



**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 2010*

## 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.





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## 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

## 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](http://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  
Hang Seng Bank Limited





## Geographical Coverage

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

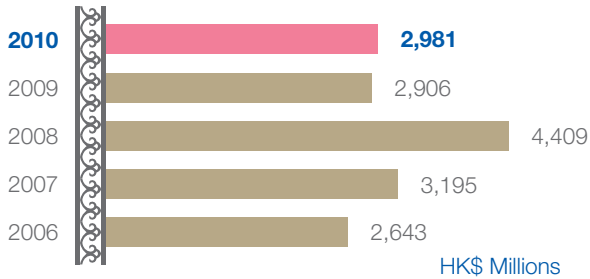
• Piped Gas Projects : 63



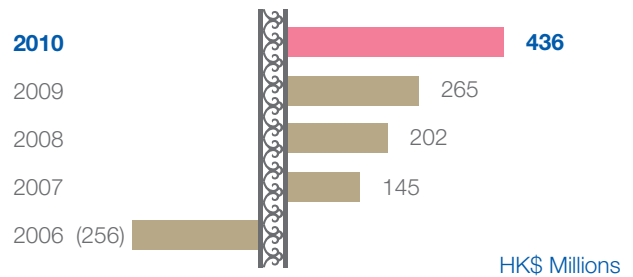


# Financial Highlights

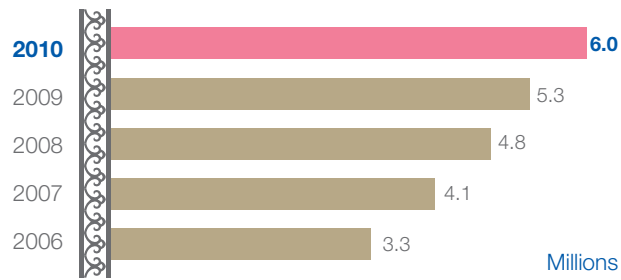
## Turnover



## Profit (Loss) Attributable to Shareholders of the Company



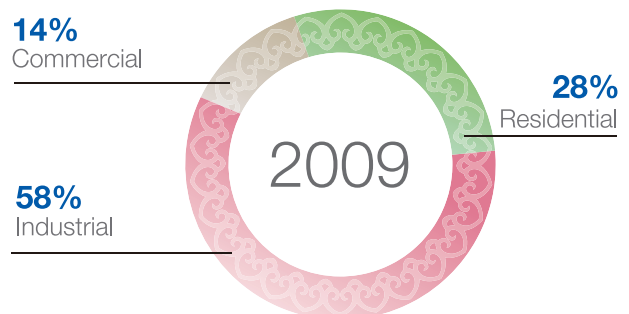
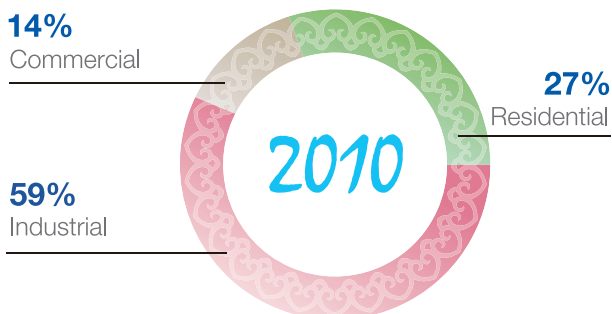
## Number of Customers – Piped Gas (All Entities)



## Turnover Analysis of Piped Gas Business



## Percentage of Piped Gas Volume by Customer Mix (All Entities)





## Chairman's Statement

### Business Performance in 2010

With the rapidly increasing demand for clean energy in China and the continuous endeavours of staff within the Group, the Group achieved a splendid performance in 2010. Turnover of the Group's piped gas business was HK\$2,981 million, representing an increase of 47.2% as compared to 2009. Profit after taxation attributable to shareholders of the Company amounted to HK\$436 million, representing an increase of 64.4% over 2009, while basic earnings per share were 19.93 HK cents. In view of the continuous growth in the Group's results, the board of directors of the Company ("the Board") has recommended a final dividend of three HK cents per share.

### Continuous Economic Growth in China

In 2010, China's GDP increased by approximately 10%, representing the fastest period of economic growth since the outbreak of the global financial crisis. Despite a series of tightening measures launched by the Chinese government to cool down property prices during the year, demand for properties remained strong, attributable to the rapid urbanisation in China. Coupled with the recovery of Western countries from the financial tsunami, China's imports and exports as well as industrial enterprises experienced ample development. These two factors were highly favourable to the gas industry of China and the business of the Group.

### Development of Gas Industry

During the year, China successfully increased the natural gas supply through various significant measures, including the partial operation of the Second West-to-East gas pipeline and the full operation of the Sichuan-to-East gas pipeline. In addition, the construction of the China-Myanmar pipeline, China National Offshore Oil Corporation's Zhuhai Liquefied Natural Gas Project in Guangdong Province and China Petrochemical Corporation's Qingdao Liquefied Natural Gas Project in Shandong Province had commenced. With regard to the natural gas imported from Russia, it is expected that 30 billion cubic metres of natural gas will be imported annually through the Altai Pipeline from 2015 onwards. The significant increase in natural gas supply will lay a solid foundation for the rapid growth of the gas industry in China.

The "Regulations on Administration of Urban Fuel Gas" (the "Regulations"), were approved by the State Council of China on 19 October 2010 to come into effect from 1 March 2011. The Regulations mark a better planned development of the city gas industry in China, which are in line with the government's emphasis on the use of natural gas in the 12th Five-Year Plan. The Regulations will also play a deep and significant role in protecting the legal rights of gas providers and users as well as the healthy development of the gas industry.





## Natural Gas Prices

On 1 June 2010, the ex-factory prices of domestically produced onshore natural gas rose. The Group has always paid attention to the movement of natural gas prices in China, maintaining good communication with the local governments and major customers beforehand. As such, the Group was able to shift the upstream price adjustments to its downstream non-residential customers in a timely manner when the price soared. Therefore, this ex-factory price adjustment did not impact on the gross profit of the Group's industrial and commercial gas sales business.

Generally, there is a time lag in the adjustment of the gas selling price for residential customers as hearing procedures are involved. On 25 November 2010, the National Development and Reform Commission stipulated the stabilisation of the commodity prices of necessities. Consequently, the adjusted gas prices for residential customers could not be implemented in some provinces though hearing procedures for the natural gas price adjustments had been conducted. The time lag in the gas price adjustment for residential customers affected some of the group companies but with minimal impact on the Group's overall profit as the Group's business strategy mainly focuses on industrial and commercial customers.

## Seasonal Gas Shortages

During the winter of 2009, there was a large-scale gas shortage in China. Hence, apart from expediting the exploitation of natural gas in the country and the imports of piped natural gas and liquefied natural gas, China has also emphasized in investing resources to construct natural gas storage facilities. Additionally, with the consecutive commencement of operation of several large-scale gas pipelines, such as the Second West-to-East gas pipeline, the Sichuan-to-East gas pipeline and the Third Shaanxi-to-Beijing gas pipeline, gas shortages in the winter of 2010 existed but was less severe as compared to previous years. The National Energy Administration has estimated that a balance between the supply and demand of natural gas will gradually be restored after 2012.



## Chairman's Statement

### Group Business Development Strategy

The Group has strengthened its market development strategy to develop new gas projects in the neighbouring cities of existing projects since 2009. With the efforts from the management of existing projects, the Group achieved encouraging results, successfully establishing 17 new projects in the past two years.

The development of new projects in the neighbouring cities of existing projects is in line with the national strategy to promote the rapid development of the clean energy industry under the nation's 12th Five-Year Plan. In addition, the Group's projects in Shandong Province and Northeastern China are located in the target regions, where natural gas consumption is being boosted under the 12th Five-Year Plan. The Group believes that more projects will be secured in these regions to enhance its sustainable development.

### Corporate Social Responsibility

The Group recognises the importance of its corporate social responsibility role. Over the years, the Group has been actively participating in community activities and providing support and showing its concerns for the needs of the underprivileged. After the earthquake in Yushu County, Qinghai Province, in April 2010, the Group and its employees acted promptly to raise funds, dedicating love and care to the victims. Additionally, as an energy provider, the Group is committed to protecting and improving the environment, as well as promoting the development and utilisation of clean energy to save energy and reduce the emission of greenhouse gases.

As an appreciation from the society and the industry for the Group's corporate social responsibility, the Group won a number of honours, such as "The China Best Corporate Citizenship", "Low-carbon Innovative Enterprise" and "The Enterprise with Outstanding Community Service in China" in 2010.

## 2011 Outlook

Following the introduction of the 12th Five-Year Plan of China in 2011, the annual average of GDP growth rate is estimated to remain at a high level of 7% in the next five years. To facilitate the economy's rapid development through the use of clean energy, China's natural gas consumption will account for over 8% of the non-renewable energy used in 2015, representing a significant increase from 3.9% in 2010. The overall demand for natural gas is expected to increase from 110 billion cubic metres in 2010 to more than 260 billion cubic metres in 2015. The growth of city gas consumption will be the fastest among all natural gas applications. To this end, the National Energy Administration has begun formulating "The 12th Five-Year Development Plan for Oil and Natural Gas", "Nation-wide Natural Gas Pipeline Networks and the 12th Five-Year Development Plan", "The 12th Five-Year Plan for Liquefied Natural Gas" and "Construction Plan of Natural Gas Reserve and Adjustment Capability (2010–2020)", which lay down the direction and solid foundations for the rapid development of the natural gas industry.

In order to grasp the development opportunities for the city gas industry arising from the 12th Five-Year Plan, the Group will focus on improving its competitive advantages, corporate governance, environmental protection efficiencies, management efficiencies and the profitability of its project companies in 2011.

With the increase in upstream supply of natural gas in 2011, the Group will be able to better utilise its existing market advantages to provide greater gas supply sufficiencies to the industrial, commercial and household customers of its project companies, while further penetrating neighbouring markets. The rapid construction of major nation-wide natural gas pipelines will also provide an extensive platform and long-term prospects for the development of city gas projects. In addition, the accelerating urbanisation and construction of affordable housing will drive the expansion of the Group's customer base. It is expected that the growth in the Group's results in 2011 will remain promising.

## Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

**CHAN Wing Kin, Alfred**  
*Chairman*

Hong Kong, 14 March 2011





# *Financial Review*





For the year ended 31 December 2010, the Group's piped gas business booked a turnover of HK\$2,981 million, a growth of 47.2% when compared to 2009. Profit after taxation attributable to shareholders of the Company amounted to HK\$436 million, a surge of 64.4% as compared to the previous year. Basic earnings per share amounted to 19.93 HK cents, representing an increase of 47.2% compared to 2009.

## Turnover

For the year ended 31 December 2010, the Group recorded a turnover of HK\$2,981 million, representing an increase of 2.6% compared to 2009. Not taking the LPG operations, which the Group disposed of in June 2009, turnover from the piped gas business experienced a significant growth of 47.2%. The increase was mainly attributable to the following businesses:

### Sales of Piped Gas and Related Products

Turnover from sales of piped gas and related products increased 49.0% from HK\$1,534 million to HK\$2,286 million in 2010. The increase was mainly attributable to a significant increase in the volume of gas sold and the rise in the average gas sales price. New subsidiaries and city piped gas projects acquired from The Hong Kong and China Gas Company Limited ("HKCG") in July 2010 accounted for 22.0% of this increase, while the remaining 78.0% was attributable to the organic growth of the existing subsidiaries.

### Gas Pipeline Construction

In the gas pipeline construction business, income from construction fees for the year amounted to HK\$695 million, a rise of 41.4% when compared to 2009. This was attributable to an increase of approximately 191,000 new household connections of subsidiaries in 2010.

## Operating Expenses

Operating expenses in 2010 amounted to HK\$2,651 million, maintaining a similar level as compared with HK\$2,645 million in 2009. The increase in operating expenses of piped gas business during the year was largely offset by the decrease due to the disposal of LPG operations in June 2009. Operating expenses for the piped gas business increased from HK\$1,780 million in 2009 to HK\$2,651 million in 2010, representing an increase of 48.9%. The increase was mainly due to increases in stores and materials used, staff costs, depreciation and amortisation expenses and other expenses of 60.5%, 25.9%, 14.2% and 38.9% respectively. An increase of HK\$173 million in operating expenses was a result of having new subsidiaries and city piped gas projects acquired from HKCG in July 2010.

### Stores and Materials Used

Stores and materials used in the piped gas business increased from HK\$1,176 million in 2009 to HK\$1,888 million in 2010. The increase in expenses was mainly attributable to the increase in the volume of gas sold while 20.2% of this increase was attributable to new subsidiaries.

## Staff Costs

Staff costs for the piped gas business increased from HK\$251 million in 2009 to HK\$316 million in 2010. The increase in expenses was a result of business development needs and the rise in average wages on the mainland. The new subsidiaries resulted in an increase of approximately HK\$9.5 million in staff costs.

## Finance Costs

Finance costs for the piped gas business increased from HK\$127 million in 2009 to HK\$142 million in 2010. This was mainly attributed to the addition of bank loans for the acquisition of new projects.

## Share of Results of Associates

Share of results of associates increased from HK\$137 million in 2009 to HK\$183 million in 2010, representing an increase of approximately 33.6%. The increase was mainly attributable to the growth of 38.4% in the volume of gas sold and the increase in the number of customers of associates of approximately 196,000 households, or 17.1%.

## Share of Results of Jointly Controlled Entities (“JCEs”)

Share of results of JCEs in the piped gas business increased from approximately HK\$74 million in 2009 to approximately HK\$116 million in 2010, rising by approximately 56.8%. The increase was mainly attributed to the growth of 40.7% in the volume of gas sold and the increase in the number of customers of approximately 144,000 households, or 20.1%.

## Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group’s investments in Chengdu City Gas Co., Ltd. (“Chengdu Gas”). Chengdu Gas was stated at cost and no impairment provision was necessary during the year.

## Financial Resources and Position

The Group has adopted a prudent approach in financial resources management by maintaining an appropriate level of cash and cash equivalents together with adequate facilities for daily operating needs and business development, and by controlling borrowings at a healthy level.

As at 31 December 2010, the Group's total borrowings amounted to HK\$3,696 million, of which HK\$1,119 million was guaranteed senior notes due in 2011 and HK\$471 million was loans from HKCG due between 2 to 5 years, HK\$356 million and HK\$1,641 million bank loans due between 1 to 5 years and within 1 year respectively. Other than guaranteed senior notes and HK\$325 million bank loans and other borrowings which bore fixed interest rates, the Group's other borrowings were mainly arranged on a floating interest rate basis. The arrangements on terms and interest rates of the borrowings provided robust financial resources and stable interest costs for the Group. The Group ended the year with a current ratio of 0.5 times and a gearing ratio (net debt excluding HKCG loans ("Net Debt") to equity attributable to shareholders plus Net Debt) of 17.3%.

Other than pledging shares in certain subsidiaries to secure the guaranteed senior notes, the Group did not have any pledge on assets.

As at 31 December 2010, the Group had obtained unutilised facilities amounting to HK\$1,203 million. As of the date of this report, such facilities have further increased to HK\$1,665 million.

Cash and cash equivalents of the Group totaling HK\$1,434 million as at 31 December 2010 was 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 shareholder. The Group has cash and cash equivalents, together with unutilised banking facilities, which allow the Group to continuously maintain a strong liquidity position and adequate financial resources to meet its contractual obligations and operating needs.

## Credit Ratings

In 2010, Standard & Poor's, a rating agency, upgraded the Company's long term corporate credit rating and the issue rating of the US\$200 million notes to "BBB", demonstrating a stable outlook for the Company. Meanwhile, Moody's Investors Service, another rating agency, maintained a "Baa3" rating for the Company's senior unsecured bonds and continued to assign a "Baa3" issuer rating to the Company. The outlook on the Company improved to positive, reflecting the continuously enhancing profitability and cash flow of the Company.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2010.

## Currency Profile

The Group's activities are predominantly operated and conducted in Hong Kong and mainland China. Its cash, cash equivalents or borrowings are 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 2010 of three HK cents per share (2009: two HK cents per share), representing an increase of 50.0% over last year.







# Business Review



In 2010, the world economy rebounded gradually from the global financial crisis, aided by the quantitative easing monetary policy implemented as the rescue measure in various countries. China's economic growth maintained strong momentum in 2010 benefiting from its relatively sound banking system and the continuously expanding domestic demand. The development of new projects by the Group in the neighbouring cities of its existing projects was in line with the rapid development strategy of the gas industry encouraged by the Chinese government. In addition, as the Group's projects in Shandong and Northeastern China are located in the regions targeted for increases in natural gas consumption during the 12th Five-Year Plan period, the Group is well-positioned for sustainable development.

In December 2010, in the "Hong Kong Outstanding Enterprises Parade 2010" organised by the Economic Digest, a leading financial publication in Hong Kong, the Group was honoured with the "Hong Kong Outstanding Enterprises Award 2010" for its potent growth and its excellent corporate competencies. This award demonstrates the recognition of the Group's achievements from the financial market.



Mr. Ho Hon Ming, John, the Executive Director and Company Secretary, represented the Group to receive the "Hong Kong Outstanding Enterprises Award 2010".

## Sales of Piped Gas

In 2010, the Group sold a total of approximately 4.03 billion cubic metres of piped gas, representing a substantial increase of 27.5% as compared to approximately 3.16 billion cubic metres of the same period last year. Industrial gas sales grew by 550 million cubic metres, representing an increase to approximately 59.1% of the total gas volume sold by the Group during the year. Commercial gas sales maintained at approximately 14.0% of the total gas volume sold by the Group during the year. Residential gas sales accounted for approximately 26.9% of the total gas volume sold, representing a slight decrease of one percentage point. The optimisation of the customer mix as illustrated by the increase in proportion of industrial and commercial gas consumption in the gas sales profile would be a strong drive to the Group's future gas sales volume growth. Additionally, with greater autonomy in determining the selling prices of industrial and commercial gas, the Group can more easily shift the price adjustments from upstream companies to its industrial and commercial customers. As such, the profitability of the Group's gas sales will remain continuously strong.

## Acquisition of Six Piped Gas Projects from HKCG

On 17 March 2010 and as announced on the same day, the Company entered into a sale and purchase agreement (the "Agreement") with Hong Kong & China Gas (China) Limited ("HK&CG (China)"), a wholly-owned subsidiary of HKCG. Pursuant to the Agreement, the Company agreed to purchase all the issued share capital of Towngas (BVI) Holdings Limited, a target company held by HK&CG (China), and to take assignment of all the outstanding loans and liabilities owed by the target company to HK&CG (China) and its associates. The Agreement and its contemplated transactions, together with the relevant whitewash waiver, were approved at the Extraordinary General Meeting held on 29 April 2010. On 15 July 2010 and as announced on the same day, the Company entered into a supplemental agreement with HK&CG (China), pursuant to which part of the reorganisation yet to be fulfilled would become a post-completion obligation. Accordingly, the acquisition was completed on 15 July 2010.



The geographical coverage of the Group has been expanding. In 2010, the Group further expanded its business into Zhejiang Province and Guangxi Zhuang Autonomous Region.





The Company issued 485,000,000 consideration shares credited as fully-paid to HK&CG (China) as the consideration for the acquisition. The consideration shares represent approximately 24.76% of the issued share capital of the Company upon the execution of the Agreement and approximately 19.81% of the enlarged share capital of the Company upon completion of the transaction on 15 July 2010.

Upon completion of the acquisition, the Group held 40% to 100% of the equity interest in six piped gas project companies in Liaoning and Zhejiang Provinces in the People's Republic of China (the "PRC") through the target company:

Name of Project Companies	Shareholding
<b>Zhejiang Province</b>	
Hangzhou Hong Kong and China Gas Company Limited	50%
Tongxiang Hong Kong and China Gas Company Limited	76%
Huzhou Hong Kong and China Gas Company Limited	98.85%
<b>Liaoning Province</b>	
Yingkou Hong Kong and China Gas Company Limited	100%
Dalian Changxing Hong Kong and China Gas Co. Ltd.	100%
Dalian DETA Hong Kong and China Gas Co., Ltd.	40%

Liaoning and Zhejiang are provinces strategically located on the Northeastern and Eastern coast of China, adjacent to a number of provinces, such as Jilin, Shandong and Anhui, where the Group currently has a significant presence. The Group believes that the acquisition will enhance its financial positions and cash flow. The acquisition also allows the Group to increase its scale by issuing new shares as consideration, without having to raise additional cash to fund the transaction. In addition, HKCG's increased shareholding will bring considerable benefits to the Group in securing new piped gas projects in the PRC as HKCG is widely recognised for its experience and expertise in the piped gas business in the PRC. Furthermore, the Group will have continued support from HKCG's abundant financial resources and continue to benefit from its operational expertise and managerial support at the corporate and regional management levels.





Huzhou of Zhejiang Province is a significant production base of heat resistant materials in China. The photo shows a heat resistant brick factory which is one of the major gas customers in Huzhou.

## Acquisitions

In 2010, in addition to the six projects acquired from HKCG in Liaoning and Zhejiang Provinces, the Group also secured eight new projects in Jiangxi Province, Liaoning Province, Shandong Province and Guangxi Zhuang Autonomous Region, including Linqu County of Weifang City and Nanhai New District of Laiyang City in Shandong Province, the New Industrial District of Anshan City, Lvshun Economic Development Zone of Dalian City and Kazuo County of Chaoyang City in Liaoning Province, Chengdong Harbour District of Jiujiang City and Fubei Industrial Park of Fuzhou City in Jiangxi Province, and Lingui New District of Guilin City, being the first piped gas investment project of the Group in Guangxi Zhuang Autonomous Region. As a provincial development area, Lingui New District is the future development focus in Guilin City and is of strategic significance for the Group's city gas project development in Guangxi. The expected total gas sales of the eight projects above will be approximately 500 million cubic metres in five years.

In addition, the Group acquired two new projects operating in Xiushui County and Wuning Industrial Park of Jiujiang City, Jiangxi Province, in early 2011. The expected total gas sales from the two projects in five years will be 150 million cubic metres. As such, the Group's investment in five projects in Jiangxi Province has facilitated its further penetration in the province and established solid foundations for its development in 2011.



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

Project	Shareholding of the Group	Major Industries of the Operating Region
1. Linqu County, Weifang City, Shandong Province	42.41%*	Processing of aluminium and stainless steel, metallurgical and chemical processing and processing of construction materials
2. New Industrial District, Anshan City, Liaoning Province	100%	Manufacturing of equipment
3. Lvshun Economic Development Zone, Dalian City, Liaoning Province	100%	Manufacturing of ships and equipment
4. Lingui New District, Guilin City, Guangxi Zhuang Autonomous Region	95%	Metals processing and bio-pharmaceuticals
5. Kazuo County, Chaoyang City, Liaoning Province	100%	Metallurgy, foundries and purple pottery
6. Chengdong Harbour District, Jiujiang City, Jiangxi Province	60%	Petrochemical, manufacturing of ships, production of construction materials, processing of food and oil
7. Fubei Industrial Park, Fuzhou City, Jiangxi Province	40%	Smelting and processing of non-ferrous metal, and production of construction materials
8. Nanhai New District, Laiyang City, Shandong Province	100%	Advanced technology, food processing and manufacturing of machinery
9. Xiushui County, Jiujiang City, Jiangxi Province	80%	Mine processing, ceramics and quartz processing
10. Wuning Industrial Park, Jiujiang City, Jiangxi Province	100%	Energy-saving lights, mine ore processing, pharmaceuticals and chemical processing

\* The Group directly holds a 25% equity interest in this project, and Weifang Hong Kong and China Gas Company Limited, a joint venture in which the Group holds a 50% equity interest, has also acquired a 34.82% equity interest in this project. As a result, the Group owns a 42.41% effective shareholding in this project.

## Customer Services

In 2010, the Group continued to reinforce the principle of providing “customer-oriented, professional and efficient” quality services, offering customers innovative gas products and consistent service quality so as to establish the brand image of quality services. To ensure that customers can enjoy convenient and prompt services, modern customer service centres were established to offer one-stop services ranging from the sales of gas appliances and payment services to the opening of gas accounts, technical consultations and after-sale services. The Group catered for customers’ needs closely by conducting survey on customers’ satisfaction, and establishing customer service committees for handling customers’ feedbacks. Active steps had been taken to enhance the communication with customers. Service targets were determined according to the changes of customers’ needs every year, optimising continuously on the safety and reliability of products, customer appointment arrangements, work efficiencies, service attitudes and the handling of customers’ opinions.

Customer service hotline serving as an important channel for communication and service provision is operated by all Group companies with “you can hear our smiles” as our philosophy. Customers’ phone calls are answered by our staff personally, enabling a better understanding of customers’ needs and opinions while offering friendly, professional and efficient services.



## Business Review

Regular on-site safety inspections as a core part of services provided play an important role in ensuring customers' safety in gas usage. In 2010, the Group maintained great efforts in implementing the "Regular Safety Inspection" programme under which professional and qualified gas technicians visit customers on a regular basis to conduct inspections on gas appliances and pipelines to ensure the safety of gas facilities. Currently, all Group companies carry out this safety programme. Regular safety inspection has become one of the most representative services of the Group and has been well received by customers.

In addition to its endeavours to improve gas safety and customer services, the Group also actively participated in a range of community activities through its customer service teams, seeking to increase public awareness on the safe use of gas. The Group sets up consultation counters in public areas to answer customer enquiries on the safe use of gas on the spot. On the "Consumers' Day" held on 15 March every year, various group companies hold large-scale safety promotional activities and distribute safety manuals to promote safe gas usage.

In recognition of its active promotion on safe gas usage and outstanding contributions to community services, the Group was awarded "The Enterprise with Outstanding Community Services in China 2010".



## Bauhinia

The Group's Bauhinia gas appliances have been introduced in 31 cities, in which the Group's projects locate, with 56 sales locations established. Sales volumes for 2010 reached a record high of 110,000 units. The success of the Group proved that convenient one-stop services have been well-received in the mainland market and laid a solid foundation for the development of its gas appliance brand.

During the year, the Group launched a mass media advertising campaign on express railways and national newspapers to promote the Group's brand philosophy of safety, professionalism and excellence and to position itself as an expert on gas appliances. As 2010 was the fifth anniversary since the launch of Bauhinia, the Group organised a national "Healthy and Tasty Dishes with Flame Cooking" Competition. The competition's national final and the 5th anniversary ceremony were held in Wuhan on 15 September 2010 with the PRC national and local media coverage, promoting the Bauhinia image of concerning customers' safety and comfortable lifestyle with gas usage.

In view of its excellent market performance, ultra-modern product design and consistently improving after-sale services, supported by ongoing product research and development, Bauhinia was once again honoured as one of the Hong Kong top brand names in 2010.





## Safety and Risk Management

In 2010, the Group established Safe Production Committees, which hold regular meetings on work safety to discuss new safe production requirements in different regions and to deploy safety and risk management throughout its operations. Regional risk managers are also invited to exchange experiences on safety issues on a monthly basis. Moreover, workshops and quizzes on health, safety and environment (HSE) were held in various regions in 2010.

Based on several research findings derived from the “Year of Safe Production” in the northeastern region in 2009, the Group applied these findings to other regions in 2010, and introduced the “Year of Safe Production” campaign in Sichuan to capitalise on regional advantages and accelerate the development of all its member companies. Each regional general manager kept track of the monthly safety and risk management inspection report in person. The Group also conducted regional emergency drills, with Hong Kong, Shenzhen and regional enterprises participating via simultaneous video-conferencing facilities.

In addition, the Group has launched an online “10.10.10 Safety Action” programme, successfully accomplishing the participation target of reaching 100,000 employees and customers of the Group and the HKCG before 10 October 2010. This campaign promoted safety tips with ten guidelines for each of the three major aspects – Ten Rules for Corporate Safety Management, Ten Commandments of Employee Personal Safety and Ten Reminders of Customers Safety. This campaign increased the safety awareness both of staff and customers, at work and at home.



Mr. Chan Wing Kin, Alfred, the Chairman, visited Sichuan to inspect the safety measures of the gas business in Southwest China.





The Shandong Training Institute oversees the lectural training functions of the Group. The training facilities including multi-media classrooms, domestic and commercial and industrial gas appliances training rooms, pipeline construction training depots, SCADA demonstration facility and appliance showcase, etc.

## Staff Training and Development

As of 31 December 2010, the Group had 15,744 employees, 99% of whom work in mainland China. The Group has consistently focused on the continuous training of staff and enhancement of business skills. Staff ranging from frontline staff to senior management were involved in training in a variety of ways. In August 2010, the Group continued to jointly organise the “Senior Management Programme” with Tsinghua University to ensure that the grooming of top-notch talent would be sustainable. It was a programme based on the Towngas Leadership Competency model flexibly structured in accordance with the characteristics and requirements of the Group. Leadership enhancement work also continued to develop for regional management in 2010. In July, a leadership enhancement course for the management in Shandong region commenced in Peking University. In October, the 4th graduation cum the 5th opening ceremony of the senior management training course for Sichuan region was held at the Southwestern University of Finance and Economics. This course was devised to explore innovative business strategies, human resources management and marketing skills to maintain the competitive edge of the Group. In order to improve the working quality of frontline staff, the Group conducted specifically designed training programmes in accordance with the needs of staff in Sichuan last year. This further enhanced the technical skills of staff, resulting in an even greater value for customers and the Group.

The Group has strived to comply with the principle of “committing to innovation and creativity to provide quality services for the benefits of the Group, its customers and employees” throughout all its operations. Through the launch of comprehensive training on Superior Quality Service (“SQS”) for its employees, the innovation and quality services of employees have been persistently enhanced. By now, 41 group companies have implemented SQS. Three companies of the Group were awarded second prizes at the National Competition for Quality Control Units organised by the China Association for Quality in April and July 2010. The Group will further enhance its professionalism, quality and effectiveness in the implementation of SQS.

In addition to providing training to its employees, the Group actively responded to post-“5·12” Sichuan earthquake educational support and subsidised 30 students from the affected areas to study in Jiangsu Changzhou Higher Vocational School of Construction, specialising in gas. As of September 2010, these 30 students, having completed their pre-job training at the Group’s training centre in Sichuan, are participating in internship programmes in 15 group companies in Sichuan. The Group ensured full employment for students, while expanding its gas service teams with professional members.

## Corporate Social Responsibility

The Group recognises the importance of its corporate social responsibility role. Over the years, the Group has been actively participating in community activities and providing support and showing its concerns for the needs of the underprivileged. All Group companies also share the community contribution spirit by making donations to victims of disasters, offering help to the elderly, students, the poor and people in need while also participating in other community activities. Currently, volunteer teams have been set up in over 70% of all Group companies. With total service hours amounting to nearly 300,000 man-hours in 2010, volunteer teams helped more than 200,000 people in need.

Responding with compassion towards the earthquake in Yushu County, Qinghai Province on 14 April 2010, the Group companies together with its staff acted promptly to raise funds, which amounted to over RMB700,000, to support and help with the relief work immediately after the earthquake. The Group's volunteers delivered two trucks of food and clothes, 150 tents and medicines to the collection point in Xining City for the victims of Yushu County to ease the immediate difficulties of victims.

In June 2010, in conjunction with Mianyang Hong Kong and China Gas Co., Ltd., a Group subsidiary, the Group organised a "Towngas Rice Dumplings for the Community" event together with the Association for Promotion of Next Generation Caring in Mianyang. The programme involved hundreds of people, including Group volunteers, the elderly from the local community, teachers and students from the Liujia Village Secondary School and Dong Lin Primary School in Mianyang, working together to make ten thousands of rice dumplings for distribution to the elderly, teachers and students in the community. Similar activities were also organised by other Group companies to show their care and support for their local communities.





In October 2010, the Group was invited by the “Shanghai Soong Ching Ling Foundation – BEA Charity Fund” to support “The Firefly Project”, a volunteer teaching programme for the Hopeful School in Jianchang, Lixin County, Bozhou, Anhui. Volunteers from Group companies in Anhui gave interesting lectures in three days, representing the Group to make a contribution to education in these less-developed areas. Furthermore, several Group companies such as Sichuan Pingchang Hong Kong and China Gas Company Limited and Chengdu Xindu Hong Kong and China Gas Company Limited, also conducted a variety of activities to help the homeless children and children in poverty.



As a responsible energy provider, the Group has been committing to protect and improve the environment as well as promoting the development and utilisation of clean energy. The Group companies organised a number of local environmental protection activities, including supporting “Earth Hour” launched by the World Wildlife Fund and organising various tree-planting activities, to promote an environmentally-friendly attitude and lifestyle and to enhance the sustainable development of the Group, the community and the environment.

The Group’s social contribution was widely recognised with the receipt of “The China Best Corporate Citizenship Award” from the Corporate Citizenship Committee of the China Association of Social Workers, China Central Television (“CCTV”) and the Tencent Charity Foundation; “Low-carbon Innovative Enterprise” from Chinese Youth Daily and the Jingji Magazine; “The Enterprise with Outstanding Community Service in China” from the Ministry of Civil Affairs, China Social Welfare Education Foundation and CCTV; and “Commitment to Gas Safety Education” from The Chinese Society of Education and China Journalists Association in 2010.

On 11 March 2011, a tree planting activity in which over 100 volunteers of Towngas China were involved was jointly organised by the Group, Forestry Bureau of Shaoguan and Shao Guan Hong Kong and China Gas Co., Ltd.. Similar activities were also organised by our joint ventures in China.



## Biographical Details of Directors



Chan Wing Kin, Alfred

Kwan Yuk Choi, James

Wong Wai Yee, Peter

Ho Hon Ming, John

**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., B.Sc. (Eng), M. Sc. (Eng)*, aged 60, 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. He is a member of the Eleventh Wuhan Committee of the Chinese People's Political Consultative Conference and 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 and 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.

**Mr. Wong Wai Yee, Peter**, *C.M.A., A.C.S., A.C.I.S., M.B.A.*, aged 59, 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. 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 34 years of experience in corporate finance, management and international working experience.





Law Wai Fun, Margaret

Chow Yei Ching

Cheng Mo Chi, Moses

Li Man Bun, Brian David

**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., B.Sc. (Eng), M.B.A.**, aged 59, 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 currently a member of Construction Industry Council, 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 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 and 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.

**Mr. Ho Hon Ming, John, F.C.A., F.C.P.A., B.A. (Hons.)**, aged 54, 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 32 years of experience in accounting, corporate finance and investment.



## Biographical Details of Directors

**Ms. Law Wai Fun, Margaret**, *FHKIHRM, DipEd, BA (Hons), MBA*, aged 60, 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 is a Council Member of the Hong Kong Institute of Human Resource Management, and chairs the Committee on Management and Supervisory Training of the Vocational Training Council.

**Dr. Chow Yei Ching**, *GBS*, aged 75, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Dr. Chow is the founder and chairman of Chevalier Group which consists of two public listed companies in Hong Kong, namely Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is currently a non-executive director of Television Broadcasts Limited, also a public listed company in Hong Kong. His other directorships in public listed companies in the last 3 years include Van Shung Chong Holdings Limited and Shaw Brothers (Hong Kong) Limited which was delisted on 19 March 2009. Dr. Chow resigned from Shaw Brothers (Hong Kong) Limited and Van Shung Chong Holdings Limited on 16 April 2009 and 1 January 2010 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 61, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the member of both the Audit Committee and the Remuneration 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 COSCO Holdings Company 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 Beijing Capital International Airport Company Limited, Galaxy Entertainment Group Limited, Shui On Construction and Materials 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**, *FCA, MA(Cantab), MBA*, aged 36, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the Chairman of the Audit Committee and a member of the Remuneration 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 director of Xinjiang Goldwind Science & Technology Co., Ltd., which is a listed company on the Shenzhen Stock Exchange and 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 2010 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 public 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 have pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

## 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 42 to the consolidated financial statements.

## Results and Final Dividend

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 63.

The Directors have recommended the payment of a final dividend out of share premium account of three HK cents per share (2009: two HK cents per share) to shareholders whose names are on the register of members of the Company on 30 May 2011. Subject to approval by shareholders at the AGM to be held on 30 May 2011 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 20 June 2011 and the register of members of the Company will be closed from Wednesday, 25 May 2011 to Monday, 30 May 2011 (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 67.

The Company's reserves available for distribution to shareholders at 31 December 2010 amounted to HK\$4,587 million (2009: HK\$3,324 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 2010 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 17 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  
Mr. Ou Yaping (resigned on 16 March 2011)  
Mr. Tang Yui Man, Francis (resigned on 16 March 2011)  
(*Alternate Director to Mr. Ou Yaping*)

### 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. Wong Wai Yee, Peter, Mr. Kwan Yuk Choi, James and Mr. Ho Hon Ming, John, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the 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 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 30 to 33 of this Annual Report.



# Report of the Directors

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

As at 31 December 2010, 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

Name of Company	Name of Director	Capacity	Interest in shares			Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of issued share capital of the Company or its associated corporation as at 31.12.2010
			Personal interest	Family interest	Corporate interest				
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%
	Ou Yaping	Interest in controlled corporations	-	-	195,487,245 (Note)	195,487,245	-	195,487,245	7.98%
	Chow Yei Ching	Beneficial owner	1,600,000	-	-	1,600,000	-	1,600,000	0.07%
	Tang Yui Man, Francis (Alternate Director to Ou Yaping)	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
The Hong Kong and China Gas Company Limited	Chan Wing Kin, Alfred	Interest held jointly with spouse	136,858	-	-	136,858	-	136,858	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	48,315	54,741	-	103,056	-	103,056	0.00%
	Ho Hon Ming, John	Beneficial owner	21,434	-	-	21,434	-	21,434	0.00%
	Law Wai Fun, Margaret	Beneficial owner	13,068	-	-	13,068	-	13,068	0.00%

Note: The 195,487,245 Shares represent the aggregate of (i) 9,046,568 Shares held by Kenson Investment Limited ("Kenson") and (ii) 186,440,677 Shares held by Supreme All Investments Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina Holdings Limited ("Enerchina"). As Asia Pacific Promotion Limited ("Asia Pacific") was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 195,487,245 Shares.

## Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures (Continued)

### Long positions in Shares and underlying Shares (Continued)

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

### 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 2010 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2010	Exercise price HK\$	as at 31.12.2010	
					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%
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.04%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.04%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.05%

#### Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- During the year, no option was granted to or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.
- These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2010, 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 Companies.

## 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 (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.

As at the date of this report, no Share in respect of which options had been granted under the Pre-GEM Scheme was outstanding (2009: 3,618,000), representing 0% (2009: 0.18%) of the issued share capital of the Company as at the date of this report.

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 are 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. The provision of the Pre-GEM Scheme shall remain in full force and effect.

### (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 2001 GEM Scheme remained in force for a period of 10 years commencing on 4 April 2001.

The share options granted under the 2001 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

As at the date of this report, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Scheme was 9,307,500 (2009: 12,763,500), representing 0.38% (2009: 0.65%) of the issued share capital of the Company as at the date of this report.

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 and there will be no options granted under the 2001 GEM 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 2001 GEM Scheme shall remain in full force and effect.

### (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 more than 10 years after the date of grant.

As at the date of this report, no option was granted under the 2005 GEM Scheme.

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.

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.



## Share Option Schemes of the Company (Continued)

### (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.

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.

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 (2009: 16,843,800), representing 0.66% (2009: 0.86%) of the issued share capital of the Company as at the date of this report.

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.

## 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\$
<b>Pre-GEM Scheme:</b>			
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
<b>2001 GEM Scheme:</b>			
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
<b>2005 Main Board Scheme:</b>			
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



# Report of the Directors

## 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 01.01.2010	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
<b>Category 1:</b>									
<b>Directors</b>									
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 (Alternate Director to Ou Yaping)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	1,206,000	–
<b>Total for Directors</b>					15,678,000	–	–	15,678,000	

## Share Option Schemes of the Company (Continued)

	Option types	Date of Grant	Exercise Period	Exercise Price (HK\$)	Outstanding at 01.01.2010	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)	
<b>Category 2: Employees</b>	Pre-GEM	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14	
	Options	04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14	
	2004	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73	
	GEM	19.11.2004	31.12.2006 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73	
	Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	3,899,400	482,400	–	3,417,000	3.73	
	2006	03.10.2006	04.10.2007 – 27.11.2015	2.796	482,400	180,900	–	301,500	3.65	
	Options	03.10.2006	04.04.2008 – 27.11.2015	2.796	723,600	180,900	–	542,700	3.65	
			03.10.2006	04.10.2008 – 27.11.2015	2.796	964,800	241,200	–	723,600	3.73
	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	–	–	603,000	–	
	Options	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	–
	<b>Total for Employees</b>					17,547,300	5,427,000	–	12,120,300	
<b>All categories</b>					33,225,300	5,427,000	–	27,798,300		

### 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 under any share option schemes.
3. During the year, no new option was granted.

## 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.



# Report of the Directors

## 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 The Hong Kong and China Gas Company Limited ("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.

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 2010, 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 31.12.2010
Lee Chau Kee	Interest of controlled corporations	1,628,172,901 (Note 1)	66.49%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 (Note 2)	66.49%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 (Note 2)	66.49%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
HKCG	Interest of controlled corporations	1,628,172,901 (Note 3)	66.49%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 (Note 3)	64.73%
HK&CG (China)	Beneficial owner	1,585,202,901 (Note 3)	64.73%
Asia Pacific	Interest of controlled corporations	195,487,245 (Note 4)	7.98%
Enerchina	Interest of controlled corporations	195,487,245 (Note 4)	7.98%
Supreme All	Beneficial owner	186,440,677 (Note 4)	7.61%

## Substantial Shareholders (Continued)

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

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. 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 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.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2010, 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 2010, 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 2010, 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 and Continuing Connected Transactions

Set out below is the information in relation to the connected transactions and continuing connected transactions that existed during the year ended 31 December 2010 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 36 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.

## Liquefied Coalbed Methane Purchase Transactions

On 16 January 2009, the Company and HKCG entered into an agreement (the "LCBM Agreement") for a term commencing from 16 January 2009 up to 30 June 2010 in respect of the purchase of liquefied coalbed methane by members of the Group from members of the HKCG Group (the "LCBM Transactions"). As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. Thus, the LCBM Transactions constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements but are exempted from the independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

The LCBM Transactions were subject to a cap amount of RMB43,000,000 (approximately HK\$49,369,000) for the period from 1 January 2010 to 30 June 2010. Particulars of the LCBM Agreement and the LCBM Transactions were disclosed in an announcement of the Company dated 16 January 2009.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the LCBM Transactions for the period from 1 January 2010 to 11 May 2010 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 from independent third parties; and
- (iii) in accordance with the LCBM Agreement on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

The LCBM Agreement was terminated and replaced by the Gas Purchase Master Agreement with effect from 12 May 2010.

# Report of the Directors

## Disposal of LPG Business

On 2 April 2009, the Company and Top Diligent Limited (the “Purchaser”, which was then ultimately owned as to 40% by Mr. Shen Lian Jin (who resigned as Executive Director of the Company on 19 March 2009 but was then a director of certain subsidiaries of the Company), 30% by Mr. Li Zi Hong (then a director of certain subsidiaries of the Company) and 30% by Mr. Luo Yun Jin entered into an agreement (the “LPG Disposal Agreement”) pursuant to which the Company sold all the issued shares of Panva LPG Investment Holdings Limited (“Panva LPG”, the Company’s then wholly-owned subsidiary holding the LPG business of the Company) to the Purchaser (the “Disposal”) at the total consideration of HK\$419 million. On 1 June 2009, the Company and the Purchaser entered into a supplemental agreement (“Supplemental Agreement”) pursuant to which certain obligations of the parties under the LPG Disposal Agreement which would have been fulfilled before completion became post-completion obligations, and the LPG Disposal Agreement would be completed as scheduled.

As the Purchaser was then an associate of a former Executive Director as well as an associate of the then directors of certain subsidiaries of the Company, the Disposal constituted a connected transaction of the Company and was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Under the LPG Disposal Agreement, the Company was to advance a loan to Panva LPG (the “Panva Loan”) prior to completion of the LPG Disposal Agreement (the “Completion”) to enable Panva LPG to on lend the same to Panriver Investments Company Limited (“Panriver Investments”, a wholly-owned subsidiary of Panva LPG) to settle the consideration payable by Panriver Investments to Towngas Investments Limited (“Towngas Investments”, a wholly-owned subsidiary of the Company) (the “LPG Consideration”) for the acquisition of the then subsidiaries and associated companies of Panriver Investments. It was intended that the entire Panva Loan would be capitalized into shares of Panva LPG prior to Completion and form part of the Panva LPG shares to be transferred to the Purchaser at Completion.

Settlement of the LPG Consideration is subject to the foreign exchange control procedures in the PRC (the “Foreign Exchange Approvals”) but as at 1 June 2009, Foreign Exchange Approvals had not yet been obtained in respect of part of the LPG Consideration in the sums of RMB83.3 million and US\$3.6 million) (the “Outstanding LPG Consideration”). In order to complete the Disposal as scheduled, the Supplemental Agreement was entered into such that as post completion obligations and to the extent upon relevant Foreign Exchange Approvals are obtained from time to time (a) the Company would advance the portion of the Panva Loan required to settle the Outstanding LPG Consideration (the “Outstanding Panva Loan”) which will be on lent by Panva LPG to Panriver Investments; (b) the Outstanding LPG Consideration would be settled by Panriver Investments; and (c) the Outstanding Loan to be made by the Company would be capitalized into shares of Panva LPG and transferred to the Purchaser for no consideration as and when they are issued to the Company.



## Disposal of LPG Business (Continued)

Since Panva Investments and Panva LPG became connected persons of the Company after Completion by virtue of their being associates of Mr. Shen Lian Jin and Mr. Li Zi Hong, both of whom being directors of certain subsidiaries of the Company, the payment of the Outstanding LPG Consideration, the provision of the Outstanding Panva Loan and the capitalization of the Outstanding Panva Loan into shares in Panva LPG for transfer to the Purchaser (the “Supplemental Agreement Transactions”) all constituted continuing connected transactions for the Company and were subject to the reporting and disclosure requirements pursuant to Rule 14A.41 of the Listing Rules. It was recently known to the Board that there was a change in the shareholding structure of the Purchaser. So far as the Directors are aware, the Purchaser is currently owned as to 32.8% by a company wholly-owned by Mr. Ou Yaping, an Executive Director during the year ended 31 December 2010, 20% by 2 former Directors who have resigned for more than 12 months, and 47.2% by a company owned by 7 individuals comprising an alternate Director during the year ended 31 December 2010, 2 existing directors of subsidiaries of the Company, 3 former Directors who have resigned for more than 12 months and a former director of subsidiaries of the Company who have resigned in December 2010. Accordingly, Panva Investments and Panva LPG continued to be connected persons of the Company by virtue of their being associates of Mr. Ou Yaping, a Director during the year ended 31 December 2010, and the Supplemental Agreement Transactions remained continuing connected transactions for the Company subject to the reporting and disclosure requirements pursuant to Rule 14A.41 of the Listing Rules.

The Disposal was approved at the extraordinary general meeting of the Company held on 11 May 2009 and Completion took place on 4 June 2009.

Particulars of the Disposal and the LPG Disposal Agreement were disclosed in the announcement of the Company dated 2 April 2009 and the circular of the Company dated 23 April 2009 and particulars of the Supplemental Agreement were disclosed in the announcement of the Company dated 1 June 2009. As at 31 December 2010, the balance of the Outstanding LPG Consideration was nil.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Supplemental Agreement Transactions during the year ended 31 December 2010 were entered into on normal commercial terms; and in accordance with the Supplemental Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## 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 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”) 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 HKCG Group (the “Gas Sales Transactions”, and together with the Gas Purchase Master Agreement and the Pipeline Materials Purchase Master Agreement collectively referred to as the “CCT Master Agreements”)

each for a term commencing from 12 May 2010 to 30 April 2013.

Pursuant to the Gas Purchase Master Agreement, the LCBM Agreement was terminated with effect from 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. Thus, the transactions contemplated under the CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting 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 RMB31,000,000 (approximately HK\$35,591,000), RMB10,000,000 (approximately HK\$11,481,000) and RMB14,000,000 (approximately HK\$16,073,000) respectively for the period from 12 May 2010 to 31 December 2010.

The respective amounts of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the period from 12 May 2010 to 31 December 2010 was RMB2,874,000 (approximately HK\$3,300,000), RMB4,395,000 (approximately HK\$5,046,000) and nil, which have not exceeded the annual caps as stated above.

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.

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 period from 12 May 2010 to 31 December 2010 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.

## **Acquisition of the Entire Issued Share Capital of Towngas (BVI) Holdings Limited (the “Acquisition”)**

On 17 March 2010, the Company entered into a sale and purchase agreement with HK&CG (China) (the “Acquisition Agreement”) pursuant to which the Company has conditionally agreed to purchase from HK&CG (China) the entire issued share capital of Towngas (BVI) Holdings Limited (“Towngas (BVI)”) and take assignment of all outstanding loans and indebtedness due from Towngas (BVI) to HK&CG (China) as at the date of completion of the Acquisition subject to the terms and conditions of the Acquisition Agreement in consideration of the allotment and issue of 485,000,000 new Shares to HK&CG(China) credited as fully paid at HK\$3.55 per share.

As HK&CG (China) was a substantial shareholder of the Company, the Acquisition constituted a connected transaction of the Company and was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Acquisition was approved at the extraordinary general meeting of the Company held on 29 April 2010 and completion of the Acquisition took place on 15 July 2010.

Particulars of the Acquisition and the Acquisition Agreement were disclosed in the announcements of the Company dated 17 March 2010 and 15 July 2010 and the circular of the Company dated 7 April 2010.

## **Related Party Transactions**

Details of the related party transactions undertaken in normal course of business are set out in note 36 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have complied 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 2010 are set out in Note 29 to the consolidated financial statements.

## **Donations**

During the year, the Group made charitable and other donations amounting to approximately HK\$576,000.

# 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, there is sufficient public float of not less than 25% of the Company's issued shares during the year as required under the Listing Rules.

## Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 39.83% of its operating cost for the year. Purchases from the largest supplier accounted for about 15.56% of its operating costs. None of the Directors, their associates or any shareholders (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, 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

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 2010.

## Emolument Policy

As at 31 December 2010, the Group had 15,744 employees. Approximately 99% of the Group's employees are located in China. 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 Company's operating results, individual performance and comparable market statistics. No Director, or any of his/her associates, and executive, is involved in dealing his/her own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, and details of the schemes are set out in note 39 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 2010. Details of the corporate governance of the Group are set out in the section headed “Corporate Governance Report” on page 54 to 61 in this Annual Report.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2010 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, 14 March 2011



# 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 complied with the code provisions as set out in the Code throughout the year ended 31 December 2010. 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 comprises ten members (including one Alternate Director) 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  
Mr. Ou Yaping (resigned on 16 March 2011)  
Mr. Tang Yui Man, Francis (resigned on 16 March 2011)  
(*Alternate Director to Mr. Ou Yaping*)

#### 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 field 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 relationship) between any members of the Board.

Pursuant to the Articles of Association, 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 2010, the Board 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 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.

### Function

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 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.

Matters specifically 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 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 have to be 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 2010 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 and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/Number of Meeting
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	4/4
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	4/4
Mr. Kwan Yuk Choi, James	4/4
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	4/4
Ms. Law Wai Fun, Margaret	4/4
Mr. Ou Yaping	2/4
Mr. Tang Yui Man, Francis ( <i>Alternate Director to Mr. Ou Yaping</i> )	2/4
<b>Independent Non-Executive Directors</b>	
Dr. Chow Yei Ching	4/4
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4

### 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. 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.

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 for 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

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;
- active participation on the boards of subsidiaries and associated companies;
- approval of 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 reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of 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 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 and the Audit 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, 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 2010, the Remuneration Committee:

- reviewed the remunerations of the senior management for 2010;
- reviewed and recommended the Executive Directors' remunerations for 2010 and 2011;
- reviewed the Directors' fees for 2010; and
- approved the amendment to the terms of reference of the Remuneration Committee.

The Remuneration Committee held one meeting during the year ended 31 December 2010 with individual attendance as follow:

<b>Members of Remuneration Committee</b>	<b>Attendance/Number of Meeting</b>
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 (being the Chairman of the Audit Committee), Dr. Chow Yei Ching and Dr. Cheng Mo Chi, Moses, all of whom are Independent Non-Executive Directors.

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 reviews 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 2010, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2009 and for the six months ended 30 June 2010;
- recommendation of 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 2009 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2010 with individual attendance as follow:

Members of Audit Committee	Attendance/Number of Meeting
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching	1/2
Dr. Cheng Mo Chi, Moses	2/2

## Nomination of Directors

The Company has not established a nomination committee and the selection and appointment of a Director are determined by the full Board directly. The Directors will select those proposed new Directors based on their skills, experience and who, in the opinion of the Directors, are able to make a positive contribution to the performance of the Board. The Board also reviews its composition to ensure that the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Company.

## Model Code for Securities Transactions by Directors

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2010, following specific enquiry made by the Company, confirm that they have complied with the required standard set out in the Model Code throughout the year of 2010.

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.

# Corporate Governance Report

## 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 2010. Deloitte also reviewed the 2010 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 2010 amounted to HK\$5.38 million.

Non-audit service fees charged by Deloitte during 2010 were as follows:

Description of services performed	HK\$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2010	500,000
(2) Tax review	150,000
(3) Annual review on continuing connected transactions for the year ended 31 December 2010	60,000
Total	710,000

## Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge that 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 Auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on page 62 of this Annual Report.

## Going Concern

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 system of internal control 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 2010, 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 any non-compliances.

## Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with 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 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 can be archived (for documents published in the previous 5 years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2010 AGM held on 29 April 2010, 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 Audit Committee, chairman of the Remuneration Committee and members of senior management attended the 2010 AGM to answer the shareholders' questions.

An extraordinary general meeting ("EGM") was also held on 29 April 2010 to approve the acquisition of 6 piped gas projects from HK&CG (China) (a wholly-owned subsidiary of HKCG). Members of the independent board committee were available at the EGM to answer questions.

# 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 63 to 148, which comprise the consolidated statement of financial position as at 31 December 2010, 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 as to 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.

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 2010 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  
14 March 2011





# Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Turnover			
– Continuing operations		2,981,420	2,025,482
– Discontinued operation		–	880,471
	7	2,981,420	2,905,953
<b>Continuing operations</b>			
Operating profit before returns on investments	8	330,187	245,200
Other income and gains	9	138,410	64,873
Share of results of associates		183,408	136,901
Share of results of jointly controlled entities		116,102	73,933
Finance costs	10	(141,859)	(126,963)
Profit before taxation	11	626,248	393,944
Taxation	13	(136,442)	(91,625)
Profit for the year from continuing operations		489,806	302,319
<b>Discontinued operation</b>			
Profit for the year from discontinued operation	14	–	9,824
Profit for the year		489,806	312,143
Profit for the year attributable to:			
Shareholders of the Company		435,797	265,090
Non-controlling interests		54,009	47,053
		489,806	312,143
Proposed final dividend of three HK cents (2009: two HK cents) per ordinary share	15	73,464	39,167
		HK cents	HK cents
Earnings per share	16		
From continuing and discontinued operations			
– Basic		19.93	13.54
– Diluted		19.93	13.52
Earnings per share	16		
From continuing operations			
– Basic		19.93	13.57
– Diluted		19.93	13.55



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Profit for the year	489,806	312,143
Other comprehensive income		
Exchange differences arising on translation to presentation currency	272,061	16,636
Exchange difference released on disposal of subsidiaries	–	(11,541)
Other comprehensive income for the year	272,061	5,095
Total comprehensive income for the year	761,867	317,238
Total comprehensive income attributable to:		
Shareholders of the Company	696,136	269,400
Non-controlling interests	65,731	47,838
Total comprehensive income for the year	761,867	317,238



# Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	17	5,073,785	4,077,210
Leasehold land	18	264,742	216,759
Intangible assets	19	182,107	182,210
Goodwill	20	3,753,293	2,752,733
Interests in associates	21	1,796,800	1,186,538
Interests in jointly controlled entities	22	1,067,277	779,328
Loans to jointly controlled entities	22	119,160	108,060
Available-for-sale investments	23	169,372	168,853
Deferred consideration receivable	24	242,481	283,325
		<b>12,669,017</b>	<b>9,755,016</b>
<b>Current assets</b>			
Inventories	25	147,885	101,856
Leasehold land	18	9,016	6,082
Loans to jointly controlled entities	22	84,906	5,682
Trade and other receivables, deposits and prepayments	26	531,455	483,817
Amounts due from minority shareholders	27	6,579	14,103
Bank balances and cash	26	1,433,941	963,861
		<b>2,213,782</b>	<b>1,575,401</b>
<b>Current liabilities</b>			
Trade and other payables and accrued charges	28	1,653,981	1,318,905
Amounts due to minority shareholders	27	25,630	82,617
Taxation		229,192	189,475
Borrowings—amount due within one year	29	2,792,403	562,035
		<b>4,701,206</b>	<b>2,153,032</b>
Net current liabilities		<b>(2,487,424)</b>	<b>(577,631)</b>
Total assets less current liabilities		<b>10,181,593</b>	<b>9,177,385</b>
<b>Non-current liabilities</b>			
Loans from the ultimate holding company	30	471,365	471,365
Borrowings—amount due after one year	29	432,321	1,731,337
Deferred taxation	31	142,780	86,560
		<b>1,046,466</b>	<b>2,289,262</b>
Net assets		<b>9,135,127</b>	<b>6,888,123</b>



# Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Capital and reserves			
Share capital	32	244,879	195,836
Reserves		8,318,558	6,237,752
Equity attributable to shareholders of the Company		8,563,437	6,433,588
Non-controlling interests		571,690	454,535
Total equity		9,135,127	6,888,123

The consolidated financial statements on pages 63 to 148 were approved and authorised for issue by the Board of Directors ("the Board") on 14 March 2011 and were 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 2010

	Attributable to shareholders of the Company							Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000 (note 33)	General reserves HK\$'000 (note 33)	Retained earnings HK\$'000			
At 1 January 2009	195,756	4,433,969	673,956	44,715	1,101	50,877	777,427	6,177,801	735,033	6,912,834
Exchange differences arising on translation to presentation currency	-	-	15,851	-	-	-	-	15,851	785	16,636
Reserve released on disposal of subsidiaries	-	-	(11,541)	-	-	-	-	(11,541)	-	(11,541)
Profit for the year	-	-	-	-	-	-	265,090	265,090	47,053	312,143
Total comprehensive income for the year	-	-	4,310	-	-	-	265,090	269,400	47,838	317,238
Issue of shares upon exercise of share option	80	2,923	-	(755)	-	-	-	2,248	-	2,248
Recognition of equity-settled share based payments	-	-	-	3,715	-	-	-	3,715	-	3,715
Disposal of subsidiaries	-	-	-	-	(1,101)	(14,321)	15,422	-	(356,160)	(356,160)
Share options forfeited	-	-	-	(4,816)	-	-	4,816	-	-	-
Transfer	-	-	-	-	-	17,286	(17,286)	-	-	-
Addition on acquisition of subsidiaries	-	-	-	-	-	-	-	-	31,682	31,682
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	13,729	13,729
Dividend paid	-	(19,576)	-	-	-	-	-	(19,576)	-	(19,576)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(17,587)	(17,587)
	80	(16,653)	-	(1,856)	(1,101)	2,965	2,952	(13,613)	(328,336)	(341,949)
At 31 December 2009 and 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	-	(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	244,879	5,803,719	938,605	41,126	-	71,709	1,463,399	8,563,437	571,690	9,135,127





# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation	11	626,248	414,214
Adjustments for:			
Interest income		(7,979)	(11,695)
Discount on acquisition of a subsidiary		–	(1,153)
Imputed interest on loans to jointly controlled entities and deferred consideration receivable		(15,966)	(12,506)
Interest expenses		139,292	125,930
Share of results of associates		(183,408)	(136,901)
Share of results of jointly controlled entities		(116,102)	(74,492)
Dividends from available-for-sale investments		(35,780)	(27,871)
Amortisation of leasehold land		8,557	7,421
Amortisation of intangible assets		6,782	8,438
Share-based payment expenses		620	3,715
Depreciation of property, plant and equipment		182,293	169,150
Loss (gain) on disposal of property, plant and equipment		5,811	(666)
Gain on disposal of leasehold land		(4,553)	–
Gain on disposal of subsidiaries		–	(458)
Allowance for doubtful debts		10,000	5,000
Operating cash flows before movements in working capital		615,815	468,126
Increase in inventories		(27,725)	(52,516)
Increase in trade receivables		(56,904)	(18,816)
Increase in other receivables, deposits and prepayments		(34,396)	(129,977)
Increase in trade payables		81,080	13,149
Increase in other payables and accrued charges		294,820	356,968
(Decrease) increase in amount due to minority shareholders		(53,262)	10,336
Cash generated from operations		819,428	647,270
Interest paid		(134,404)	(122,158)
Taxation paid		(83,676)	(64,060)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>601,348</b>	<b>461,052</b>

	Notes	2010 HK\$'000	2009 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(718,593)	(516,116)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	–	(206,474)
Deferred consideration received		40,000	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	(3,968)	(224,678)
Acquisition of associates		(54,263)	–
Acquisition of a jointly controlled entity		–	(53,436)
Capital injection to an associate		(145,008)	–
Capital injection to a jointly controlled entity		(4,592)	–
Payment of deferred consideration for acquisition of subsidiaries in prior period		(142,952)	–
Purchase of leasehold land		(35,808)	(11,610)
Loans to jointly controlled entities		(84,906)	(5,682)
Repayment of amount due from a related company		127,378	–
Repayment of loan from jointly controlled entities		45,129	84,902
Dividends received from associates		–	31,998
Dividends received from jointly controlled entities		35,518	17,809
Dividends from available-for-sale investments		35,780	27,871
Interest received		7,979	11,695
Proceeds from disposal of leasehold land		18,926	–
Proceeds from disposal of property, plant and equipment		4,705	7,706
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(874,675)</b>	<b>(836,015)</b>
<b>FINANCING ACTIVITIES</b>			
Repayments of bank and other loans		(826,868)	(43,865)
Repayment of amount due to a related company		(127,378)	–
Dividend paid		(39,203)	(19,576)
Dividends paid to minority shareholders of subsidiaries		(18,236)	(17,587)
New bank and other loans raised		1,666,536	504,505
New loans from shareholder raised		–	31,001
Capital contribution from minority shareholders of subsidiaries		35,890	13,729
Issue of shares as a result of the exercise of share options		7,596	2,248
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>698,337</b>	<b>470,455</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>425,010</b>	<b>95,492</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>963,861</b>	<b>863,882</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>45,070</b>	<b>4,487</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH</b>		<b>1,433,941</b>	<b>963,861</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 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, 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 (“HKD” or “HK\$”). The reason for selecting HKD as its presentation currency is because the Company is a public company with its shares listed on the Stock Exchange and 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. The Group was also engaged in the sale of liquefied petroleum gas (“LPG”) in bulk and in cylinders, which was disposed of and discontinued in the prior year (see note 14).

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 HK\$2,487 million as at 31 December 2010. The Group’s liabilities as at 31 December 2010 included borrowings of HK\$2,792 million that are repayable within one year from the end of the reporting period.

As of the date of approval of the consolidated financial statements, the Group had un-drawn facilities (the “Facilities”) amounted to HK\$1,665 million. When considering the Group’s ability to continue as a going concern, the directors considered that the Group’s bank loans of HK\$1,641 million that are repayable within one year from the end of the reporting period will be rolled over or renewed as the Group has good relationship with its banks and has good credibility. If in the unlikely event that the bank loans cannot be renewed or rolled over, the directors believe that the Group is able to obtain sufficient funds from its ultimate holding company to refinance these borrowings. The guaranteed senior notes of HK\$1,119 million, due in September 2011, will be financed by either the Facilities or other financing arrangements.

Taking into account of the foregoing, the directors are confident that the Group will be able to meet its financial obligations when they fall due and accordingly, have prepared the consolidated financial statements 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 standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC*)-INT 17	Distributions of non-cash assets to owners
HK-INT 5**	Presentation of financial statements—Classification by the borrower of a term loan that contains a repayment on demand clause

\* IFRIC represents the International Financial Reporting Interpretations Committee.

\*\* HK-INT represents the Hong Kong Interpretation

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

### HKFRS 3 (as revised in 2008) Business combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as “minority” interests) either at fair value or at the non-controlling interests’ share of recognised identifiable net assets of the acquiree.
- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

### HKFRS 3 (as revised in 2008) Business combinations (Continued)

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously, they were accounted for as part of the cost of the acquisition.

As a result of the application of HKFRS 3 (as revised in 2008), the Group has recognised HK\$4,417,000 of acquisition-related costs included in other expenses in the profit or loss, whereas previously, these costs would have been accounted for as part of the cost of the acquisition. The impact on earnings per share as a result of the application of HKFRS 3 (as revised in 2008) was a decrease in basic and diluted earnings per share of 0.2 HK cents and 0.2 HK cents respectively.

### Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on the information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

### HK-INT 5 Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause

HK-INT 5 “Presentation of financial statements—Classification by the borrower of a term loan that contains a repayment on demand clause” clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK-INT 5 for the first time in the current year. HK-INT 5 requires retrospective application.

After reviewing the terms of the Group’s term loans, the directors of the Company concluded that no reclassification was necessary as the Group’s bank borrowings did not include such repayment on demand clauses.



## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 1 (Amendments)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters <sup>2</sup>
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters <sup>3</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets <sup>3</sup>
HKFRS 9	Financial instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>5</sup>
HKAS 24 (Revised)	Related party disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of rights issues <sup>7</sup>
HK(IFRIC)-INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either 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 accounting periods. Hence, available-for-sale investments which are 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.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group’s consolidated financial statements for financial year ending 31 December 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group’s financial assets. Apart from HKFRS 9, the directors anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the financial position of the Group.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by 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. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary’s equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

### 3. Significant Accounting Policies (Continued)

#### Business combinations

##### *Business combinations that took place on or after 1 January 2010*

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 at the acquisition date, 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 transactions of the acquiree or the replacement of an acquiree’s share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 “Share-based payment” at the acquisition date; and
- 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 another measurement basis required by another Standard.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

#### *Business combinations that took place on or after 1 January 2010 (Continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 “Provisions, contingent liabilities and contingent assets”, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest is disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

#### *Business combinations that took place prior to 1 January 2010*

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

### 3. Significant Accounting Policies (Continued)

#### **Business combinations (Continued)**

##### *Business combinations that took place on or after 1 January 2010 (Continued)*

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

#### **Goodwill**

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When 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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent years.

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

#### **Investments in associates**

An associate is an entity over which the investor 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 decision of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the 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 associate, 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. 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 associate.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Investments in associates (Continued)

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. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

From 1 January 2010 onwards, 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.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's 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.

### 3. Significant Accounting Policies (Continued)

#### Joint ventures (Continued)

##### *Jointly controlled entities (Continued)*

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.

From 1 January 2010 onwards, 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 associate 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 pipelines construction, 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.

Sales of goods are recognised when goods are delivered and title has been passed.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Revenue recognition (Continued)

Interest income from a financial asset 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.

### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated 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	30–40 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. 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, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

### 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 other 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 and contracted customer base*

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

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### **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.

#### **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 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Financial instruments

Financial assets and financial liabilities are recognised on 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, including loans and receivables and available-for-sale financial assets.

#### 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, deposits, amounts due from minority shareholders, loans to jointly controlled entities and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period 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 loss on 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.

For 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 each 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 loss on financial assets below).



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 impacted.

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

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently 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, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 and deferred consideration receivable, 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### 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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying value on initial recognition.

Interest expense is recognised on an effective interest basis.

#### Bank and other borrowings and guaranteed senior notes

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.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *Derecognition*

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. 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 each 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 estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time 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 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 and 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 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 arising on 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.

The carrying amount of deferred tax assets is reviewed at the end of each 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. Significant Accounting Policies (Continued)

### Taxation (Continued)

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. 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 deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### 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 each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at 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 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. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

### 3. Significant Accounting Policies *(Continued)*

#### **Foreign currencies *(Continued)***

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

#### **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 cost**

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 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. At 31 December 2010, the carrying amount of goodwill is HK\$3,753,293,000 (2009: HK\$2,752,733,000). Details of the recoverable amount calculation are disclosed in note 20.

### Income taxes

As at 31 December 2010, no deferred tax asset is recognised in the Group's statement of financial position in relation to the estimated unused tax losses of HK\$45,504,000 (2009: HK\$29,385,000) 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.

### 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 2010, the carrying amount of trade receivables is HK\$173,427,000 (2009: HK\$98,101,000).

## 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 29 and 30, equity attributable to shareholders of the Company, comprising issued share capital and reserves.



## 5. Capital Risk Management (Continued)

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:

	2010 HK\$'000	2009 HK\$'000
Debt (i)	3,696,089	2,764,737
Cash and cash equivalents	(1,433,941)	(963,861)
Net debt	2,262,148	1,800,876
Equity (ii)	8,563,437	6,433,588
Net debt to equity ratio	26.4%	28.0%
Gearing Ratio	17.3%	17.1%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 29 and 30.

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

## 6. Financial Instruments

### Category of financial instruments

	2010 HK\$'000	2009 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalent)	2,102,253	1,639,831
Available-for-sale instruments	169,372	168,853
<b>Financial liabilities</b>		
Amortised cost	4,163,898	3,461,423

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 6. Financial Instruments (Continued)

### 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, trade and other receivables, amounts due from minority shareholders, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables 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 expenses to ensure appropriate measures are implemented on a timely and effective manner.

#### Currency risk

Certain bank balances, loans from the ultimate holding company, and guaranteed senior notes are denominated in foreign currencies which exposes the Group to foreign currency risk.

Details of the Group's bank balances, guaranteed senior notes 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 26, 29 and 30.

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.

#### Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 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 2% change in foreign currency rates.

The sensitivity analysis includes bank balances, loan from the ultimate holding company, and guaranteed senior notes 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 strengthen 2% against USD and HKD. For a 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.

	2010 HK\$'000	2009 HK\$'000
Profit for the year	51,340	43,153

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### *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 guaranteed senior notes. The cash flow interest rate risk relates primarily to floating-rate bank loans and the loan from the ultimate holding company. The Group currently does not have an interest rate hedging policy. However, 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'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.

#### *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 (2009: 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 (2009: 25 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease/increase by HK\$5,628,000 (2009: HK\$3,179,000). 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*

At 31 December 2010, 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 is concentrated in four jointly controlled entities. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk (Continued)

The credit risk of deferred consideration receivable is concentrated to 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.

#### 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 the date of this report, the Group had available and unutilised bank loan facilities which are subject to the bank's withdrawal of HK\$1,643 million (at 31 December 2009: HK\$550 million and RMB224 million (approximately HK\$255 million)) and unutilised loan facility from the ultimate holding company of HK\$22 million (at 31 December 2009: HK\$22 million). Please refer to note 1 for the directors' consideration of the Group's liquidity and going concern, in light of the fact that the Group's current liabilities exceeded its current assets by approximately HK\$2,487 million.

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	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
<b>2010</b>								
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

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	Weighted average effective interest rate	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 31.12.2009 HK\$'000
<b>2009</b>								
Trade payables	–	70,045	88,879	55,745	–	–	214,669	214,669
Other payables	–	399,400	–	–	–	–	399,400	399,400
Amounts due to minority shareholders	–	82,617	–	–	–	–	82,617	82,617
Loans from the ultimate holding company	3.26%	–	–	14,806	528,251	–	543,057	471,365
Bank loans	2.18%	–	130,114	416,903	540,168	–	1,087,185	1,044,886
Other loans	2.23%	22,521	–	4,963	55,284	68,578	151,346	138,831
Guaranteed senior notes	8.69%	–	45,076	45,076	1,182,902	–	1,273,054	1,109,655
		574,583	264,069	537,493	2,306,605	68,578	3,751,328	3,461,423

#### 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.

Except for the guaranteed senior notes as detailed in note 29, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 7. Segment Information (Continued)

### Operating segments (Continued)

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

- Sales and distribution of piped gas and related products — Sales of piped gas and gas related household appliances and related products
- Gas pipeline construction — Construction of gas pipeline networks under gas connection contracts

In prior year, the Group disposed of its business in the sales of LPG in bulk and in cylinders (“LPG operations”).

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.

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
<b>For the year ended 31 December 2010</b>			
TURNOVER			
External	2,286,338	695,082	2,981,420
Segment results	143,972	277,927	421,899
Unallocated other income			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)

	Sales and distribution of piped gas and related products HK\$'000	Gas pipeline construction HK\$'000	Total – continuing operations HK\$'000	Discontinued operation – LPG operations HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2009					
<b>TURNOVER</b>					
External	1,533,749	491,733	2,025,482	880,471	2,905,953
Segment results	111,382	201,702	313,084	16,121	329,205
Unallocated other income			64,873	3,608	68,481
Gain on disposal of LPG operations			–	458	458
Unallocated corporate expenses			(67,884)	–	(67,884)
Share of results of associates			136,901	–	136,901
Share of results of jointly controlled entities			73,933	559	74,492
Finance costs			(126,963)	(476)	(127,439)
Profit before taxation			393,944	20,270	414,214
Taxation			(91,625)	(10,446)	(102,071)
Profit for the year			302,319	9,824	312,143

Segment results included depreciation and amortisation of HK\$197,632,000 (2009: HK\$185,009,000), most of which is attributable to the sales and distribution of piped gas and related product 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 each of the years ended 31 December 2010 and 2009.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 8. Operating Profit before Returns on Investments

	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Revenue	2,981,420	2,025,482
Less expenses:		
Gas fuel, stores and materials used	1,888,358	1,176,376
Staff costs	315,615	251,229
Depreciation and amortisation	197,632	173,016
Other expenses	249,628	179,661
	<b>330,187</b>	<b>245,200</b>

## 9. Other Income and Gains

Other income and gains mainly comprised of:

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Dividend income from available-for-sale investments	35,780	27,871	–	–	35,780	27,871
Interest income	7,979	10,731	–	964	7,979	11,695
Exchange gain	64,811	1,121	–	–	64,811	1,121
Discount on acquisition of a subsidiary	–	1,153	–	–	–	1,153
Gain on disposal of property, plant and equipment	–	664	–	2	–	666
Gain on disposal of leasehold land	4,553	–	–	–	4,553	–
Imputed interest income on deferred consideration receivable	9,151	5,548	–	–	9,151	5,548
Imputed interest on loans to jointly controlled entities	6,815	6,958	–	–	6,815	6,958

## 10. Finance Costs

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:						
— bank and other borrowings wholly repayable within five years	42,608	30,712	—	421	42,608	31,133
— bank and other borrowings not wholly repayable within five years	1,645	874	—	—	1,645	874
— guaranteed senior notes	95,039	93,923	—	—	95,039	93,923
	139,292	125,509	—	421	139,292	125,930
Bank charges	2,567	1,454	—	55	2,567	1,509
	141,859	126,963	—	476	141,859	127,439

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 11. Profit before Taxation

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit before taxation	626,248	393,944	–	20,270	626,248	414,214
Profit before taxation has been arrived at after charging:						
Directors' remuneration ( <i>note 12</i> )	8,988	11,394	–	–	8,988	11,394
Share-based payments for other staff	86	446	–	–	86	446
Other staff costs	274,491	215,715	–	58,988	274,491	274,703
Retirement benefit scheme contributions (excluding directors)	32,050	23,674	–	4,858	32,050	28,532
Total staff costs	315,615	251,229	–	63,846	315,615	315,075
Allowance for doubtful debts	10,000	5,000	–	–	10,000	5,000
Amortisation of intangible assets	6,782	6,879	–	1,559	6,782	8,438
Amortisation of leasehold land	8,557	6,481	–	940	8,557	7,421
Auditor's remuneration	6,578	6,290	–	762	6,578	7,052
Cost of inventories sold	2,100,380	1,343,050	–	762,421	2,100,380	2,105,471
Depreciation of property, plant and equipment	182,293	159,656	–	9,494	182,293	169,150
Loss on disposal of property, plant and equipment	5,811	–	–	–	5,811	–
Operating lease rentals in respect of land and buildings	9,063	6,754	–	8,377	9,063	15,131
Share of tax of associates (included in share of results of associates)	50,493	20,429	–	–	50,493	20,429
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	18,476	12,097	–	–	18,476	12,097

## 12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 9 (2009: 10) directors were as follows:

	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 (Note b)	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
<b>Total emoluments</b>	<b>353</b>	<b>400</b>	<b>400</b>	<b>327</b>	<b>2,904</b>	<b>200</b>	<b>400</b>	<b>200</b>	<b>3,804</b>	<b>8,988</b>

	Year ended 31 December 2009										
	Chen Wei HK\$'000 (Note b)	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	Li Man Bun, Brian David HK\$'000	Ou Yaping HK\$'000 (Note b)	Shen Lian Jin HK\$'000 (Note b)	Wong Wai Yee, Peter HK\$'000	Total HK\$'000
Fees	-	200	400	400	200	200	400	-	-	200	2,000
Other emoluments											
Salaries and other benefits	643	-	-	-	-	845	-	200	128	845	2,661
Retirement benefit scheme contributions	37	-	-	-	-	84	-	10	7	84	222
Performance and discretionary bonus (Note a)	-	-	-	-	-	1,386	-	-	-	1,866	3,252
Share-based payments	-	916	-	-	763	763	-	-	54	763	3,259
<b>Total emoluments</b>	<b>680</b>	<b>1,116</b>	<b>400</b>	<b>400</b>	<b>963</b>	<b>3,278</b>	<b>400</b>	<b>210</b>	<b>189</b>	<b>3,758</b>	<b>11,394</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Notes:

- (a) The performance and discretionary bonus are determined by the Board from time to time with reference to their duties and responsibilities and the Group's performance and profitability.
- (b) The emoluments of the directors are covered by their service contracts entered into with the Company. The service contract of Mr. Ou Yaping expired on 31 December 2009 and his director's emoluments thereafter are not covered by any service contract with the Company. The respective service contract of Mr. Chen Wei and Mr. Shen Lian Jin were expired on their respective dates of resignation on 31 December 2009 and 19 March 2009.
- (c) No service contracts were entered into by the directors with the Company other than those mentioned in note b above.
- (d) The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK\$78,000 with effect from 1 January 2011.
- (e) The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK\$83,500 with effect from 1 January 2011.

Employees' emoluments:

For the year ended 31 December 2010, the five highest paid individuals of the Group included two (2009: three) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2009: two) highest paid individuals are as follows:

	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Salaries and other benefit	2,862	1,867
Performance related incentive payments	1,955	827
Contribution to retirement benefit scheme	166	113
Share based payment	43	254
	<b>5,026</b>	<b>3,061</b>



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

The emoluments were within the following bands:

	Number of employees	
	2010	2009
HK\$1,000,000 to HK\$1,500,000	1	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 2010.

## 13. Taxation

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:						
PRC Enterprise Income Tax ("EIT")						
– current year	107,273	90,062	–	5,639	107,273	95,701
Deferred taxation ( <i>note 31</i> )						
– taxation charge for the year	29,169	1,563	–	4,807	29,169	6,370
	136,442	91,625	–	10,446	136,442	102,071

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% (2009: 15% to 25%).

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% (2009: 7.5% to 12.5%). EIT has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 13. Taxation (Continued)

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

	2010 HK\$'000	2009 HK\$'000
Profit before taxation (from continuing operations)	626,248	393,944
Tax at the applicable rate of 25% (2009: 25%) (Note)	156,562	98,486
Tax effect of expenses that are not deductible for tax purposes	79,037	64,178
Tax effect of income that are not taxable for tax purposes	(24,300)	(7,934)
Tax effect of income that is exempted from EIT in determining taxable profit	–	(3,923)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in EIT	(21,662)	(5,783)
Effect of different tax rates of subsidiaries operating in different regions	(15,774)	(9,258)
Tax effect of share of results of associates	(45,852)	(34,225)
Tax effect of share of results of jointly controlled entities	(29,026)	(18,483)
Tax effect of utilisation of tax losses not previously recognised	(1,057)	(1,155)
Tax effect of tax losses not recognised	6,758	1,503
Withholding tax on undistributed profits	31,756	8,219
Tax charge for the year (relating to continuing operations)	136,442	91,625

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2010 (2009: 25%).

At the end of the reporting period, the Group has unused tax losses of HK\$45,504,000 (2009: HK\$29,385,000) 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 2015.

## 14. Discontinued Operation

On 2 April 2009, the Group entered into a sale agreement to dispose of its LPG operations. The disposal was effected in order to focus resources for the expansion of the Group's other businesses. The disposal was completed on 4 June 2009, on which date control of LPG operations passed to the acquirer.

The profit for the year ended 31 December 2009 from the discontinued operation is analysed as follows:

	HK\$'000
Profit of LPG operations for the year	9,366
Gain on disposal of LPG operations	458
	9,824
(Loss) profit for the year attributable to:	
Shareholders of the Company	(515)
Non-controlling interests	10,339
	9,824

The results of the LPG operations, which have been included in the consolidated income statement for the year ended 31 December 2009, were as follows:

	Notes	HK\$'000
Turnover	7	880,471
Operating profit before returns on investments		16,121
Other income	9	3,608
Share of results of jointly controlled entities		559
Finance costs	10	(476)
		19,812
Gain on disposal of LPG operations		458
Profit before taxation	11	20,270
Taxation	13	(10,446)
Profit for the year		9,824

No tax charge or credit arose on gain on discontinuance of the operations.

During the year ended 31 December 2009, the LPG operations contributed HK\$45,891,000 to the Group's net operating cash flows, contributed HK\$762,000 in respect of investing activities and paid HK\$11,898,000 in respect of financing activities.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 15. Dividends

During the year, final dividend of HK\$39,203,000 (2009: HK\$19,576,000) was recognised as distribution being two HK cents per ordinary share in respect of year ended 31 December 2009 (in respect of year ended 31 December 2008: one HK cent per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2010 of three HK cents (2009: two HK cents) per ordinary share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 16. 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:

	2010 HK\$'000	2009 HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	435,797	265,090
	<b>Number of shares</b>	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,186,260	1,957,714
Effects of dilutive potential ordinary shares:		
Share options	284	2,896
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,186,544	1,960,610

### From continuing operations

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

	2010 HK\$'000	2009 HK\$'000
Profit for the year attributable to shareholders of the Company for calculating basic and diluted earnings per share	435,797	265,605

The denominators used are the same as those detailed above for basic and diluted earnings per share.

## 16. Earnings Per Share (Continued)

### From discontinued operation

The loss per share for the discontinued operation attributable to shareholder of the Company for the year ended 31 December 2009 is as follows:

	HK cents
Basic	(0.03)
Diluted	(0.03)

The calculation of the loss per share for the discontinued operation attributable to shareholder of the Company for the year ended 31 December 2009 is based on the following data:

	HK\$'000
Loss from discontinued operation attributable to shareholders of the Company	(515)

The denominators used are the same as those detailed above for basic and diluted loss per share.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 17. 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
<b>COST</b>					
At 1 January 2009	410,296	3,064,777	712,680	207,404	4,395,157
Currency realignment	948	6,068	1,590	450	9,056
Additions	19,848	84,576	37,731	373,961	516,116
Additions from acquisition of subsidiaries	16,223	124,004	4,877	24,698	169,802
Disposal of subsidiaries	(74,555)	(38,151)	(288,784)	(3,512)	(405,002)
Disposals	(1,685)	(334)	(10,387)	(220)	(12,626)
Transfer	31,365	261,928	34,600	(327,893)	–
At 31 December 2009	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
<b>DEPRECIATION</b>					
At 1 January 2009	48,293	346,814	188,618	–	583,725
Currency realignment	142	881	309	–	1,332
Provided for the year	18,045	96,500	54,605	–	169,150
Eliminated on disposal of subsidiaries	(21,136)	(8,599)	(123,593)	–	(153,328)
Eliminated on disposals	(463)	(204)	(4,919)	–	(5,586)
At 31 December 2009	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
<b>CARRYING VALUES</b>					
At 31 December 2010	437,317	3,607,970	472,403	556,095	5,073,785
At 31 December 2009	357,559	3,067,476	377,287	274,888	4,077,210

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



## 18. Leasehold Land

	2010 HK\$'000	2009 HK\$'000
Balance at the beginning of the year	222,841	228,020
Currency realignment	9,526	2,061
Additions	35,808	11,610
Acquired on acquisition of subsidiaries	28,513	48,949
Disposals	(14,373)	–
Disposal of subsidiaries	–	(60,378)
Charge for the year	(8,557)	(7,421)
Balance at the end of the year	<b>273,758</b>	222,841
Analysis for reporting purpose:		
Non-current portion	264,742	216,759
Current portion	9,016	6,082
	<b>273,758</b>	222,841

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 19. Intangible Assets

	HK\$'000
<b>COST</b>	
At 1 January 2009	217,193
Currency realignment	482
Disposal of subsidiaries	(10,024)
At 31 December 2009	207,651
Currency realignment	7,836
At 31 December 2010	215,487
<b>AMORTISATION</b>	
At 1 January 2009	21,917
Currency realignment	30
Provided for the year	8,438
Disposal of subsidiaries	(4,944)
At 31 December 2009	25,441
Currency realignment	1,157
Provided for the year	6,782
At 31 December 2010	33,380
<b>CARRYING VALUES</b>	
At 31 December 2010	182,107
At 31 December 2009	182,210

At 31 December 2010, 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 20 to 30 years.

## 20. Goodwill

	HK\$'000
At 1 January 2009	2,491,871
Currency realignment	88
Acquired on acquisition of subsidiaries	260,774
At 31 December 2009	2,752,733
Currency realignment	103,876
Acquired on acquisition of subsidiaries	896,684
At 31 December 2010	3,753,293

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 mainly represents goodwill arising from the acquisition of subsidiaries as follows:

	2010 HK\$'000	2009 HK\$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	337,534	325,260
Hong Kong & China Gas (Zibo) Limited	363,027	349,826
Hong Kong & China Gas (Yantai) Limited	245,179	236,263
Hong Kong & China Gas (Weifang) Limited	141,075	135,945
Hong Kong & China Gas (Weihai) Limited	280,859	270,646
Hong Kong & China Gas (Taian) Limited	248,488	239,452
Hong Kong & China Gas (Maanshan) Limited	294,943	284,218
Hong Kong & China Gas (Anqing) Limited	279,556	269,390
Mianyang Hong Kong and China Gas Co., Ltd.	300,523	289,595
Gongzhuling Towngas Limited	23,284	22,437
Xin Du Hong Kong and China Gas Company Limited, Cheng Du (“Xindu”)	228,402	220,096
Xinjin Diyuan Natural Gas Co., Ltd. and Xinjin Nanfang Natural Gas Co., Ltd. (“Xinjin”)	28,176	27,151
Towngas (BVI) Holdings Limited (“Towngas BVI”)*	791,195	–
Jiujiang Hong Kong and China Gas Co., Ltd. (“Jiujiang”)	66,054	–
Guilin Hong Kong and China Gas Co., Ltd. (“Guilin”)	39,435	–
Others	85,563	82,454
	<b>3,753,293</b>	<b>2,752,733</b>

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

# Notes to the Consolidated Financial Statements

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## 20. 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% (2009: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates of 4% to 6% (2009: 4% to 6%) are based on industry growth forecasts. 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% (2009: 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 2010.

## 21. Interests in Associates

	2010 HK\$'000	2009 HK\$'000
Cost of investments in associates	1,214,306	859,871
Share of post-acquisition profits, and other reserves net of dividends received	582,494	326,667
	<b>1,796,800</b>	1,186,538

Details of the Group's principal associates as at 31 December 2010 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		Principal activities
		2010	2009	
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, 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

## 21. Interest in Associates (Continued)

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2010	2009	
Dalian DETA Hong Kong and China Gaws Co., Ltd. 大連德泰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	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%		– 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%		– 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.

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

	2010 HK\$'000	2009 HK\$'000
Total assets	7,249,443	5,214,816
Total liabilities	(3,713,884)	(2,894,735)
Net assets	3,535,559	2,320,081
Revenue	4,785,869	4,274,899
Profit for the year	466,883	366,933

At the end of the reporting period, there was goodwill included in carrying amount of interest in associates of HK\$213,589,000 arising from acquisition of associates (2009: HK\$103,156,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 22. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities

	2010 HK\$'000	2009 HK\$'000
Cost of investments in jointly controlled entities	742,735	572,147
Share of post-acquisition profits, net of dividends received	287,451	169,775
Currency realignment	37,091	37,406
	<b>1,067,277</b>	779,328
Loans to jointly controlled entities		
– Current portion	84,906	5,682
– Non-current portion	119,160	108,060
	<b>204,066</b>	113,742

At 31 December 2010, 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		Principal activities
		2010	2009	
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 coal gas and petroleum gas and related service 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%	–	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



## 22. 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		Principal activities
		2010	2009	
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
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 2010, the aggregate amount of assets and liabilities recognised in the consolidated financial statements in relation to the Group's interests in jointly controlled entities are as follows:

	2010 HK\$'000	2009 HK\$'000
Current assets	448,221	278,411
Non-current assets	1,646,728	1,147,304
Current liabilities	756,943	402,917
Non-current liabilities	270,729	243,470
Income	1,180,289	741,950
Expenses	1,064,187	667,458

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For the year ended 31 December 2010

## 22. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities (Continued)

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

2010	Principal amount		Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
	2009					2010	2009
						HK\$'000	HK\$'000
RMB37,650,000	RMB37,650,000	December 2014	Nil	6.12%	34,812	31,534	
RMB35,000,000	RMB35,000,000	July 2014	Nil	6.12%	33,121	30,023	
RMB42,530,000	RMB42,530,000	July 2013	Nil	6.12%	42,226	38,344	
RMB10,550,000	RMB10,550,000	February 2016	Nil	6.12%	9,001	8,159	
–	RMB5,000,000	June 2010	5.31%	5.31%	–	5,682	
RMB52,000,000	–	January 2011	5.84%	5.84%	61,321	–	
RMB5,000,000	–	January 2011	4.25%	4.25%	5,896	–	
RMB15,000,000	–	October 2011	4.25%	4.25%	17,689	–	
					204,066	113,742	

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

At the end of the reporting period, there was goodwill included in the carrying amount of interest in jointly controlled entities of HK\$102,118,000 arising from acquisition of jointly controlled entities (2009: HK\$102,118,000).

## 23. Available-for-Sale Investments

	2010	2009
	HK\$'000	HK\$'000
Unlisted shares in the PRC, at cost	169,372	168,853

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.

## 24. Deferred Consideration Receivable

As part of the consideration for the disposal of certain subsidiaries during the year ended 31 December 2009 (see note 35), 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 LPG 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:

	2010 HK\$'000	2009 HK\$'000
Non-current assets	242,481	283,325
Current assets (included in trade and other receivables, deposits and prepayments)	39,321	39,321
	<b>281,802</b>	322,646

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\$9,151,000 (2009: HK\$5,548,000).

## 25. Inventories

	2010 HK\$'000	2009 HK\$'000
Finished goods	62,279	38,300
Consumables	85,606	63,556
	<b>147,885</b>	101,856

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 26. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets

	2010 HK\$'000	2009 HK\$'000
Trade receivables	173,427	98,101
Deferred consideration receivable	39,321	39,321
Prepayments	225,043	128,459
Other receivables and deposits	93,664	90,558
Amount due from a related company*	–	127,378
	<b>531,455</b>	<b>483,817</b>

\* The amount was unsecured, interest-free and repayable on demand. The amount was due from a company in which two former directors and a director had beneficial interest. The maximum amount outstanding during the year was HK\$127,378,000. The amount was settled during the year

### Trade receivables

Included in trade and other receivables, deposits and prepayments are trade receivables of HK\$173,427,000 (2009: HK\$98,101,000). 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:

	2010 HK\$'000	2009 HK\$'000
0 to 90 days	168,772	90,784
91 to 180 days	1,362	1,504
181 to 360 days	3,293	5,813
	<b>173,427</b>	<b>98,101</b>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$2,759,000 (2009: HK\$819,000) 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.

## 26. 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:

	2010 HK\$'000	2009 HK\$'000
0 to 90 days	1,589	294
91 to 180 days	73	59
181 to 360 days	1,097	466
Total	2,759	819

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

	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	8,039	3,039
Impairment losses recognised on receivables	10,000	5,000
Balance at end of the year	18,039	8,039

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.

### Other financial assets

The bank balances carry interest at prevailing market rates range from 0.1% to 5.5% (2009: 0.1% to 5.5%) per annum.

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

	2010 HK\$'000	2009 HK\$'000
United States Dollar	481,299	186,992

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 27. Amounts Due from/to Minority Shareholders

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

## 28. Trade and Other Payables and Accrued Charges

	2010 HK\$'000	2009 HK\$'000
Trade payables	335,493	214,669
Receipt in advance	947,491	560,695
Consideration payable for acquisitions	67,319	198,479
Amount due to a related company ( <i>note a</i> )	–	127,378
Other payables and accruals	289,251	217,099
Amount due to the ultimate holding company ( <i>note b</i> )	14,427	585
	<b>1,653,981</b>	<b>1,318,905</b>

Notes:

- (a) The amount was unsecured, interest-free and repayable on demand. The amount was due to a company in which two former directors and a director had beneficial interest. The amount was settled during the year.
- (b) 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:

	2010 HK\$'000	2009 HK\$'000
0 to 90 days	246,840	117,864
91 to 180 days	18,549	33,394
181 to 360 days	19,426	35,830
Over 360 days	50,678	27,581
	<b>335,493</b>	<b>214,669</b>

## 29. Borrowings

	2010 HK\$'000	2009 HK\$'000
Bank loans – unsecured ( <i>note a</i> )	1,996,917	1,044,886
Other loans – unsecured ( <i>note a</i> )	108,338	138,831
Guaranteed senior notes – secured ( <i>notes a &amp; b</i> )	1,119,469	1,109,655
	<b>3,224,724</b>	2,293,372
Carrying amount repayable:		
On demand or within one year	2,792,403	562,035
More than one year but not exceeding two years	20,856	1,435,843
More than two years but not exceeding five years	365,002	233,784
More than five years	46,463	61,710
	<b>3,224,724</b>	2,293,372
Less: Amount due within one year shown under current liabilities	<b>(2,792,403)</b>	(562,035)
Amount due after one year	<b>432,321</b>	1,731,337

Notes:

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

	Effective interest rate	Carrying amount	
		2010 HK\$'000	2009 HK\$'000
Floating-rate loans:			
Unsecured HK\$ bank loans	0.74% to 2%	1,530,524	800,000
Unsecured RMB bank loans	4.31% to 5.02%	231,723	52,841
Unsecured other loans	0.73%	17,620	17,747
Fixed rate loans*:			
Unsecured RMB bank loans	4.68% to 5.23%	234,670	192,045
Unsecured RMB other loans	2.49% to 4.87%	51,494	84,859
Unsecured other loans	1.12%	39,224	36,225
Guaranteed senior notes	8.69%	1,119,469	1,109,655
Total bank loans and other loans		<b>3,224,724</b>	2,293,372

\* The majority of the Group's fixed rate loans are repayable within one year.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 29. 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 are listed on the Singapore Exchange Securities Trading Limited and are secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company’s shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%.

At 31 December 2010, Guaranteed Senior Notes with a principal amount of US\$141,000,000 (2009: US\$141,000,000) are still outstanding in the market. 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) (2009: US\$153,338,000).

## 30. Loans from the Ultimate Holding Company

The amount represents unsecured loans denominated in USD and HKD which bear interest at 1.25% plus the Hong Kong Interbank Offered Rate 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	
			2010 HK\$'000	2009 HK\$'000
HK\$277,615,000 (2009: HK\$277,615,000)	April 2013 – May 2014 (2009: April 2013 – May 2014) (according to date of draw down)	2.13% (2009: 3.26%)	277,615	277,615
US\$25,000,000 (2009: US\$25,000,000)	December 2012 (2009: December 2012)	1.81% (2009: 3.26%)	193,750	193,750
			471,365	471,365

## 31. Deferred Taxation

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

	Accelerated depreciation tax HK\$'000	Intangible assets HK\$'000	Undistributed profits of jointly controlled entities/ associates HK\$'000	Total HK\$'000
At 1 January 2009	–	50,408	10,059	60,467
Acquired on acquisition of subsidiaries	24,487	–	–	24,487
Disposal of subsidiaries	–	–	(4,807)	(4,807)
Currency realignment	–	31	12	43
(Credit) charge for the year	–	(1,849)	8,219	6,370
At 31 December 2009	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

At the end of the reporting period, deferred tax liability not recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was HK\$3,405,000 (2009: HK\$3,135,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 32. Share Capital

	Number of shares	HK\$'000
At 31 December 2010		
– Authorised:		
Shares of HK\$0.10 each	3,000,000,000	300,000
– Issued and fully paid:		
Shares of HK\$0.10 each	2,448,787,330	244,879

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 32. Share Capital (Continued)

A summary of the movements in the authorised share capital is as follows:

	Number of shares	HK\$'000
At 1 January 2009, 31 December 2009 and 31 December 2010	3,000,000,000	300,000

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 2009	1,957,556,330	195,756
Issue of shares on exercise of share options (note a)	804,000	80
At 31 December 2009 and 1 January 2010	1,958,360,330	195,836
Issue of shares on exercise of share options (note b)	5,427,000	543
Issue of shares on acquisition of subsidiaries (note c)	485,000,000	48,500
At 31 December 2010	2,448,787,330	244,879

Notes:

- During the year ended 31 December 2009, the Company allotted and issued 804,000 shares of HK\$0.10 each for cash at the exercise price of HK\$2.796 per share as a result of the exercise of share options.
- 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 exercise price of HK\$0.473, HK\$2.796 and HK\$3.483 per share respectively as a result of the exercise of share options.
- 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.

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.

Capital reserve represents the deemed contribution arising from waiver of loans from the minority shareholders of the subsidiaries.

## 34. Acquisition of Subsidiaries/Businesses

### Acquisitions in 2010

#### *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 current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	<b>Acquirees' carrying amount and provisional fair value at acquisition date</b> HK\$'000
Net assets acquired:	
Property, plant and equipment	281,715
Leasehold land	24,068
Interest in an associate	176,863
Interest in a jointly controlled entity	165,680
Loans to jointly controlled entities	39,522
Inventories	8,559
Trade and other receivables, deposits and prepayments ( <i>note</i> )	25,593
Bank balances and cash	111,738
Trade and other payables and accrued charges	(106,673)
Borrowings	(4,594)
Deferred taxation	(20,852)
<b>Net assets acquired</b>	<b>701,619</b>

*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 HK\$ nil.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### Acquisitions in 2010 (Continued)

#### Acquisition of Towngas BVI (Continued)

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	(701,619)
Provisional goodwill arising on acquisition	791,195

Goodwill arose in the acquisition of the above subsidiaries 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 subsidiaries. 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.

	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, 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.

#### 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 current year, within the other expenses.

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

#### Acquisitions in 2010 (Continued)

##### Acquisition of Jiujiang (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' carrying amount and provisional 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 HK\$ nil.

Non-controlling interests:

The non-controlling interests in Jiujiang 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\$4,632,000.

Goodwill arising on acquisition:

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### Acquisitions in 2010 (Continued)

#### Acquisition of Jiujiang (Continued)

Goodwill arising on acquisition: (Continued)

Goodwill arose in the acquisition of the above subsidiaries 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 subsidiaries. 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, Jiujiang had not yet started to contribute 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.

#### 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 current year, within the other expenses.



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

#### Acquisitions in 2010 (Continued)

##### Acquisition of Guilin (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' carrying amount and provisional 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 HK\$ nil.

Non-controlling interests:

The non-controlling interests in Guilin 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\$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)
Provisional goodwill arising on acquisition	39,435

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### Acquisitions in 2010 (Continued)

#### Acquisition of Guilin (Continued)

Goodwill arising on acquisition: (Continued)

Goodwill arose in the acquisition of the above subsidiaries 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 subsidiaries. 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	47,417
Bank balances and cash acquired	(47)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	47,370

During the year, 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 to generate increase in returns to its shareholders.

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

#### Acquisitions in 2009

In April 2009, the Group completed the acquisition of 100% equity interest in Xindu, which is engaged in the operation of piped gas assets and related business in Xindu area of Chengdu of the PRC at an aggregate consideration of HK\$286,848,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK\$'000	Fair value adjustments HK\$'000	Acquirees' carrying amount and fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	21,292	38,268	59,560
Leasehold land	559	8,758	9,317
Trade receivables	7,942	–	7,942
Other receivables, deposits and prepayments	2,610	–	2,610
Bank balances and cash	26,466	–	26,466
Taxation recoverable	2,106	–	2,106
Trade payables	(3,822)	–	(3,822)
Other payables and accrued charges	(25,715)	–	(25,715)
Deferred taxation	–	(11,712)	(11,712)
Net assets acquired	31,438	35,314	66,752
Goodwill arising on acquisition			220,096
Total consideration			286,848
Satisfied by:			
Cash consideration			171,848
Other payables			115,000
			286,848
Net cash outflow arising on acquisition:			
Cash consideration			171,848
Bank balances and cash acquired			(26,466)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			145,382

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### Acquisitions in 2009 (Continued)

Xindu contributed HK\$87,216,000 to the Group's turnover and HK\$13,743,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

In May 2009, the Group completed the acquisition of 60% equity interest in Xinjin, which is engaged in the operation of piped gas assets and related business in Xinjin area of Chengdu of the PRC at an aggregate consideration of HK\$68,026,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK\$'000	Fair value adjustments HK\$'000	Acquirees' carrying amount and fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	27,905	27,458	55,363
Leasehold land	2,514	17,807	20,321
Inventories	4,455	–	4,455
Other receivables, deposits and prepayments	40,364	–	40,364
Bank balances and cash	3,670	–	3,670
Trade payables	(7,343)	–	(7,343)
Other payables and accrued charges	(30,737)	–	(30,737)
Taxation payable	(977)	–	(977)
Borrowings	(5,672)	–	(5,672)
Deferred taxation	–	(11,319)	(11,319)
Net assets acquired	34,179	33,946	68,125
Non-controlling interests			(27,250)
Goodwill arising on acquisition			27,151
Total consideration			68,026
Satisfied by:			
Cash consideration			40,815
Amounts due to minority shareholders			27,211
			68,026
Net cash outflow arising on acquisition:			
Cash consideration			40,815
Bank balances and cash acquired			(3,670)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			37,145

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

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

#### Acquisitions in 2009 (Continued)

Xinjin contributed HK\$27,576,000 to the Group's turnover and HK\$8,470,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

During the year ended 31 December 2009, the Group paid a consideration of HK\$38,647,000 to an independent vendor to acquire a gas pipeline business, including related assets located in Chiping of Shandong Province of the PRC ("Chiping Towngas"). The acquisition enabled the Group to continue the operation of the existing natural gas business which the vendor previously engaged. This transaction has been accounted for using the purchase method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK\$'000	Fair value adjustments HK\$'000	Acquirees' carrying amount and fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	18,298	2,649	20,947
Leasehold land	7,125	3,173	10,298
Inventories	814	–	814
Trade receivables	984	–	984
Other receivables, deposits and prepayments	340	–	340
Bank balances and cash	1,785	–	1,785
Other payables and accrued charges	(4,160)	–	(4,160)
Deferred taxation	–	(1,456)	(1,456)
Net assets acquired	25,186	4,366	29,552
Non-controlling interests			(4,432)
Goodwill arising on acquisition			13,527
Total consideration			38,647
Satisfied by:			
Cash consideration			9,670
Amounts due to minority shareholders			28,977
			38,647
Net cash outflow arising on acquisition:			
Cash consideration			9,670
Bank balances and cash acquired			(1,785)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			7,885

The goodwill on acquisition of the above business represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired business.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### Acquisitions in 2009 (Continued)

Chiping contributed HK\$9,756,000 to the Group's turnover and HK\$1,053,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

During the year, the Group completed the acquisition of 100% equity interest in a business, which is engaged in the operation of piped gas assets and related business in Qiqihar of the PRC at an aggregate consideration of HK\$35,735,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK\$'000	Fair value adjustments HK\$'000	Acquirees' carrying amount and fair value at acquisition date HK\$'000
Net assets acquired:			
Property, plant and equipment	23,774	10,158	33,932
Leasehold land	9,013	–	9,013
Inventories	1,187	–	1,187
Trade receivables	730	–	730
Other receivables, deposits and prepayments	136	–	136
Bank balances and cash	1,469	–	1,469
Trade payables	(496)	–	(496)
Other payables and accrued charges	(5,508)	–	(5,508)
Borrowings	(3,575)	–	(3,575)
Net assets acquired	26,730	10,158	36,888
Discount on acquisition			(1,153)
Total consideration			35,735
Satisfied by:			
Cash consideration			35,735
Net cash outflow arising on acquisition:			
Cash consideration			35,735
Bank balances and cash acquired			(1,469)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			34,266

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

If the acquisitions had been completed on 1 January 2009, total group revenue for the year would have been HK\$2,950,000,000 and profit for the year would have been HK\$322,649,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

### 35. Disposal of Subsidiaries

On 4 June 2009, the Group discontinued its LPG operations at the time of disposal of its subsidiary, Panva LPG Investment Holdings Limited to a purchaser, which is related to the Group as it is an associate of a former executive director of the Company. The net assets of Panva LPG Investment Holdings Limited at the date of disposal were as follows:

	4.6.2009 HK\$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	251,674
Leasehold land	60,378
Intangible assets	5,080
Interests in a jointly controlled entity	34,027
Available for sale investments	1,135
Inventories	149,701
Trade receivables	32,247
Other receivables and prepayments	172,969
Bank balances and cash	246,474
Trade payables	(9,530)
Other creditors and accruals	(184,631)
Taxation	(16,612)
Bank loan	(8,765)
Deferred taxation	(4,807)
	729,340
Non-controlling interests	(356,160)
Exchange gain realised	(11,541)
	361,639
Gain on disposal	458
	362,097
Total consideration	362,097
Satisfied by:	
Cash	40,000
Deferred consideration	322,097
	362,097
Net cash outflow arising on disposal:	
Cash consideration	40,000
Bank balances and cash disposed of	(246,474)
	(206,474)

The deferred consideration will be settled in cash by the purchaser on or before 3 June 2015.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 36. Related Party Transactions

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

Name of related party	Nature of transactions	2010 HK\$'000	2009 HK\$'000
HKCG	Loan facility (See note 30)	471,365	471,365
	Interest expense	9,307	15,095
	Management fee	2,508	1,685
GH-Fusion Corporation Limited (note b)	Purchase of construction materials	5,046	3,943
	Sales of parts and components of gas pipelines	–	1,181
Shanxi Hong Kong & China Coalbed Gas Company Limited (note a)	Purchase of coalbed methane	847	4,572
Hong Kong and China Technology (Wuhan) Limited (note a)	Purchase of computerised customer relations management system	725	1,432
ECO Environmental Investments Limited (note a)	Office licence income	316	313
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	22,547	229
Yingkou Hong Kong and China Gas Company Limited (note a)	Vehicle leasing expense	–	284
Jilin Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	1,959	176
Tongling Hong Kong and China Gas Company Limited (note c)	Purchase of CNG and LPG	494	113

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.

During the year, the Group acquired Towngas BVI from a subsidiary of HKCG, please refer to note 34 for details.

### 37. 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:

	2010 HK\$'000	2009 HK\$'000
Within one year	7,712	6,950
In the second to fifth year inclusive	7,159	7,119
Over five years	4,187	684
	19,058	14,753

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

### 38. Commitments

	2010 HK\$'000	2009 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	57,144	29,083
– acquisition of a subsidiary	61,321	–
Capital injection contracted for but not provided in the consolidated financial statements in respect of:		
– investment in an associate	3,774	22,211



# Notes to the Consolidated Financial Statements

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## 39. 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, will expire 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.

### 39. 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				Exercisable share options at the end of the year
	Outstanding at the beginning of the year	Exercised during the year	Forfeited during the year	Outstanding at the end of the year	
For the year ended 31 December 2009					
Pre-GEM Listing options	3,618,000	–	–	3,618,000	3,618,000
The Scheme					
2004 options (note a)	15,265,950	–	(2,502,450)	12,763,500	12,763,500
New Scheme					
2006 options (note b)	4,180,800	(804,000)	(1,206,000)	2,170,800	2,170,800
2007 options (note b)	14,673,000	–	–	14,673,000	8,803,800
	37,737,750	(804,000)	(3,708,450)	33,225,300	27,356,100
Weighted average exercise price	3.246	2.796	3.260	3.255	3.165
<b>For the year ended 31 December 2010</b>					
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

The weighted average price of the Company's shares at the dates of exercise of 361,800 options on 18 March 2010, 1,447,200 options on 31 March 2010 and 3,618,000 options on 7 June 2010 were HK\$3.69, HK\$3.75 and HK\$3.03, respectively.

# Notes to the Consolidated Financial Statements

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## 39. Share Options (Continued)

Had all the outstanding vested share options been fully exercised on 31 December 2010, the Company would have received cash proceeds of HK\$100,557,000 (2009: HK\$85,787,000). 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 recognised total expenses of HK\$620,000 (2009: HK\$3,715,000) for the year ended 31 December 2010 in relation to share options granted by the Company.

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.

The Black-Scholes option pricing model had been used to estimate the fair value of the options at the date of grant. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate.

#### 40. 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 2010 amounted to approximately HK\$31,782,000 (2009: HK\$28,247,000).

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 2010, the Group made retirement benefit scheme contributions amounting to HK\$446,000 (2009: HK\$507,000).

#### 41. Events after the End of the Reporting Period

Subsequent to the end of the reporting period, the Group acquired 80% and 100% interest in Xiushui Hong Kong and China Gas Co., Ltd ("Xiushui") and Wuning Hong Kong and China Gas Co., Ltd ("Wuning") for a total consideration of HK\$61,321,000 and HK\$80,448,000 respectively from independent third parties. Xiushui and Wuning are both engaged in the sales and distribution of piped gas in the PRC. As of the date of this report, the management of the Group is still in the process of determining the financial effect of the acquisitions.

# Notes to the Consolidated Financial Statements

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## 42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2010 and 2009 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		Principal activities
			2010	2009	
<b>Directly-owned subsidiaries</b>					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/ HK	USD1	100%	100%	Investment holding
Towngas China Group Limited	BVI – Limited liability company	USD12,821	100%	100%	Investment holding



## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries</b>					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	USD15,000,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB280,000,000 (2009: RMB97,824,900)	<b>80%</b>	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	<b>100%</b>	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	RMB89,248,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co., Limited	BVI – Limited liability company	USD1	<b>100%</b>	100%	Investment holding
Chi Ping Hong Kong and China Gas Co., Ltd. 荅平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	<b>85%</b>	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	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

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## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
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	USD14,000,000	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	USD15,000,000	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
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	USD4,010,000 (2009: USD1,010,000)	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

## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Guilin Hong Kong and China Gas Company Limited 桂林港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	95%		– Provision of natural gas and related services and gas pipeline construction
Hong Kong & China Gas (Dalian) Limited	HK – Limited liability company	HK\$100	100%		– Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/ HK	USD1	100%		– Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/ HK	USD1	100%		– Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/ HK	USD1	100%		– Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI – Limited liability company/ HK	USD1	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	USD3,500,000	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	USD2,100,000	100%	100%	Provision of natural gas and related services and gas pipeline construction

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## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
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	USD3,500,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Co., Ltd. 湖州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	USD10,500,000	<b>98.85%</b>	–	Provision of natural gas and related services and gas pipeline construction
Jiayang Hong Kong and China Gas Co., Ltd. 簡陽港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	<b>100%</b>	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	<b>51%</b>	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	<b>60%</b>	–	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	USD6,400,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction

## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	USD5,440,000	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	USD7,070,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
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
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	90%	90%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2010

## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
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 (2009: RMB4,900,000)	<b>90%</b>	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	<b>60%</b>	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	<b>90%</b>	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	<b>80%</b>	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 (2009: RMB80,000,000)	<b>61.67%</b>	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	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
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	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
TCCL (Finance) Limited	HK – Limited liability company	HK\$1	100%		– Financing
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC – Sino-foreign equity joint venture	USD12,480,000	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%		– Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI – Limited liability company	USD1	100%		– Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Wholly foreign- owned enterprise	USD200,000,000	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	99.5%	99.5%	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



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## 42. 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		Principal activities
			2010	2009	
<b>Indirectly-owned subsidiaries (Continued)</b>					
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
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%	–	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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