development.

With the consistent increase in the supply of imported natural gas, accelerated development will be seen in China's natural gas market. Most of the gas projects of the Group are located in the regions where gas supplies are increasing with ever expanding pipeline networks, covering areas such as Northeast, Shandong, Hunan, Anhui, Jiangxi and Guangdong, which will be benefited from the clean energy policy advocated by the "12th Five-Year Plan". Overall, it is anticipated that the Group will achieve favourable and sustainable growth in its 2012 results.

CHAN Wing Kin, Alfred
Chairman

Hong Kong, 16 March 2012

Financial Review

For the year ended 31 December 2011, the Group booked a turnover of HK$4,321 million, a growth of 44.9% when compared to 2010. Profit after taxation attributable to shareholders of the Company amounted to HK$709 million, a surge of 62.6% as compared to the previous year. Basic earnings per share amounted to 28.84 HK cents, representing an increase of 44.7% compared to 2010.

Financial Review

Turnover

Sales of Piped Gas and Related Products

Turnover from the sales of piped gas and related products increased 43.8% from HK$2,286 million to HK$3,288 million in 2011. This growth was primarily attributable to the substantial increase in the volume of gas sold and higher average gas sales prices. New subsidiaries and city piped gas projects acquired from The Hong Kong and China Gas Company Limited ("HKCG") in July 2010 accounted for 23.5% of this increase, while the remaining 76.5% was attributable to the organic growth of existing subsidiaries.

Gas Connection

In the gas connection business, income from connection fees for the year amounted to HK$1,033 million, a rise of 48.7% when compared to 2010. This was attributable to an increase of approximately 232,000 new household connections of subsidiaries in 2011.

Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used increased from HK$1,888 million in 2010 to HK$2,755 million in 2011. The increase in expenses was mainly attributable to the increase in the volume of gas sold.

Overheads

Overheads in 2011 amounted to HK$980 million, up 28.4% as compared to HK$763 million in 2010. The increase was mainly due to the Group's business development together with escalations in wages and inflation, among which increases in staff costs, depreciation and amortisation expenses and other expenses rising by 24.9%, 24.9% and 35.9% respectively. An increase of HK$47 million in overheads was due to new subsidiaries and city piped gas projects acquired from HKCG in July 2010.

Staff Costs

Staff costs increased from HK$316 million in 2010 to HK$394 million in 2011. The increase in staff costs was a result of the increase in the number of staff due to business development needs, new subsidiaries and the rise in average salaries in the mainland.

Finance Costs

Finance costs in 2011 amounted to HK$142 million, maintaining a similar level as compared to 2010. This was mainly attributable to the decrease in interest expenses due to the repayment of guaranteed senior notes, which bore an effective interest rate of 8.69%, by bank loans with lower interest rates in September 2011. However, the above decrease was offset by the increase in loans due to the acquisition of new projects, which gave rise to the increase in finance costs.

Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas"), which pays increasing dividends to the Group every year. Chengdu Gas was stated at cost and no impairment provision was necessary during the year.

Financial Review

Credit Ratings

In April 2011, Moody's Investors Service, a rating agency, raised the issuer rating of Towngas China and assigned an upgraded "Baa2" rating to the Company's senior unsecured bonds, outlook for the credit rating was considered to be stable while also reflecting the continuously enhancing credit strength of Towngas China. In April 2011, Standard & Poor's, another rating agency, launched its first credit rating specifically for Greater China, to meet the growing demand from capital market investors in the region. In September 2011, Standard & Poor's assigned a new "cnA" rating to the long term credit of Towngas China, which affirmed the Group's strong financial position.

Financial Resources and Position

As at 31 December 2011, the Group's total borrowings amounted to HK$4,887 million, of which HK$472 million represented loans from HKCG due between 1 to 5 years, HK$2,857 million represented bank loans and other loans due between 1 to 5 years, and HK$1,513 million represented bank loans and other loans due within 1 year. During the year, the Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowings of HK$350 million to the fixed-rate borrowings. Other than the HK$682 million bank loans and other borrowings which bore interest at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As at the end of the year, the Group had a current ratio of 0.8 times and a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 19.6%.

As at 31 December 2011, there was a secured bank loan of RMB59 million under a newly acquired project of the Group, with HK$12.62 million fixed assets being pledged. The project had secured such bank loan and pledged on assets before acquisition. Other than the above pledge on assets, the Group did not have any pledge on assets.

As at 31 December 2011, the Group had held unutilised facilities amounting to HK$1,297 million.

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$1,923 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and its shareholders. The Group maintains a consistently strong liquidity position with cash and cash equivalents on hand and unutilised banking facilities, and has adequate financial resources to meet all contractual obligations and operating requirements. Benefiting from its high credit ratings, the Group enjoys favourable interest rates on bank loans.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2011.

Currency Profile

The Group's activities are predominantly operated and conducted in Hong Kong and mainland China. Cash, cash equivalents or borrowings are thus mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As such, no material foreign exchange risk exposure is expected.

Final Dividend

In view of the continuous growth in the Group's results, the Board recommended the payment of a final dividend for the year ended 31 December 2011 of five HK cents per share (2010: three HK cents per share), representing an increase of 66.7% over last year.

Business Review

Starting off China's "12th Five-Year Plan" period, 2011 could have profound implications at such remarkable time. In addition to the ongoing commitment towards urbanisation, the "12th Five-Year Plan" specifically encourages that energy savings and the reduction of greenhouse gas emissions should be integrated with development plans. With this background, the city gas and natural gas industries are ready for the prominent development trend ahead. With its persistent endeavour to capture business opportunities, the Group achieved strong business growth and outstanding results.

Business Review

Leveraging this stable business growth and corporate competencies, the Group was once again honoured with the "Hong Kong Outstanding Enterprises Award 2011" presented by the Economics Digest, as well as "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" Award under the Golden Bauhinia Awards of China Securities 2011 co-organised by "Takungpao", The Hong Kong Chinese Enterprises Association, Hong Kong Securities Association, Securities Association of China and China Enterprise Confederation. These awards demonstrate the recognition received for the Group's development.

Mr. Chan Wing Kin, Alfred, the Managing Director (right) of HKCG, represented HKCG to receive "The Best Listed Company" Award; Mr. Wong Wai Yee, Peter, the Executive Director and Chief Executive Officer (left), represented the Group to receive "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" Award.

Sales of Piped Gas

In 2011, the Group sold a total of approximately 4.67 billion cubic metres of piped gas, representing a substantial increase of 15.9% against 4.03 billion cubic metres sold last year. Industrial gas sales grew by 410 million cubic metres, representing an increase to approximately 59.8% in the total volumes of gas sold by the Group while commercial gas sales maintained their level at approximately 14.5% of the total gas volumes sold during the year. Residential gas sales in turn accounted for approximately 25.7% of total gas sold. The continuing growth of our industrial gas sales demonstrated the success of the Group's project development strategy to strengthen industrial and commercial gas consumption. Benefiting from the stable growth in China's economy, the heavier weight in industrial and commercial gas consumption in our gas sales profile will help to ensure the continuing growth of the Group's future gas sales volumes. Moreover, the Group is able to shift upstream price adjustments to industrial and commercial customers in a timely manner, further reflecting the profitability of the Group's gas sales will continue to increase.

Qu Zi Temple, also known as Qu Yuan Temple, is a memorial temple where Qu Yuan, a senior official of Chu, a vassal state during the time of Warring States, is worshipped. Located in Miluo City, Hunan Province, the temple is a landmark attraction and architecture of the city. In 2011, the Group first expanded its business to Hunan Province, carrying strategic importance.

Project Acquisitions

In 2011, the Group continued to expand its business profile geographically with the acquisition of five new projects in Jiangxi, Hunan, Anhui and Liaoning Provinces, with projects in Xiushui County of Jiujiang City in Jiangxi Province; Wuning Industrial Park of Jiujiang City in Jiangxi Province; Beipiao City in Liaoning Province; Bowang New District of Maanshan City in Anhui Province, as well as the piped gas project in Miluo City — the Group's first project in Hunan Province. Close to Changsha City and Yueyang City, the project's operations cover the Miluo City Urban Planning District and Cyclic Economy Industrial Park, a provincial-level industrial park, with high potential for industrial gas consumption, paving the way for the Group's further city gas project development in Hunan Province. Total gas consumption for the five projects is expected to reach about 450 million cubic metres in five years.

Additionally, in early 2012, the Group invested in two new projects in Liaoning Province consisting of a city gas project as well as a midstream piped natural gas project, both in Wafangdian City of Dalian, establishing a sound foundation for the Group's business development in 2012. The total gas consumption of the two projects is expected to reach about 150 million cubic metres in five years.

Details of the Group's seven new projects are as follows:

	Project	Shareholding of the Group	Major Industries in the Operating Regions
1.	Xiushui County, Jiujiang City, Jiangxi Province	80%	Mine processing, ceramics and quartz processing
2.	Wuning Industrial Park, Jiujiang City, Jiangxi Province	100%	Energy-saving lights, mine ore processing, pharmaceuticals and chemicals processing
3.	Miluo City, Hunan Province	70%	Precision processing of secondary copper, aluminum, stainless steel and plastics
4.	Bowang New District, Maanshan City, Anhui Province	75.1%*	Cutting tools, machine tools manufacturing, auto parts and metallurgical pressing
5.	Beipiao City, Liaoning Province	80%	Powder metallurgy and metallurgical casting
6.	Wafangdian City, Dalian, Liaoning Province	60%	Bearings, forging and machinery equipment
7.	Midstream project in Wafangdian City, Dalian, Liaoning Province	30%	This project is a midstream piped natural gas project

* The Group holds a direct 60% equity interest. Maanshan Hong Kong and China Gas Company Limited ("Maanshan HKCG"), a joint venture in which the Group holds a 50% equity interest, has also acquired a 20% equity interest in this project. Dangtu Hong Kong and China Gas Company Limited, a company in which Maanshan HKCG holds a 51% equity interest also owns a 20% equity interest in this project. As a result, the Group owns a 75.1% effective shareholding in this project.

Customer Services

In 2011, the Group promoted the culture of "Warmth and Care" as we reinforced our provision of quality "Customer-oriented, Professional and Efficient" services. Initiatives included a series of activities under "Smiles Brighten Life" to provide training to foster quality service skills and "Service with a Smile" for both frontline customer service staff and general management to establish a comprehensive and sustainable system of promotion and training for "Service with a Smile". The Group also developed a "Treat Our Customers as Our Family" standard, aiming to continuously enhance service quality and provide excellent services to customers.

Group companies have also introduced service commitments to set up specific service targets with regard to the safety and reliability of products, customer appointments, work efficiencies, service attitudes and the handling of customer opinions and comments. Our performance results for these service commitments are publicised regularly. Enhancing customer satisfaction, customer services teams, customer services hotlines and customer services committees for handling customers' feedbacks have been established to fully understand and satisfy customer needs.

In 2011, in our customer services and safety sector, the Group achieved its target to complete a 100% on-site safety inspections to existing customers within a 3-year period. These comprehensive safety inspections have significantly enhanced the safety of our customers with specific maintenance work being carried out to remedy identified hazards, further ensuring the safe use of gas by our customers.

Business Review

Bauhinia

With the "Professional Services Rendering Peaceful Mind at Home" belief, our Bauhinia brand promotes healthy diet and the Chinese flame cooking culture with high quality of international standards as well as "one-stop" professional service convenience.

Since 2006, the Group has been holding an annual "Bauhinia Cup" cooking competition, to promote the concept of "Safe Kitchens" to our customers. In conjunction with our 6th "Bauhinia Cup" cooking competition, held in September 2011, China's leading chefs gathered together, demonstrating the benefits of flame cooking spirit by dishes assessment through comprehensive criterion of "Color Matching, Smell, Taste, Meaning and Presentation" and live kitchen gas safety knowledge quiz competition.

In view of the brand's excellent market performance, with its ever increasing product research and after-sales services, many of Bauhinia's energy saving products are listed on the Government's energy-efficient appliance list. As one of the few chosen brands in the industry to be included on this list, Bauhinia has secured the leading position in the industry because of its outstanding quality.

In 2011, the Group co-organised a "Celebration Ceremony for Bauhinia's One Millionth Appliance Sale" with HKCG in Chengdu to publicly announce the sale of Bauhinia one millionth appliance in mainland since the brand was launched in 2005. With its products' presence in more than 60 cities in China, Bauhinia targets to become the industry's leading gas appliance brand over the next five years.

Safety and Risk Management

The Group's Safety and Environment Committee holds monthly meetings on work safety to discuss and solve all risk and safety problems throughout our operations. Senior management in headquarters also make safety inspections to Group companies on a regular basis, participating in the supervision and enhancement of safety issues until they are resolved thoroughly.

Based on the satisfactory results obtained from the "Year of Safety" campaigns held previously in the northeastern and Sichuan regions, the Group extended the campaign into the Shandong region with the organisation of a "2011 Safety with Me" Knowledge Competition in Safety and Environmental Protection. The research and promotion of 10 "Key Management Projects" also helped to enhance safety, which could be witnessed from the improvements in all "Key Performance Indicators" throughout Group companies.

Raising safety and risk management standards, the Group held one of China's most established national safety and risk management seminars in Jinan, sharing our experiences and discussing on more than 30 relevant topics. A pipeline network emergency drill was also held in the Taian Project in Shandong, working hand-in-hand with staff from Hong Kong, Shenzhen, Jinan and Taian via video-conferencing to fine-tune interaction, emergency coordination and deployment measures and information systems. The Group also started the safety and risk initiative management. Workshops on self-assessment of risk were held in Sichuan, Jiangxi and northeastern China and self-assessment of risk was also commenced in Group companies, to ensure the ongoing identification and mitigation of related risks.

The Group carried out safety and risk management assessments and evaluations in Group companies regularly and an "Environmental Protection Project" assessment was also introduced, highlighting the Group's concern and belief in the protection of our environment. Continuous endeavour has been given to this task, significantly raising the safety and risk management standard of Group companies.

Apart from the above, all Group companies also carried out a range of activities under "Towngas China's Months of Safety Production" with emergency drills, hazard inspections, safety training and safety competitions to intensify gas safety promotion and gas safety management.

Business Review

Engineering and Procurement Management

To ensure the enhancement of the stability of city gas supplies, as at the year end of 2011, various Group companies completed the construction of liquefied natural gas storage facilities, with a gas tank volume of 10,000 cubic metres and a natural gas storage capacity of 6 million cubic metres, providing a strong base for the Group's market expansion and gas supply replenishment. In view of the West-to-East gas pipeline, the Sichuan-to-East gas pipeline, the Qinhuangdao-Shenyang gas pipeline and regional new gas sources, the Group is actively planning the construction of ancillary natural gas facilities, to hasten the development of Group companies.

In 2011, the joint procurement strategy was widely applied within the Group to maximise our operational synergies. With our ongoing optimisation of the supply network to match the regional business expansion of the Group, we developed a "Quality Assurance and Control System" for the Group's joint procurement based on "Active Safety Management" concept which covers various stages including pre-control, during-the-process-control and post-control reviews on suppliers entering the assessment, on-site monitoring, quality inspection, inspections on materials supplied, spot checks, sampling inspection, factor analysis of quality abnormity and risk prevention.

Liquefied natural gas tanks located in Dalian Lvshun Hong Kong and China Gas Company Limited

Staff Training and Development

As of the end of 2011, the Group had 16,513 employees. With regard to staff training and development, the Group has taken a proactive role, establishing a suitable learning environment and training platform for the professional development of our people, an area in which we have achieved extraordinary results. Building on the Group's and HKCG's outstanding achievements in the cultivation of our corporate culture and talent development in China operations, HKCG was honoured with the "BEST" training enterprise award from the American Society for Training and Development in October 2011.

The Group's training and development activities cover our people at every level both in Hong Kong and on the mainland. In 2011, the Group continued our senior management programme with Tsinghua University, which sought to implant a deeper understanding on "Towngas Leadership Competency" among our senior management and improve corporate management and operation standards. To further explore and develop the personal competencies of senior and middle-level management, the Group also launched an "Improvement Programme" in conjunction with universities in Chongqing, Xi'an and Hunan. Under the programme's "win-win" structure, both mentors and students were able to improve their capabilities.

The Group also introduced an elite programme to meet the growing demand for high caliber staff due to ventures' rapid business development. The aim was to train well-experienced young employees with strong leadership potential based on the "Leadership Competency" model. The first batch of trainees graduated in 2011 and are now serving in different positions, as they make their contribution towards the future development of the Group.

Business Review

Committed to enhancing the service and personal qualities of general staff, regular training was carried out in training institutions of Shandong, Sichuan and Changchun. "Service with a Smile" training was launched in August, to reinforce, among our frontline staff, our "customer-oriented" services concept as a routine working practice.

Making sure that staff abilities provide the ideal fit for their work responsibilities, the Group adopted professional tests and assessment tools to help our people to determine their career path. Completed by all general managers of Group companies in 2011, indicating the involvement of senior management, the tools and feedbacks helped them to plan their career paths.

In respect of corporate culture promotion, the Superior Quality Service ("SQS") programme was first introduced into HKCG ventures in China in 2001. The Group decided to follow in HKCG's footsteps and launched SQS in Group companies afterwards. So far, 54 Group companies have participated in SQS with highly pleasing results. In 2011, four Group companies won the first and second-class awards at the National Competition for Quality Control Units. As the Group celebrated the 10th anniversary of SQS in China in 2011, it had taken part in a number of activities with HKCG, aiming to encourage staff to review SQS development in the last ten years, sharing their views and SQS experiences with others to well prepare for future challenges.

Corporate Social Responsibilities

Fully committed to the development of social welfare, the Group launched a range of community and social activities to raise educational subsidies, care for children, support the environmental protection and help people in poverty. Capitalising on our resources and advantages, the Group encourages the public, Group companies and employees to understand and participate in these welfare programmes, which facilitate the sustainable development of community welfare programmes in our society.

In 2008, the Group started the "Help for a student, support for a family" initiative, an education subsidy programme. In 2011, 30 students from the earthquake stricken area in Sichuan, completing their studies under a three-year sponsorship programme, joined our 15 gas projects in the Sichuan region. Recognising the long-term education assistance given to the students in the stricken area, the Group received the "Most Influential Enterprise of Corporate Social Responsibility Affairs in 2011" prize granted by the China International Public Relations Association and China Public Relations Website.

During the year, the Group jointly organised an innovative "Towngas Rice Dumplings for the Community" competition with the BEA Charity Fund, Xin Du Hong Kong and China Gas and Zhongjiang Hong Kong and China Gas at Wenchuan No. 2 Primary School. Both members of the media and staff volunteers were invited to support the activity, which aimed to constantly care about the physical and mental development of children in the stricken region. Towngas China volunteers also showed their care for children in the Shenzhen Children's Welfare Organisation, by taking part in the family rice dumplings competition and volunteering to act as the surrogate parents of the children.

The Group sponsored the "Parent-child Reading to Promote China's Reading Culture" reading activity held by the Family Education Professional Committee of the China Education Society on the "16th World Reading Day" in 2011, to promote the development of good parent-child reading habits of "Read Good Readings Leads to Love Reading" in families across the country. In conjunction with HKCG group companies, the Group also collected around 10,000 books during the year, using these resources to establish ten Towngas China Caring Libraries in nine regions — Hunan, Henan, Heilongjiang, Guangdong, Guangxi, Anhui, Chongqing, Jiangxi and Sichuan. As at the end of 2011, we had collected around 40,000 books for the use of some 10,000 poverty students in 20 schools.

As an energy provider, the Group pays particular attention to the environmental protection. During the year, the Group published the "2011 Towngas China Green Statement" in conjunction with HKCG. Almost 100 Group companies also collaborated to organise activities under our "Month of Tree Plantation and Carbon Reduction" campaign, which integrates our various green and environmental protection activities, from tree planting, energy saving and water saving to low carbon promotions and low carbon office activities, to implement and promote concept of energy saving and the reduction of carbon emissions. Participating Group companies planted around 6,000 trees in 2011, in a greening area of approximately 26,000 square metres.

The Group's corporate social responsibility practices and achievements over the years have won us a number of awards in 2011, this included the "China's Outstanding Corporate Citizenship" award presented by the China Corporate Citizens Committee under the Ministry of Civil Affairs; "The Best Model of Public Service Satisfaction among Public Utilities in China" presented jointly by The Economy, Industry Newspaper Association of China, China Trade News and Global Competitive Organisation; as well as "The Enterprise with Outstanding Community Service in China 2011" organised jointly by the China Social Welfare Education Foundation, China Real Estate Association and CCTV Website.

Corporate social responsibility forms the cornerstone of a company's development. Looking forward and honouring its responsibilities as a corporate citizen, the Group will continue its commitment to actively contribute to our communities, as it seeks to ensure the sustainable development of both the community and the Group.

Biographical Details of Directors

Mr. Chan Wing Kin, Alfred, *B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc. (Eng), B.Sc.* (Eng), aged 61, has been the Chairman and an Executive Director of the Company since 1 March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited and a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. He is a Vice Chairman of China Gas Association. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards — Listed Companies (SEHK — Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

Mr. Wong Wai Yee, Peter, *C.M.A., A.C.S., A.C.I.S., M.B.A.*, aged 60, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Mr. Wong is the Head – Mainland Utilities of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Wong is a professional accountant and a chartered company secretary. Mr. Wong was formerly a director of Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 35 years of experience in corporate finance, management and international working experience.

Mr. Kwan Yuk Choi, James, *J.P., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng)*, aged 60, has been an Executive Director of the Company since 1 March 2007. Mr. Kwan is an executive director and the chief operating officer of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is also a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Kwan was awarded an Honourary Fellowship by The Hong Kong University of Science and Technology in 2011. He is currently a member of Construction Industry Council, a member of the Governing Council of the Hong Kong Quality Assurance Agency, a member of Transport Advisory Committee and a member of the Vocational Training Council of the Hong Kong Special Administrative Region and a member of the Twelfth Nanjing Committee of the Chinese People's Political Consultative Conference. He was the President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom.

Mr. Ho Hon Ming, John, *F.C.A., F.C.P.A., B.A. (Hons.)*, aged 55, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 33 years of experience in accounting, corporate finance and investment.

Biographical Details of Directors

Ms. Law Wai Fun, Margaret, *FHKIHRM, MBA, BA (Hons), DipEd*, aged 61, was appointed as an Executive Director of the Company on 31 December 2009. Ms. Law has been the Head — Corporate Human Resources of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) since 2006. Ms. Law has been in the field of human resources for more than 30 years. She chairs the Committee on Management and Supervisory Training of the Vocational Training Council, and was conferred the VTC Honorary Fellowship in 2010.

Dr. Chow Yei Ching, *GBS*, aged 76, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Dr. Chow is the founder and chairman of Chevalier International Holdings Limited. Dr. Chow has been re-designated from a non-executive director to an independent non-executive director of Television Broadcasts Limited, also a public listed company in Hong Kong, since 10 June 2011. His other directorships in public listed companies in the last 3 years include Van Shung Chong Holdings Limited, Shaw Brothers (Hong Kong) Limited (delisted on 19 March 2009) and Dingyi Group Investment Limited (formerly known as Chevalier Pacific Holdings Limited). Dr. Chow resigned from Shaw Brothers (Hong Kong) Limited, Van Shung Chong Holdings Limited and Dingyi Group Investment Limited on 16 April 2009, 1 January 2010 and 27 October 2011 respectively. Dr. Chow is currently the Honorary Consul of the Kingdom of Bahrain in Hong Kong.

Dr. Cheng Mo Chi, Moses, *GBS, OBE, JP*, aged 62, has been an Independent Non-Executive Director since 23 May 2007 and is the member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange. His other directorships in public listed companies in the last 3 years include Galaxy Entertainment Group Limited, China COSCO Holdings Company Limited and ARA Asset Management (Fortune) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on both the Singapore Stock Exchange and Hong Kong Stock Exchange.

Mr. Li Man Bun, Brian David, *JP, FCA, MBA, MA (Cantab)*, aged 37, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is the Deputy Chief Executive of The Bank of East Asia, Limited ("BEA"), responsible for BEA's China and international businesses. Mr. Li is also an independent non-executive director of Hopewell Highway Infrastructure Limited, which is a listed company on the Hong Kong Stock Exchange. In June 2011, Mr. Li resigned as an independent director of Xinjiang Goldwind Science & Technology Co., Ltd., which is a listed company on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. Mr. Li serves as a member of the National Committee and the Beijing Municipal Committee of the Chinese People's Political Consultative Conference. He is a Fellow of the Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as an MA and BA from the University of Cambridge.

Notes:

1. The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2011 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.

2. Save as disclosed in the Directors' respective biographical details under "Biographical Details of Directors" section, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

3. The current amounts of Directors' fees have been determined by the Remuneration Committee and the Board with reference to market rates, Directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 12 to the consolidated financial statements.

4. None of the Directors have signed director's service contracts with the Company. The Independent Non-Executive Directors, i.e. Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, have specific term of office from 23 May 2010 to 22 May 2013 or the conclusion of the Company's annual general meeting ("AGM") in 2013, whichever is earlier. All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the Company's AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM of the Company.

Report of the Directors

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 60.

The Directors have recommended the payment of a final dividend out of the share premium account of five HK cents per share (2010: three HK cents per share) to shareholders whose names are on the register of members of the Company on 12 June 2012. Subject to approval by shareholders at the AGM to be held on 4 June 2012 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 18 June 2012 and the register of members of the Company will be closed from Friday, 8 June 2012 to Tuesday, 12 June 2012 (both days inclusive), during which period no transfer of shares of the Company will be registered.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 64.

The Company's reserves available for distribution to shareholders at 31 December 2011 amounted to HK$4,514 million (2010: HK$4,587 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2011 is set out on page 4.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

Directors

The Directors during the year and up to the date of this Annual Report were as follows:

Executive Directors:

Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John *(Company Secretary)*
Ms. Law Wai Fun, Margaret

Independent Non-Executive Directors:

Dr. Chow Yei Ching
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

In accordance with Article 112 of the Articles of Association, Mr. Chan Wing Kin, Alfred, Ms. Law Wai Fun, Margaret and Dr. Chow Yei Ching, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM. All of them, being eligible, except Dr. Chow Yei Ching who would not offer himself for re-election, would offer themselves for re-election at the forthcoming AGM.

The Board proposed to put forward Mr. Chow Vee Tsung, Oscar for election as an Independent Non-Executive Director at the forthcoming AGM. If Mr. Chow Vee Tsung, Oscar is elected, he will hold office from the date of forthcoming AGM to the conclusion of the annual general meeting of the Company of 2015. Subject to his election at the AGM, the Board also proposes to appoint him as a member of the remuneration committee, nomination committee and audit committee of the Board.

The Company has received an annual confirmation of independence from each of Independent Non-Executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of Independent Non-Executive Directors to be independent.

Each of the Independent Non-Executive Directors was appointed for a period commencing from his appointment date and is subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The biographical details of the Directors of the Company are set out on pages 28 to 31 of this Annual Report.

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and underlying Shares

			Interest in shares						
Name of company	Name of Director	Capacity	Personal interest	Family interest	Corporate interest	Total interest in shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate the percentage of issued share capital of the Company or its associated corporation as at 31.12.2011
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	—	—	—	—	3,618,000	3,618,000	0.15%
	Wong Wai Yee, Peter	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%
	Kwan Yuk Choi, James	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%
	Ho Hon Ming, John	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.12%
	Chow Yei Ching	Beneficial owner	1,600,000	—	—	1,600,000	—	1,600,000	0.07%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	150,543	—	—	150,543	—	150,543	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	53,146	60,214	—	113,360	—	113,360	0.00%
	Ho Hon Ming, John	Beneficial owner	23,577	—	—	23,577	—	23,577	0.00%
	Law Wai Fun, Margaret	Beneficial owner	14,374	—	—	14,374	—	14,374	0.00%

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares".

Directors' Rights to Acquire Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2011 were as follows:

				as at 31.12.2011		
Name of Director	**Date of grant**	**Exercisable period**	**Number of Shares subject to outstanding options as at 01.01.2011**	**Exercise price** HK$	**Number of Shares subject to outstanding options**	**Approximate percentage of the Company's issued share capital**
Chan Wing Kin, Alfred	16.03.2007	16.03.2008–27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2009–27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,447,200	3.811	1,447,200	0.06%
Wong Wai Yee, Peter	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%
Kwan Yuk Choi, James	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%
Ho Hon Ming, John	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. During the year, no option was granted to the Directors and no option held by the Directors had lapsed or was cancelled. 3,015,000 options were exercised by Mr. Tang Yui Man, Francis, who resigned as an alternate Director to Mr. Ou Yaping (a former Executive Director of the Company resigned on 16 March 2011), with effect from 16 March 2011.

3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2011, there were no other interests or short positions of the Directors and the chief executive 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Option Schemes of the Company

(a) Pre-GEM Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the "Pre-GEM Scheme") by resolutions of the then sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Scheme was to recognize the contribution of certain Directors and employees of the Group and group members of Sinolink Worldwide Holdings Limited (the holding company of the Company at that time) to the growth of the Group and/or to the listing of the Shares on GEM Board.

Share options were granted under the Pre-GEM Scheme in 2001 in consideration of HK$1.00 per grant, at an exercise price of HK$0.57, being the issue price of the Shares on listing on GEM Board. The exercise price was subsequently adjusted to HK$0.475 upon capitalization of Shares in 2002. 50% of options under the Pre-GEM Scheme are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The options under the Pre-GEM Scheme were exercisable on a cumulative basis until the expiry date on 3 April 2011. The options under the Pre-GEM Scheme were granted to recognize the then past and present contributions of the grantees to the Group.

The Pre-GEM Scheme ended on the date on which dealings in the Shares commenced on GEM Board (i.e. 20 April 2001), and no further options would be offered or granted after that date but in all other respects the provision of the Pre-GEM Scheme shall remain in full force and effect. As at the date of this report, no Share in respect of which options had been granted under the Pre-GEM Scheme was outstanding (2010: Nil), representing 0% (2010: 0%) of the issued share capital of the Company as at the date of this report.

(b) 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the "2001 GEM Scheme"), options may be granted to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The share options granted under the 2001 GEM Scheme were exercisable until the expiry date on 3 April 2011.

Options granted under the 2001 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

Share Option Schemes of the Company *(Continued)*

(b) 2001 GEM Share Option Scheme *(Continued)*

The total number of Shares in respect of which options might be granted under the 2001 GEM Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which might be granted under the 2001 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

The 2005 GEM Scheme has replaced the 2001 GEM Scheme on 18 May 2005 and no further options may be offered or granted under the 2001 GEM Scheme after that date but in all other respects the provision of the 2001 GEM Scheme shall remain in full force and effect. As at the date of this report, no Share in respect of which options had been granted under the 2001 GEM Scheme was outstanding (2010: 9,307,500), representing 0% (2010: approximately 0.38%) of the issued share capital of the Company as at the date of this report.

(c) 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by, inter alia, the resolution of the Company's shareholders at the AGM held on 26 April 2005 (the "2005 GEM Scheme"), options may be granted to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 GEM Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005.

The share options under the 2005 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

Options granted under the 2005 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2005 GEM Scheme was not permitted to exceed 10% of the Shares in issue at the date of approval of the 2005 GEM Scheme without prior approval from the Company's shareholders. No option might be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which might be granted under the 2005 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

Share Option Schemes of the Company *(Continued)*

(c) 2005 GEM Share Option Scheme *(Continued)*

2005 GEM Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date. No option was granted under the 2005 GEM Scheme since its adoption.

(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 ("2005 Main Board Scheme"), options may be granted to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

Options granted under 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

The total number of Shares in respect of which options may be granted under the 2005 Main Board Scheme is not permitted to exceed 10% of the Shares in issue on the date of approval of the 2005 Main Board Scheme without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one grantee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the total number of Shares in issue.

As at the date of this report, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 16,240,800 (2010: 16,240,800), representing approximately 0.66% (2010: approximately 0.66%) of the issued share capital of the Company as at the date of this report.

Share Option Schemes of the Company *(Continued)*

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$
Pre-GEM Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003–03.04.2011	0.473
	04.04.2001	01.01.2004–03.04.2011	0.473
2001 GEM Scheme:			
2001 GEM Options	13.11.2001	13.02.2002–13.02.2007	0.940
	13.11.2001	13.05.2002–13.02.2007	0.940
	13.11.2001	13.11.2002–13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005–30.03.2011	3.483
	19.11.2004	31.12.2006–30.03.2011	3.483
	19.11.2004	31.12.2007–30.03.2011	3.483
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007–27.11.2015	2.796
	03.10.2006	04.04.2008–27.11.2015	2.796
	03.10.2006	04.10.2008–27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811
	16.03.2007	16.03.2009–27.11.2015	3.811
	16.03.2007	16.03.2010–27.11.2015	3.811

Share Option Schemes of the Company *(Continued)*

The following table discloses movements in the share options during the year:

	Option types	Date of grant	Exercise period	Exercise price (HK$)	Outstanding at 01.01.2011	Exercised during the year	Outstanding at 31.12.2011	Weighted average closing price of Shares immediately before the date(s) on which options were exercised (HK$)
Category 1: Directors								
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811	1,085,400	—	1,085,400	—
		16.03.2007	16.03.2009–27.11.2015	3.811	1,085,400	—	1,085,400	—
		16.03.2007	16.03.2010–27.11.2015	3.811	1,447,200	—	1,447,200	—
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2009–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	—	1,206,000	—
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2009–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	—	1,206,000	—
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2009–27.11.2015	3.811	904,500	—	904,500	—
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	—	1,206,000	—
Tang Yui Man, Francis *(Note 5)*	2004 GEM Options	19.11.2004	31.12.2005–30.03.2011	3.483	904,500	904,500	—	3.97
		19.11.2004	31.12.2006–30.03.2011	3.483	904,500	904,500	—	3.97
		19.11.2004	31.12.2007–30.03.2011	3.483	1,206,000	1,206,000	—	3.97
Total for Directors					15,678,000	3,015,000	12,663,000	
Category 2: Employees	2004 GEM Options	19.11.2004	31.12.2005–30.03.2011	3.483	2,562,750	2,562,750	—	4.03
		19.11.2004	31.12.2006–30.03.2011	3.483	2,562,750	2,562,750	—	3.99
		19.11.2004	31.12.2007–30.03.2011	3.483	3,417,000	3,417,000	—	3.99
	2006 Options	03.10.2006	04.10.2007–27.11.2015	2.796	301,500	—	301,500	—
		03.10.2006	04.04.2008–27.11.2015	2.796	542,700	—	542,700	—
		03.10.2006	04.10.2008–27.11.2015	2.796	723,600	—	723,600	—
	2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811	603,000	—	603,000	—
		16.03.2007	16.03.2009–27.11.2015	3.811	603,000	—	603,000	—
		16.03.2007	16.03.2010–27.11.2015	3.811	804,000	—	804,000	—
Total for Employees					12,120,300	8,542,500	3,577,800	
All categories					27,798,300	11,557,500	16,240,800	

Share Option Schemes of the Company *(Continued)*

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. During the year, no share option was cancelled or had lapsed under any share option schemes.

3. During the year, no new option was granted.

4. There was no outstanding share option at the beginning and at the end of the year under the Pre-GEM Scheme.

5. Mr. Tang Yui Man, Francis resigned as an alternate Director to Mr. Ou Yaping (a former Executive Director of the Company resigned on 16 March 2011) with effect from 16 March 2011.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

There are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

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

Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG and Mr. Kwan Yuk Choi, James, an Executive Director of the Company, is an executive director of HKCG.

HKCG and its subsidiaries (excluding the Group) ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Competing Business *(Continued)*

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

Substantial Shareholders

As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2011
Lee Shau Kee	Interest of controlled corporations	1,628,172,901 *(Note 1)*	66.18%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 *(Note 2)*	66.18%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 *(Note 2)*	66.18%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 *(Note 2)*	66.18%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 *(Note 2)*	66.18%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 *(Note 2)*	66.18%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 *(Note 2)*	66.18%
HKCG	Interest of controlled corporations	1,628,172,901 *(Note 3)*	66.18%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 *(Note 3)*	64.43%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,585,202,901 *(Note 3)*	64.43%

Substantial Shareholders *(Continued)*

Long positions in Shares and underlying Shares in the Company *(Continued)*

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2011
Ou Yaping	Interest of controlled corporations	195,487,245 *(Note 4)*	7.95%
Asia Pacific Promotion Limited ("Asia Pacific")	Interest of controlled corporations	195,487,245 *(Note 4)*	7.95%
Enerchina Holdings Limited ("Enerchina")	Interest of controlled corporations	195,487,245 *(Note 4)*	7.95%
Supreme All Investments Limited ("Supreme All")	Beneficial owner	186,440,677 *(Note 4)*	7.58%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	123,186,900 *(Note 5)*	5.01%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,628,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,628,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,585,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.

4. Enerchina is interested in the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 9,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by, Kenson, Supreme All, Enerchina and Asia Pacific.

5. Commonwealth Bank was taken to be interested in these 123,186,900 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Substantial Shareholders *(Continued)*

Long positions in Shares and underlying Shares in the Company *(Continued)*

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2011, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short Positions in Shares and Underlying Shares in the Company

As at 31 December 2011, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2011, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2011 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and note 35 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions

On 12 May 2010, the Company and HKCG entered into three master agreements respectively, namely

(1) an agreement (the "Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the "Gas Purchase Transactions");

(2) an agreement (the "Pipeline Materials Purchase Master Agreement") relating to the purchase of various pipeline construction materials and tools by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"); and

Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions *(Continued)*

(3) an agreement (the "Gas Sales Master Agreement", and together with the Gas Purchase Master Agreement and the Pipeline Materials Purchase Master Agreement collectively referred to as the "2010 CCT Master Agreements") relating to the sales of various types of fuel gas (including but not limited to piped natural gas, compressed natural gas and liquefied natural gas) by members of the Group to the HKCG Group (the "Gas Sales Transactions")

each for a term commencing from 12 May 2010 to 30 April 2013. Particulars of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions were disclosed in the announcement of the Company dated 12 May 2010.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2010 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

The Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions are subject to annual cap amounts of RMB58,000,000 (approximately HK$65,909,000), RMB18,000,000 (approximately HK$20,455,000) and RMB30,000,000 (approximately HK$34,091,000) respectively for the year ended 31 December 2011. The respective amounts of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the year ended 31 December 2011 was RMB22,388,000 (approximately HK$26,974,000), RMB5,741,000 (approximately HK$6,917,000) and nil, which have not exceeded the annual cap amounts as stated above.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the year ended 31 December 2011 were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions

On 19 December 2011, the Company and three subsidiaries of HKCG entered into master agreements respectively, namely

(1) an agreement (the "Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 (Shenyang Sanquan Project Management Consulting Co., Ltd.), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");

(2) an agreement (the "Master System Software and Supporting Services Agreement") relating to the user authorization, installation, management and maintenance and the provision of technical supporting services relating to system software developed by 港華科技（武漢）有限公司 (Hongkong and China Technology (Wuhan) Company Limited) ("HKCG (Wuhan)"), including but not limited to the Towngas Customer Information System, the Towngas Customer Services Centre Hotline System and the Production Operating Management System by HKCG (Wuhan), a non wholly-owned subsidiary of HKCG, to members of the Group (the "System Software and Supporting Services Transactions"); and

(3) an agreement (the "Master Cloud Computing System and Supporting Services Agreement", and together with the Master Project Management Agreement and the Master System Software and Supporting Services Agreement collectively referred to as the "2011 CCT Master Agreements") relating to the user authorization, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems, including but not limited to, Towngas Customer Information System by 名氣通智能科技（深圳）有限公司 (Towngas Telecommunications (Shenzhen) Limited), a wholly owned subsidiary of HKCG, to members of the Group (the "Cloud Computing System and Supporting Services Transactions")

each for a term commencing from 19 December 2011 to 30 September 2014. Particulars of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions were disclosed in the announcement of the Company dated 19 December 2011.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2011 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions *(Continued)*

The Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions are subject to annual cap amounts of RMB3,200,000 (approximately HK$3,902,000), RMB2,500,000 (approximately HK$3,049,000) and RMB400,000 (approximately HK$488,000) respectively for the period from 19 December 2011 to 31 December 2011. The respective amounts of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the period from 19 December 2011 to 31 December 2011 was RMB1,479,000 (approximately HK$1,782,000), RMB1,369,000 (approximately HK$1,650,000) and nil, which have not exceeded the annual cap amounts as stated above.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the period from 19 December 2011 to 31 December 2011 were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

Related Party Transactions

Details of the related party transactions undertaken in normal course of business are set out in note 35 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have compiled with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Borrowings

Particulars of borrowings of the Group as at 31 December 2011 are set out in note 28 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$894,582.

Report of the Directors

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report and during the year, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 42.46% of the Group's operating cost for the year. Purchases from the largest supplier accounted for about 15.71% of the Group's operating costs. None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had an interest in the Group's five largest suppliers. The percentage of the turnover attributable of the Group's five largest customers is less than 30% during the year.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company repaid all of its outstanding guaranteed senior notes due 2011 (the "Senior Notes") on 23 September 2011, being the maturity date of the Senior Notes. Following their repayment at maturity, all the outstanding Senior Notes were cancelled and delisted from the Singapore Exchange Securities Trading Limited. Please also refer to the paragraph headed Finance Costs in the section headed "Financial Review" above.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

Emolument Policy

As at 31 December 2011, the Group had 16,513 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Group's operating results, individual performance and comparable market statistics. No Director or executive, nor any of his/her associates, is involved in deciding his/her own remuneration.

Emolument Policy *(Continued)*

The Company has adopted share option schemes as incentive to Directors and eligible employees, and details of the schemes are set out in note 38 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this Annual Report.

Corporate Governance

The Company had complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on pages 50 to 57 in this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2011 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 16 March 2012

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

Code on Corporate Governance Practices

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices since 2005.

The Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2011. The application of the Code is stated in the following paragraphs.

Board of Directors

Board Composition

As at the date of this Annual Report, the Board is comprised of eight members as detailed below:

Executive Directors:

Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John *(Company Secretary)*
Ms. Law Wai Fun, Margaret

Independent Non-Executive Directors:

Dr. Chow Yei Ching
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity.

Board of Directors *(Continued)*

Each Independent Non-Executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules, that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between any members of the Board, and in particular, there is none between the Chairman and the Chief Executive Officer.

Pursuant to the Articles of Association of the Company, at least one third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2011, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise. The Independent Non-Executive Directors represent more than one third of the Board.

The term of office for Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, being the Independent Non-Executive Directors commenced from 23 May 2010 to 22 May 2013 or the conclusion of the Company's AGM in 2013, whichever is earlier. They are also subject to retirement by rotation in accordance with the Articles of Association of the Company.

Functions of the Board

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The Executive Directors are responsible for the day-to-day management of the Company's operations and conduct meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Specific matters are decided by the Board and those reserved for management are reviewed by the Board.

In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association of the Company sets out the responsibilities and proceedings of the Board. The Board meets regularly at least four times a year to consider operational reports of the Company and policies. Significant operational policies are discussed and passed by the Board.

Board of Directors *(Continued)*

Board Meetings

The Board held four regular Board meetings (within the meanings of the Code) during the year ended 31 December 2011 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles of Association of the Company and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/Number of Meetings
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	4/4
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	4/4
Mr. Kwan Yuk Choi, James	4/4
Mr. Ho Hon Ming, John *(Company Secretary)*	4/4
Ms. Law Wai Fun, Margaret	4/4
Mr. Ou Yaping *(Note)*	0/1
Mr. Tang Yui Man, Francis *(Note)* *(Alternate Director to Mr. Ou Yaping)*	1/1
Independent Non-Executive Directors	
Dr. Chow Yei Ching	4/4
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4

Note: Mr. Ou Yaping resigned as an Executive Director of the Company on 16 March 2011 while Mr. Tang Yui Man, Francis resigned as an alternate Director to Mr. Ou Yaping on 16 March 2011. One Board meeting was held during their terms of office.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Wing Kin, Alfred and the Chief Executive Officer is Mr. Wong Wai Yee, Peter. The roles of Chairman and Chief Executive Officer are separate. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group.

The Chief Executive Officer, who is assisted by other Executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

Board of Directors *(Continued)*

Responsibilities of the Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- actively participating in the boards of the Company's subsidiaries and associated companies;
- approving the annual budgets for each operating company covering financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reportings;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering the misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, namely Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David and is chaired by Dr. Chow Yei Ching.

Written terms of reference of the Remuneration Committee have been adopted by the Board. The Remuneration Committee's responsibilities include the review and consideration of the Company's remuneration policy for Directors and senior management, the determination of remuneration packages for Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remuneration of Non-Executive Directors.

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

During the year ended 31 December 2011, the Remuneration Committee:

- reviewed the remunerations of the senior management for 2011;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2011.

The Remuneration Committee held one meeting during the year ended 31 December 2011 with individual attendance as follow:

Members of the Remuneration Committee	Attendance/Number of Meeting
Dr. Chow Yei Ching	1/1
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chan Wing Kin, Alfred	1/1

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and also contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Chow Yei Ching and Dr. Cheng Mo Chi, Moses, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Li Man Bun, Brian David.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and review the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee have been adopted and are regularly reviewed and updated by the Board.

Board Committees *(Continued)*

Audit Committee *(Continued)*

During the year ended 31 December 2011, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2010 and for the six months ended 30 June 2011;
- made recommendation on the re-appointment of the external auditor;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2010 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2011 with individual attendance as follow:

Members of the Audit Committee	Attendance/Number of Meetings
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching	2/2
Dr. Cheng Mo Chi, Moses	2/2

Nomination Committee

The Nomination Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, and is chaired by Mr. Chan Wing Kin, Alfred.

The Nomination Committee was established in November 2011 and written terms of reference of the Nomination Committee have been adopted by the Board. The Nomination Committee's responsibilities include formulating policy and making recommendation to the Board on nominations, appointment of Directors and Board succession. The Nomination Committee is also responsible for reviewing the composition of the Board and making recommendations on any proposed changes to the Board.

No meeting of the Nomination Committee was held within the year of 2011.

Corporate Governance Report

Model Code for Securities Transactions by Directors

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2011, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2011.

The Company has further adopted a formal model code for securities transactions by its relevant employees in 2008, who may have access to the Company's price-sensitive information during the course of their employment, on terms no less exacting than the required standard set out in the Model Code.

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2011. Deloitte also reviewed the 2011 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2011 amounted to HK$5.68 million.

Non-audit service fees charged by Deloitte during 2011 are as follows:

Description of non-audit services performed	**HK$**
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2011	500,000
(2) Tax review	49,000
(3) Annual review on continuing connected transactions for the year ended 31 December 2011	60,000
Total	609,000

Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards. The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 58 to 59 of this Annual Report.

Going Concern Basis in Preparing Financial Statements

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Effectiveness of Internal Control System

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. The Group's internal audit department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2011, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct non-compliances, if any.

Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders.

The Company uses a range of communication tools, such as the AGM, the annual reports, various notices, announcements and circulars, to ensure its shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at "www.towngaschina.com" which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived (for documents published in the previous five years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2011 AGM held on 30 May 2011, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, chairman of the Remuneration Committee, members of the Audit Committee and members of senior management attended the 2011 AGM to answer questions from the Company's shareholders.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED
港華燃氣有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 148, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Auditor's Responsibility *(Continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**4,321,344**	2,981,420
Operating profit before returns on investments	8	**586,390**	330,187
Other gains, net	9	**195,421**	138,410
Share of results of associates		**194,522**	183,408
Share of results of jointly controlled entities		**199,088**	116,102
Finance costs	10	**(141,885)**	(141,859)
Profit before taxation	11	**1,033,536**	626,248
Taxation	13	**(256,943)**	(136,442)
Profit for the year		**776,593**	489,806
Profit for the year attributable to:			
Shareholders of the Company		**708,754**	435,797
Non-controlling interests		**67,839**	54,009
		776,593	489,806
Proposed final dividend of five HK cents (2010: three HK cents) per ordinary share	14	**123,017**	73,464
		HK cents	HK cents
Earnings per share	15		
— Basic		**28.84**	19.93
— Diluted		**28.82**	19.93

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**776,593**	489,806
Other comprehensive income		
Exchange differences arising on translation to presentation currency	**405,977**	272,061
Fair value change on cash flow hedge	**(12,693)**	—
	393,284	272,061
Total comprehensive income for the year	**1,169,877**	761,867
Total comprehensive income attributable to:		
Shareholders of the Company	**1,077,949**	696,136
Non-controlling interests	**91,928**	65,731
Total comprehensive income for the year	**1,169,877**	761,867

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**6,127,967**	5,073,785
Leasehold land	17	**296,226**	264,742
Intangible assets	18	**182,910**	182,107
Goodwill	19	**3,848,101**	3,380,743
Interests in associates	20	**2,243,599**	1,989,156
Interests in jointly controlled entities	21	**1,481,514**	1,247,471
Loans to jointly controlled entities	21	**131,532**	119,160
Available-for-sale investments	22	**169,893**	169,372
Deferred consideration receivable	23	**203,682**	242,481
		14,685,424	12,669,017
Current assets			
Inventories	24	**387,702**	147,885
Leasehold land	17	**9,786**	9,016
Loans to an associate	20	**30,826**	—
Loans to jointly controlled entities	21	**140,127**	84,906
Trade and other receivables, deposits and prepayments	25	**852,188**	531,455
Amounts due from minority shareholders	26	**6,267**	6,579
Time deposits over three months	25	**148,583**	185,127
Bank balances and cash	25	**1,922,503**	1,248,814
		3,497,982	2,213,782
Current liabilities			
Trade and other payables and accrued charges	27	**2,262,579**	1,653,981
Amounts due to minority shareholders	26	**194,894**	25,630
Taxation		**320,622**	229,192
Borrowings — amount due within one year	28	**1,512,629**	2,792,403
		4,290,724	4,701,206
Net current liabilities		**(792,742)**	(2,487,424)
Total assets less current liabilities		**13,892,682**	10,181,593
Non-current liabilities			
Loans from the ultimate holding company	29	**471,790**	471,365
Borrowings — amount due after one year	28	**2,902,121**	432,321
Deferred taxation	30	**205,900**	142,780
Other financial liabilities	31	**13,616**	—
		3,593,427	1,046,466
Net assets		**10,299,255**	9,135,127

	Notes	**2011 HK$'000**	2010 HK$'000
Capital and reserves			
Share capital	32	**246,035**	244,879
Reserves		**9,369,279**	8,318,558
Equity attributable to shareholders of the Company		**9,615,314**	8,563,437
Non-controlling interests		**683,941**	571,690
Total equity		**10,299,255**	9,135,127

The consolidated financial statements on pages 60 to 148 were approved and authorised for issue by the Board of Directors ("the Board") on 16 March 2012 and are signed on its behalf by:

Chan Wing Kin, Alfred
DIRECTOR

Li Man Bun, Brian David
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Hedge reserve HK$'000	General reserves HK$'000 *(note 33)*	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	195,836	4,417,316	678,266	42,859	—	53,842	1,045,469	6,433,588	454,535	6,888,123
Exchange differences arising on translation to presentation currency	—	—	260,339	—	—	—	—	260,339	11,722	272,061
Profit for the year	—	—	—	—	—	—	435,797	435,797	54,009	489,806
Total comprehensive income for the year	—	—	260,339	—	—	—	435,797	696,136	65,731	761,867
Issue of shares upon exercise of share options	543	9,406	—	(2,353)	—	—	—	7,596	—	7,596
Issue of shares on acquisition of a subsidiary	48,500	1,416,200	—	—	—	—	—	1,464,700	—	1,464,700
Recognition of equity-settled share based payments	—	—	—	620	—	—	—	620	—	620
Transfer	—	—	—	—	—	17,867	(17,867)	—	—	—
Addition on acquisition of subsidiaries	—	—	—	—	—	—	—	—	33,770	33,770
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	35,890	35,890
Dividend paid to shareholders of the Company	—	(39,203)	—	—	—	—	—	(39,203)	—	(39,203)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(18,236)	(18,236)
	49,043	1,386,403	—	(1,733)	—	17,867	(17,867)	1,433,713	51,424	1,485,137
At 31 December 2010 and 1 January 2011	244,879	5,803,719	938,605	41,126	—	71,709	1,463,399	8,563,437	571,690	9,135,127
Exchange differences arising on translation to presentation currency	—	—	381,888	—	—	—	—	381,888	24,089	405,977
Fair value change on cash flow hedge	—	—	—	—	(12,693)	—	—	(12,693)	—	(12,693)
Profit for the year	—	—	—	—	—	—	708,754	708,754	67,839	776,593
Total comprehensive income for the year	—	—	381,888	—	(12,693)	—	708,754	1,077,949	91,928	1,169,877
Issue of shares upon exercise of share options	1,156	56,204	—	(17,105)	—	—	—	40,255	—	40,255
Transfer	—	—	—	—	—	18,393	(18,393)	—	—	—
Addition on acquisition of subsidiaries	—	—	—	—	—	—	—	—	13,916	13,916
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	7,483	7,483	(16,661)	(9,178)
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	46,468	46,468
Dividend paid to shareholders of the Company	—	(73,810)	—	—	—	—	—	(73,810)	—	(73,810)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(23,400)	(23,400)
	1,156	(17,606)	—	(17,105)	—	18,393	(10,910)	(26,072)	20,323	(5,749)
At 31 December 2011	246,035	5,786,113	1,320,493	24,021	(12,693)	90,102	2,161,243	9,615,314	683,941	10,299,255

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**1,033,536**	626,248
Adjustments for:		
Interest income	**(18,486)**	(7,979)
Imputed interest on loans to jointly controlled entities and deferred consideration receivable	**(15,791)**	(15,966)
Interest expenses	**139,748**	139,292
Share of results of associates	**(194,522)**	(183,408)
Share of results of jointly controlled entities	**(199,088)**	(116,102)
Dividends from available-for-sale investments	**(34,791)**	(35,780)
Amortisation of leasehold land	**9,866**	8,557
Amortisation of intangible assets	**7,147**	6,782
Share-based payment expenses	**—**	620
Depreciation of property, plant and equipment	**229,741**	182,293
Loss on disposal of property, plant and equipment	**11,853**	5,811
Gain on disposal of leasehold land	**—**	(4,553)
Loss on fair value change of derivative financial instrument	**923**	—
Allowance for doubtful debts	**16,037**	10,000
Operating cash flows before movements in working capital	**986,173**	615,815
Increase in inventories	**(215,936)**	(27,725)
Increase in trade receivables	**(122,177)**	(56,904)
Increase in other receivables, deposits and prepayments	**(105,638)**	(34,396)
Increase in trade payables	**119,717**	81,080
Increase in other payables and accrued charges	**239,737**	294,820
Increase (decrease) in amounts due to minority shareholders	**4,552**	(53,262)
Cash generated from operations	**906,428**	819,428
Interest paid	**(139,748)**	(134,404)
Taxation paid	**(138,437)**	(83,676)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**628,243**	601,348

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(894,298)**	(718,593)
Deferred consideration received	**40,000**	40,000
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	**(171,375)**	(3,968)
Acquisition of associates	**—**	(54,263)
Capital injection to an associate	**(29,593)**	(145,008)
Capital injection to a jointly controlled entity	**—**	(4,592)
Payment of deferred consideration for acquisition of subsidiaries in prior period	**(13,021)**	(142,952)
Purchase of leasehold land	**(18,549)**	(35,808)
Loans to jointly controlled entities	**(69,843)**	(84,906)
Loans to an associate	**(30,826)**	—
Repayment of amount due from a related company	**—**	127,378
Repayment of loans from jointly controlled entities	**17,689**	45,129
Dividends received from associates	**30,714**	—
Dividends received from jointly controlled entities	**—**	35,518
Dividends from available-for-sale investments	**34,791**	35,780
Interest received	**18,486**	7,979
Decrease (increase) in time deposits over 3 months	**36,544**	(145,148)
Proceeds from disposal of leasehold land	**—**	18,926
Proceeds from disposal of property, plant and equipment	**18,540**	4,705
NET CASH USED IN INVESTING ACTIVITIES	**(1,030,741)**	(1,019,823)
FINANCING ACTIVITIES		
Redemption of senior notes	**(1,119,469)**	—
Repayments of bank and other loans	**(1,991,322)**	(826,868)
Repayment of amount due to a related company	**—**	(127,378)
Dividend paid to shareholders of the Company	**(73,810)**	(39,203)
Dividends paid to minority shareholders of subsidiaries	**(23,400)**	(18,236)
New bank and other loans raised	**4,155,015**	1,666,536
Acquisition of additional interest in subsidiaries	**(9,178)**	—
Capital contribution from minority shareholders of subsidiaries	**46,468**	35,890
Issue of shares upon exercise of share options	**40,255**	7,596
NET CASH GENERATED FROM FINANCING ACTIVITIES	**1,024,559**	698,337
NET INCREASE IN CASH AND CASH EQUIVALENTS	**622,061**	279,862
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,248,814**	923,882
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**51,628**	45,070
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**1,922,503**	1,248,814

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General and Basis of Preparation

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company ("Directors"), the Group's parent and ultimate holding company is The Hong Kong and China Gas Company Limited ("HKCG"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the Annual Report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$793 million as at 31 December 2011. The Group's liabilities as at 31 December 2011 included borrowings of approximately HK$1,513 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had un-drawn facilities (the "Facilities") amounted to approximately HK$1,297 million of which HK$522 million of the facilities were from the ultimate holding company. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK$1,478 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

Taking into account of the internally generated funds and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC*)-INT 14	Prepayments of a minimum funding requirement
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the International Financial Reporting Interpretations Committee.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures — Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax — Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. Hence, available-for-sale equity investments which are currently stated at costs less impairment will need to be measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in equity.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-INT 12 "Consolidation — Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures" and HK(SIC)-INT 13 "Jointly controlled entities — Non-monetary contributions by venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). The directors are currently assessing the impact on the adoption of these standards and are yet to quantify the impact.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are stated at fair value and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent years.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. Significant Accounting Policies *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associates, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

3. Significant Accounting Policies *(Continued)*

Investments in associates *(Continued)*

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant Accounting Policies *(Continued)*

Joint ventures *(Continued)*

Jointly controlled entities *(Continued)*

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from gas connection, which relates to gas connection contracts, is recognised based on the percentage of completion method, measured by reference to the value of work carried out during the year, when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used by the customers.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less accumulated depreciation, and any impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Buildings	15–30 years
Gas pipelines	25–40 years
Plant and equipment and others	5–15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to appropriate categories of property, plant and equipment.

3. Significant Accounting Policies *(Continued)*

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Exclusive operating rights for city pipeline network

Exclusive operating rights for city pipeline network are stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating rights is capitalised and amortised on a straight-line basis over the estimated useful life.

The estimated useful life and amortisation method of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenues, the expected loss is recognised as an expense immediately.

3. Significant Accounting Policies *(Continued)*

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into one of the two categories, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables (including deferred consideration receivable, trade receivables, other receivables, time deposits, amounts due from minority shareholders, loans to an associate , loans to jointly controlled entities, time deposits over three months and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issuance costs.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Bank and other borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to minority shareholders and loan from the ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), or hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Cash flow hedges

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

3. Significant Accounting Policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translating monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

3. Significant Accounting Policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered service entitling them to the contributions.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is HK$3,848,101,000 (2010: HK$3,380,743,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2011, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK$64,180,000 (2010: HK$45,504,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

4. Key Sources of Estimation Uncertainty *(Continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2011, the carrying amount of trade receivables is HK$314,965,000 (2010: HK$173,427,000).

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes borrowings and loans from the ultimate holding company disclosed in notes 28 and 29, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% determined as the proportion of net debt excluding loans from the ultimate holding company ("ND") to equity plus ND (the "Gearing Ratio").

The Gearing Ratio at the reporting date was as follows:

	2011 HK$'000	2010 HK$'000
Debt (i)	**4,886,540**	3,696,089
Time deposits over three months	**(148,583)**	(185,127)
Bank balances and cash	**(1,922,503)**	(1,248,814)
Net debt	**2,815,454**	2,262,148
Equity (ii)	**9,615,314**	8,563,437
Net debt to equity ratio	**29.3%**	26.4%
Gearing Ratio	**19.6%**	17.3%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 28 and 29.

(ii) Equity includes all capital and reserves of the Group excluding non-controlling interest.

6. Financial Instruments

Category of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**2,937,806**	2,102,253
Available-for-sale instruments	**169,893**	169,372
Financial liabilities		
Amortised cost	**5,693,907**	4,163,898
Derivative financial instruments	**13,616**	—

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity investments, deferred consideration receivable, loans to jointly controlled entities, loans to an associate, trade and other receivables, amounts due from minority shareholders, time deposits, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables, other financial liabilities and loans from the ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank balances, loan to jointly controlled entities, bank and other borrowings and loans from the ultimate holding company are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances, bank and other borrowings and loans from the ultimate holding company, denominated in United States Dollar (''USD'') and HKD at the end of the reporting period are set out in notes 25, 28 and 29.

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2010: 2%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 3% (2010: 2%) change in foreign currency rates.

The sensitivity analysis includes bank balances, bank and other borrowings and loan from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit for the year where RMB strengthens 3% (2010: 2%) against USD and HKD. For a 3% (2010: 2%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2011 HK$'000	2010 HK$'000
Profit for the year	**101,594**	51,340

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to jointly controlled entities and loans to an associate. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and the loans from the ultimate holding company and pay-fixed interest rate swap. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The critical terms of the interest rate swap are similar to the hedged borrowing. The interest rate swap is designed as effective hedging instruments and hedge accounting is used (see note 31 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD loan and the loan from the ultimate holding company and the fluctuation of basic borrowing rate announced by People's Bank of China arising from the Group's RMB bank loans.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loan from the ultimate holding company, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point (2010: 25 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2010: 25 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease/ increase by HK$12,082,000 (2010: HK$5,628,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loan from the ultimate holding company.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to jointly controlled entities and loans to an associate are concentrated in six jointly controlled entities and one associate respectively. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

The credit risk of deferred consideration receivable is concentrated in one counterparty. Management will closely monitor the financial position of the counterparty to ensure overdue debts are timely recovered.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The Group relies on loans from the ultimate holding company, bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK$775 million (at 31 December 2010: HK$1,643 million) and unutilised loan facility from the ultimate holding company of HK$522 million (at 31 December 2010: HK$22 million). The directors have considered the Group's liquidity and going concern as stated in note 1, in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$793 million as at 31 December 2011.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Trade payables	—	164,592	249,809	92,690	—	—	507,091	507,091
Other payables	—	105,382	—	—	—	—	105,382	105,382
Amount due to minority shareholders	—	194,894	—	—	—	—	194,894	194,894
Loan from the ultimate holding company	1.79%	—	—	8,455	488,700	—	497,155	471,790
Bank loans	3.02%	—	709,110	791,679	3,186,941	—	4,687,730	4,320,490
Other loans	1.98%	32,428	—	2,331	18,743	46,709	100,211	94,260
		497,296	958,919	895,155	3,694,384	46,709	6,092,463	5,693,907
Derivative-net settlement								
Interest rate swap		—	723	1,448	11,553	—	13,724	12,693
Foreign exchange forward rate contract		—	—	—	993	—	993	923
		—	723	1,448	12,546	—	14,717	13,616

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
2010								
Trade payables	—	126,222	156,062	53,209	—	—	335,493	335,493
Other payables	—	106,686	—	—	—	—	106,686	106,686
Amount due to minority shareholders	—	25,630	—	—	—	—	25,630	25,630
Loan from the ultimate holding company	2.00%	—	—	9,392	508,988	—	518,380	471,365
Bank loans	3.25%	—	1,041,728	618,650	390,730	—	2,051,108	1,996,917
Other loans	2.79%	24,479	—	7,763	34,002	52,936	119,180	108,338
Guaranteed senior notes	8.69%	—	45,076	1,169,530	—	—	1,214,606	1,119,469
		283,017	1,242,866	1,858,544	933,720	52,936	4,371,083	4,163,898

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The fair value of interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

7. Segment Information

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors that are used to make strategic decisions.

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sale and distribution of piped gas and related products and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	—	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	—	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contributes to less than 5% of Group's total revenue.

Segments results represent the profit before taxation earned by each segment, excluding interest income, finance costs, share of results of associates, share of results of jointly controlled entities, unallocated other income and corporate expenses such as central administration costs and directors' salaries. This is the measure reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

7. Segment Information *(Continued)*

Operating segments *(Continued)*

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2011			
TURNOVER			
External	**3,287,779**	**1,033,565**	**4,321,344**
Segment results	**233,096**	**454,617**	**687,713**
Unallocated other gains, net			**195,421**
Unallocated corporate expenses			**(101,323)**
Share of results of associates			**194,522**
Share of results of jointly controlled entities			**199,088**
Finance costs			**(141,885)**
Profit before taxation			**1,033,536**
Taxation			**(256,943)**
Profit for the year			**776,593**

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2010			
TURNOVER			
External	2,286,338	695,082	2,981,420
Segment results	143,972	277,927	421,899
Unallocated other gains, net			138,410
Unallocated corporate expenses			(91,712)
Share of results of associates			183,408
Share of results of jointly controlled entities			116,102
Finance costs			(141,859)
Profit before taxation			626,248
Taxation			(136,442)
Profit for the year			489,806

7. Segment Information *(Continued)*

Operating segments *(Continued)*

Segment results included depreciation and amortisation of HK$246,754,000 (2010: HK$197,632,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and substantially all of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2011 and 2010.

8. Operating Profit Before Returns on Investments

	2011 HK$'000	2010 HK$'000
Turnover	**4,321,344**	2,981,420
Less expenses:		
Gas fuel, stores and materials used	**2,754,861**	1,888,358
Staff costs	**394,114**	315,615
Depreciation and amortisation	**246,754**	197,632
Other expenses	**339,225**	249,628
	586,390	330,187

9. Other Gains, Net

Other gains, net mainly comprised of:

	2011 HK$'000	2010 HK$'000
Dividend income from available-for-sale investments	**34,791**	35,780
Interest income	**18,486**	7,979
Exchange gain	**117,325**	64,811
Gain on disposal of leasehold land	**—**	4,553
Imputed interest income on deferred consideration receivable	**8,201**	9,151
Imputed interest on loans to jointly controlled entities	**7,590**	6,815
Loss on fair value change of derivative financial instrument	**(923)**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. Finance Costs

	2011 HK$'000	2010 HK$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	**68,747**	42,608
— bank and other borrowings not wholly repayable within five years	**1,319**	1,645
— guaranteed senior notes	**69,682**	95,039
	139,748	139,292
Bank charges	**2,137**	2,567
	141,885	141,859

11. Profit Before Taxation

	2011 HK$'000	2010 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	**9,082**	8,988
Share-based payments for other staff	**—**	86
Other staff costs	**345,476**	274,491
Retirement benefit scheme contributions (excluding directors)	**39,556**	32,050
Total staff costs	**394,114**	315,615
Allowance for doubtful debts	**16,037**	10,000
Amortisation of intangible assets	**7,147**	6,782
Amortisation of leasehold land	**9,866**	8,557
Auditor's remuneration	**7,441**	6,578
Cost of inventories sold	**3,033,810**	2,100,380
Depreciation of property, plant and equipment	**229,741**	182,293
Loss on disposal of property, plant and equipment	**11,853**	5,811
Operating lease rentals in respect of land and buildings	**12,022**	9,063

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 9 (2010: 9) directors were as follows:

	Year ended 31 December 2011									
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000 *(Note d)*	Law Wai Fun, Margaret HK$'000	Li Man Bun, Brian David HK$'000	Ou Yaping HK$'000 *(Note b)*	Wong Wai Yee, Peter HK$'000 *(Note e)*	Total HK$'000
Fees	**200**	**400**	**400**	**200**	**200**	**200**	**400**	**50**	**200**	**2,250**
Other emoluments										
Salaries and other benefits	**—**	**—**	**—**	**—**	**936**	**—**	**—**	**—**	**1,002**	**1,938**
Retirement benefit scheme contributions	**—**	**—**	**—**	**—**	**94**	**—**	**—**	**—**	**100**	**194**
Performance and discretionary bonus *(Note a)*	**—**	**—**	**—**	**—**	**1,695**	**—**	**—**	**—**	**3,005**	**4,700**
Total emoluments	**200**	**400**	**400**	**200**	**2,925**	**200**	**400**	**50**	**4,307**	**9,082**

	Year ended 31 December 2010									
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000 *(Note d)*	Law Wai Fun, Margaret HK$'000	Li Man Bun, Brian David HK$'000	Ou Yaping HK$'000	Wong Wai Yee, Peter HK$'000 *(Note e)*	Total HK$'000
Fees	200	400	400	200	200	200	400	200	200	2,400
Other emoluments										
Salaries and other benefits	—	—	—	—	888	—	—	—	888	1,776
Retirement benefit scheme contributions	—	—	—	—	89	—	—	—	89	178
Performance and discretionary bonus *(Note a)*	—	—	—	—	1,600	—	—	—	2,500	4,100
Share-based payments	153	—	—	127	127	—	—	—	127	534
Total emoluments	353	400	400	327	2,904	200	400	200	3,804	8,988

Notes:

(a) The performance and discretionary bonus are determined by the Directors from time to time with reference to their duties and responsibilities and the Group's performance and profitability.

(b) Mr. Ou Yaping resigned as a director of the Company with effect from 16 March 2011.

(c) No service contracts were entered into by any directors with the Company.

(d) The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK$81,900 per month with effect from 1 January 2012.

(e) The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK$87,675 per month with effect from 1 January 2012.

12. Directors' and Employees' Emoluments *(Continued)*

Employees' emoluments:

For the year ended 31 December 2011, the five highest paid individuals of the Group included two (2010: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2010: three) highest paid individuals are as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and other benefit	**3,074**	2,862
Performance related incentive payments	**1,427**	1,955
Contribution to retirement benefit scheme	**226**	166
Share-based payment	**—**	43
	4,727	5,026

The emoluments were within the following bands:

	Number of employees	
	2011	2010
HK$1,000,000 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**—**	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2011.

13. Taxation

	2011 **HK$'000**	2010 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— current year	**206,711**	107,273
Deferred taxation *(note 30)*		
— taxation charge for the year	**50,232**	29,169
	256,943	136,442

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2010: 15% to 25%).

Certain subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to EIT at concessionary rate of 15%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from EIT for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from EIT for the following three years. The reduced tax rate for the relief period was 12.5% (2010: 12.5%). EIT has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

13. Taxation *(Continued)*

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2011 HK$'000	2010 HK$'000
Profit before taxation	**1,033,536**	626,248
Tax at the applicable rate of 25% (2010: 25%) *(Note)*	**258,384**	156,562
Tax effect of expenses that are not deductible for tax purposes	**89,191**	79,037
Tax effect of income that are not taxable for tax purposes	**(37,869)**	(24,300)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in EIT	**(12,337)**	(21,662)
Effect of different tax rates of subsidiaries operating in different regions	**(3,100)**	(15,774)
Tax effect of share of results of associates	**(48,631)**	(45,852)
Tax effect of share of results of jointly controlled entities	**(49,772)**	(29,026)
Tax effect of utilisation of tax losses not previously recognised	**(2,689)**	(1,057)
Tax effect of tax losses not recognised	**10,268**	6,758
Withholding tax on undistributed profits	**53,498**	31,756
Tax charge for the year	**256,943**	136,442

Note: The tax rate of 25% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for the year 2011 (2010: 25%).

At the end of the reporting period, the Group has unused tax losses of HK$64,180,000 (2010: HK$45,504,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until 2016.

14. Dividends

During the year, final dividend of HK$73,810,000 (2010: HK$39,203,000) was recognised as distribution being three HK cents per ordinary share in respect of the year ended 31 December 2010 (2010: in respect of the year ended 31 December 2009 of two HK cents per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2011 of five HK cents (2010: three HK cents) per share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the shareholders of the Company is based on the following data:

	2011 HK$'000	2010 HK$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**708,754**	435,797

	Number of shares 2011 '000	2010 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,457,917**	2,186,260
Effects of dilutive potential ordinary shares:		
Share options	**1,623**	284
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,459,540**	2,186,544

16. Property, Plant and Equipment

	Buildings HK$'000	Gas pipelines HK$'000	Plant and equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2010	402,440	3,502,868	492,307	274,888	4,672,503
Currency realignment	18,482	147,084	23,767	18,427	207,760
Additions	25,865	88,175	79,602	524,951	718,593
Additions from acquisition of subsidiaries	18,482	181,711	53,767	40,096	294,056
Disposals	(3,286)	(983)	(28,857)	—	(33,126)
Transfer	41,080	250,286	10,901	(302,267)	—
At 31 December 2010	503,063	4,169,141	631,487	556,095	5,859,786
Currency realignment	27,513	208,145	35,756	27,088	298,502
Additions	46,423	182,690	65,934	599,251	894,298
Additions from acquisition of subsidiaries	28,363	99,434	19,592	22,230	169,619
Disposals	(6,879)	(23,030)	(20,046)	—	(49,955)
Transfer	63,353	430,052	68,740	(562,145)	—
At 31 December 2011	661,836	5,066,432	801,463	642,519	7,172,250
DEPRECIATION					
At 1 January 2010	44,881	435,392	115,020	—	595,293
Currency realignment	3,267	20,161	7,597	—	31,025
Provided for the year	19,471	105,676	57,146	—	182,293
Eliminated on disposals	(1,873)	(58)	(20,679)	—	(22,610)
At 31 December 2010	65,746	561,171	159,084	—	786,001
Currency realignment	5,069	30,222	12,812	—	48,103
Provided for the year	24,741	126,473	78,527	—	229,741
Eliminated on disposals	(432)	(6,174)	(12,956)	—	(19,562)
At 31 December 2011	95,124	711,692	237,467	—	1,044,283
CARRYING VALUES					
At 31 December 2011	566,712	4,354,740	563,996	642,519	6,127,967
At 31 December 2010	437,317	3,607,970	472,403	556,095	5,073,785

The buildings are held under medium-term leases and are situated in the PRC.

As at 31 December 2011, the Group has pledged certain of its property, plant and equipment with an aggregate carrying value of HK$12,620,000 (2010: nil) to secure a banking facility granted to the Group.

17. Leasehold Land

	2011 HK$'000	2010 HK$'000
Balance at the beginning of the year	**273,758**	222,841
Currency realignment	**12,673**	9,526
Additions	**18,549**	35,808
Acquired on acquisition of subsidiaries	**10,898**	28,513
Disposals	**—**	(14,373)
Charge for the year	**(9,866)**	(8,557)
Balance at the end of the year	**306,012**	273,758
Analysis for reporting purpose:		
Non-current portion	**296,226**	264,742
Current portion	**9,786**	9,016
	306,012	273,758

The amount represented medium-term land use rights situated in the PRC.

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For the year ended 31 December 2011

18. Intangible Assets

	HK$'000
COST	
At 1 January 2010	207,651
Currency realignment	7,836
At 31 December 2010	215,487
Currency realignment	9,831
At 31 December 2011	225,318
AMORTISATION	
At 1 January 2010	25,441
Currency realignment	1,157
Provided for the year	6,782
At 31 December 2010	33,380
Currency realignment	1,881
Provided for the year	7,147
At 31 December 2011	42,408
CARRYING VALUES	
At 31 December 2011	182,910
At 31 December 2010	182,107

At 31 December 2011, the intangible assets represent the Group's exclusive operating rights for city pipeline network.

The exclusive operating rights are amortised on a straight-line basis over a period of 25 to 30 years.

19. Goodwill

	HK$'000
At 1 January 2010	2,752,733
Currency realignment	103,876
Acquired on acquisition of subsidiaries	524,134
At 31 December 2010	3,380,743
Currency realignment	154,239
Acquired on acquisition of subsidiaries	313,119
At 31 December 2011	3,848,101

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each investment holding company operating in specific locations together with its respective subsidiaries (together referred to as the "Sub-group") represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	2011 HK$'000	2010 HK$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	**352,933**	337,534
Hong Kong & China Gas (Zibo) Limited	**379,589**	363,027
Hong Kong & China Gas (Yantai) Limited	**256,364**	245,179
Hong Kong & China Gas (Weifang) Limited	**147,511**	141,075
Hong Kong & China Gas (Weihai) Limited	**293,673**	280,859
Hong Kong & China Gas (Taian) Limited	**259,825**	248,488
Hong Kong & China Gas (Maanshan) Limited	**308,399**	294,943
Hong Kong & China Gas (Anqing) Limited	**292,310**	279,556
Mianyang Hong Kong and China Gas Co., Ltd.	**314,234**	300,523
Gongzhuling Towngas Limited	**24,346**	23,284
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	**238,822**	228,402
Xinjin Diyuan Natural Gas Co., Ltd and Xinjin Nanfang Natural Gas Co., Ltd	**29,461**	28,176
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**437,744**	418,645
Jiujiang Hong Kong and China Gas Co., Ltd. ("Jiujiang")	**69,067**	66,054
Guilin Hong Kong and China Gas Co., Ltd. ("Guilin")	**41,234**	39,435
Wuning Hong Kong & China Gas Co., Ltd. ("Wuning")	**77,213**	—
Xiushui Hong Kong & China Gas Co., Ltd. ("Xiushui")	**40,750**	—
Miluo Red-horse Natural Gas Development Company Limited. ("Miluo")	**148,229**	—
Beipiao Hong Kong & China Gas Co., Ltd. ("Beipiao ")	**46,927**	—
Others	**89,470**	85,563
	3,848,101	3,380,743

* The operating entities of Towngas BVI are located in the Liaoning and Zhejiang provinces in the PRC.

19. Goodwill *(Continued)*

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8% (2010: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2010: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2011.

As at 31 December 2010, adjustments have been made to reduce the carrying amount of goodwill arising from acquisition of a subsidiary, Towngas BVI, by HK$372,550,000, and increase the goodwill included in the initial carrying amounts of interest in an associate and interest in a jointly controlled entity upon completion of initial accounting of the acquisition of Towngas BVI during the current year.

20. Interests in Associates/Loans to an Associate

	2011 **HK$'000**	2010 HK$'000
Cost of investments in associates	**1,566,715**	1,406,662
Share of post-acquisition profits and other comprehensive income, net of dividends received	**676,884**	582,494
	2,243,599	1,989,156
Loans to an associate		
— Current portion	**30,826**	—

20. Interests in Associates/Loans to an Associate *(Continued)*

Details of the Group's principal associates as at 31 December 2011 are as follows:

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group 2011	2010	Principal activities
Changchun Gas Company Limited 長春燃氣股份有限公司	PRC — Limited liability company	**26%**	26%	Production and distribution of natural gas, coal gas, liquefied petroleum gas ("LPG"), metallurgical coke and coke oil
Foshan Gas Group Ltd. 佛山市燃氣集團股份有限公司	PRC — Sino-foreign equity joint venture	**43%**	43%	Provision of LPG, natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC — Limited liability company	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**42%**	42%	Provision of natural gas and related services and gas pipeline construction
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	**48%**	48%	Provision of natural gas and related services and gas pipeline construction
Zibo Lubo Gas Company Ltd. 淄博綠博燃氣有限公司	PRC — Sino-foreign equity joint venture	**27%**	27%	Provision of natural gas and related services and gas pipeline construction

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would in the opinion of the directors, result in particulars of excessive length.

20. Interests in Associates/Loans to an Associate *(Continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2011 HK$'000	2010 HK$'000
Total assets	**9,363,892**	7,249,443
Total liabilities	**(5,079,809)**	(3,713,884)
Net assets	**4,284,083**	3,535,559
Income	**6,234,842**	4,785,869
Profit for the year	**511,063**	466,883

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI acquired in the year ended 31 December 2010 (note 34). Accordingly, adjustments have been made to increase the fair value of the interest in associate as at the acquisition date, thus increasing the carrying amount of goodwill included in the initial carrying amount of interest in an associate of HK$192,356,000, and decrease the goodwill arising from acquisition of Towngas BVI by the same amount. As at 31 December 2011, there was goodwill included in carrying amount of interest in associates of HK$422,492,000 arising from acquisition of associates (2010: HK$405,945,000).

The loans to an associate are unsecured and carried at amortised cost with the following details:

Principal amount 2011	2010	**Maturity date**	**Coupon interest rate**	**Effective interest rate**	**Carrying amount 2011 HK$'000**	2010 HK$'000
RMB10,000,000	—	June 2012	7.26%	7.26%	**12,330**	—
RMB15,000,000	—	October 2012	6.56%	6.56%	**18,496**	—
					30,826	—

The principal and interest will be received on respective maturity date.

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities

	2011 HK$'000	2010 HK$'000
Cost of investments in jointly controlled entities	**994,976**	960,020
Share of post-acquisition profits and other comprehensive income, net of dividends received	**486,538**	287,451
	1,481,514	1,247,471
Loans to jointly controlled entities		
— Current portion	**140,127**	84,906
— Non-current portion	**131,532**	119,160
	271,659	204,066

At 31 December 2011, the Group had interests in the following significant jointly controlled entities registered in PRC:

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2011	2010	Principal activities
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC — Limited liability company	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2011	2010	Principal activities
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

At 31 December 2011, the aggregate amount of assets and liabilities recognised in the financial statements of the jointly controlled entities in relation to the Group's interests in jointly controlled entities are as follows:

	2011 HK$'000	2010 HK$'000
Current assets	**541,522**	448,221
Non-current assets	**2,182,955**	1,826,922
Current liabilities	**(990,180)**	(756,943)
Non-current liabilities	**(252,783)**	(270,729)
Net assets	**1,481,514**	1,247,471
Income	**1,544,931**	1,180,289
Expenses	**1,345,843**	1,064,187

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI acquired in the year ended 31 December 2010 (note 34). Accordingly, adjustments have been made to increase the fair value of the interest in jointly controlled entities as at acquisition date, thus increasing the carrying amount of goodwill included in the initial carrying amount of interest in a jointly controlled entity of HK$180,194,000, and decrease the goodwill arising from acquisition of Towngas BVI by the same amount. As at 31 December 2011, there was goodwill included in the carrying amount of interest in jointly controlled entities of HK$286,971,000 arising from acquisition of jointly controlled entities (2010: HK$282,312,000).

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

The loans to jointly controlled entities are unsecured and carried at amortised cost with the following details:

Principal amount 2011	Principal amount 2010	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2011 HK$'000	Carrying amount 2010 HK$'000
RMB37,650,000	RMB37,650,000	December 2014	Nil	6.12%	**37,855**	34,812
RMB35,000,000	RMB35,000,000	July 2014	Nil	6.12%	**36,817**	33,121
RMB42,530,000	RMB42,530,000	July 2013	Nil	6.12%	**46,855**	42,226
RMB10,550,000	RMB10,550,000	February 2016	Nil	6.12%	**10,005**	9,001
RMB52,000,000	RMB52,000,000	February 2012	5.84%	5.84%	**64,119**	61,321
RMB5,000,000	RMB5,000,000	January 2012	4.25%	4.25%	**6,165**	5,896
—	RMB15,000,000	October 2011	4.25%	4.25%	**—**	17,689
RMB10,000,000	—	September 2012	7.87%	7.87%	**12,330**	—
USD5,830,000	—	October 2012	6.23%	6.23%	**45,183**	—
RMB10,000,000	—	December 2012	6.56%	6.56%	**12,330**	—
					271,659	204,066

The principal and interest will be receivable on the maturity date for each loan.

22. Available-for-Sale Investments

	2011 HK$'000	2010 HK$'000
Unlisted shares in the PRC, at cost	**169,893**	169,372

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

23. Deferred Consideration Receivable

As part of the consideration for the disposal of certain subsidiaries during the year ended 31 December 2009, deferred consideration of HK$379,000,000 is to be settled in cash by the purchaser under five annual instalments of HK$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK$179,000,000 in June 2015 (the "Balancing Sum"). The Balancing Sum of the consideration is subject to downward adjustment up to an amount of HK$65 million, if on or before 15 June 2015, trade and other receivables of the disposed subsidiaries that were outstanding at the date of disposal have become uncollectible. The amount is secured against the entire share capital of the holding company of the operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	2011 HK$'000	2010 HK$'000
Non-current assets	**203,682**	242,481
Current assets (included in trade and other receivables, deposits and prepayments)	**39,321**	39,321
	243,003	281,802

The amount of deferred consideration receivable is within credit period. The directors of the Company consider the amounts will be recoverable because the purchaser is of good financial position.

During the year, imputed interest income from deferred consideration receivable is HK$8,201,000 (2010: HK$9,151,000).

24. Inventories

	2011 HK$'000	2010 HK$'000
Finished goods	**96,057**	62,279
Materials and consumables	**291,645**	85,606
	387,702	147,885

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets

	2011 HK$'000	2010 HK$'000
Trade receivables	**314,965**	173,427
Deferred consideration receivable	**39,321**	39,321
Prepayments	**301,182**	225,043
Other receivables and deposits	**196,720**	93,664
	852,188	531,455

Trade receivables

Included in trade and other receivables, deposits and prepayments are trade receivables of HK$314,965,000 (2010: HK$173,427,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 90 days	**301,311**	168,772
91 to 180 days	**4,675**	1,362
181 to 360 days	**8,979**	3,293
	314,965	173,427

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$5,771,000 (2010: HK$2,759,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets *(Continued)*

Trade receivables *(Continued)*

Aging of trade receivables which are past due but not impaired is as follows:

	2011 HK$'000	2010 HK$'000
0–90 days	**1,308**	1,589
91–180 days	**136**	73
181–360 days	**4,327**	1,097
Total	**5,771**	2,759

Movement in the allowance for doubtful debts for trade and other receivables is as follows:

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	**18,039**	8,039
Impairment losses recognised on receivables	**16,037**	10,000
Balance at end of the year	**34,076**	18,039

The allowance for doubtful debts is all individually impaired receivables which represents amounts that have been long overdue and recoverability has considered remote.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 0.1% to 4.4% (2010: 0.1% to 5.5%) per annum.

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets *(Continued)*

Trade receivables *(Continued)*

At the end of the reporting period, included in the deposits, bank balances and cash are the following amount denominated in currency other than the functional currency of the relevant entity to which it relates.

	2011 HK$'000	2010 HK$'000
United States Dollar	**338,889**	481,299
Hong Kong Dollar	**52,244**	73,652

26. Amounts Due From/To Minority Shareholders

The amounts due from/to minority shareholders are unsecured and interest-free.

27. Trade and Other Payables and Accrued Charges

	2011 HK$'000	2010 HK$'000
Trade payables	**507,091**	335,493
Receipt in advance	**1,291,474**	947,491
Consideration payable for acquisitions	**88,137**	67,319
Other payables and accruals	**375,114**	289,251
Amount due to ultimate holding company *(note)*	**763**	14,427
	2,262,579	1,653,981

Note: The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 90 days	**374,361**	246,840
91 to 180 days	**39,171**	18,549
181 to 360 days	**39,599**	19,426
Over 360 days	**53,960**	50,678
	507,091	335,493

28. Borrowings

	2011 HK$'000	2010 HK$'000
Bank loans — unsecured *(note a)*	**4,247,740**	1,996,917
Bank loan — secured *(note a)*	**72,750**	—
Other loans — unsecured *(note a)*	**94,260**	108,338
Guaranteed senior notes — secured *(notes a & b)*	**—**	1,119,469
	4,414,750	3,224,724
Carrying amount repayable:		
On demand or within one year	**1,512,629**	2,792,403
More than one year but not exceeding two years	**908,723**	20,856
More than two years but not exceeding five years	**1,948,373**	365,002
More than five years	**45,025**	46,463
	4,414,750	3,224,724
Less: Amount due within one year shown under current liabilities	**(1,512,629)**	(2,792,403)
Amount due after one year	**2,902,121**	432,321

Notes:

(a) The bank and other loans mainly comprise of:

	Effective interest rate	**Carrying amount**	
		2011 HK$'000	2010 HK$'000
Floating-rate loans:			
Secured RMB bank loan	1.51%	**72,750**	—
Unsecured HKD bank loans	0.90%	**2,904,239**	1,530,524
Unsecured RMB bank loans	6.08%	**754,646**	231,723
Unsecured other loans	0.51%	**1,564**	17,620
Fixed rate loans*:			
Unsecured HKD bank loans**	1.02%	**350,000**	—
Unsecured RMB bank loans	1.93%	**238,855**	234,670
Unsecured RMB other loans	2.57%	**53,844**	51,494
Unsecured other loans	1.23%	**38,852**	39,224
Guaranteed senior notes	8.69%	**—**	1,119,469
Total bank loans and other loans		**4,414,750**	3,224,724

* The majority of the Group's fixed rate loans are repayable after more than two years but not exceeding five years.

** An interest rate swap agreement was entered by the Group to swap floating interest rate on the loan for a fixed rate. Please see note 31 for details.

28. Borrowings *(Continued)*

Notes: (Continued)

(b) The Company issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes were listed on the Singapore Exchange Securities Trading Limited and were secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bore interest at 8.25% per annum, payable semi-annually in arrears. The effective interest rate of Guaranteed Senior Notes was 8.69%. The Guaranteed Senior Notes have been fully repaid in September 2011. At 31 December 2010, the market value of the Guaranteed Senior Notes amounted to US$147,437,000 (equivalent to approximately HK$1,142,634,000).

29. Loans from the Ultimate Holding Company

The amount represents unsecured loans denominated in USD and HKD which bear interest at the Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and are repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount 2011 HK$'000	Carrying amount 2010 HK$'000
HK$277,615,000 (2010: HK$277,615,000)	April 2013 – May 2014 (2010: April 2013 – May 2014) (according to date of draw down)	1.84% (2010: 2.13%)	**277,615**	277,615
US$25,000,000 (2010: US$25,000,000)	December 2016 (2010: December 2012)	2.02% (2010: 1.81%)	**194,175**	193,750
			471,790	471,365

30. Deferred Taxation

The following is the major deferred tax liability recognised and movements thereon during the current year:

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Undistributed profits of jointly controlled entities/ associates/ subsidiaries HK$'000	Total HK$'000
At 1 January 2010	24,487	48,590	13,483	86,560
Acquired on acquisition of subsidiaries	12,552	—	10,989	23,541
Currency realignment	760	2,030	720	3,510
(Credit) charge for the year	(983)	(1,604)	31,756	29,169
At 31 December 2010	36,816	49,016	56,948	142,780
Acquired on acquisition of subsidiaries	7,967	—	—	7,967
Currency realignment	955	1,244	2,722	4,921
(Credit) charge for the year	(1,596)	(1,670)	53,498	50,232
At 31 December 2011	44,142	48,590	113,168	205,900

31. Other Financial Liabilities

	2011 HK$'000	2010 HK$'000
Other financial liabilities		
Derivative under hedge accounting		
Cash flow hedge — Interest rate swap	**12,693**	—
Derivative not under hedge accounting		
RMB forward contract	**923**	—
	13,616	—

The classification of the measure of the derivative financial instruments at 31 December 2011 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).

31. Other Financial Liabilities *(Continued)*

Cash flow hedges

As at 31 December 2011, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which has HK$350,000,000 principal and will be matured in 2016. The terms of the interest rate swap contract has been negotiated to match the terms of the loan. The interest rate swap contract swaps the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

As at 31 December 2011, fair value loss of HK$12,693,000 (2010: nil) has been recognised in other comprehensive income and accumulated in equity and is expected to be released to the income statement at various dates in the coming maturity periods after the reporting period.

Derivative not under hedge accounting

At the end of the reporting period, the Group had a foreign exchange forward contract to sell RMB200,000,000 for HKD. The contract will mature in 2013. As at 31 December 2011, the change in fair value of the forward contract recorded a loss of HK$923,000 (2010: nil) and was recognised in profit or loss included in other gains, net. The contract will be settled in HKD at exchange rate of HK$1.21:RMB1.

The fair values of foreign currency forward contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

32. Share Capital

	Number of shares	HK$'000
At 31 December 2011		
— Authorised:		
Shares of HK$0.10 each	3,000,000,000	300,000
— Issued and fully paid:		
Shares of HK$0.10 each	2,460,344,830	246,035

A summary of the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2010, 31 December 2010 and 31 December 2011	3,000,000,000	300,000

32. Share Capital *(Continued)*

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	HK$'000
At 1 January 2010	1,958,360,330	195,836
Issue of shares on exercise of share options *(note a)*	5,427,000	543
Issue of shares on acquisition of subsidiaries *(note b)*	485,000,000	48,500
At 31 December 2010 and 1 January 2011	2,448,787,330	244,879
Issue of shares on exercise of share options *(note c)*	11,557,500	1,156
At 31 December 2011	2,460,344,830	246,035

Notes:

(a) During the year ended 31 December 2010, the Company allotted and issued 3,618,000, 603,000 and 1,206,000 shares of HK$0.10 each for cash at the price of HK$0.473, HK$2.796 and HK$3.483 per share respectively, as a result of the exercise of share options.

(b) During the year ended 31 December 2010, the Company allotted and issued 485,000,000 ordinary shares of HK$0.10 each for acquisition of a subsidiary as detailed in note 34.

(c) During the year ended 31 December 2011, the Company allotted and issued 11,557,500 shares of HK$0.10 each for cash at the price of HK$3.483 per share as a result of the exercise of share options.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

33. Reserves

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

34. Acquisition of Subsidiaries/Businesses

Acquisitions in 2011

(a) Acquisition of Wuning

In January 2011, the Group acquired 100% equity interest in Wuning, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$80,220,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

Acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(a) Acquisition of Wuning *(Continued)*

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	8,890
Leasehold land	495
Inventories	947
Trade and other receivables *(note)*	197
Bank balances and cash	778
Trade and other payables and accrued charges	(8,300)
Net assets acquired	3,007

Note: The trade and other receivables acquired with a fair value of HK$197,000 had gross contractual amounts of HK$197,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	80,220
Less: Net assets acquired	(3,007)
Goodwill arising on acquisition	77,213

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(a) Acquisition of Wuning *(Continued)*

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	80,220
Bank balances and cash acquired	(778)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,442

During the year, Wuning contributed HK$4,770,000 to the Group's turnover and made a loss of HK$2,607,000 for the period between the date of acquisition and the end of the reporting period.

(b) Acquisition of Xiushui

In January 2011, the Group completed the acquisition of 80% equity interest in Xiushui, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$42,503,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	18,213
Inventories	1,083
Trade and other receivables *(note)*	686
Bank balances and cash	237
Trade and other payables and accrued charges	(7,740)
Tax payables	(28)
Borrowings	(10,260)
Net assets acquired	2,191

Note: The trade and other receivables acquired with a fair value of HK$686,000 had gross contractual amounts of HK$686,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(b) Acquisition of Xiushui *(Continued)*

Non-controlling interests:

The non-controlling interests in Xiushui recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$438,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	42,503
Plus: Non-controlling interests	438
Less: Net assets acquired	(2,191)
Goodwill arising on acquisition	40,750

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	42,503
Amount unpaid and included in consideration payable for acquisition	(30,325)
Bank balances and cash acquired	(237)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	11,941

During the year, Xiushui contributed HK$7,040,000 to the Group's turnover and made a loss of HK$3,907,000 for the period between the date of acquisition and the end of the reporting period.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(c) Acquisition of Miluo

In July 2011, the Group acquired 70% equity interest in Miluo, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$161,017,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK$406,000 were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' provisional fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	103,765
Leasehold land	8,903
Inventories	2,340
Trade and other receivables *(note)*	36,756
Bank balances and cash	516
Trade and other payables and accrued charges	(52,718)
Taxation payable	(362)
Borrowings	(72,964)
Deferred taxation	(7,967)
Net assets acquired	18,269

Note: The trade and other receivables acquired with a fair value of HK$36,756,000 had gross contractual amounts of HK$36,756,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(c) Acquisition of Miluo *(Continued)*

Non-controlling interests:

The non-controlling interests in Miluo recognised at the acquisition date was determined with reference to the proportionate share of provisional fair value of the acquiree's net assets at the acquisition date and amounted to HK$5,481,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	161,017
Plus: Non-controlling interests	5,481
Less: Net assets acquired	(18,269)
Provisional goodwill arising on acquisition	148,229

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	161,017
Amount unpaid and included in amounts due to minority shareholders	(80,509)
Bank balances and cash acquired	(516)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,992

During the year, Miluo contributed HK$9,431,000 to the Group's turnover and made a loss of HK$5,742,000 for the period between the date of acquisition and the end of the reporting period.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(d) Acquisition of Beipiao

In December 2011, the Group completed the acquisition of 80% equity interest in Beipiao, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$78,915,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK$144,000 were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' provisional fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	38,751
Leasehold land	1,500
Inventories	682
Trade and other payables and accrued charges	(948)
Net assets acquired	39,985

Non-controlling interests:

The non-controlling interests in Beipiao recognised at the acquisition date was determined with reference to the proportionate share of provisional fair value of the acquiree's net assets at the acquisition date and amounted to HK$7,997,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	78,915
Plus: Non-controlling interests	7,997
Less: Net assets acquired	(39,985)
Provisional goodwill arising on acquisition	46,927

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2011 *(Continued)*

(d) Acquisition of Beipiao *(Continued)*

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	78,915
Amounts unpaid and included in amounts due to minority shareholders	(78,915)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	—

During the year, Beipiao contributed insignificant amount to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Wuning, Xiushui, Miluo and Beipiao had been completed on 1 January 2011, total consolidated revenue of the Group would have been HK$4,343,430,000, and consolidated profit for the year would have been HK$784,436,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

The goodwill arising from the acquisitions of Miluo and Beipiao is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional basis only. The provisional fair values of property, plant and equipment were arrived at the use of replacement cost method while the leasehold lands were fair valued with reference to market evidence of transaction prices for similar properties at the location and with similar conditions. The Company is in the process of obtaining independent valuation to assess the fair value. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010

(a) Acquisition of Towngas BVI

In July 2010, the Group acquired 100% equity interest in Towngas BVI from Hong Kong & China Gas (China) Limited, a wholly-owned subsidiary of HKCG. Towngas BVI is engaged in the operation of piped gas assets and related business in the PRC. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration was settled by the issue of 485,000,000 ordinary shares of HK$0.10 each. The fair value of the ordinary shares determined using the published price available at the date of acquisition amounted to HK$1,464,700,000.

Acquisition-related costs amounting to HK$4,417,000 were excluded from the consideration transferred and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	281,715
Leasehold land	24,068
Interest in associates	369,219
Interest in jointly controlled entities	345,874
Loans to jointly controlled entities	39,522
Inventories	8,559
Trade and other receivables, deposits and prepayments *(note)*	25,593
Bank balances and cash	111,738
Trade and other payables and accrued charges	(106,673)
Borrowings	(4,594)
Deferred taxation	(20,852)
Net assets acquired	1,074,169

Note: The trade and other receivables acquired with a fair value of HK$25,593,000 had gross contractual amounts of HK$25,593,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(a) Acquisition of Towngas BVI *(Continued)*

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI at the date of acquisition. The amount of goodwill, interest in jointly controlled entities and interest in associates were initially recognised in the consolidated financial statements as approximately HK$791,195,000, HK$165,680,000 and HK$176,863,000 during the year ended 31 December 2010. As a result, adjustments have been made to reduce the goodwill arising from acquisition of Towngas BVI by HK$372,550,000 and increase the initial carrying amounts of interest in associates and interest in jointly controlled entities by HK$192,356,000 and HK$180,194,000, respectively. The adjusted carrying amounts of interest in associates, interest in jointly controlled entities and goodwill arising from the acquisition of Towngas BVI amounted to HK$369,219,000, HK$345,874,000 and HK$418,545,000, respectively. The fair value of the assets and liabilities of Towngas BVI were determined based on discounted cash flow analysis and with reference to the price to earnings ratio of other piped gas companies in the industry.

Accordingly, the amount of interest in associates, interest in jointly controlled entities and goodwill have been adjusted to HK$1,989,156,000, HK$1,247,471,000 and HK$3,380,743,000, respectively as at 31 December 2010.

As the acquisition took place during the year ended 31 December 2010 and no adjustments were made to the balances as stated at 1 January 2010, the consolidated statement of financial position at 1 January 2010 is therefore not presented.

Non-controlling interests:

The non-controlling interests in Towngas BVI recognised at the acquisition date was determined with reference to the proportionate share of the fair value of the acquiree's net assets at the acquisition date and amounted to HK$28,114,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	1,464,700
Plus: Non-controlling interests	28,114
Less: Net assets acquired	(1,074,169)
Goodwill arising on acquisition	418,645

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(a) Acquisition of Towngas BVI *(Continued)*

Goodwill arising on acquisition: (Continued)

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net inflow of cash and cash equivalents in respect of the acquisition, representing bank balances and cash acquired	111,738

During the year ended 31 December 2010, Towngas BVI contributed HK$194,078,000 to the Group's turnover and HK$43,188,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

(b) Acquisition of Jiujiang

In September 2010, the Group completed the acquisition of 60% equity interest in Jiujiang, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$73,001,000 from an independent vendor. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration of HK$73,001,000 was settled by way of cash.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(b) Acquisition of Jiujiang *(Continued)*

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	2,520
Leasehold land	36
Inventories	71
Trade and other receivables, deposits and prepayments *(note)*	4,331
Bank balances and cash	4,665
Trade and other payables and accrued charges	(36)
Tax payables	(8)
Net assets acquired	11,579

Note: The trade and other receivables acquired with a fair value of HK$4,331,000 had gross contractual amounts of HK$4,331,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Non-controlling interests:

The non-controlling interests in Jiujiang recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$4,632,000.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(b) Acquisition of Jiujiang *(Continued)*

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	73,001
Plus: Non-controlling interests	4,632
Less: Net assets acquired	(11,579)
Goodwill arising on acquisition	66,054

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	73,001
Bank balances and cash acquired	(4,665)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	68,336

During the year ended 31 December 2010, Jiujiang had insignificant contribution to the Group's turnover and its expenses reduced the Group's profit by HK$470,000 for the period between the date of acquisition and the end of the reporting period.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin

In July 2010, the Group completed the acquisition of 95% equity interest in Guilin, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$58,898,000 from an independent vendor. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration of HK$58,898,000 was settled by way of cash and other payables of HK$47,417,000 and HK$11,481,000 respectively.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	9,821
Leasehold land	4,409
Inventories	872
Trade and other receivables, deposits and prepayments *(note)*	16,502
Bank balances and cash	47
Trade and other payables and accrued charges	(4,653)
Tax payables	(952)
Borrowings	(2,870)
Deferred taxation	(2,689)
Net assets acquired	20,487

Note: The trade and other receivables acquired with a fair value of HK$16,502,000 had gross contractual amounts of HK$16,502,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin *(Continued)*

Non-controlling interests:

The non-controlling interests in Guilin recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$1,024,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	58,898
Plus: Non-controlling interests	1,024
Less: Net assets acquired	(20,487)
Goodwill arising on acquisition	39,435

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

34. Acquisition of Subsidiaries/Businesses *(Continued)*

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin *(Continued)*

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	47,417
Bank balances and cash acquired	(47)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	47,370

During the year ended 31 December 2010, Guilin contributed HK$4,457,000 to the Group's turnover and HK$845,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Towngas BVI, Jiujiang and Guilin had been completed on 1 January 2010, total consolidated revenue of the Group would have been HK$3,154,341,000, and consolidated profit for the year would have been HK$536,855,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and increase in returns to its shareholders.

Notes to the Consolidated Financial Statements

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35. Related Party Transactions

During the year, the following related party transactions took place:

Name of related party	Nature of transactions	**2011 HK$'000**	2010 HK$'000
HKCG	Loan facility *(See note 29)*	**471,790**	471,365
	Interest expense	**9,027**	9,307
	Management fee	**—**	2,508
Shenyang Sanquan Project Management Consulting Co., Ltd. *(note a)*	Project management	**1,782**	—
Hongkong and China Technology (Wuhan) Company Limited *(note a)*	System software and supporting services	**1,650**	725
GH — Fusion Corporation Limited *(note b)*	Purchase of construction materials	**6,917**	5,046
Shanxi ECO Coalbed Methane Co., Ltd. *(note a)*	Purchase of coalbed methane	**24,619**	847
ECO Environmental Investments Limited *(note a)*	Office licence income	**468**	316
Anhui Province Natural Gas Development Company Limited *(note b)*	Purchase of compressed natural gas	**40,401**	22,547
Jilin Hong Kong and China Gas Company Limited *(note a)*	Purchase of compressed natural gas	**2,294**	1,959
Tongling Hong Kong and China Gas Company Limited *(note c)*	Purchase of compressed natural gas	**61**	494

Notes:

(a) HKCG had controlling interests in these companies.

(b) HKCG had significant influences in these companies.

(c) HKCG jointly controlled this company with another party.

35. Related Party Transactions *(Continued)*

During the year ended 31 December 2010, the Group acquired Towngas BVI from a subsidiary of HKCG, as detailed in note 34 for details.

Emoluments paid to the key management personnel of the Company which represents the Directors of the Company are set out in note 12.

36. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**6,497**	7,712
In the second to fifth year inclusive	**6,909**	7,159
Over five years	**4,022**	4,187
	17,428	19,058

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

37. Commitments

	2011 **HK$'000**	2010 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**78,084**	57,144
— acquisition of a subsidiary	**106,042**	61,321
Capital injection contracted for but not provided in the consolidated financial statements in respect of		
— investment in an associate	**51,826**	3,774

38. Share Options

The Company's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, were expired on 3 April 2011. Under the Pre-GEM Share Option Scheme and the Scheme, the Board of the Company may grant options to eligible employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 26 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink Worldwide Holdings Limited ("Sinolink") pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. In addition, pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The 2005 GEM Share Option Scheme has replaced the Scheme, there will be no options granted under the Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the Scheme shall remain in full force and effect.

The 2005 GEM Share Option Scheme and the New Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005 and 28 November 2005 respectively.

The share options under the 2005 GEM Share Option Scheme (the "2005 GEM Options") and the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

The 2005 GEM Options granted or the New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option.

38. Share Options *(Continued)*

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options				
	Outstanding at the beginning of the year	Exercised during the year	Forfeited during the year	Outstanding at the end of the year	Exercisable share options at the end of the year
For the year ended 31 December 2010					
Pre-GEM Listing options	3,618,000	(3,618,000)	—	—	—
The Scheme					
2004 options *(note a)*	12,763,500	(1,206,000)	—	11,557,500	11,557,500
New Scheme					
2006 options *(note b)*	2,170,800	(603,000)	—	1,567,800	1,567,800
2007 options *(note b)*	14,673,000	—	—	14,673,000	14,673,000
	33,225,300	(5,427,000)	—	27,798,300	27,798,300
Weighted average exercise price	3.255	1.400	—	3.617	3.617
For the year ended 31 December 2011					
The Scheme					
2004 options *(note a)*	**11,557,500**	**(11,557,500)**	**—**	**—**	**—**
New Scheme					
2006 options *(note b)*	**1,567,800**	**—**	**—**	**1,567,800**	**1,567,800**
2007 options *(note b)*	**14,673,000**	**—**	**—**	**14,673,000**	**14,673,000**
	27,798,300	**(11,557,500)**	**—**	**16,240,800**	**16,240,800**
Weighted average exercise price	**3.617**	**3.483**	**—**	**3.713**	**3.713**

38. Share Options *(Continued)*

The weighted average price of the Company's shares at the dates of exercise of 700,000 options on 20 January 2011, 800,000 options on 16 February 2011, 750,000 options on 3 March 2011, 510,000 options on 10 March 2011, 757,500 options on 22 March 2011, 3,015,000 options on 24 March 2011, 3,015,000 options on 28 March 2011, and 2,010,000 options on 30 March 2011 were HK$4.06, HK$3.99, HK$3.84, HK$3.97, HK$3.95, HK$3.97, HK$4.08 and HK$4.04, respectively.

Had all the outstanding vested share options been fully exercised on 31 December 2011, the Company would have received cash proceeds of HK$60,302,000 (2010: HK$100,557,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK$
2004 options *(note a)*	19.11.2004	30%	31.12.2005 – 30.03.2011	3.483
		30%	31.12.2006 – 30.03.2011	3.483
		40%	31.12.2007 – 30.03.2011	3.483
2006 options *(note b)*	03.10.2006	30%	04.10.2007 – 27.11.2015	2.796
		30%	04.04.2008 – 27.11.2015	2.796
		40%	04.10.2008 – 27.11.2015	2.796
2007 options *(note b)*	16.03.2007	30%	16.03.2008 – 27.11.2015	3.811
		30%	16.03.2009 – 27.11.2015	3.811
		40%	16.03.2010 – 27.11.2015	3.811

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

The Group did not recognise any expenses for the year ended 31 December 2011 (2010: HK$620,000) in relation to share options granted by the Company in previous year.

Notes:

a. The 2004 option represented the share options granted under the Scheme.

b. The 2006 and 2007 option represented the share options granted under the New Scheme.

39. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2011 amounted to approximately HK$39,311,000 (2010: HK$31,782,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2011, the Group made retirement benefit scheme contributions amounting to HK$439,000 (2010: HK$446,000).

40. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
TCCL (Finance) Limited	HK — Limited liability company	HK$1	**100%**	100%	Financing
Towngas China Group Limited	BVI — Limited liability company	US$12,821	**100%**	100%	Investment holding
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB56,000,000	**80%**	—	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB210,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Cangxi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Chaoyang Hong Kong and China Gas Company Limited 朝陽港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,791,838	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI — Limited liability company	US$1	**100%**	100%	Investment holding
Chi Ping Hong Kong and China Gas Co., Ltd. 茌平港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Limited 池州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Company Limited 大連長興港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$14,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Company Limited 大連旅順港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dayi Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hong Kong and China Gas Co., Ltd. 阜新港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB77,200,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$4,010,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Towngas Limited 公主嶺港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB53,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong and China Gas Company Limited 桂林港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB14,000,000 (2010: RMB10,000,000)	**100%**	95%	Provision of natural gas and related services and gas pipeline construction
Hong Kong and China Gas (Dalian) Limited	HK — Limited liability company	HK$100	**100%**	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK — Limited liability company	HK$100	**100%**	—	Investment holding
Huangshan Hong Kong and China Gas Co Ltd 黃山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong and China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$2,100,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Taiping Hong Kong and China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$3,500,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Huzhou Hong Kong and China Gas Co., Ltd. 湖州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,500,000	**98.85%**	98.85%	Provision of natural gas and related services and gas pipeline construction
Jianyang Hong Kong and China Gas Co., Ltd. 簡陽港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Jihua Gas Co., Ltd. 濟南濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB100,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong and China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$6,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$5,440,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Co., Ltd. 樂至港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hong Kong and China Gas Co Ltd 龍口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$7,070,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong and China Gas Company Limited 馬鞍山博望港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,000,000	**75.1%**	—	Provision of natural gas and related services and gas pipeline construction

For the year ended 31 December 2011

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB90,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Miluo Red-horse Natural Gas Development Company Limited 汨羅市紅馬燃氣開發有限公司	PRC — Sino-foreign equity joint venture	RMB50,000,000	**70%**	—	Provision of natural gas and related services and gas pipeline construction
Pengshan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB10,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC — Limited liability company	RMB3,590,000	**100%**	90%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Co Ltd 青島東億港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co Ltd 青島中即港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB73,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB128,561,800	**61.67%**	61.67%	Provision of natural gas and related services and gas pipeline construction
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC — Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	USD8,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB132,960,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC — Sino-foreign equity joint venture	USD7,000,000	**76%**	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI — Limited liability company	USD1	**100%**	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC — Wholly foreign-owned enterprise	US$200,000,000	**100%**	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Company Limited 武寧港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB5,000,000	**100%**	—	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC — Limited liability company	RMB22,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Xinjin Diyuan Natural Gas Co., Ltd. 新津縣地源天然氣有限責任公司	PRC — Sino-foreign equity joint venture	RMB12,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Xinjin Nanfang Natural Gas Co., Ltd. 新津南方天然氣有限公司	PRC — Sino-foreign equity joint venture	RMB11,500,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB20,000,000	**80%**	—	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB50,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Company Limited 營口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	USD9,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB12,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB18,810,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC — Limited liability company	RMB18,890,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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