2011 annual report

150
1862-2012

The Hong Kong and China Gas Company Limited
(Stock Code: 3)

150 Warming Everyday Life

In June 2012, we will be celebrating our 150th birthday. Established in 1862 to provide public gas lighting in Hong Kong, the Hong Kong and China Gas Company Limited (Towngas) today is not only a major supplier of energy both in Hong Kong and mainland China, we are also a pioneer in new and alternative energies. Having helped to "light the past", we look forward to "brightening the future" with better products and services as well as cleaner and greener energy.

Contents

Reaching New Heights...

2011 was a record year. The steady advancement in our Hong Kong core business, the rapid development of our city-gas businesses on the mainland as well as the increasing contribution from the new energy sector created a new record, with profit attributable to shareholders reaching HK$6.1 billion.

We continue to see our transformation into a nation-wide energy supplier and service provider. With a market value of HK$150 billion, 38,000 employees and some 15 million customers, we currently provide gas services to over 50 million people in Hong Kong and the greater China region.

Strengthening our leadership as the largest city-gas group in mainland China, our 100 city-gas businesses serve over 13 million customers in the country. Gas sales grew to 10.3 billion cubic metres, an increase of 21 per cent compared to the year before.

ECO now operates a total of 20 projects. The new methanol plant and coal resources project in Inner Mongolia commenced operations and we acquired a further coal-mining project in Inner Mongolia, a liquefied natural gas filling station in Henan province as well as a logistics hub for coal transportation in Shandong province.

We established M-Tech to research, develop and manufacture intelligent gas meters, which will provide more advanced and accurate smart metering solutions.

We continued to enjoy favourable terms in the raising of funds from the market. In February 2011, we concluded a HK$3.8 billion 5-year syndicated term loan and revolving credit facility. We also issued a RMB 1 billion 5-year bond in March 2011, becoming the first Hang Seng Index Constituent Stock in Hong Kong to raise funds through the offshore renminbi debt capital market.

Cementing our strong financial foundations, we received a cnAAA rating on Standard and Poor's Greater China Credit Rating Scale while Towngas China earned a cnA rating.

The Group maintains a significant presence in the international business community. We were awarded the "Global Chinese Business 1000 – Outstanding Performance Award" from the region's leading business magazine, Yazhou Zhoukan for the third year running.

Towngas' Businesses in 2011

With the advancement of our businesses, we continue our transformation into a nation-wide and eco-friendly energy supplier, providing piped gas, new energies, water, information technology, telecommunications, engineering services and other related facilities. Based in Hong Kong, our portfolio on the mainland currently includes a total of 138 projects in 21 provinces, municipalities and autonomous regions.

TOWNGAS PIPED CITY-GAS PROJECTS

Guangdong Province

1. Panyu
2. Zhongshan
3. Dongyong
4. Jianke
5. Shunde
6. Shenzhen
7. Chaoan
8. Chaozhou Raoping

Central China

9. Wuhan
10. Xinmi

Eastern China

11. Yixing
12. Taizhou
13. Zhangjiagang
14. Wujiang
15. Xuzhou
16. Suining
17. Fengxian
18. Danyang
19. Jintan
20. Tongling
21. Suzhou Industrial Park
22. Changzhou
23. Nanjing
24. Fengcheng
25. Pingxiang
26. Jiangxi
27. Zhangshu
28. Yonganzhou

Shandong Province

29. Jinan East

Northern China

30. Jilin
31. Beijing Economic-technological Development Area
32. Hebei Jingxian

Northwestern China

33. Xi'an

Hainan Province

34. Qionghai

MIDSTREAM PROJECTS

35. Guangdong LNG
36. Hangzhou NG
37. Anhui NG
38. Hebei NG
39. Jilin NG
40. Suzhou NG

WATER PROJECTS

41. Wujiang
42. Suzhou Industrial Park
43. Wuhu
44. Suzhou Industrial Park (Industrial Wastewater Treatment)

TELECOMMUNICATION PROJECTS

45. Shandong Jinan
46. Shandong Jinan Chibo
47. Liaoning Dalian DETA
48. Dalian Yida
49. Shandong Laiyang
50. Xuzhou Fengxian

NEW ENERGY PROJECTS

Coal Mining

51. Jiangxi Fengcheng
52. Inner Mongolia Erdos Xiaoyugou
53. Inner Mongolia Erdos Kejian

Coal-based Chemical

54. Jiangxi Fengcheng
55. Inner Mongolia Erdos

CNG/LNG Filling Stations

56. Shaanxi Xianyang
57. Shaanxi Huitai
58. Anhui Maanshan
59. Shanxi Yuanping
60. Dalian DETA
61. Shandong Chiping
62. Shandong Jining
63. Shandong Dongping
64. Henan Xinmi

Upstream Projects

65. Shanxi LCBM
66. Jilin Tianyuan
67. LCMM Project

Coal Logistic Project

68. Shandong Jining Jiaxianggang Logistic Port

OTHER PROJECTS

69. Shenyang Sanquan Construction Supervisory
70. M-Tech
71. GH Fusion
72. Towngas Technology

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province

73. Foshan
74. Shaoguan
75. Qingyuan
76. Yangdong

Eastern China

77. Nanjing Gaochun
78. Maanshan
79. Maanshan Bowang
80. Anqing
81. Chizhou
82. Tunxi
83. Huangshan
84. Huizhou
85. Tongxiang
86. Huzhou
87. Yuhang
88. Changjiu
89. Fuzhou
90. Jiujiang
91. Wuning
92. Xiushui

Shandong Province

93. Jimo
94. Laoshan
95. Zibo
96. Zibo Lubo
97. Longkou
98. Jinan West
99. Jinan Changqing
100. Weifang
101. Weihai
102. Taian
103. Chiping
104. Linqu
105. Laiyang

Hunan Province

106. Miluo

Northeastern China

107. Benxi
108. Chaoyang
109. Tieling
110. Fuxin
111. Shenyang Coastal Economic Zone
112. Yingkou
113. Dalian Changxingdao
114. Dalian Economic and Technical Development Zone
115. Anshan
116. Lvshun
117. Kazuo
118. Changchun
119. Gongzhuling
120. Qiqihar
121. Beipiao

Southwestern China

122. Ziyang
123. Weiyuan
124. Pengxi
125. Lezhi
126. Pingchang
127. Dayi
128. Yuechi
129. Cangxi
130. Chengdu
131. Zhongjiang
132. Jianyang
133. Pengshan
134. Mianyang
135. Xinjin
136. Xindu
137. Qijiang
138. Guilin

- Towngas Group Hong Kong headquarters
- Towngas piped city-gas projects
- Towngas China piped city-gas projects
- Liquefied natural gas receiving station
- Provincial natural gas pipeline network
- City high pressure pipeline network
- Water projects
- Telecommunication projects
- Coal mining
- Coal-based chemical processing
- Compressed natural gas / liquefied natural gas filling stations
- Upstream projects
- Coal logistic project
- Other projects

Business Highlights

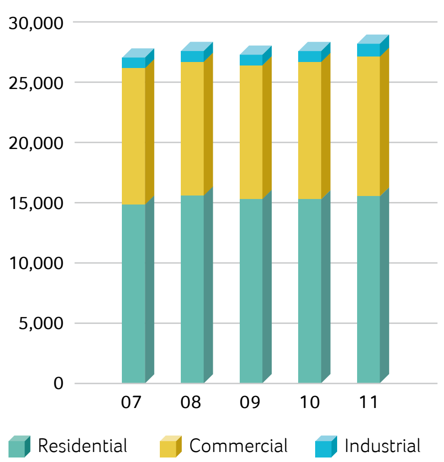
	2011	2010	Change %
Operating (Company)			
Number of Customers as at 31st December	1,750,553	1,724,316	+2
Number of Customers per km of Mains	538	535	+1
Installed Capacity, thousand m^3 per hour	511	511	–
Peak Hourly Demand, thousand m^3	517	483	+7
Town Gas Sales, million MJ	28,147	27,578	+2
Number of Employees as at 31st December	1,938	1,923	+1
Number of Customers per Employee	903	897	+1
Financial			
Revenue, HK million dollars	22,427	19,375	+16
Profit attributable to Shareholders, HK million dollars	6,150	5,585	+10
Dividends, HK million dollars	4,148 [2]	2,514	+65
Shareholders			
Issued Shares, million of shares	7,901	7,182	+10
Shareholders' Funds, HK million dollars	41,584	37,464	+11
Earnings per Share, HK cents	77.8	70.7 [1]	+10
Dividends per Share, HK cents	52.5 [2]	31.8 [1]	+65
Shareholders' Funds, HK dollars per share	5.26	4.74 [1]	+11
Number of Shareholders as at 31st December	11,957	11,781	+1

[1] Adjusted for the bonus issue in 2011
[2] Included a 150th Anniversary special dividend of HK 17.5 cents per share

Five-Year Summary

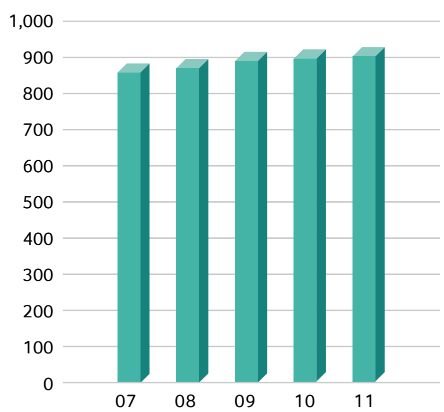
Town Gas Sales

Company (million MJ)



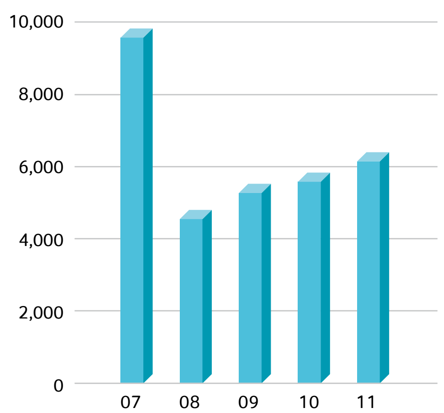
Number of Customers per Employee

Company



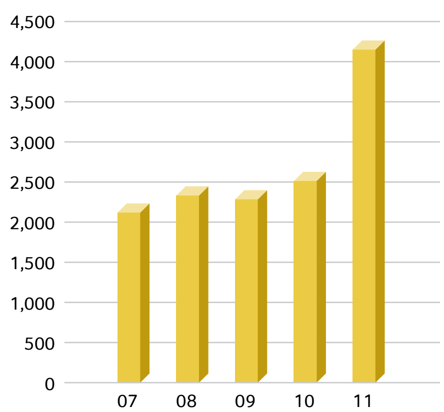
Profit Attributable to Shareholders

(HK$ million)



Dividends *

(HK$ million)



* Year 2011 included a 150th Anniversary special dividend of HK 17.5 cents per share

Chairman's Statement

The Year's Results

The performance of the Group's gas business in Hong Kong remained steady in 2011. In comparison, the Group's city-gas businesses in mainland China thrived, continuing to record good profit growth; concurrently emerging environmentally-friendly energy businesses are being developed at a fast pace with some projects already commissioned and now operating smoothly.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$6,149.6 million, an increase of HK$564.8 million compared to 2010. Earnings per share for the year amounted to HK 77.8 cents, an increase of 10.1 per cent over 2010. Profit growth in 2011 was mainly due to growth in profit of mainland businesses.

During the year under review, the Group invested HK$4,725.1 million in production facilities, pipelines, plants and other fixed and intangible assets for the sustainable development of its various businesses in Hong Kong and mainland China.

Gas Business in Hong Kong

Local economic growth slowed down in 2011 under the shadow of uncertain prospects for the global economy. Despite this, a continuous increase in the number of inbound tourists and high domestic demand, boosted by certain policies implemented by the Government of the Hong Kong Special Administrative Region, helped maintain prosperity in tourism, restaurant and hotel sectors. During the year under review, the Company successfully gained several new commercial and industrial customers who started to convert to the use of town gas. The average temperature of 2011 was also slightly lower than 2010. As a result, there was an increase in overall residential, commercial and industrial gas sales, with the total volume of gas sales in Hong Kong for the year 2011 rising by 2.1 per cent compared to 2010. Appliance sales for the year 2011 also increased by about 8 per cent compared to 2010.

As at the end of 2011, the number of customers was 1,750,553, an increase of 26,237, as anticipated, compared to 2010.

Business Development in Mainland China

The Group's mainland businesses progressed well in 2011 in respect of growth in the number of projects and profit.

Mainland China's Twelfth Five-Year Plan commenced in 2011. Despite the adverse impact of factors such as a weak external economy and high domestic inflation, the mainland economy continued to grow relatively rapidly during 2011 though the pace was slower than in 2010. The Group's city-gas and natural gas businesses benefited from this economic progress and recorded continuous growth during the year. The Group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is progressing well with ECO now at various stages of project investment, construction and gradual commissioning. As a result of rising internal demand for consumer goods and progressive urbanisation on the mainland, demand for clean energy is increasing. Upstream natural gas supply is also improving. Therefore in the long run, both city-gas and emerging environmentally-friendly energy businesses on the mainland have good prospects and investment value.

Overall, as at the end of 2011, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 138 projects on the mainland, 18 more than 2010 spread across 21 provinces/municipalities/autonomous regions and encompassing upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

Diversification and an increase in the number of projects are rapidly transforming the Group from a locally-based company centred on a single business into a sizable, nation-wide, multi-business corporation with a focus on environmentally-friendly and energy ventures and utilities sectors.

Utility Businesses in Mainland China

The Group's city-gas businesses progressed well in 2011, with two new projects successfully established in Chaozhou, Guangdong province and Jingxian county, Hengshui, Hebei province. Inclusive of five new projects established by Towngas China in 2011, the Group had 100 city-gas projects in mainland cities spread across 19 provinces/municipalities/autonomous regions as at the end of 2011. During the year under review, the number of gas customers on the mainland reached approximately 13.2 million and total volume of gas sales also exceeded ten billion for the first time, attaining 10,300 million cubic metres. The Group is now the largest city-gas enterprise on the mainland.

With gradual completion of large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline, and an increase in the quantity of imported liquefied natural gas, together with domestic sources, the shortfall in natural gas supply in the past few years is now gradually being mitigated. Thus, with access to sufficient gas sources, the Group anticipates its mainland projects will continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province, Hangzhou, Zhejiang province and Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; and a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province. These kinds of high-pressure, natural gas pipeline projects generate good returns and help the Group develop and strengthen its downstream city-gas markets.

During the third quarter of 2011, the Group added a second integrated wastewater treatment project, for a special industry, to its existing integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Together with water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, the Group has so far invested in and operates four water projects, all of which are progressing well.

Operation and management of businesses encompassing city-gas, city-water and midstream natural gas projects create positive synergy and bring increasing benefits to the Group. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

Emerging Environmentally-friendly Energy Businesses

Coalbed Methane and Non-conventional Methane Utilisation Businesses

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been successfully operating in Hong Kong for several years. The North East New Territories landfill gas treatment facility contributes to improving air quality in Hong Kong, minimising the use of fossil fuels and reducing greenhouse gas emissions. Since 2008, ECO has been developing similar clean and environmentally-friendly energy projects on the mainland with an extended scope of application. A coalbed methane liquefaction facility located in Jincheng, Shanxi province was fully commissioned during the first quarter of 2011.

The annual production capacity of the whole facility is 250 million standard cubic metres of liquefied coalbed methane supported by a secure upstream coalbed methane supply. The facility, which is operating well, has now become the largest liquefaction and utilisation project of its kind on the mainland.

ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is progressing as scheduled; construction is expected to commence in 2012 for commissioning in the first quarter of 2014. Coal-mine gas, which typically contains about 40 per cent methane, will be used to produce liquefied methane by deploying coal-mine gas deoxidisation and coalbed methane cryogenic liquefaction technologies. With an estimated annual production capacity of about 80 million standard cubic metres for eventual transportation by road tankers to downstream markets, this project will provide the Group's city-gas businesses with a more environmentally-friendly gas source to help conserve energy and reduce gas emissions.

Coal Resources and Coal Chemical Processing

ECO started to develop coal resources and coal chemical processing businesses in 2009, focusing mainly on more environmentally-friendly and cleaner technologies for coal resources conversion and utilisation. To this end, ECO has constructed a methanol production plant, with an annual capacity of 200,000 tonnes, in Junger, Erdos, Inner Mongolia. The plant is now at the pilot production stage and is expected to be fully commissioned in mid-2012. Construction of ECO's Xiaoyugou coal mine, which is associated with the methanol production plant, is also complete and pilot production started in early 2012. ECO acquired an operative open-pit coal mine in Inner Mongolia in September 2011 and this is now starting to contribute additional profits and coal resources reserves to the Group. ECO's coking coal mine and coking plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. The main product, coke, will be used for refining steel, and its by-product, coke oven gas, will provide an additional gas source for the Group's Fengcheng city-gas project. ECO will continue to expand its coal resources reserves and develop more far-sighted clean coal utilisation technologies so as to produce more clean fuels for use as substitutes for oil products.

Energy-related Logistics and Facilities Businesses

ECO's energy-related logistics and facilities businesses originated from its five dedicated liquefied petroleum gas ("LPG") vehicular filling stations in Hong Kong, which have been operating steadily for several years servicing taxis and minibuses. ECO started its gas filling station business on the mainland in 2008. Since then, ECO has gradually established a network of compressed and liquefied natural gas filling stations servicing heavy-duty trucks in Shaanxi, Shandong, Liaoning, Henan and Anhui provinces.

ECO's aviation fuel facility in Area 38, Tuen Mun, servicing Hong Kong International Airport, is operating smoothly. The facility supplied over 5 million tonnes of aviation fuel to the airport in 2011. Jetties are available for berthing large-scale tankers and for unloading these tankers' aviation fuel. ECO's facility, with a total storage capacity of 264,000 cubic metres, is now a major logistics base for supply of aviation fuel in Hong Kong.

In tandem with the development of its coal resources business, ECO has also started a coal logistics business and to this end has set up logistics platforms in important coal distribution areas such as Qinhuangdao, Hebei province and Dandong, Liaoning province from which to launch its operations. ECO is also investing in the construction of an inland coal and bulk cargo logistic port in Jining, Shandong province to connect an upstream dedicated coal transportation railway with a downstream canal running to eastern China. The logistic port, with an annual throughput of 10 million tonnes, is expected to be commissioned in 2012.

Development of New Energy Technologies

To capture a competitive edge, ECO set up a new-energy research and development centre in 2010 focusing on related application technologies. The centre has achieved good progress in developing innovative technologies for converting materials of low value, such as non-edible oil and coal tar oil, into clean fuel and substances of high value. ECO is proactively transforming these technologies into ones applicable for industrial use, and is also directly investing in related production projects. These kinds of investments are expected to play an increasingly important part in ECO's new energy businesses.

The energy market on the mainland has great potential to expand. ECO's development of different emerging environmentally-friendly energy businesses and its conclusion of related agreements are expected to bring good economic benefits and business prospects to the Group.

Towngas China Company Limited
(Stock Code: 1083.HK)

Towngas China, a subsidiary of the Group, continued to record good growth in profit after taxation attributable to its shareholders, amounting to HK$709 million in 2011, an increase of approximately 62.6 per cent over 2010. As at the end of December 2011, the Group had an approximately 66.18 per cent interest in Towngas China.

In April 2011, Moody's Investors Service, an international rating agency, upgraded both Towngas China's issuer and senior unsecured bond ratings from Baa3 to Baa2 with a stable outlook in view of the company's favourable industry trend for offering growth potential. These new ratings demonstrate the increasing credit strength of Towngas China which is helping to lower the company's funding costs and widen its channels of financing.

In 2011, Towngas China acquired five new projects located in Xiushui county and Wuning Industrial Park, both in Jiujiang, Jiangxi province; in Miluo, the Group's first in Hunan province; in Bowang New District, Maanshan, Anhui province; and in Beipiao, Liaoning province. Towngas China is focused on developing city-gas businesses in small to medium-sized cities and will continue to strive for rapid expansion through mergers and acquisitions.

Development of Town Gas Network and Facilities in Hong Kong

The network supply capability of the Company is expanding at a good pace in line with market growth. Several network development projects are in progress to meet long-term demand.

Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is progressing well and is expected to be substantially completed within 2012. Construction of a 9 km pipeline in the western New Territories to strengthen supply reliability is also in progress. In tandem with the government's development of West Kowloon, South East Kowloon and a cruise terminal, network planning, design and construction in these locations are underway. Construction of a new submarine pipeline from Ma Tau Kok to North Point will commence in 2012. Meanwhile, new gas mains have been laid to Lei Yue Mun, located along the South East Kowloon seashore, where a number of restaurants are situated, some of which have already converted to the use of town gas.

The Group will constantly allocate more resources towards renovating Hong Kong's town gas network to ensure safety of operation and supply.

Property Developments

The entire residential floor area of the Grand Waterfront property development project located at Ma Tau Kok south plant site had been sold by the end of December 2010. Leasing of the commercial area of the project is good. All residential units of Grand Promenade had also been sold by the end of the first quarter of 2011.

The Group has an approximately 15.8 per cent interest in the International Finance Centre ("IFC") complex. Rental demand for the shopping mall and office towers of IFC continues to be robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

Financing Programmes

In February 2011, the Group concluded a HK$3.8 billion 5-year syndicated term loan and revolving credit facility, mainly for refinancing a HK$3.0 billion inaugural syndicated facility, taken up in 2006, and for the Group's business development. This syndicated facility was backed by 11 international and regional financial institutions including Japanese, American, Taiwanese, Spanish and Hong Kong banks. The facility carries an interest margin of 0.49 per cent per annum over HIBOR. The success of this syndicated facility demonstrates the banking community's strong confidence in the Group's business prospects.

The Group issued its first renminbi-denominated notes in Hong Kong in late March 2011 with a total amount of RMB1 billion for a term of five years at a coupon interest rate of 1.4 per cent (the "RMB Notes"). The Group is the first company among Hang Seng Index Constituent Stocks in Hong Kong to raise funds through the offshore renminbi debt capital market. Inclusive of the RMB Notes, the Group has issued medium term notes with, up to now, an aggregate amount equivalent to HK$6.07 billion under its medium term note programme.

In response to growing demand from investors operating in the Greater China capital markets, Standard & Poor's Ratings Services ("Standard & Poor's), an international rating agency, launched the first credit rating benchmark developed especially for the region in 2011 to assign credit ratings to borrowers active in mainland China, Hong Kong, and Taiwan (including the fast-growing offshore renminbi debt market). The Company was assigned the highest rating of cnAAA, whilst Towngas China was assigned cnA under this Greater China long-term credit rating scale, demonstrating Standard & Poor's high recognition of the Group's stable financial status and strong credit standing.

Company Awards

The Company has achieved good business results in both Hong Kong and mainland China, and endeavours to fulfil its corporate social responsibilities, advocate sustainable development, take initiatives to serve the community and protect the environment. During the year under review, the Company gained the "The Excellence of Listed Enterprise Awards 2011" from Capital Weekly, in recognition of the Company's excellent corporate governance and successful business strategy.

In 2011, the Company once again gained the "Global Chinese Business 1000 – Outstanding Performance Award" from Yazhou Zhoukan, which ranks companies in Chinese-concentrated Asian regions such as mainland China, Hong Kong, Taiwan, Malaysia and Singapore. The Company's ranking in Hong Kong was eighth in 2011.

In addition, the Company and Towngas China respectively won "The Best Listed Company Award" and "The Most Valuable Listed Company during the Twelfth Five-Year Plan Award" in the "2011 Golden Bauhinia Awards" organised by Ta Kung Pao and several authoritative professional organisations in Hong Kong and mainland China, including the securities industry. From about 300 short-listed companies in Hong Kong and mainland China, the success of the Company and Towngas China in winning these awards demonstrates investors' recognition of their good business results and management experience.

Towngas China also once again gained the "Hong Kong Outstanding Enterprises Award 2011" from a locally-renowned financial magazine, Economic Digest, in recognition of its rapid project development, continuous business growth and overall good corporate strength.

Hong Kong Employees and Productivity

As at the end of 2011, the number of employees engaged in the town gas business in Hong Kong was 1,938, the number of customers had increased by 26,237 since 2010, and each employee served the equivalent of 903 customers, slightly up compared to each employee serving 897 customers as at the end of 2010. Total manpower costs for employees directly involved in the town gas business amounted to HK$689 million for 2011. In 2011, there was an approximately 4 per cent average increase in remuneration over 2010. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular filling stations and engineering contractual works, the total number of employees of the Group in Hong Kong was 2,255 as at the end of 2011. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

On behalf of the Board of Directors, I would like to thank all our employees for their dedication and hard work in creating value for shareholders and customers.

Bonus Issue of Shares

The Directors propose to make a bonus issue of one new share credited as fully paid for every ten shares held on the Register of Members on 13th June 2012. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 5th June 2012, and if passed, share certificates will be posted on 21st June 2012.

Final Dividend and Special Dividend

The Directors are pleased to recommend a final dividend of HK 23 cents per share payable to shareholders whose names are on the Register of Members as at 13th June 2012.

The Company will celebrate its 150th Anniversary in 2012. To reward our shareholders, the Directors are pleased to recommend a 150th Anniversary one-off special dividend of HK 17.5 cents per share payable to shareholders whose names are on the Register of Members as at 13th June 2012. Including the interim dividend of HK 12 cents per share paid on 3rd October 2011 and the final dividend of HK 23 cents per share recommended, the total dividend payout for the whole year shall be HK 52.5 cents per share, representing 150 per cent of that originally recommended for the whole year.

The above proposed bonus shares are not entitled to the recommended final dividend for 2011 and 150th Anniversary special dividend.

Barring unforeseen circumstances, the forecast dividends per share for 2012 after bonus share issue shall not be less than the interim and final dividends for 2011.

Business Outlook for 2012

The Company predicts steady growth and an increase of about 25,000 new customers in Hong Kong during 2012. Restaurant, hotel and retail sectors are benefiting from a prospering tourism industry in Hong Kong. The Group expects commercial and industrial gas sales and appliance sales in Hong Kong to increase overall in 2012 compared to 2011. However, Hong Kong is still affected by global economic instabilities and all business sectors are being impacted by a surge in operating costs due to high inflation. In order to ease the financial burden on domestic town gas customers, the Company will not adjust its basic gas tariff in 2012. The Company will continue to enhance its operational efficiency and endeavour to uphold stable revenue from its gas business in Hong Kong.

In line with the gradual implementation of the Twelfth Five-Year Plan, the central government advocates increasing urbanisation, expanding domestic demand, more energy conservation and a reduction of gas emissions. As the mainland economy is sustaining good growth, it is anticipated that there will be rising demand for utility services and clean energy. The Group's city-gas and natural gas businesses on the mainland are therefore expected to continue to achieve good growth. Furthermore, following the mainland government's move towards a policy of energy diversification and environmental protection, the Group predicts good prospects for its emerging environmentally-friendly energy businesses, which will ignite a new light illuminating the way for the Group's long-term development and business growth.

It is projected that the Group's businesses will maintain good growth during 2012. The combined results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will overtake the results of its Hong Kong gas business in 2012, and will have faster growth momentum than its Hong Kong gas business thereafter given their good prospects.

Established in 1862, The Hong Kong and China Gas Company Limited was the first utility corporation in Hong Kong. Since incorporation, the Company has made unremitting efforts to achieve continuous growth and contribute to the prosperous development of the territory; its top priority has always been to serve the local community. In 2012, the Company will celebrate its 150th Anniversary with a series of commemorative activities and the above proposed distribution of special dividend.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its successful corporate brand names built up there over the last 20 years and an anticipated rising demand for clean energy, the Group predicts good prospects and an even better future for its businesses in the years to come.

LEE Shau Kee
Chairman
Hong Kong, 19th March 2012

Board of Directors

From left to right

Front Row

David Li Kwok Po

Lee Shau Kee
Chairman

Poon Chung Kwong

Back Row

James Kwan Yuk Choi

Alfred Chan Wing Kin

Colin Lam Ko Yin

Lee Ka Kit

Leung Hay Man

Lee Ka Shing

Biographical Details of Directors

Dr. the Hon. LEE Shau Kee

G.B.M., D.B.A. (Hon.), D.S.Sc. (Hon.), LL.D.(Hon.),

Chairman & Non-executive Director

Age 83. Dr. Lee was appointed to the Board of Directors of the Company in 1978 and subsequently appointed Chairman in 1983. He has been engaged in property development in Hong Kong for more than 55 years. Dr. Lee is the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited, Chairman of Miramar Hotel and Investment Company, Limited, a Vice Chairman of Sun Hung Kai Properties Limited and a Director of Hong Kong Ferry (Holdings) Company Limited and The Bank of East Asia, Limited, all of which are listed public companies. Dr. Lee is also a Director of Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Timpani Investments Limited ("Timpani Investments"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Timpani Investments, Disralei Investment, Medley Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 56 of this Annual Report for details). Dr. Lee was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007. Dr. Lee is the father of Mr. Lee Ka Kit and Mr. Lee Ka Shing, Non-executive Directors of the Company.

Mr. LEUNG Hay Man

F.R.I.C.S., F.C.I.Arb., F.H.K.I.S.,

Independent Non-executive Director

Age 77. Mr. Leung was appointed to the Board of Directors of the Company in 1981. He is a Non-executive Director of Henderson Land Development Company Limited ("Henderson Land Development"), Henderson Investment Limited and Hong Kong Ferry (Holdings) Company Limited, all of which are listed public companies. Henderson Land Development has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 56 of this Annual Report for details). Mr. Leung is a Fellow of the Royal Institute of Chartered Surveyors, Fellow of the Chartered Institute of Arbitrators and Fellow of the Hong Kong Institute of Surveyors.

Mr. Colin LAM Ko Yin

F.C.I.L.T., F.H.K.I.o.D.,

Non-executive Director

Age 60. Mr. Lam was appointed to the Board of Directors of the Company in 1983. He has more than 38 years' experience in banking and property development. He is a member of the Court of The University of Hong Kong, a Director of The University of Hong Kong Foundation for Educational Development and Research Limited and a Director of Fudan University Education Development Foundation. Mr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Mr. Lam is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited, Chairman of Hong Kong Ferry (Holdings) Company Limited, and a Director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Mr. Lam is a Director of Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Disralei Investment, Medley Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 56 of this Annual Report for details).

Dr. the Hon. David LI Kwok Po

G.B.M., G.B.S., O.B.E., J.P., Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur, F.C.A., F.C.P.A., F.C.P.A. (Aust.), F.C.I.B., F.H.K.I.B., F.B.C.S., C.I.T.P., F.C.I.Arb., Hon. D.Sc. (Imperial), Hon. D.B.A. (Edinburgh Napier), Hon. D. Hum. Litt. (Trinity, USA), Hon. D.Soc.Sc. (Lingnan), Hon. LL.D. (Hong Kong), Hon. LL.D. (Warwick), Hon. LL.D. (Cantab), Hon. DLitt (Macquarie), M.A. Cantab. (Economics & Law),

Independent Non-executive Director

Age 73. Dr. Li was appointed to the Board of Directors of the Company in 1984. He is the Chairman and Chief Executive of The Bank of East Asia, Limited. Dr. Li is also a director of various listed public companies, including AFFIN Holdings Berhad, China Overseas Land & Investment Limited, COSCO Pacific Limited, CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.), Guangdong Investment Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. Dr. Li is the Chairman of The Chinese Banks' Association, Limited and the Chairman of the Hong Kong Management Association. Dr. Li is currently a Member of the Banking Advisory Committee, a Member of the Council of the Treasury Markets Association and a Member of the Legislative Council of the Hong Kong Special Administrative Region. Dr. Li was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007 and he also received the Business Person of the Year Award in the Hong Kong Business Awards 2006. Dr. Li is a Fellow of Hong Kong Institute of Certified Public Accountants, Fellow of Institute of Chartered Accountants in England and Wales, Fellow of The Australian Society of Certified Practising Accountants, Fellow of Chartered Institute of Bankers, Fellow of The Hong Kong Institute of Bankers, Chartered Fellow of British Computer Society, Chartered IT Professional, Fellow of Chartered Institute of Arbitrators in England, an Honorary Fellow of the School of Accountancy, Central University of Finance and Economics and a Companion of the Chartered Management Institute.

Mr. LEE Ka Kit

J.P.,

Non-executive Director

Age 48. Mr. Lee was appointed to the Board of Directors of the Company in 1990. He was educated in the United Kingdom. He is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited as well as a Director of Intime Department Store (Group) Company Limited, all of which are listed public companies. He is also a Vice Chairman of Henderson Development Limited ("Henderson Development"). Henderson Land Development and Henderson Development have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 56 of this Annual Report for details). Mr. Lee is a Member of the National Committee of the Chinese People's Political Consultative Conference and a Vice Chairman of the Subcommittee for Economic Affairs of the National Committee. He was awarded an Honorary University Fellowship by The University of Hong Kong in 2009. Mr. Lee is the son of Dr. Lee Shau Kee, the Chairman of the Company and the brother of Mr. Lee Ka Shing, a Non-executive Director of the Company.

Mr. LEE Ka Shing

Non-executive Director

Age 40. Mr. Lee was appointed to the Board of Directors of the Company in 1999. He was educated in Canada. He is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited and Managing Director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Mr. Lee is also a Vice Chairman of Henderson Development Limited ("Henderson Development") and a Director of Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment"), Faxson Investment Limited ("Faxson Investment"), Chelco Investment Limited ("Chelco Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Disralei Investment, Medley Investment, Faxson Investment, Chelco Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 56 of this Annual Report for details).
Mr. Lee is a Member of the Tenth Guangxi Zhuangzu Zizhiqu Committee of the Chinese People's Political Consultative Conference and a Member of the Tenth Foshan Committee of the Chinese People's Political Consultative Conference. Mr. Lee is the son of Dr. Lee Shau Kee, the Chairman of the Company and the brother of Mr. Lee Ka Kit, a Non-executive Director of the Company.

Professor POON Chung Kwong

G.B.S., J.P., Ph.D., D.Sc.,

Independent Non-executive Director

Aged 72. Professor Poon was appointed to the Board of Directors of the Company in 2009. He is a President Emeritus of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of Hopewell Highway Infrastructure Limited and K. Wah International Holdings Limited, all of which are listed public companies. Professor Poon received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002 and also the "Leader of the Year Awards 2008 (Education)" and the Honorary Degree of Doctor of Humanity from The Hong Kong Polytechnic University in 2009. In addition, Professor Poon has been a member of the National Committee of the Chinese People's Political Consultative Conference since 1998. He is also the Honorary Professor of a number of top-rated universities in the Mainland China.

Mr. Alfred CHAN Wing Kin

B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc. (Eng), B.Sc. (Eng),

Managing Director

Age 61. Mr. Chan joined the Company as the General Manager – Marketing in 1992 and was appointed as the General Manager – Marketing & Customer Service in 1995. He was appointed to the Board of Directors of the Company in January 1997 and as the Managing Director in May 1997. Mr. Chan is a director of major local and overseas subsidiary companies of the Group. He is also the Chairman and President of Hong Kong & China Gas Investment Limited, the Group's investment holding company in mainland China and chairman, vice chairman or a director of most of the Group's joint venture companies in mainland China. Mr. Chan is the Chairman of Towngas China Company Limited and a director of Shenzhen Gas Corporation Ltd., both of which are listed public companies. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.
He is a Vice Chairman of China Gas Association. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006.
Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

Mr. James KWAN Yuk Choi

J.P., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng),

Executive Director and Chief Operating Officer

Age 60. Mr. Kwan joined the Engineering Division of the Company in 1975 and subsequently became the head of Engineering Planning & Development Department and Marketing Department of the Company.
He was promoted to the General Manager – Engineering in 1989. Mr. Kwan was appointed to the Board of Directors of the Company in January 1997, as the Director & General Manager – Marketing & Customer Service in May 1997, as the Executive Director – Commercial in July 2002 and took up his present position in January 2003. Mr. Kwan is a director of major local and overseas subsidiary companies of the Group. He is also a Director and Deputy President of Hong Kong & China Gas Investment Limited, the Group's investment holding company in mainland China and a Director of the Group's several joint venture companies in mainland China.
Mr. Kwan is a Director of Towngas China Company Limited and Shenzhen Gas Corporation Ltd., both of which are listed public companies.
Mr. Kwan was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. He is currently a member of Construction Industry Council, a member of the Governing Council of the Hong Kong Quality Assurance Agency, a member of Transport Advisory Committee and a member of the Vocational Training Council of the Hong Kong Special Administrative Region and a member of the Twelfth Nanjing Committee of the Chinese People's Political Consultative Conference. He was the President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005.
Mr. Kwan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom.

Executive Committee

From left to right

Philip Siu Kam Shing
Head – New Energy

James Kwan Yuk Choi
Executive Director and
Chief Operating Officer

Alfred Chan Wing Kin
Managing Director

John Ho Hon Ming
Chief Financial Officer and
Company Secretary

Margaret Cheng Law Wai Fun
Head – Corporate Human Resources

Peter Wong Wai Yee
Head – Mainland Utilities

THE MAINLAND CHINA GAS BUSINESS

Cementing Our Leadership

100 city-gas businesses in 19 provinces, municipalities and autonomous regions serving **13.2 million** customer accounts

Gas sales rose 21 per cent to **10.3 billion** cubic metres

Over **one million** Bauhinia appliances sold since 2005

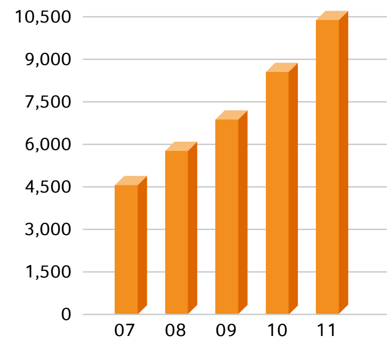
Providing preventive maintenance as well as taking the safety message directly into customer homes, our Regular Safety Inspections have greatly helped to drive gas safety.


港华燃气

The Mainland China Gas Business

With the number of our businesses increasing at a rate of some 10 – 15 new projects a year, our profit figures continue to see steady improvement as more efficiencies, synergies and economies of scale are gained.

China Joint Ventures Gas Sales (million m³)



Hand-in-hand with the thriving economy in mainland China, our activities on the mainland enjoyed a year of exceptional growth. During the year, we added 18 new businesses to our mainland portfolio bringing the total number to 138 projects in 21 provinces, municipalities and autonomous regions throughout the country. Ranging from upstream, midstream and downstream city-gas and natural gas operations, telecommunications and water businesses to our new energy facilities, our operations on the mainland generated a total turnover of HK$47.9 billion, an increase of 38 per cent over 2010.

This satisfactory performance is being driven on a number of levels. Firstly, we are seeing rapid growth – with the number of our businesses increasing at a rate of some 10 – 15 new projects a year, our profit figures continue to see steady improvement as more efficiencies, synergies and economies of scale are gained. With our first city-gas joint venture formed on the mainland in 1994, our long establishment in the market is also paying dividends as we increasingly enter a period of harvest. Coupled with the booming economy as well as the greater supply of natural gas, 2011 was a highly positive year for the Group.

Signalling our leadership and growing stature within the industry, we received a number of awards during the year. Towngas China not only earned a cnA rating on Standard and Poor's Greater China Credit Rating Scale for its solid financial credentials, it also won "The Most Valuable Listed Company during the Twelfth Five-Year Plan Award" in the "2011 Golden Bauhinia Awards". This award is presented by Ta Kung Pao in partnership with a number of financial institutions to give global markets a better understanding of quality listed companies in China. We also won "The Best Model for Public Satisfaction in China's Public Utilities Service" presented by the publication, Economy of China in conjunction with several professional organisations.

Our City-gas Operations

This sector, which forms the backbone of our operations in mainland China, achieved a significant milestone in 2011, when with the addition of seven new businesses, we reached a grand total of 100 city-gas ventures in our service portfolio. Serving some 13.2 million customers in 19 provinces, municipalities and autonomous regions, gas sales continued their double digit growth, rising a healthy 21 per cent over the previous year to reach 10.3 billion cubic metres. Turnover of all the ventures for the year rose to HK$41 billion, translating into an increase of 34 per cent.

This positive picture is particularly gratifying in view of the Eurozone crisis and the economic uncertainties that swept the world's financial markets in the second half of the year. While China enjoyed a strong economic performance in 2011, it cannot remain immune to the winds of recession indefinitely and we expect it to experience some economic fallout, particularly in the manufacturing sector. This will be compensated to some extent, however, by the nation's drive to raise domestic consumption.

From our perspective, it will also be redressed by the growing use of natural gas in the country. Previous restrictions in supply are no longer a problem as major gas pipelines bringing in supplies from western China increasingly come on line. Together with the growing number of liquefied natural gas (LNG) receiving terminals along the eastern seaboard bringing in supplies from the Middle East and Australia, coupled with supplies from our liquefied coalbed methane (LCBM) plant in Shanxi province, which is now in full operation and with priority distribution for our downstream city-gas projects, the supply situation has greatly eased.

In conjunction with the Nation's focus on green energy – according to its Twelfth Five-Year Plan, natural gas usage is expected to rise by a hefty 136 per cent against the 25 per cent projected growth in total primary energy demand. Industry too is driving demand for natural gas, helping to balance the high usage swings normally experienced between the summer and winter months.

The residential market is also positive. Though the government has invested a great deal of effort to cool the escalating cost of housing, it is also carrying out large-scale public housing development, forecasted to be in the region of 30 million new homes within a three-year period. As the largest and one of the most respected suppliers of piped gas in mainland China, we see ourselves benefitting from this expanding market.

The use of natural gas at this ceramic plant during the firing process not only helps to prevent discolouration, it also improves quality and reduces costs.

Upstream and Midstream Facilities

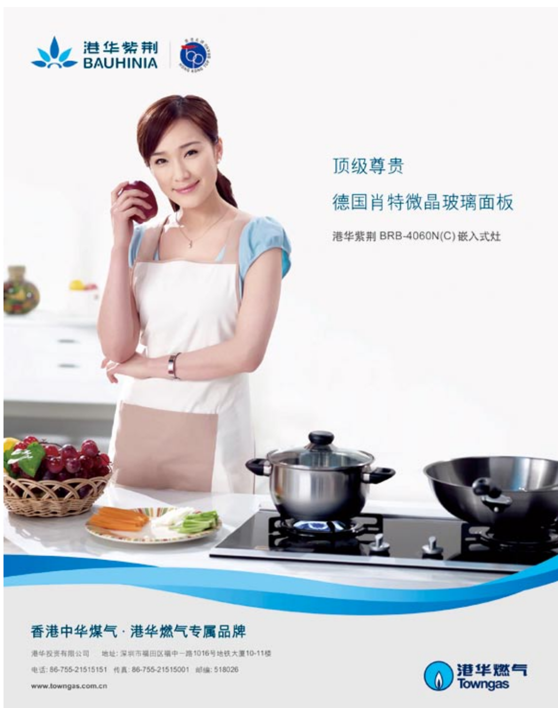
Our vision to become Asia's leading energy supplier providing a total spectrum of upstream, midstream and downstream activities also moved forward during the year.

In view of our focus on clean and green energy, our upstream facilities are primarily involved with new and alternative forms of energy. These include our LCBM plant in Shanxi province, which provides a ready supply of easily transportable fuel to wherever it is needed, as well as a liquefied coal-mine methane facility, which will be constructed soon in Shanxi province. Our first clean coal chemical project, producing methanol in Inner Mongolia also came on line in 2011, while a further coal project, to produce coke and coke oven gas, is taking shape in Jiangxi province. The coal for these projects is being supplied by nearby coal mining projects and, providing yet further impetus to our clean coal initiation activities, we acquired an additional coal mine in Inner Mongolia and a coal logistics transportation hub in Shandong province during the year.

Attesting to the strength of the piped gas market, our midstream operations performed exceptionally well during the year. Midstream gas sales rose to 1.9 billion cubic metres, an increase of 32 per cent over 2010. In addition to our existing midstream projects, which consist of a number of high pressure pipeline joint ventures in Anhui, Hebei, Zhejiang and Jilin provinces feeding gas supplies to our city-gas businesses; a natural gas exploration facility in Jilin province with supply linked to city-gas distribution networks in the vicinity; as well as the LNG Receiving Terminal in Guangdong province; we are in the process of building an underground gas storage facility in Jintan, Jiangsu province. This new facility will help to secure gas supplies for customers, particularly during the peak winter season for our city-gas businesses in the surrounding neighbourhood. Looking forward, we are also actively exploring and negotiating a number of new projects in this expanding business sector.

Serving Our Customers

With 13.2 million customer accounts, it is essential that our customers can gain easy access to our full spectrum of services. We therefore continue to expand our customer service centre network, which grew by eight new centres in 2011, bringing the total to 127 in 63 cities. At these centres, customers not only can make enquiries and sign up for gas services, but also take a look at our diverse range of Bauhinia appliances, which like our appliances in Hong Kong, provide energy-efficient and cost-effective service while also fostering a modern lifestyle. Our customers also enjoy follow-on maintenance and safety inspections, which are carried out on a regular basis.



Safe. Convenient. Cost-efficient. Environmentally-friendly. Building on these strengths, our Bauhinia appliances are being used in more than a million homes in China.

A technician checking the performance of the more durable stainless steel gas risers, which were installed as part of our anti-corrosion pipeline initiative.

As the first gas supplier to provide this one-stop service concept, coupled with our leading reputation in the market, as well as our widespread experience in Hong Kong, the sale of our Bauhinia appliances has consistently done well. Sales have increased by leaps and bounds and 2011 was no exception. Not only did we sell a total of 380,000 units, an increase of 36 per cent over the previous year, we also reached the million mark – cumulatively we have sold over a million units since the brand's launch in 2005. This significant milestone creates win-win benefits both for our customers and ourselves. We cement the leadership of our brand, while our customers are assured of quality, safe and energy-efficient appliances that contribute towards a more convenient and improved lifestyle.

During the year, Bauhinia received its certificate of energy conservation from the Chinese government placing the appliances on the country's official list of energy-efficient products. They were also cited as a "Model for the Industry" at the Gas and Heating China 2011 event held in Chengdu. Cementing this leadership, we continue our ongoing research and development. We are, for example, developing a line of products to meet the needs of the large-scale government-built housing developments which are taking place on the mainland.

Enhancing our services and making sure we always present a caring face to our customers, we launched a "Lead a Happy Life with a Smile" campaign supported by "Service with a Smile" training to promote a friendly and caring service culture. Elections for "Service with a Smile" ambassadors will also be held across the Group. These initiatives, held in line with our group-wide "Wenxin" programme, also include a "Smiles" photo competition.

While caring customer services provide the "heart" to our extensive customer network, it is our Towngas Customer Information System (TCIS) that provides the "brain", integrating information and standardising procedures, to provide efficient and effective services to our customers. This second generation system is currently being used in around 35 of our mainland businesses and as more and more businesses come on line, we expect this figure to double over the next few years. We are also running a trial among our 15 businesses in Sichuan province, using cloud computing techniques, based on our data centre in Jinan, to run their TCIS systems. With the success of the trial, this new concept will be implemented in other regions.

Improved Gas Safety and Risk Management

As the leading supplier of piped gas on the mainland, we have taken a strong stand in raising safety standards in the market. Every effort has been made to embed the concept of safety into the consciousness of our employees, our suppliers and contractors as well as our customers and the community.

Driving professionalism and safety throughout our operations, Towngas Engineering Academy completed 83,208 training hours for our mainland frontline technical staff in 2011.

A major step was taken several years ago when we began our yearly safety inspections at customer premises to check both gas appliances as well as the condition of gas piping within the premises. Providing an invaluable opportunity to identify and thus avert possible problems, this move has greatly boosted gas safety. These visits also enable us to take the safety message directly into customer homes and to recommend the replacement of aging and faulty appliances if it is necessary. Enhancing these activities during the year, a special emphasis was placed on customer premises which, due to lack of access, have not been visited for some time. As a result, by the end of 2011, we were able to achieve our target to conduct safety checks on the gas equipment of all our customers within a three-year cycle.

This safety mindset also gained momentum among our people, driven by the direct involvement of the highest levels of management. In addition to holding monthly safety meetings, senior management also conducted inspections in different regions in mainland China. This commitment not only sends the strongest possible message on gas safety throughout the Group, it also provides an excellent example of the priority management places on safety. This safety mindset was further reinforced by our "General Manager Monthly Safety and Risk Management Programme" which continues to prove its effectiveness.

The "Year of Safe Production" campaign, first launched in Xi'an in 2008, is being rolled out throughout our operations on the mainland.

The campaign was introduced to northeastern and southwestern China in 2009 and 2010 respectively, to Shandong province in 2011, and will be extended to three further provinces – Jiangsu, Zhejiang and Anhui in 2012. Under this initiative, an analysis of operations, based on geographical location, climate, operations history, safety awareness and other key factors, is carried out to identify key risk areas and establish Key Performance Indicators to address these risks.

With these ongoing safety initiatives, from our preliminary safety audits to identify the best programmes and measures for our businesses, to our ongoing training and special safety measures, as well as our safety drills and exercises – during the year a corporate emergency table top exercise involving both the Corporate Emergency Management Team and deputy managers was completed while a trial run of the corporate emergency management system was carried out by 12 selected city-gas businesses, we continue to see improvements in our safety performance. A safety and risk management audit conducted during the year showed that improvements in gas safety performance are rising – the 2011 audit achieved a score of 85 out of 100 against 71 just two years earlier in 2009.

Gas Businesses in Mainland China in 2011

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
TOWNGAS PIPED CITY-GAS PROJECTS				
Guangdong Province				
Panyu	1994	260	105	80%
Zhongshan	1995	240	96	70%
Dongyong	1998	132	53	80%
Jianke	2002	45	23	100%
Shunde	2004	200	100	60%
Shenzhen	2004	2,316	1,320	26.8%
Chaoan	2007	185	99	60%
Chaozhou Raoping	2011	189	106	60%
Central China				
Wuhan	2003	1,200	420	50%
Xinmi	2009	205	85	100%
Eastern China				
Yixing	2001	246	124	80%
Taizhou	2002	200	83	65%
Zhangjiagang	2003	200	100	50%
Wujiang	2003	150	60	80%
Xuzhou	2004	245	125	80%
Suining	2009	85	34	100%
Fengxian	2009	60	31	100%
Danyang	2004	150	60	80%
Jintan	2006	150	60	60%
Tongling	2006	240	100	70%
Suzhou Industrial Park	2001	600	200	55%
Changzhou	2003	248	166	50%
Nanjing	2003	1,200	600	50%
Fengcheng	2007	206	88	55%
Pingxiang	2009	87	35	100%
Jiangxi	2009	52	26	56%
Zhangshu	2009	86	34	100%
Yonganzhou	2010	100	68	93.9%
Shandong Province				
Jinan East	2003	610	470	50%
Northern China				
Jilin	2005	247	100	63%
Beijing Economic-technological Development Area	2005	111	44	50%
Hebei Jingxian	2011	186	79	81%
Northwestern China				
Xi'an	2006	1,668	1,000	49%
Hainan Province				
Qionghai	2008	110	50	49%
MIDSTREAM PROJECTS				
Guangdong LNG	2004	7,628	2,289	3%
Hangzhou NG	2005	760	304	10%
Anhui NG	2005	245	200	25%
Hebei NG	2005	1,260	420	45%
Jilin NG	2007	360	220	49%
Suzhou NG	2009	60	40	29%

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province

Foshan
Shaoguan
Qingyuan
Yangdong

Eastern China

Nanjing Gaochun
Maanshan
Maanshan Bowang
Anqing
Chizhou
Tunxi
Huangshan
Huizhou
Tongxiang
Huzhou
Yuhang
Changjiu
Fuzhou
Jiujiang
Wuning
Xiushui

Shandong Province

Jimo
Laoshan
Zibo
Zibo Lubo
Longkou
Jinan West
Jinan Changqing
Weifang
Weihai
Taian
Chiping
Linqu
Laiyang

Hunan Province

Miluo

Northeastern China

Benxi
Chaoyang
Tieling
Fuxin
Shenyang Coastal Economic Zone
Yingkou
Dalian Changxingdao
Dalian Economic and Technical Development Zone
Anshan
Lvshun
Kazuo
Changchun
Gongzhuling
Qiqihar
Beipiao

Southwestern China

Ziyang
Weiyuan
Pengxi
Lezhi
Pingchang
Dayi
Yuechi
Cangxi
Chengdu
Zhongjiang
Jianyang
Pengshan
Mianyang
Xinjin
Xindu
Qijiang
Guilin

THE HONG KONG GAS BUSINESS

Enhancing Lifestyles

Gas sales in industrial sector rose a significant **18.4 per cent**

Received **5,226** written compliment letters – the highest on record

Over **2,000** sets of our upmarket home kitchen series, Mia Cucina, sold

We work in close partnership with our customers to meet their needs with the most efficient, cost-effective as well as environmentally-friendly solutions.

The Hong Kong Gas Business

With the prosperity in the catering and hotel trades, we gained a stronger foothold in this market as a number of new clients, both in the catering industry as well as the food processing industry, made the switch from diesel fuel to the use of cleaner and more convenient town gas.

Buoyed by the economic boom in China, the large number of inbound visitors as well as the cooler winter weather, our Hong Kong gas business too performed well. Gas sales rose by a positive 2.1 per cent, while customer numbers increased by a further 26,237, bringing our total customer base in the territory to 1,750,553 accounts.

Our appliance sales also performed positively – we sold 234,000 units during the year, showing an improvement over 2010, despite the slowdown in the property market in the second half of the year. Customer satisfaction levels are also rising. Tracking studies consistently indicate high levels of customer satisfaction while the number of compliment letters received over the years has risen steadily. In 2011, we received 5,226 written letters, an increase of 3 per cent over the previous year, praising us for our services.

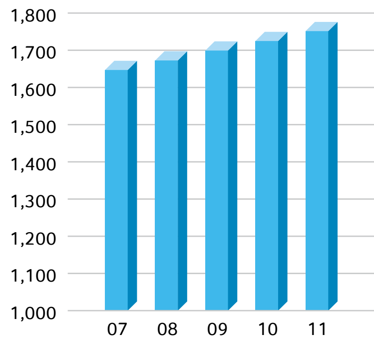
Reflecting our recognition in the community, the Towngas Group received the highest cnAAA rating on Standard and Poor's Greater China Credit Rating Scale and we were listed in the leading business magazine, Yazhou Zhoukan's "Global Chinese Business 1000 – Outstanding Performance Award" for the third year running, ranking eighth among Hong Kong's companies. We were named "The Best Listed Company" in Ta Kung Pao's "Golden Bauhinia Awards 2011" and honoured with "The Excellence of Listed Enterprise Awards" by Capital Weekly. In the customer service sector, we received the "Excellent After-sales Services Award" in Sing Tao Daily's "Excellent Services Brand".

See the stunning flame effects, powered by town gas, when the Fire Dragon and Water Dragon clash at the exciting Symbio show at Ocean Park.

Cathay Pacific Catering Services uses gas-powered steam washers and dryers to clean and dry the utensils, meal carts and meal trays used on flights.

Number of Customers

Company (Thousand)



Growing Our Commercial and Industrial Activities

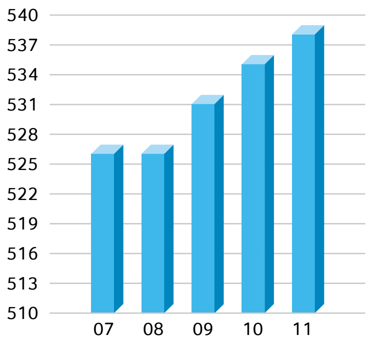
China's strong financial growth has not only helped to drive Hong Kong's economy, the large number of mainland visitors also benefitted Hong Kong's tourism industry. With the prosperity in the catering and hotel trades, we saw strong gas sales growth in this sector. In the course of the year, we successfully convinced a number of restaurants and food processing facilities to switch from diesel fuel to town gas, which is a cleaner and more convenient fuel.

On the industrial front, we won a key new contract in the aviation catering business and also made strong inroads into the laundry industry, converting a number of diesel boilers to gas. Gas usage at Hong Kong's theme parks is also growing as more attractions are fuelled by gas and patronage continues to rise. As such our commercial and industrial activities performed strongly during the year, with the industrial sector in particular, seeing an increase in gas sales of 18.4 per cent.

With rising oil and electricity prices, town gas offers a competitive energy alternative. Business managers are thus finding that it makes economic sense to switch to gas. At the same time, a number of businesses, particularly those in the food processing industry, are also making the move back to Hong Kong as production costs rise on the mainland. These are benefitting our local gas sales.

This positive trend is further advanced by the comprehensive range of commercial gas appliances tailored for the Hong Kong market. In addition to their high efficiency, they create a cooler and more comfortable working environment – recovering flue gas for example, not only saves energy, it also creates cooler surroundings and improves air quality. Highlighting our successes in this direction, our self-developed "Cool Kitchen Four Treasures" series, consisting of a steam cabinet, a food steamer, a wok range as well as a stockpot, won the "Machinery and Machine Tools Design Award" in the prestigious "Hong Kong Awards for Industries" in 2011. Just as significantly, we are currently conducting a number of indoor air quality studies at various restaurants and hotels.

Number of Customers per km of Mains Company



Tailored to meet the specific needs of our customers, our Mia Cucina kitchens are helping to enhance the quality of life in Hong Kong.

Serving Our Residential Customers

Further extending our Quality Living philosophy into the local community, we expanded the coverage of Towngas customer centres by opening further outlets in popular locations and unveiling our flagship Towngas Showcase at our headquarters in North Point. The new showcase, based on an all-in-one concept, displays our full range of gas appliances in simulated settings, featuring demonstration kitchens for both commercial and residential sectors.

We sold some 234,000 appliances during the year and achieved satisfactory sales for our stylish Mia Cucina kitchen series. Offering total kitchen solutions tailored to meet individual customer requirements both in a cost-efficient and environmentally-friendly manner, we have sold more than 2,000 Mia Cucina kitchen units in Hong Kong.

Dedicated to continuous improvement in product design to bring customers ever greater convenience and comfort, we launched a new timer function for our TGC built-in hob series. Our TGC brand received a “Platinum Award” in the “Reader’s Digest Trusted Brand Award 2011 – Kitchen Appliance category”, confirming the quality and innovation of our products.

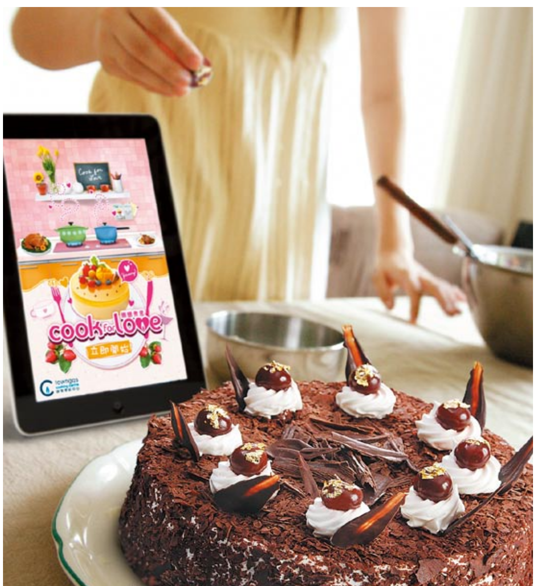
When conducting our Regular Safety Inspections (RSIs) at customer homes during the year, we paid particular attention to premises which have not been visited in the past five years due to lack of access. RSIs not only enhance safety, but also provide an ideal opportunity to encourage customers to upgrade their appliances. Confirming the value of this strategy, not only is the number of appliances sold through our service technicians and customer call centre staff growing, the number of on-demand service requests is also falling due to the growing use of more up-to-date appliances – dropping a significant 6.3 per cent in 2010, the figure fell by a further 13.4 per cent in 2011.

We also work with the government and a range of service organisations to take the safety message into the community. During the year, we carried out a number of gas safety briefings for major property management companies and housing estates to help them recognise how to prevent gas leaks and keep gas installations in sound condition.

Enhancing the Gas Infrastructure

Despite our service supply continuity rate of 99.99 per cent, one of the highest international standards, we ensure the ongoing improvement of our gas infrastructure, including our two production plants at Tai Po and Ma Tau Kok and a gas network consisting of some 3,500 kilometres of pipeline, covering about 86 per cent of homes in Hong Kong. In line with our vision to provide services with an environmentally-friendly focus, natural gas, probably the cleanest fossil fuel available today, accounts for about 57 per cent of our production fuel while landfill gas (LFG) accounts for about 2 per cent and naphtha makes up the balance.

Our use of LFG, a by-product in the decomposition of city solid waste, is particularly noteworthy. Its use not only captures an otherwise unwanted energy source, it also



Bake this mouthwatering confection for your loved ones. Find the recipe under our "Cook for Love" initiative, which provides over a thousand recipes on our website, Facebook page and smartphone app.

Our smartphone app, providing recipes and other online services, won both the "Top 10 Favourite Hong Kong Apps Awards 2011" and the "2011 Top Ten Healthy Mobile Phone/ Tablet Apps".

Results of Towngas Service Pledge 2011

RELIABILITY

Uninterrupted gas supply (over 99.99%)

99.992%

Three days prior notification in case of supply interruption on account of maintenance or engineering work

100%

Restoration of gas supply within 12 hours

100%

SAFETY

Emergency Team arrived on site within 30 minutes at 95% of the times[1]

96.18%

APPOINTMENTS

Availability of maintenance and installation services within two working days

Average 1.03 day

SPEED AND CONVENIENCE

Customer Service Hotline calls answered within four rings

95.33%

Connect or disconnect gas supply within one working day

100% upon customer's request

Deposit refunded at Customer Centres two hours after disconnection of gas supply

100% upon customer's request

SERVICE QUALITY

Efficiency[2]

8.77

Courteous and friendly attitude[2]

8.79

HANDLING SUGGESTIONS

Reply within three working days

100%

Resolution, or a statement of when the matter will be resolved, within two weeks

100%

1. Average 19.82 minutes.
2. The result was based on monthly surveys conducted from January to December 2011 by an independent research company. Our target is to exceed a score of 8 out of 10.

reduces the emission of both methane, a greenhouse gas, as well as vast amounts of carbon dioxide, caused by flaring off the LFG into the atmosphere.

Efforts to increase our use of natural gas are also continuing. The laying of a 15 km pipeline to bring natural gas to our production plant in Ma Tau Kok is nearing completion. We are also extending the gas mains from Kowloon Bay to the new cruise terminal in South East Kowloon, together with further network improvements to cater for several large food processing factories at the Tai Po Industrial Estate and a number of seafood restaurants in Lei Yue Mun.

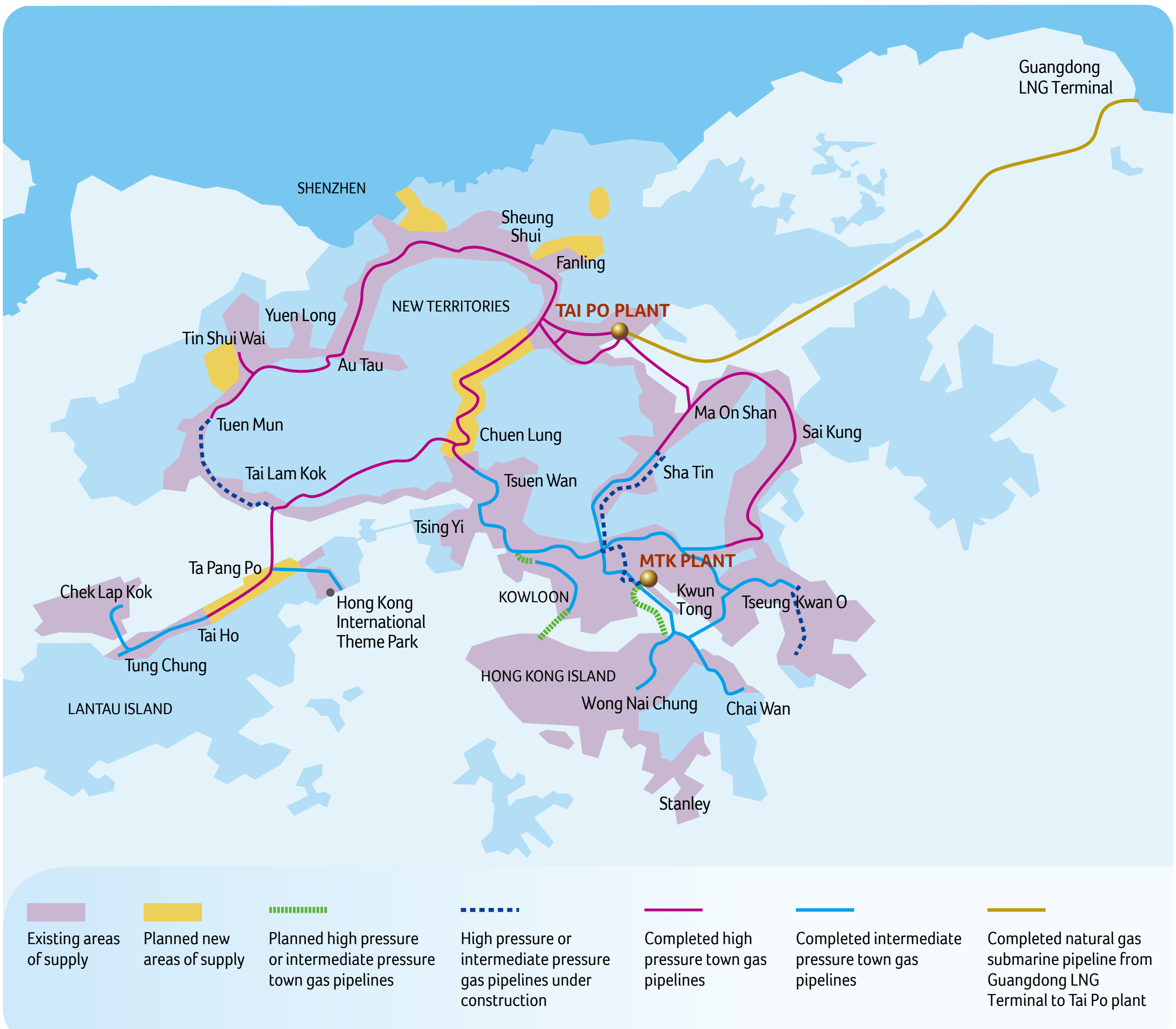
Work is also progressing on the 9 km ring-feed pipeline that will enhance supply reliability in the Northwest New Territories. A twin submarine pipeline of around 3.3 km between Ma Tau Kok and North Point is also planned for relocation to facilitate the building of the new cruise terminal as well as the strategic Central Kowloon Route.

Ensuring the safety of our network, our proactive monitoring and preventive maintenance programme is aided by our advanced Supervisory Control and Data Acquisition (SCADA) system, Remote Control System and Geographic Information System. The SCADA system has proven to be so successful that it has been widely adopted by our joint-venture businesses on the mainland, in addition to also serving several city-gas operators outside the Group.

A major maintenance project during the year was the completion of the "fingerprint" inspection of the 34 km twin natural gas high pressure pipeline that links the Guangdong LNG Terminal to our production plant in Tai Po. The inspection showed that the pipeline is in an excellent condition.

Our "Pay for Safety, Quality and Environmental Appraisal System" seeks to motivate excellence in these attributes at work through an appraisal and monetary reward scheme. The system is unique in that 50 per cent of the incentive payments are paid to the workers themselves. The quarterly presentation ceremony also provides managers with the opportunity to get to know and interact directly with the frontline workers.

Towngas Network in Hong Kong



OUR NEW ENERGY AND DIVERSIFIED BUSINESSES

Brightening the Future

ECO's portfolio consists of **20 new energy businesses**

Clean coal methanol facility in Inner Mongolia now fully operational

M-Tech established to provide **smart gas metering solutions** for the gas industry

Ensuring the transfer of both knowledge and experience from Hong Kong, our engineers work in close collaboration with our colleagues on the mainland.

Our New Energy and Diversified Businesses

Heightening our commitment to the development of new energies, we are looking for newer and more diverse ways to produce clean fuel. We are actively exploring the use of biomass energy, for example, with a focus on using renewable resources and waste materials.

During the year, our new energy and diversified businesses gained significant momentum contributing to the Group's revenues and overall profit. With more and more new projects coming on line, not only are we establishing a reputation as a leader in this still very young industry, this new business sector is also providing major impetus for our future business growth.

New Eco-energy

ECO Environmental Investments Limited (ECO)'s pioneering commitment to the alternative and clean energy sector is reaping tremendous dividends. With its move into this infant industry, ECO has established a number of firsts in the field. More significantly, the knowledge and experience gained enables the company to look further afield at ever newer and more diverse opportunities. Commencing with just two projects little over 10 years ago, ECO is now involved in 20 ventures – 18 on the mainland together with the liquefied petroleum gas (LPG) filling stations and the ECO Aviation Fuel Facility (EAFF) in Hong Kong.

Energy-related Logistics and Infrastructure Activities

Taking our first steps into this business in 2000 with the provision of five dedicated LPG filling stations and related services in Hong Kong, these activities have not only expanded into compressed natural gas (CNG) and liquefied natural gas (LNG) filling stations on the mainland, but also into the construction and operation of the EAFF to serve the needs of Hong Kong International Airport at Chek Lap Kok.

The launch of the aviation fuel facility represented our first steps into a totally new direction – the fuel tank farm business. Taking advantage of our experience in the storage of naphtha for gas production, ECO won the 40-year franchise to build and operate this facility in Tuen Mun. Commissioned in 2010 in two

This new coal resource facility in Inner Mongolia is the first open-pit coal mine in the Group's operations.

phases, 2011 represented the EAFF's first full year of operation.

Consisting of eight large tanks capable of storing up to 264,000 cubic metres of aviation fuel in total, operations proceeded smoothly with a throughput of more than 5.5 million tonnes of fuel during the year. The EAFF also gained its OHSAS 18001 and ISO 14001 accreditations in 2011.

Our five LPG filling stations in Hong Kong provide clean energy to Hong Kong's taxis and public light buses, accounting for some 30 per cent of this market. On the mainland, ECO operates CNG and LNG filling stations in Shaanxi, Shandong, Shanxi, Liaoning , Henan and Anhui provinces with a total of nine stations. These facilities, which meet fuel requirements for trucks and other heavy duty vehicles, will expand further as new technology makes it possible to power other forms of transportation, boats and marine vehicles for example, with gas.

During the year, boosting our burgeoning activities in the clean coal energy business as well as our logistics network, we acquired a logistics hub, the Jiaxianggang Logistic Port in Shandong province, for the transportation of coal. Currently under construction and expected to be operational in 2012, this facility is connected to upstream suppliers by rail and while downstream, it extends all the way to Shanghai and the Yangtze River region by canal.

Our coalbed methane plant in Shanxi province was fully commissioned in 2011 with a production capacity of 250 million cubic metres a year.

Pioneering the Use of Renewable and Waste Resources

An area into which we have made significant inroads is the use of waste resources as a fuel. Starting on this journey as far back as 1999, when we began the use of landfill gas as a fuel in the gas production process in Hong Kong, we have extended these activities both into the use of coalbed methane (CBM) and coal-mine methane (CMM) on the mainland. These greenhouse gases, traditionally seen as waste materials were flared off on site, adding to the release of carbon emissions into the atmosphere. We make good use of these resources, contributing to environmental protection.

Our CBM and CMM activities commenced with the opening of our liquefied coalbed methane (LCBM) plant in Shanxi province in December 2008. Employing cryogenic technology, the plant liquefies the CBM, making it 600 times more concentrated in energy intensity. As a result, the LCBM can be economically transported in bulk by road tankers to wherever it is needed. With the commissioning of the phase-two facility in March 2011, the plant, the largest of its kind in China, now has an annual production capacity of 250 million cubic metres. Together with our CMM project, which will begin construction soon in Shanxi province, we expect to produce 320 million cubic metres of liquefied gas a year.

The extraction and use of this methane provides a host of benefits – firstly it makes use of a waste material, reducing the use of traditional fossil fuels. Secondly it prevents the release of methane, a potent greenhouse gas, or carbon dioxide – if the methane is flared off, into the atmosphere. The extraction of this highly flammable gas also provides a safer working environment in the mines. Together with China's abundant methane resources, which is found in coal seams, we see tremendous scope for the further development of these services.

Clean Coal Utilisation Techniques

Despite China's huge coal reserves, the use of coal in its traditional form, burning it directly for its energy, while convenient, is also highly polluting. ECO has therefore been focusing on clean coal utilisation techniques, based on the gasification of coal, to create synthesis gas. This gas in turn can be modified chemically into a range of useful products. One of these is methanol – a highly efficient and clean burning fuel. Not only can it be turned into automobile fuel, it can also be used as a chemical feedstock.

Turning vision into reality, our coal-based methanol plant in Inner Mongolia is now at the pilot production stage. Due to be fully commissioned in mid-2012, it is well on track to achieving its capacity of 200,000 tonnes of methanol a year. A further coal chemical project is taking shape in Jiangxi province and expected to come on stream in 2012. Besides producing coke from coking coal, the coke oven gas, a by-product, will be fed into our city-gas network for industrial use nearby. Coking coal from a nearby mine will feed this coke-oven plant.

Supplying coal to our methanol plant in the vicinity, the construction of the Xiaoyugou mining facility was completed in Erdos, Inner Mongolia.

Construction of our coal mine in Xiaoyugou, Inner Mongolia was also completed and pilot production commenced in early 2012. When fully operational, it will supply 1.2 million tonnes of coal a year to our methanol plant in the vicinity. Seizing the opportunities in this developing industry, ECO also invested in a number of coal-mining and coal infrastructure projects during the year. This includes an operating coal mine in Inner Mongolia – the Group's first open-pit coal mine, its coal resources are being used for the Group's clean coal activities.

Heightening our commitment to the development of these new energies, we are looking for newer and more diverse ways to produce clean fuel. In addition to our own research and development facilities in Hong Kong, we are also working in partnership with a number of research institutes and technology entities in mainland China and also overseas in the development of more visionary clean coal utilisation techniques. We are actively exploring the use of biomass energy, for example, with a focus on using renewable resources and waste materials.

Aware that mine safety is of the utmost importance, comprehensive safety systems and processes are being established for ECO's new businesses in China. These include safety management systems both for the coal mine as well as the methanol plant in Inner Mongolia.

Our 16,000 square metre data centre in Jinan, Shandong province, not only offers the highest standards of service, it also supports the government's development plans to improve outsourcing services for the industry.

Telecommunications

Our telecommunications services, managed and operated by Towngas Telecommunications Company Limited (Towngas Telecom), experienced heightened growth and increased activity. Providing high-end telecommunication infrastructure services and quality network solutions for telecom carriers, service providers and large corporations, our optical fibre network, which rides on our gas networks using either glass-in-gas (GIG) or glass-along-gas (GAG) techniques, offers substantial synergies and economies of scale.

The data centre business, providing management and operations for computer equipment housed at the centre, coupled with rising demand for cloud computing services, witnessed exceptional growth. As such, our facilities in Hong Kong, which virtually doubled in size in 2010, reached saturation point in 2011. To meet this growing demand, both for cloud computing and outsourced IT services, we are establishing a new, world-class Internet Applications Centre, with an area of 22,000 square metres at the Tseung Kwan O Industrial Estate. This area, with the encouragement and support of the Hong Kong government, is rapidly evolving into a data centre hub for the Asian region.

Our telecommunication-related activities on the mainland currently include a number of projects. In addition to various GAG projects in Liaoning, Shandong and Jiangsu provinces, we are also operating a top level data centre, consisting of over 16,000 square metres in Jinan, Shandong province, while a further data centre is being built in Dalian, Liaoning province.

Water Supply and Wastewater Operations

Our water businesses, managed and operated by Hong Kong & China Water Limited (Hua Yan Water), continued to prosper. Water sales in our three projects grew by 8 per cent to reach 371 million tonnes during the year.

A major achievement was the addition of a new project, the China-Singapore Suzhou Industrial Park Environmental Technology Company Limited, to Hua Yan Water's existing business portfolio. The project, specially established to treat wastewater generated by an electronic component production plant in the Suzhou Industrial Park, is significant as it not only marks a further step forward in our mainland water portfolio, it also highlights the increasing bonds we enjoy with the local authorities. Beginning with the supply of LPG to the Industrial Park in the early days some ten years ago, these activities subsequently spread to the supply of a pipeline network, followed by the provision of water supplies and sewage treatment, while more recently, it resulted in this industrial wastewater treatment project.

A further achievement has been the implementation of the secondary water supply in the Suzhou Industrial Park. Under this new policy supported by the local authorities, we are now responsible for the management of the entire water processing and distribution system, all the way from the headstream to the taps of local residences, leading to improved water quality and enhanced service in the provision of cleaner, safer and more reliable drinking water to our customers. Over the next few years, we expect the growth in water supply to be higher than originally envisioned as more and more industrial facilities are being established in these regions.

Attesting to the innovation, commitment and high team spirit prevalent in our water businesses, Hua Yan Water won the grand prize in our Carbon Reduction Programmes on the mainland yet again. The winning proposal came from the Suzhou water project to prevent rainwater from entering the wastewater system. This simple idea reduced the amount of wastewater to be processed by 3 million tonnes in 2011 alone.

U-tech participated in a greening project along the 550-metre promenade linking Tsim Sha Tsui to Hung Hom. The results provide a pleasant and relaxing harbourfront venue.

Civil and Building Services Engineering

During the year, U-Tech Engineering Company Limited (U-Tech) cemented its leading role in Hong Kong in the use of trenchless technology, working on several projects both within the Group and externally, in a number of waterworks and drainage contracts. In 2011, we gained a water mains replacement and rehabilitation contract for the Water Supplies Department, and the construction of a salt water service reservoir was also in good progress. The completion of these projects will pave the way towards a confirmed Group C contractor status, which will help expand our scope of work for the local government.

Manufacturing Facilities

GH-Fusion Corporation Limited was formed in 2000 to manufacture and supply polyethylene (PE) pipe fitting products and jointing equipment for gas and water piping systems. In addition to providing us with a supply of PE piping, the manufacturing of our own product ensures that they meet the highest standards of safety and quality required. Extending this strategy, M-Tech Metering Solutions Company Limited (M-Tech) was established during the year to develop and manufacture advanced electronic gas meters, using the Micro-Electro-Mechanical System (MEMS) gas mass-flow measurement technology pioneered in Silicon Valley in the United States. M-Tech meters will provide both more advanced and accurate smart gas metering solutions for the gas industry both in China and beyond.

New Energy and Other Projects in Mainland China in 2011

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
NEW ENERGY PROJECTS				
Coal Mining				
Jiangxi Fengcheng	2008	1,100	236	25%
Inner Mongolia Erdos Xiaoyugou	2009	447	120	70.1%
Inner Mongolia Erdos Kejian	2011	450	150	100%
Coal-based Chemical				
Jiangxi Fengcheng	2009	1,250	350	40%
Inner Mongolia Erdos	2009	1,170	400	70.1%
CNG/LNG Filling Stations				
Shaanxi Xianyang	2007	4	4	60%
Shaanxi Huitai	2010	54	27	60%
Anhui Maanshan	2006	15	11	30%
Shanxi Yuanping	2008	34	20	42%
Dalian DETA	2010	40	20	49%
Shandong Chiping	2010	30	15	70%
Shandong Jining	2010	30	15	51%
Shandong Dongping	2010	20	14	91%
Henan Xinmi	2011	29	15	100%
Upstream Projects				
Shanxi LCBM	2006	600	200	70%
Jilin Tianyuan	2007	140	8	50%
LCMM Project	2010	520	180	50%
Coal Logistic Project				
Shandong Jining Jiaxianggang Logistic Port	2011	540	180	55%
TELECOMMUNICATION PROJECTS				
Shandong Jinan	2007	80	40	90.1%
Shandong Jinan Chibo	2009	170	68	65.5%
Liaoning Dalian DETA	2010	14	10	49%
Dalian Yida	2011	190	76	90%
Shandong Laiyang	2011	14	10	90%
Xuzhou Fengxian	2011	11	8	100%
WATER PROJECTS				
Wujiang	2005	2,450	860	80%
Suzhou Industrial Park	2005	3,685	2,197	50%
Wuhu	2005	700	300	75%
Suzhou Industrial Park (Industrial Wastewater Treatment)	2011	828	300	49%
OTHER PROJECTS				
Shenyang Sanquan Construction Supervisory	2011	4	3	60%
M-Tech	2011	28	14	100%
GH Fusion	2002	87	43	50%
Towngas Technology	2011	10	7	70%

CORPORATE SOCIAL RESPONSIBILITY

Building Trust

Won the **American Society for Training and Development's "BEST Award"** for our corporate culture and employee development programmes in China

"Wenxin", our internal employee engagement programme, was launched

Our accident figures in Hong Kong fell to 7 cases, **the lowest** on record

Our social and volunteer services seek to brighten the life of those around us.

Corporate Social Responsibility

While all our activities must be based on sound business practices, they must also have the interests, not only of our stakeholders but also of our communities, at heart.

The success of our business can only be sustainable if we have the trust of our employees, customers, business partners and the general community. As such, while all our activities must be based on sound business practices, they must also have the interests, not only of our stakeholders but also of our communities, at heart. Therefore, in addition to providing quality, efficient and cost-effective services to our customers, our focused commitment, to our people, the communities that we serve and our planet, forms the backbone of our corporate social responsibility programme.

With the enthusiastic support of our employees, 16,139 trees were planted in a 69,477 square metre area under our tree planting activities on the mainland in 2011.

Environmental Sustainability

In recent years, there has been growing debate on environmental sustainability as higher populations, greater industrialisation and increasing pollution take their toll. Fully aware of these global concerns, we have always made every attempt to treat our environment with respect.

In line with this philosophy, we introduced landfill gas into the gas production process in 1999 and natural gas, probably the cleanest fossil fuel available, in 2006. Together they account for about 60 per cent of our total production today.

On the mainland, our 100 city-gas operations are almost entirely based on the use of natural gas. Our new and alternative energy activities, from the use of liquefied coalbed and coal-mine methane to our clean coal pursuits, are also driving the use of clean energy to new highs.

Enhancing our green programmes in Hong Kong, we established a Green Development Steering Committee, which apart from developing environmental key performance indicators, will be looking into carbon footprint studies of a typical gas appliance. In mainland China, building on the tremendous success of our carbon reduction competition in 2010, the exercise was repeated in 2011. Receiving a total of 47 submissions against 38 in the previous year, these projects reduced carbon emissions by 10,000 tonnes in 2011, equivalent to the carbon dioxide removed by 430,000 trees annually.

We supported activities organised by green groups both in Hong Kong and on the mainland. These ranged from Friends of the Earth (HK)'s tree planting challenge to Hong Kong

At our "Low-carbon Mid-Autumn Fun" workshops, children created their very own graffiti eco-lanterns, while also learning how to make fun and creative cupcakes x mooncakes.

Green Sense's "No Air-con Night" and the WWF's "Earth Hour" initiative. We also sponsored the Conservancy Association's "Green Leaders Bloc" which recruits and trains university students to help protect the environment as well as Green Power's "World Environmental Day – Let's Go Low Carbon" campaign seeking to publish a storybook about Emperor Penguins targeted at primary students. Driving low-carbon development in the commercial sector, we participated in "Eco Expo Asia 2011", organised by the Hong Kong Trade Development Council.

A "Low-carbon Mid-Autumn Fun" campaign was also held to promote environmental awareness whilst celebrating the Mid-Autumn Festival. In addition to an exhibition of over 200 graffiti Chinese lanterns, workshops were held enabling participants to design their own eco-friendly graffiti lanterns.

These efforts are widely recognised in the community. We received the "WasteWi$e Label – Class of Excellence" yet again and we also won the Green Council's "Green Management Award – Silver Award". Following our winning of the Grand Award in the "Hang Seng Pearl River Delta Environmental Awards" last year, we were once again named as a "Green Medalist" in the awards this year.

Social Sustainability

Reaching out to our communities, our aim is to improve the quality of life for the less fortunate and the financially disadvantaged. Our Towngas Concession Schemes provide the foundations for this commitment – offering concessionary rates for our town gas services, these schemes are available to the elderly, people with disabilities as well as single-parent families. In 2011, low-income families were added to this list.

Integrating our focus on cookery together with our commitment to enhance the quality of life in Hong Kong, we continue our annual Rice Dumplings and Mooncakes for the Community initiatives. These activities not only bring the holiday spirit and festive cheer to the elderly and people living on their own, they also help to keep old traditions alive as they teach participants, and the young in particular, how to make these festive and traditional delicacies.

In addition to teaching about 100 primary students how to make special low-carbon dumplings, during the year, some 220 legislative councillors and district councillors together with various local voluntary groups gathered to wrap 230,000 rice dumplings for distribution in the community. Similarly, we distributed 100,000 mooncakes with the support of 50 NGOs, employees and volunteers.

A new initiative, our "Cook for Love" campaign was launched in partnership with the Social Welfare Department (SWD). Our volunteers and their families provided mentoring services to needy single-parent families, helping to improve their communication and social skills through interaction and group activities such as cookery classes, games, rock-climbing and sports.

These community service programmes are organised, managed and operated by our Towngas Volunteer Service Team, who received the Championship in the SWD's "Highest Service Hour

Award in 2010, Private Organisations – Best Customer Participation" for the fourth year running. Since this team was founded in 1999, it has racked up over 326,000 volunteer service hours for the community.

As in Hong Kong, our mainland businesses have established volunteer teams to serve the community. Programmes, from our rice dumpling and mooncake activities to book donation campaigns, continue apace earning us a host of awards. These included the "Enterprise with Outstanding Community Service in China", "Most Influential Enterprise in Corporate Social Responsibility Affairs" as well as "China Best Corporate Citizenship".

During the year, we expanded our "Book Donation with Love and Care Programme", collecting up to 15,000 books for distribution to schools in 10 different provinces. We also continued our association with the Shanghai Soong Ching Ling Foundation – Bank of East Asia Charity Fund, helping to establish another "Firefly Playground", a voluntary learning programme for primary students, and we also extended the activities of our "Jingqi Mentoring Scheme" to Hunan province. Launched in 2010 in collaboration with the Virya Foundation, this scheme provides a one-year mentoring scheme for university students.

Corporate Sustainability

In building a sustainable and quality Towngas workforce, which currently consists of more than 38,000 skilled and experienced professionals both in Hong Kong and on the mainland, we not only offer competitive salaries and benefits, we also make every effort to ensure employee well-being and ongoing career advancement with comprehensive training and development.

Empowering Our People

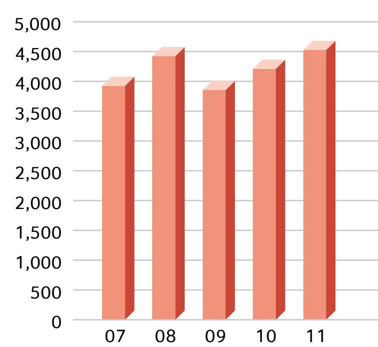
Training and development is crucial to our activities, both from a professional and a cultural viewpoint. Professionally it guarantees a pool of talented and able employees who will help us to achieve our business goals. Culturally it ensures that our people not only share our goals but that we do so with mutual respect as well as with like-minded expectations and standards.

We were thus delighted to receive the American Society for Training and Development (ASTD)'s "BEST Award" for our well-established corporate culture and employee development programmes in our China operations. ASTD is one of the world's most well-known associations dedicated to workplace learning and the development of professionals. Winning this recognition is all the more rewarding as it is the first time that we have participated in the award.

We have expanded our "Book Donation with Love and Care Programme" from Sichuan province to several other regions. The children here enjoy our 20th Book Corner located in Henan province.

Revenue per Employee

Company (HK$ thousand)



Environmental Performance Table (Hong Kong)

OZONE LAYER PROTECTION

All of our vehicle air-conditioning systems now operate with refrigerant R134A.

All BCF portable fire extinguishers have been replaced by dry powder extinguishers.

AIR QUALITY

Total NOx output was 4.65 kg/TJ of town gas.

Total SOx output was 0.02 kg/TJ of town gas.

Total CO_2 output was 11.91 metric tonnes/TJ of town gas.

GREENHOUSE GAS EMISSION

Greenhouse gas emissions from major gas production equipment were 362,307 metric tonnes in terms of CO_2 equivalent.

WATER QUALITY

Total wastewater output was 5.84 m^3/TJ of town gas.

CHEMICAL WASTE

Total chemical waste output was 0.67 kg/TJ of town gas.

NOISE

All installations and operations complied with the statutory requirements.

No noise abatement notice has ever been received.

All legal requirements relating to environmental protection were fully complied with.

On a professional level, our training programmes provide our employees with the necessary skills and expertise to carry out their jobs. To this end, our Towngas Engineering Academy (TEA) carries out a number of trainee and apprenticeship schemes, helping to add new blood into the gas industry. In addition to the centre in Hong Kong, training centres in Shandong, Sichuan and Changchun also provide training to our frontline technical staff, not only ensuring their technical competence but also certifying their professionalism when training has been completed. Together with refresher training both for our employees and contractors, train-the-trainer programmes as well as continuing professional development talks and seminars, which promote a lifelong learning culture, TEA completed some 123,700 man-hours of training during the year.

A highlight during the year was the "Leading Others" programme introduced to strengthen leadership competencies among our supervisors and managers in Hong Kong. Based on our vision, mission and values, some 56 frontline managers and supervisors completed this course in its first launch.

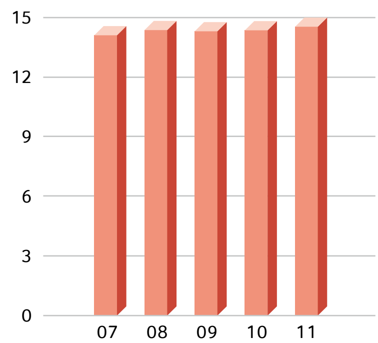
Our "Graduate Trainee Scheme" is set to celebrate its 30th anniversary in 2012. Commending us for our achievements in this direction, we received an award from the Hong Kong General Chamber of Commerce for the scheme. A further 10 graduate trainees were recruited for our businesses both in Hong Kong and China in 2011, and in view of its growing management needs, ECO launched its own 18-month management trainee scheme on the mainland, hiring around 18 graduates a year, to build a pool of talent for the future.

In August 2011, we launched the second round of our "Corporate Towngas Leadership Competencies" scheme for 19 executives chosen from our various operations. This 18-month talent acceleration scheme aims to stretch the abilities, not only of participants but also of the people around them, as colleagues, supervisors and mentors are also invited to join in some of the courses and activities.

Enhancing their leadership competencies, 153 general managers and senior managers from our mainland companies participated in our "Executive Development Programme" that was organised with mainland universities such as Tsinghua University, Nanjing University, Dalian Polytechnic University and Southwestern University of Finance and Economics.

Our senior managers visited over 1,300 frontline employees working outdoors in the blistering August heat. Our Managing Director, Alfred Chan (fourth from left, second row), is seen here on a visit to a network site.

Town Gas Sales per Employee Company (million MJ)



Promoting Employee Well-being

In building a sustainable workforce, the well-being of our employees is critical to establishing loyalty and trust. During the year, we launched our internal corporate culture promotional campaign, "Wenxin" programme – "Wenxin" translates into "warmth and care" in English, not only to show our appreciation and thank our people for their help and support, but also to increase their involvement in the company and strengthen their ties in our Towngas family.

As part of this programme, members of our Executive Committee and management visited staff working outdoors in summer, distributing towels and cooling herbal tea prepared by a social enterprise. We also launched a 24-hour hotline, "Warmth Express", providing professional and confidential counselling services to help employees deal with stress and other emotional or personal issues that they may need to resolve. A song-writing competition was held, looking for new lyrics for our Towngas theme song, to highlight our warm and caring corporate culture.

These family-friendly policies as well as our commitment to family core values won us yet another award during the year. In addition to our rankings in the past as one of the top ten most preferred employers in Hong Kong, we were honoured with the "Distinguished Family Friendly Employer Award", presented by the Family Council.

Ensuring Employee Work Safety

During the year, we won various awards in the Occupational Safety and Health (OSH) Council's "Hong Kong OSH Awards", including gold awards in two categories – Safety Management System and OSH Annual Report, as well as the "Safety Performance Award".

We completed a combined audit programme, covering four of our quality management systems – ISO 9001, ISO 14001, OHSAS 18001 and PAS 55, in one go. We also became the first utility in Hong Kong to receive our "International Safe Workplace Programme" designation under the framework of the World Health Organisation Safe Community.

These ongoing efforts continue to reap dividends. Industrial accident figures have been falling both on the mainland and in Hong Kong, bringing us closer to our zero accident goal. In Hong Kong, we achieved our lowest accident rate on record – the figure fell from 12 accidents in 2010 to just 7 cases, with no serious injuries, during the year.

Financial Resources Review

Liquidity and Capital Resources

As at 31st December 2011, the Group had a net current deposits position of HK$7,515 million (31st December 2010: HK$1,356 million) and long-term borrowings of HK$21,628 million (31st December 2010: HK$11,746 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$313 million (31st December 2010: HK$529 million), net current funds as at 31st December 2011 amounted to HK$7,828 million (31st December 2010: HK$1,885 million). In addition, banking facilities available for use amounted to HK$6,962 million (31st December 2010: HK$6,966 million).

In February 2011, the Group concluded a HK$3.8 billion 5-year syndicated term loan and revolving credit facility, the first syndicated financing transaction for the Group since 2006, for refinancing the HK$3.0 billion inaugural syndicated facility taken up in 2006. The response to the syndication was overwhelming with an over-subscription of more than 70 per cent. This enabled the facility amount to be increased from an initial HK$3.0 billion to HK$3.8 billion backed by a total of 11 international and regional financial institutions including Japanese, American, Taiwanese, Spanish and Hong Kong banks. The success of this syndicated facility demonstrates the banking community's strong confidence in the Group's business development prospects.

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities and debt financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Borrowing Structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favorable terms and timing under the Programme. In late March 2011, the Group issued its first RMB Note of RMB1 billion at a fixed coupon rate of 1.40 per cent per annum and 5-year maturity term in Hong Kong. In December 2011, the Group issued AUD Note of AUD50 million at a fixed coupon rate of 6.43 per cent per annum and 10-year maturity term. Up to 31st December 2011, the Group issued notes in the total amount of HK$5,855 million (31st December 2010: HK$3,010 million) with maturity terms of 5 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2011 was HK$5,807 million (31st December 2010: HK$2,951 million).

As at 31st December 2011, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million (31st December 2010: US$995 million) and the carrying value was HK$7,660 million (31st December 2010: HK$7,654 million).

On 23rd September 2011, the outstanding principal amount of the 7-year US dollar Guaranteed Senior Notes due 2011 (the "Guaranteed Senior Notes") issued in September 2004 by a subsidiary of the Group, Towngas China Company Limited of US$141 million (31st December 2010: US$141 million), was fully redeemed at maturity. This Guaranteed Senior Notes were listed on the Singapore Exchange Securities Trading Limited.

As at 31st December 2011, the Group's borrowings amounted to HK$25,849 million (31st December 2010: HK$21,728 million). The increase was mainly due to the new issue of MTNs of total equivalent of HK$2,845 million, and net drawn down of bank loans for the rest. The Notes mentioned on above together with the bank and other loans of HK$681 million had fixed interest rate and were unsecured. While the bank and other loans of HK$196 million of the two newly acquired joint ventures during the year 2011 were secured by a pledge of certain assets of the joint ventures, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$7,317 million (31st December 2010: HK$1,141 million) were long-term bank loans while HK$4,188 million (31st December 2010: HK$8,868 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2011, the maturity profile of the Group's borrowings was 16 per cent within 1 year, 7 per cent within 1 to 2 years, 29 per cent within 2 to 5 years and 48 per cent over 5 years (31st December 2010: 46 per cent within 1 year, 5 per cent within 2 to 5 years and 49 per cent over 5 years).

The US dollar Guaranteed Notes, the RMB Note and AUD Note issued are hedged to Hong Kong dollars by currency swaps and the Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi; thus, the Group has no significant exposure to foreign exchange risk. The gearing ratio [net borrowing / (shareholders' funds + net borrowing)] for the Group as at 31st December 2011 remained healthy at 25 per cent (31st December 2010: 22 per cent). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$313 million as at 31st December 2011 (31st December 2010: HK$529 million), the net gearing ratio [net debt / (shareholders' funds + net debt)] stood at 25 per cent (31st December 2010: 21 per cent).

Contingent Liabilities

As at 31st December 2011, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associated companies, jointly controlled entities or third parties (31st December 2010: Nil).

Currency Profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

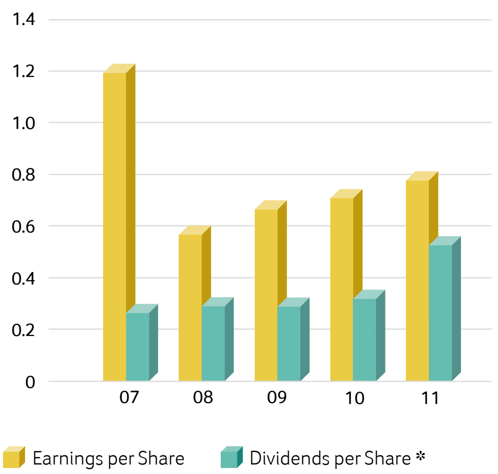
Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2011, the investments in securities amounted to HK$3,424 million (31st December 2010: HK$3,970 million). The performance of the Group's investments in securities was satisfactory.

Five-Year Financial Statistics

Earnings and Dividends per Share

(HK$)

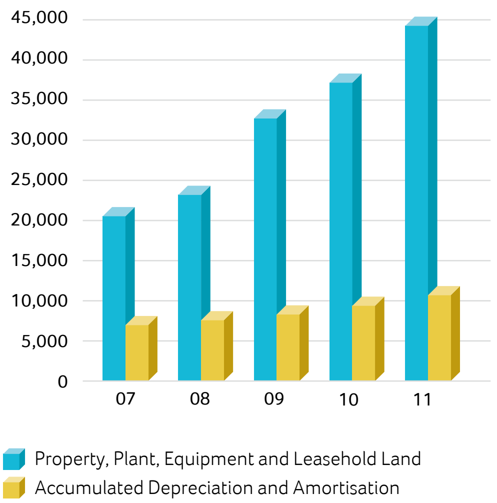


* Year 2011 included a 150th Anniversary special dividend of HK 17.5 cents per share

Revenue and Gas Sales

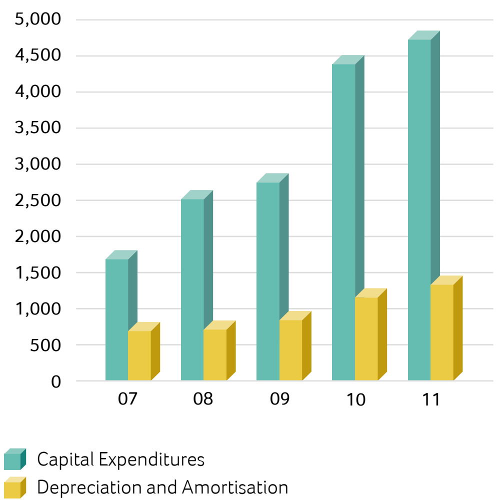
(HK$ million)

Property, Plant, Equipment and Leasehold Land (HK$ million)



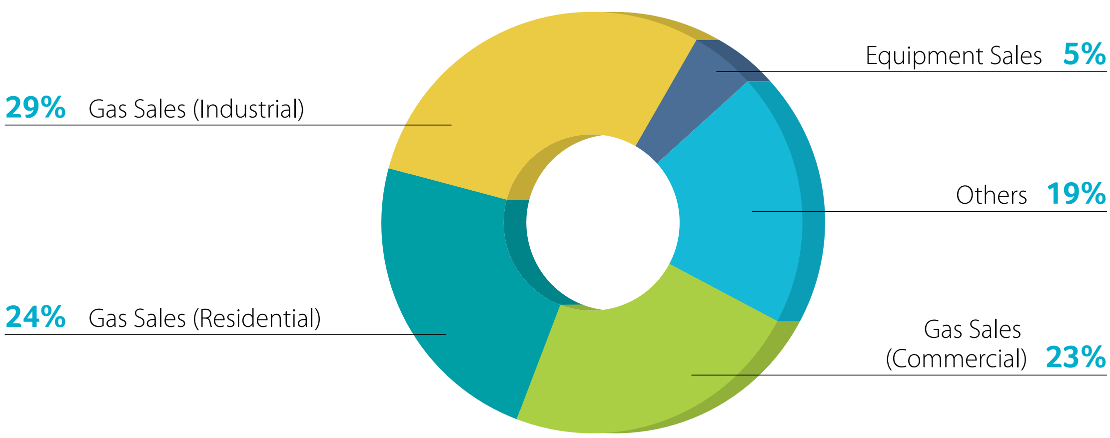
Capital Expenditures

(HK$ million)

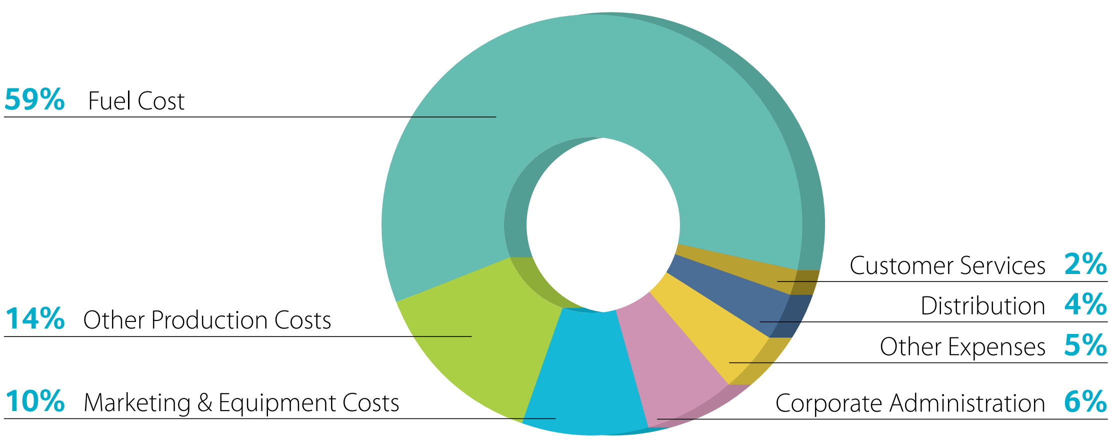


2011 Financial Analysis

Analysis of Revenue



Analysis of Expenditures



Comparison of Ten-Year Results

	2011	2010	2009
Highlights (Company)			
Number of Customers as at 31st December	**1,750,553**	1,724,316	1,698,723
Town gas Sales, million MJ	**28,147**	27,578	27,274
Installed Capacity, thousand m^3 per day	**12,260**	12,260	12,260
Maximum Daily Demand, thousand m^3	**6,742**	6,191	6,621
Revenue & Profit	**HK$ M**	HK$ M	HK$ M
Revenue	**22,426.8**	19,375.4	12,351.8
Profit before Taxation	**8,068.7**	7,086.7	6,159.9
Taxation	**(1,344.0)**	(1,038.8)	(750.6)
Profit after Taxation	**6,724.7**	6,047.9	5,409.3
Non-controlling Interests	**(575.1)**	(463.1)	(134.2)
Profit Attributable to Shareholders	**6,149.6**	5,584.8	5,275.1
Dividends [2]	**4,147.8**	2,513.8	2,285.3
Assets & Liabilities			
Property, Plant, Equipment and Leasehold Land	**33,606.3**	27,825.8	24,452.6
Investment Property	**518.0**	501.0	501.0
Intangible Asset	**3,434.8**	2,575.6	2,461.7
Associated Companies	**12,706.8**	10,802.2	9,304.0
Jointly Controlled Entities	**8,964.7**	7,768.8	7,011.2
Available-for-Sale Financial Assets	**3,110.6**	3,441.2	2,996.0
Other Non-Current Assets	**2,792.6**	2,791.9	722.7
Current Assets	**19,955.1**	16,957.6	19,622.3
Current Liabilities	**(13,403.4)**	(16,523.4)	(10,628.8)
Non-Current Liabilities	**(25,353.3)**	(14,932.1)	(18,635.4)
Net Assets	**46,332.2**	41,208.6	37,807.3
Capital & Reserves			
Share Capital	**1,975.1**	1,795.6	1,632.3
Share Premium	**3,275.8**	3,455.3	3,618.6
Reserves	**33,133.5**	30,561.3	27,112.3
Proposed Dividend [2]	**3,199.7**	1,651.9	1,501.8
Shareholders' Funds	**41,584.1**	37,464.1	33,865.0
Non-controlling Interests	**4,748.1**	3,744.5	3,942.3
Total Equity	**46,332.2**	41,208.6	37,807.3
Earnings per Share, HK Dollar [1]	**0.78**	0.71	0.66
Dividends per Share, HK Dollar [1,2]	**0.53**	0.32	0.29
Dividend Cover	**1.48**	2.22	2.31

[1] Adjusted for the bonus issue in 2011
[2] Year 2011 included a 150th Anniversary special dividend of HK 17.5 cents per share

2008	2007	2006	2005	2004	2003	2002
1,672,084	1,646,492	1,622,648	1,597,273	1,562,278	1,520,166	1,470,738
27,583	27,041	27,034	27,261	27,137	27,002	26,641
12,260	12,260	12,260	12,050	11,210	11,000	11,000
7,158	5,806	6,279	6,614	6,694	5,848	5,695
HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M
12,352.2	14,225.5	13,465.3	9,350.9	8,154.0	7,288.8	6,878.0
5,189.6	10,577.3	6,986.4	6,047.3	3,966.1	3,842.2	3,455.9
(546.3)	(933.8)	(914.6)	(628.6)	(623.0)	(735.2)	(523.7)
4,643.3	9,643.5	6,071.8	5,418.7	3,343.1	3,107.0	2,932.2
(92.3)	(64.1)	(27.0)	(10.4)	(12.9)	(13.6)	(9.6)
4,551.0	9,579.4	6,044.8	5,408.3	3,330.2	3,093.4	2,922.6
2,333.0	2,120.9	1,928.1	1,935.7	1,966.7	1,975.2	1,991.8
15,638.0	13,585.7	12,864.7	11,067.0	8,969.9	9,644.3	9,324.2
523.0	410.0	–	–	–	–	–
196.4	185.1	48.6	45.8	–	–	–
11,327.7	9,016.6	3,817.8	2,239.5	1,258.4	2,712.1	2,542.2
6,164.0	6,501.7	5,815.0	5,197.5	1,709.5	2,558.9	241.6
1,105.2	1,066.9	848.5	768.0	624.3	861.3	1,651.9
153.8	148.0	100.7	–	–	–	–
17,708.2	12,961.2	13,028.2	10,457.7	8,584.0	5,991.4	6,420.0
(5,407.7)	(7,188.3)	(7,141.0)	(8,182.5)	(4,182.6)	(3,203.7)	(2,539.3)
(14,989.7)	(6,517.0)	(7,803.5)	(4,570.1)	(2,022.9)	(1,852.0)	(1,688.1)
32,418.9	30,169.9	21,579.0	17,022.9	14,940.6	16,712.3	15,952.5
1,666.4	1,514.9	1,377.2	1,377.2	1,403.7	1,410.9	1,422.7
3,618.6	3,770.1	3,907.8	3,907.8	3,907.8	3,907.8	3,907.8
24,752.6	22,769.1	14,502.5	10,042.5	8,052.7	9,873.1	9,191.6
1,533.1	1,393.7	1,267.0	1,267.0	1,291.4	1,298.0	1,308.9
31,570.7	29,447.8	21,054.5	16,594.5	14,655.6	16,489.8	15,831.0
848.2	722.1	524.5	428.4	285.0	222.5	121.5
32,418.9	30,169.9	21,579.0	17,022.9	14,940.6	16,712.3	15,952.5
0.57	1.19	0.75	0.67	0.41	0.38	0.36
0.29	0.26	0.24	0.24	0.24	0.24	0.24
1.95	4.52	3.14	2.79	1.69	1.57	1.47

Report of the Directors

The Directors have pleasure in submitting to shareholders their Report and the Audited Accounts for the year ended 31st December 2011 which are to be presented at the Annual General Meeting to be held at the Convention Hall, Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 5th June 2012.

Principal Activities

The principal activities of the Group continue to be the production, distribution and marketing of gas, water and energy related activities in Hong Kong and mainland China. Particulars of the principal subsidiaries of the Company are shown on pages 148 to 156 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and mainland China.

Results and Appropriations

The results of the Group for the year ended 31st December 2011 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 70 and 71 of this Annual Report respectively.

An interim dividend of HK 12 cents per share was paid to shareholders on 3rd October 2011 and the Directors recommend a final dividend of HK 23 cents per share and a special dividend of HK 17.5 cents both payable on 21st June 2012 to shareholders whose names are on the register of members on 13th June 2012.

Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every ten existing shares held by the shareholders of the Company whose names are on the register of members on 13th June 2012. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

Financial Summary

A summary of the results of the Group for the past nine financial years is set out on pages 50 and 51 of this Annual Report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 38 to the Accounts.

The distributable reserves of the Company at 31st December 2011 amounted to HK$11,595,000,000 (2010: HK$5,115,700,000) before the proposed final dividend and special dividend for the year ended 31st December 2011.

Property, Plant and Equipment

Movements in property, plant and equipment of the Group and the Company are shown in Note 17 to the Accounts.

Share Capital

Movements in share capital of the Company are shown in Note 36 to the Accounts.

Borrowings

Particulars of the borrowings of the Group are provided in Note 32 to the Accounts.

Charitable Donations

Charitable donations made by the Company and its subsidiaries, operating mainly in mainland China, amounted to HK$28,700,000 and HK$4,800,000 (2010: HK$2,900,000 and HK$3,200,000) respectively in 2011.

Directors

At the Annual General Meeting held on 3rd June 2011, Dr. the Hon. Lee Shau Kee, Mr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po and Mr. Alfred Chan Wing Kin were re-elected as Directors of the Company. Mr. Leung Hay Man, Mr. Lee Ka Kit, Mr. James Kwan Yuk Choi, Mr. Lee Ka Shing and Professor Poon Chung Kwong held office throughout the year.

According to the Company's Articles of Association, one-third of its non-executive directors and one-third of its executive directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97, Mr. Lee Ka Kit, Mr. Lee Ka Shing and Professor Poon Chung Kwong, non-executive directors, and Mr. James Kwan Yuk Choi, an executive director, are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 13 and 14 of this Annual Report.

Disclosure of Interests

A. Directors

As at 31st December 2011, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and Underlying Shares *(Long Positions)*

Name of Company	Director	Interest in Shares: Personal Interests	Interest in Shares: Family Interests	Interest in Shares: Corporate Interests	Interest in Shares: Other	Interest in Underlying Shares Pursuant to Share Options	Aggregate Interest	%*
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee	4,723,440		3,274,026,997 (Note 5)			3,278,750,437	41.50
	Dr. the Hon. David Li Kwok Po	22,022,000					22,022,000	0.28
	Mr. Lee Ka Kit				3,274,026,997 (Note 4)		3,274,026,997	41.44
	Mr. Alfred Chan Wing Kin	150,543 (Note 7)					150,543	0.00
	Mr. James Kwan Yuk Choi	53,146	60,214				113,360	0.00
	Mr. Lee Ka Shing				3,274,026,997 (Note 4)		3,274,026,997	41.44
	Professor Poon Chung Kwong	48,315 (Note 6)					48,315	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 (Note 8)			9,500	95
	Mr. Lee Ka Kit				9,500 (Note 8)		9,500	95
	Mr. Lee Ka Shing				9,500 (Note 8)		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 (Note 9)			2	100
	Mr. Lee Ka Kit				2 (Note 9)		2	100
	Mr. Lee Ka Shing				2 (Note 9)		2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee			1,628,172,901 (Note 10)			1,628,172,901	66.18
	Mr. Lee Ka Kit				1,628,172,901 (Note 10)		1,628,172,901	66.18
	Mr. Lee Ka Shing				1,628,172,901 (Note 10)		1,628,172,901	66.18
	Mr. Alfred Chan Wing Kin					3,618,000 (Note 11)	3,618,000	0.15
	Mr. James Kwan Yuk Choi					3,015,000 (Note 11)	3,015,000	0.12

* Percentage which the aggregate long position in the shares or underlying shares represents to the issued share capital of the Company or any of its associated corporations.

Disclosure of Interests (Continued)

A. Directors (Continued)

Options to Subscribe for Shares of Towngas China *(Long Positions)*

Pursuant to the share option schemes of Towngas China, a subsidiary of the Company, certain Directors of the Company have been granted options to subscribe for the shares of Towngas China, details of which as at 31st December 2011 were as follows:

Name of Company	Director	Date of Grant	Exercise Period	Exercise Price (HK$)	Number of Shares Subject to Outstanding Options as at 01.01.2011*	Number of Shares Subject to Outstanding Options as at 31.12.2011*
Towngas China	Mr. Alfred Chan Wing Kin	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
	Total				3,618,000	3,618,000
	Mr. James Kwan Yuk Choi	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
	Total				3,015,000	3,015,000

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

Save as mentioned above, as at 31st December 2011, there were no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Disclosure of Interests (Continued)

B. Substantial Shareholders and Others *(Long Positions)*

As at 31st December 2011, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of Company	No. of Shares in which Interested	%*
Substantial Shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,696,927,906	21.48
	Timpani Investments Limited (Note 1)	2,405,881,727	30.45
	Faxson Investment Limited (Note 1)	3,150,389,273	39.88
	Henderson Land Development Company Limited (Note 1)	3,150,389,273	39.88
	Henderson Development Limited (Note 2)	3,156,196,583	39.95
	Hopkins (Cayman) Limited (Note 3)	3,274,026,997	41.44
	Riddick (Cayman) Limited (Note 4)	3,274,026,997	41.44
	Rimmer (Cayman) Limited (Note 4)	3,274,026,997	41.44
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	744,507,546	9.42
	Chelco Investment Limited (Note 1)	744,507,546	9.42
	Medley Investment Limited (Note 1)	708,953,821	8.97
	Commonwealth Bank of Australia (Note 12)	713,649,230	9.03

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

Save as mentioned above, as at 31st December 2011, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:
1. These 3,150,389,273 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD").
2. Henderson Development Limited ("HD") was taken to be interested in 61.35% of the total issued shares of HLD. Of these 3,156,196,583 shares, 3,150,389,273 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.
3. Of these 3,274,026,997 shares, 3,156,196,583 shares represented the shares described in Notes 1 and 2 and 117,830,414 shares were beneficially owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust ("Unit Trust").
4. These 3,274,026,997 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
5. These 3,274,026,997 shares included the shares described in Notes 1 to 4. Dr. the Hon. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.
6. These 48,315 shares were jointly held by Professor Poon Chung Kwong and his spouse.
7. These 150,543 shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.
8. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
9. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
10. These 1,628,172,901 shares in Towngas China representing 66.18% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,585,202,901 shares), Planwise Properties Limited (as to 40,470,000 shares) and Superfun Enterprises Limited (as to 2,500,000 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
11. These options represent personal interests held by the Directors.
12. Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 713,649,230 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Share Option Schemes of Towngas China

A. Pre-GEM Share Option Scheme

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

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

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

B. 2001 GEM Share Option Scheme

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

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

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

Share Option Schemes of Towngas China (Continued)

B. 2001 GEM Share Option Scheme (Continued)

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

The 2005 GEM Scheme has replaced the 2001 GEM Scheme on 18th May 2005 and no further options may be offered or granted under the 2001 GEM Scheme after that date but in all other aspects the provision of the 2001 GEM Scheme shall remain in full force and effect. As at the date of this report, no shares of Towngas China in respect of which options had been granted under the 2001 GEM Scheme was outstanding (2010: 8,797,500), representing 0% (2010: approximately 0.36%) of the issued share capital of Towngas China as at the date of this report.

C. 2005 GEM Share Option Scheme

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

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

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

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

Share Option Schemes of Towngas China (Continued)

C. 2005 GEM Share Option Scheme (Continued)

The total number of shares of Towngas China in respect of which options might be granted under the 2005 GEM Scheme was not permitted to exceed 10% of the shares of Towngas China in issue at the date of approval of the 2005 GEM Scheme without prior approval from Towngas China'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 of Towngas China 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 of Towngas China 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 of Towngas China commenced on Main Board (i.e. 8th December 2005), and no further options would be offered or granted after that date. No option was granted under the 2005 GEM Scheme since its adoption.

D. 2005 Main Board Share Option Scheme

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

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

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

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

The total number of shares of Towngas China in respect of which options may be granted under the 2005 Main Board Scheme is not permitted to exceed 10% of the shares of Towngas China in issue on the date of approval of the 2005 Main Board Scheme without prior approval from Towngas China'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 of Towngas China 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 of Towngas China in issue.

Share Option Schemes of Towngas China (Continued)

D. 2005 Main Board Share Option Scheme (Continued)

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

Details of specific categories of options of Towngas China are as follows:

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

Share Option Schemes of Towngas China (Continued)

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

	Option Types	Date of Grant	Exercise Period	Exercise Price (HK$)	Outstanding at 01.01.2011	Exercised during the Year	Outstanding at 31.12.2011	Weighted Average Closing Price of Shares of Towngas China Immediately before the Date(s) on which Options were Exercised (HK$)
Category 1: Directors of Towngas China								
Mr. Alfred Chan Wing Kin	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	–
Mr. James Kwan Yuk Choi	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	–
Other directors of Towngas China (Note 5)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	904,500	–	3.97
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	904,500	–	3.97
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	1,206,000	–	3.97
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,809,000	–	1,809,000	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,809,000	–	1,809,000	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	2,412,000	–	2,412,000	–
Total for Category 1					15,678,000	3,015,000	12,663,000	
Category 2: Employees of Towngas China	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,562,750	2,562,750	–	4.03
		19.11.2004	31.12.2006 – 30.03.2011	3.483	2,562,750	2,562,750	–	3.99
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,417,000	3,417,000	–	3.99
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	301,500	–	301,500	–
		03.10.2006	04.04.2008 – 27.11.2015	2.796	542,700	–	542,700	–
		03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	–	723,600	–
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	–	603,000	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	–	603,000	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	–	804,000	–
Total for Category 2					12,120,300	8,542,500	3,577,800	
All categories					27,798,300	11,557,500	16,240,800	

Notes:
1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no share option was cancelled or had lapsed under any share option schemes.
3. During the year, no new option was granted.
4. There was no outstanding share option at the beginning and at the end of the year under the Pre-GEM Scheme.
5. An alternate director of Towngas China resigned with effect from 16th March 2011.

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interests of Directors of the Company in businesses which might compete with the Group during the year ended 31st December 2011 and as at 31st December 2011 were as follows:

Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi, Directors of the Company, have held directorships in companies engaged in the same businesses of production, distribution and marketing of gas and energy related activities in mainland China as the Group. Although some of the businesses carried out by these companies are similar to the businesses carried out by the Group, they are of different scale and/or at different locations, and the Group, has been operating independently of, and at arm's length from, the businesses of those companies. Therefore, the Board is of the view that the businesses of those companies did not compete with the businesses of the Group.

Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Interests in Contracts and Connected Transactions

During the year, the Company had the following connected transaction which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules since each of the applicable percentage ratios was less than 5%:

As disclosed in an announcement dated 3rd June 2011, U-Tech Engineering Company Limited, a wholly-owned subsidiary of the Company, had by signing and returning to E Man Construction Co. Ltd. ("E Man"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"), a letter of award on 3rd June 2011 successfully tendered for a sub-contract for the carrying out of the supply and installation of electrical equipment and the testing and commissioning of electrical systems at the residential property development situated at Lot No. 5369 in demarcation district 116, Tai Tong, Yuen Long, New Territories, Hong Kong at the maximum aggregate amount of not exceeding HK$75,645,010 for E Man. As E Man is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, E Man is a connected person of the Company under the Listing Rules and the aforesaid transaction therefore constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The related party transactions set out in Note 41 to the Accounts include transactions that constitute connected/ continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as mentioned above, no contract of significance in relation to the Group's business to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year-end 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.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Major Customers and Suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 16 per cent and 62 per cent respectively during the year. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30 per cent during the year.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 64 to 68 of this Annual Report.

Public Float

As at the date of this report, being also the latest practicable date prior to the issue of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

The Accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment at a fee to be agreed by the Board.

On behalf of the Board

LEE Shau Kee
Chairman
Hong Kong, 19th March 2012

The Board is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasize accountability and an increase in transparency which will enable the Group's stakeholders, including shareholders, investors, customers, suppliers, employees and the community to have trust and faith in the Group to take care of their needs and to fulfill its social responsibility.

Code on Corporate Governance Practices

During the year ended 31st December 2011, the Company complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The below sets out the corporate governance principles and practices adopted by the Group which indicates how the Group has applied relevant principles in the Code.

Board of Directors

Board Composition

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategies and financial performance. The day-to-day management and operation of the Group are delegated to the management team. The Board currently has two Executive Directors and seven Non-executive Directors. Three of the seven Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board notes that Mr. Leung Hay Man is also a non-executive director of three listed companies which are connected persons of the Company under the Listing Rules and is engaged by one of these connected persons to provide occasional general consultancy services . As at 31st December 2011, he held interests in one of the connected persons and a subsidiary of another connected person of insignificant value. Save for the aforesaid which are considered insignificant and immaterial by the Company, Mr. Leung fully satisfied with the factors of independence set out in Rule 3.13 of the Listing Rules. In view of the fact that Mr. Leung does not have any material interests in any business activity of, and is not involved in any material business dealings with, the Company or any of its subsidiaries or with any connected persons of the Company, the Board considers that the independence of Mr. Leung as an Independent Non-executive Director of the Company is not in any way affected.

In conclusion, the Board considers Mr. Leung Hay Man, Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong as independent.

Biographical details of the Directors and relevant relationships among them are set out on pages 13 to 14 of this Annual Report.

According to the Articles of Association of the Company, one-third of its non-executive directors and one-third of its executive directors are subject to retirement by rotation at every annual general meeting. Subject to the provisions contained in the Articles of Association of the Company, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2014.

Board of Directors (Continued)

Board Composition (Continued)

The nomination and selection of a Director is performed by the full Board. Proposed new Directors are selected based on skills and experience that, in the opinion of the Directors, will enable them to make positive contribution to the performance of the Board. The Board also reviews its composition to ensure the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Group.

Newly appointed Director will meet with other fellow Directors, and receive a comprehensive, formal and tailored induction, so as to ensure that he has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules and other regulatory requirements. Important updates are provided to Directors when necessary to ensure that they are aware of the business and regulatory environment in which the Group conducts its business.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from their risks arising from the businesses of the Group.

Chairman of the Board and Managing Director

The Chairman of the Board is Dr. the Hon. Lee Shau Kee and the Managing Director is Mr. Alfred Chan Wing Kin. The roles of Chairman and Managing Director are segregated and are not performed by the same individual. The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking 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 Managing Director is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board. Their respective responsibilities are clearly established and set out in writing.

Board Meetings

The Board meets regularly at least four times a year at approximately quarterly intervals. The Directors can attend meetings in person or through other electronic means of communication in accordance with the Articles of Association of the Company.

During the year ended 31st December 2011, the Board met five times. Among many other topics, it discussed matters relating to the re-election of Directors.

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors so as to give them an opportunity to attend. Board papers are circulated not less than three days before the date of a Board meeting to enable the Directors to make informed decision on matters to be raised at the Board meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings. In addition, Directors at all times have full and timely access to all information on the Group and may seek independent professional advice at the Company's expense whenever considered necessary by the Directors.

Board of Directors (Continued)

Board Meetings (Continued)

The attendance record of each member of the Board during the year ended 31st December 2011 is set out below:

Directors	No. of Meetings Attended / Held	Attendance Rate
Non-executive Directors		
Dr. the Hon. LEE Shau Kee (Chairman)	4/5*	80%
Mr. Colin LAM Ko Yin	4/5	80%
Mr. LEE Ka Kit	5/5*	100%
Mr. LEE Ka Shing	5/5*	100%
Independent Non-executive Directors		
Mr. LEUNG Hay Man	5/5	100%
Dr. the Hon. David LI Kwok Po	5/5	100%
Professor POON Chung Kwong	5/5	100%
Executive Directors		
Mr. Alfred CHAN Wing Kin	5/5	100%
Mr. James KWAN Yuk Choi	5/5	100%

* Out of the five meetings of the Board, one Board meeting was to consider the connected transaction with a wholly-owned subsidiary of Henderson Land Development Company Limited. Absence of Dr. the Hon. Lee Shau Kee in such meeting was due to his deemed interests in the transaction discussed at the meeting. Mr. Lee Ka Kit and Mr. Lee Ka Shing, despite their presence at such meeting, abstained from voting and were not counted in the quorum towards the meeting due to their deemed interests in the transaction discussed at such meeting.

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31st December 2011.

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report on page 69 of this Annual Report.

Board Committees

The Board has appointed the following Board committees to oversee particular aspects of the Company's affairs:

Board Committees (Continued)

Audit Committee

The Audit Committee was formed in May 1996. During the year ended 31st December 2011, the members of the Audit Committee were Dr. the Hon. David Li Kwok Po (Chairman of the Audit Committee), Mr. Leung Hay Man and Professor Poon Chung Kwong. All members are Independent Non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

The principal duties of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control systems operate in accordance with applicable standards and conventions. The Company has adopted written terms of reference for the Audit Committee, which clearly define the role, authority and function of the Audit Committee.

The Audit Committee held two meetings during the year ended 31st December 2011 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2010 annual results and 2011 interim results;
- recommendation to the Board, for the approval by shareholders, of the re-appointment of PricewaterhouseCoopers as the external Auditor and approval of their remuneration;
- determination of the nature and scope of the audit;
- review of the financial and accounting policies and practices of the Company; and
- review of the effectiveness of the Company's internal control, financial control and risk management system, including the review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The attendance record of each Audit Committee member during the year ended 31st December 2011 is set out below.

Directors	No. of Meetings Attended / Held	Attendance Rate
Dr. the Hon. David LI Kwok Po (Chairman)	2/2	100%
Mr. LEUNG Hay Man	2/2	100%
Professor POON Chung Kwong	2/2	100%

Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. During the year ended 31st December 2011, the Remuneration Committee was chaired by the Chairman Dr. the Hon. Lee Shau Kee with Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong (both were Independent Non-executive Directors) as members.

The principal duties of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management (who are also executive directors of the Company) and reviewing the special remuneration packages of all executive directors with reference to corporate goals and objectives resolved by the Board from time to time. The Company has adopted written terms of reference for the Remuneration Committee which clearly define the role, authority and function of the Remuneration Committee.

Board Committees (Continued)

Remuneration Committee (Continued)

The Company has not adopted any share option scheme. The emoluments of Directors are determined based on the duties and responsibilities of each Director. The Directors' fees were reviewed by the Remuneration Committee. During the year ended 31st December 2011, every Director received a Director's fee at the rate of HK$160,000 per annum while the Chairman received an additional fee at the rate of HK$160,000 per annum and each member of the Audit Committee received an additional fee at the rate of HK$160,000 per annum. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities.

During the year ended 31st December 2011, the Remuneration Committee held its meeting once to review the above matters. The attendance record of each Remuneration Committee member during the year ended 31st December 2011 is set out below.

Directors	No. of Meeting Attended / Held	Attendance Rate
Dr. the Hon. LEE Shau Kee (Chairman)	1/1	100%
Dr. the Hon. David LI Kwok Po	1/1	100%
Professor POON Chung Kwong	1/1	100%

Other Board Committees

Two other Board committees, namely the Investment Committee of the Retirement Schemes and the Treasury Committee, were set up to deal with specific matters delegated by the Board. The Investment Committee of the Retirement Schemes manages retirement schemes and advises the trustees on investment policies. The Treasury Committee reviews, advises and formulates strategies related to treasury and investment activities of the Group.

Auditor's Remuneration

For the year ended 31st December 2011, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to HK$7.5 million. During the year, payment to PricewaterhouseCoopers in respect of non-audit services, mainly including taxation services and interim results review services provided to the Group amounted to HK$2.8 million.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board will from time to time conduct a review of the Group's internal control system. During the year ended 31st December 2011, the Board, through the Audit Committee, reviewed the overall effectiveness of the system of internal control of the Group over financial, operational and compliance issues, risk management process, information systems security, scope and quality of the management's monitoring of risks and the effectiveness of financial reporting and compliance with the Listing Rules. The Board considered that the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 156, which comprise the consolidated and company balance sheets as at 31st December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation of consolidated accounts 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts 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 accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated accounts 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 entity'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 accounts.

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 accounts give a true and fair view of the state of the affairs of the Company and of the Group as at 31st December 2011, and of the Group's 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19th March 2012

Consolidated Income Statement

for the year ended 31st December 2011

	Note	2011 HK$'M	2010 HK$'M
Revenue	5	**22,426.8**	19,375.4
Total operating expenses	6	**(16,752.2)**	(14,697.4)
		5,674.6	4,678.0
Other gains, net	7	**589.7**	702.3
Interest expense	9	**(752.0)**	(711.2)
Share of profits less losses of associated companies		**1,647.7**	1,528.1
Share of profits less losses of jointly controlled entities		**908.7**	889.5
Profit before taxation	10	**8,068.7**	7,086.7
Taxation	13	**(1,344.0)**	(1,038.8)
Profit for the year		**6,724.7**	6,047.9
Attributable to:			
Shareholders of the Company		**6,149.6**	5,584.8
Non-controlling interests		**575.1**	463.1
		6,724.7	6,047.9
Dividends	15	**4,147.8**	2,513.8
Earnings per share - basic and diluted, HK cents	16	**77.8**	70.7 [1]

[1] Adjusted for the bonus issue in 2011

The notes on pages 77 to 156 form part of these accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2011

	2011 HK$'M	2010 HK$'M
Profit for the year	**6,724.7**	6,047.9
Other comprehensive income:		
Revaluation deficit of available-for-sale financial assets transferred to equity	**(401.0)**	(9.6)
Impairment loss on available-for-sale financial assets transferred to income statement	**78.3**	–
Change in fair value of cash flow hedges	**36.3**	138.6
Exchange differences	**1,019.8**	810.2
Other comprehensive income for the year, net of tax	**733.4**	939.2
Total comprehensive income for the year	**7,458.1**	6,987.1
Total comprehensive income attributable to:		
Shareholders of the Company	**6,726.4**	6,365.0
Non-controlling interests	**731.7**	622.1
	7,458.1	6,987.1

The notes on pages 77 to 156 form part of these accounts.

Consolidated Balance Sheet

as at 31st December 2011

	Note	2011 HK$'M	2010 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	32,255.1	26,890.1
Investment property	18	518.0	501.0
Leasehold land	19	1,351.2	935.7
Intangible assets	20	3,434.8	2,575.6
Associated companies	22	12,706.8	10,802.2
Jointly controlled entities	23	8,964.7	7,768.8
Available-for-sale financial assets	24	3,110.6	3,441.2
Derivative financial instruments	35	452.3	351.8
Retirement benefit assets	25	81.4	68.3
Other non-current assets	26	2,258.9	2,371.8
		65,133.8	55,706.5
Current assets			
Inventories	27	1,622.4	1,303.3
Trade and other receivables	28	5,606.7	3,340.0
Loan and other receivables from associated companies	22	73.3	70.7
Loan and other receivables from jointly controlled entities	23	468.1	338.5
Loan and other receivables from non-controlling shareholders		135.4	38.1
Financial assets at fair value through profit or loss	29	313.3	528.7
Time deposits over three months	30	493.7	1,642.0
Time deposits up to three months, cash and bank balances	30	11,242.2	9,696.3
		19,955.1	16,957.6
Current liabilities			
Trade and other payables	31	(7,990.5)	(5,801.6)
Amounts due to jointly controlled entities	23	(31.7)	(5.0)
Loan and other payables to non-controlling shareholders		(282.4)	(26.2)
Provision for taxation		(878.0)	(708.2)
Borrowings	32	(4,220.8)	(9,982.4)
		(13,403.4)	(16,523.4)
Net current assets		6,551.7	434.2
Total assets less current liabilities		71,685.5	56,140.7

The notes on pages 77 to 156 form part of these accounts.

Consolidated Balance Sheet (continued)

as at 31st December 2011

	Note	2011 HK$'M	2010 HK$'M
Non-current liabilities			
Customers' deposits	33	**(1,165.7)**	(1,133.9)
Deferred taxation	34	**(2,444.1)**	(2,017.5)
Borrowings	32	**(21,628.4)**	(11,745.7)
Loans payable to non-controlling shareholders		**–**	(35.0)
Derivative financial instruments	35	**(115.1)**	–
		(25,353.3)	(14,932.1)
Net assets		**46,332.2**	41,208.6
Capital and reserves			
Share capital	36	**1,975.1**	1,795.6
Share premium	37	**3,275.8**	3,455.3
Reserves	38	**33,133.5**	30,561.3
Proposed dividend	38	**3,199.7**	1,651.9
Shareholders' funds		**41,584.1**	37,464.1
Non-controlling interests		**4,748.1**	3,744.5
Total equity		**46,332.2**	41,208.6

Approved by the Board of Directors on 19th March 2012

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 77 to 156 form part of these accounts.

Balance Sheet

as at 31st December 2011

	Note	2011 HK$'M	2010 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**9,271.1**	9,092.1
Leasehold land	19	**225.1**	235.5
Subsidiaries	21	**25,919.8**	16,968.3
Jointly controlled entities	23	**933.4**	933.4
Available-for-sale financial assets	24	**42.7**	87.9
Retirement benefit assets	25	**81.4**	68.3
		36,473.5	27,385.5
Current assets			
Inventories	27	**877.9**	976.9
Trade and other receivables	28	**1,612.8**	1,446.6
Loans to subsidiaries	21	**384.7**	268.6
Loan and other receivables from associated companies	22	**29.5**	27.7
Amounts due from jointly controlled entities	23	**4.5**	2.9
Financial assets at fair value through profit or loss	29	**1.8**	4.4
Time deposits over three months	30	**99.8**	–
Time deposits up to three months, cash and bank balances	30	**1,481.4**	1,831.7
		4,492.4	4,558.8
Current liabilities			
Trade and other payables	31	**(712.4)**	(727.0)
Amounts due to jointly controlled entities	23	**(1.9)**	(3.2)
Provision for taxation		**(151.8)**	(185.1)
Borrowings	32	**–**	(200.0)
		(866.1)	(1,115.3)
Net current assets		**3,626.3**	3,443.5
Total assets less current liabilities		**40,099.8**	30,829.0
Non-current liabilities			
Amounts due to subsidiaries	21	**(19,671.4)**	(17,417.3)
Customers' deposits	33	**(1,158.9)**	(1,127.8)
Deferred taxation	34	**(1,097.3)**	(1,074.9)
Borrowings	32	**(1,100.0)**	(600.0)
		(23,027.6)	(20,220.0)
Net assets		**17,072.2**	10,609.0
Capital and reserves			
Share capital	36	**1,975.1**	1,795.6
Share premium	37	**3,275.8**	3,455.3
Reserves	38	**8,621.6**	3,706.2
Proposed dividend	38	**3,199.7**	1,651.9
		17,072.2	10,609.0

Approved by the Board of Directors on 19th March 2012

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 77 to 156 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31st December 2011

	Note	2011 HK$'M	2010 HK$'M
Net cash from operating activities	42	**4,957.3**	5,234.2
Investing activities			
Receipt from sale of property, plant and equipment		**42.2**	15.3
Receipt from sale of leasehold land		**–**	19.0
Purchase of property, plant and equipment		**(4,578.9)**	(4,200.2)
Purchase of other intangible asset		**(83.1)**	-
Payment for leasehold land		**(63.1)**	(77.3)
Increase in investments in associated companies		**(575.1)**	(526.5)
Increase in loans to associated companies		**(186.2)**	(31.2)
Repayment of loans by associated companies		**42.3**	43.7
Increase in investments in jointly controlled entities		**(33.9)**	(139.6)
Increase in loans to jointly controlled entities		**(770.2)**	(108.6)
Increase in loans from jointly controlled entities		**235.3**	6.7
Repayment of loans by jointly controlled entities		**154.8**	140.9
Consideration paid for acquisition of subsidiaries in prior periods		**(13.0)**	(165.7)
Deferred consideration received		**40.0**	40.0
Acquisition of subsidiaries	44	**(737.3)**	(115.7)
Further acquisition of subsidiaries		**(9.2)**	(908.4)
Deconsolidation of a subsidiary		**–**	(79.6)
Sale of financial assets at fair value through profit or loss		**294.4**	1,021.5
Sale of available-for-sale financial assets		**658.5**	632.5
Purchase of available-for-sale financial assets		**(617.8)**	(930.7)
Purchase of financial assets at fair value through profit or loss		**(151.9)**	(1,172.3)
Decrease/(increase) in time deposits over three months		**1,149.3**	(1,288.6)
Interest received		**266.1**	232.1
Dividends received from investments in securities		**178.4**	175.5
Dividends received from associated companies		**619.9**	545.5
Dividends received from jointly controlled entities		**387.1**	391.0
Net cash used in investing activities		**(3,751.4)**	(6,480.7)
Financing activities			
Issue of shares of a subsidiary under share option scheme		**39.1**	7.6
Change in loans with non-controlling shareholders		**(74.5)**	(7.0)
Capital injection by non-controlling shareholders		**224.6**	87.1
Increase in borrowings		**10,067.8**	6,854.9
Repayment of borrowings		**(6,376.5)**	(5,571.3)
Interest paid		**(918.4)**	(834.5)
Dividends paid to shareholders of the Company	38	**(2,600.0)**	(2,363.7)
Dividends paid to non-controlling shareholders		**(146.8)**	(136.2)
Net cash inflow/(used in) financing activities		**215.3**	(1,963.1)
Increase/(decrease) in cash and cash equivalents		**1,421.2**	(3,209.6)
Cash and cash equivalents at 1st January		**9,696.3**	12,817.4
Effect of foreign exchange rate changes		**124.7**	88.5
Cash and cash equivalents at 31st December		**11,242.2**	9,696.3
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**5,704.9**	4,129.1
Time deposits up to three months		**5,537.3**	5,567.2
		11,242.2	9,696.3

The notes on pages 77 to 156 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2011

	Attributable to shareholders of the Company				
	Share capital HK$'M	Share premium HK$'M	Reserves HK$'M	Non-controlling interests HK$'M	Total HK$'M
Total equity as at 1st January 2011	**1,795.6**	**3,455.3**	**32,213.2**	**3,744.5**	**41,208.6**
Profit for the year	**–**	**–**	**6,149.6**	**575.1**	**6,724.7**
Other comprehensive income:					
Revaluation deficit of available-for-sale financial assets transferred to equity	**–**	**–**	**(401.0)**	**–**	**(401.0)**
Impairment loss on available-for-sale financial assets transferred to income statement	**–**	**–**	**78.3**	**–**	**78.3**
Change in fair value of cash flow hedges	**–**	**–**	**40.6**	**(4.3)**	**36.3**
Exchange differences	**–**	**–**	**858.9**	**160.9**	**1,019.8**
Total comprehensive income for the year	**–**	**–**	**6,726.4**	**731.7**	**7,458.1**
Capital injection	**–**	**–**	**–**	**224.6**	**224.6**
Acquisition of subsidiaries (Note 44)	**–**	**–**	**–**	**157.8**	**157.8**
Further acquisition of subsidiaries	**–**	**–**	**4.9**	**(14.1)**	**(9.2)**
Dividends paid to shareholders of the Company	**–**	**–**	**(2,600.0)**	**–**	**(2,600.0)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**(146.8)**	**(146.8)**
Bonus issue	**179.5**	**(179.5)**	**–**	**–**	**–**
Issue of shares of a subsidiary under share option schemes	**–**	**–**	**(11.3)**	**50.4**	**39.1**
Total equity as at 31st December 2011	**1,975.1**	**3,275.8**	**36,333.2**	**4,748.1**	**46,332.2**
Total equity as at 1st January 2010	1,632.3	3,618.6	28,614.1	3,942.3	37,807.3
Profit for the year	–	–	5,584.8	463.1	6,047.9
Other comprehensive income:					
Revaluation deficit of available-for-sale financial assets transferred to equity	–	–	(9.6)	–	(9.6)
Change in fair value of cash flow hedges	–	–	138.6	–	138.6
Exchange differences	–	–	651.2	159.0	810.2
Total comprehensive income for the year	–	–	6,365.0	622.1	6,987.1
Capital injection	–	–	–	87.1	87.1
Deconsolidation of a subsidiary	–	–	–	(120.9)	(120.9)
Acquisition of subsidiaries	–	–	–	5.6	5.6
Further acquisition of a subsidiary	–	–	(401.4)	(664.0)	(1,065.4)
Dividends paid to shareholders of the Company	–	–	(2,363.7)	–	(2,363.7)
Dividends paid to non-controlling shareholders	–	–	–	(136.2)	(136.2)
Bonus issue	163.3	(163.3)	–	–	–
Issue of shares of a subsidiary under share option schemes	–	–	–	8.5	8.5
Others	–	–	(0.8)	–	(0.8)
Total equity as at 31st December 2010	1,795.6	3,455.3	32,213.2	3,744.5	41,208.6

The notes on pages 77 to 156 form part of these accounts.

1 General information

The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (collectively, the "Group") have been diversified into different fields of businesses and engages in energy related activities, production, distribution and marketing of gas and water and related activities in Hong Kong and the People's Republic of China (the "PRC"). The Group is also engaged in property development and investment activities in Hong Kong.

The Company is a limited liability company incorporated and domiciled in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 23rd Floor, 363 Java Road, North Point, Hong Kong.

These consolidated accounts have been approved for issue by the Board of Directors on 19th March 2012.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in Note 4.

(i) New or revised standards, interpretations and amendments adopted in 2011

The Group has adopted the following new or revised standards, interpretations and amendments which are mandatory for the financial year ended 31st December 2011.

HKAS 24 (revised)	"Related Party Disclosures"
HKAS 32 (amendment)	"Classification of Rights Issues"
HK(IFRIC) 14	"Prepayments of a Minimum Funding Requirement"
HK(IFRIC) 19	"Extinguishing Financial Liabilities with Equity Instruments"

HKICPA's Improvements to HKFRS 2010

The adoption of these new or revised standards, interpretations and amendments has no significant impact on the Group's results and financial position nor any substantial changes in Group's accounting policies.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) New or revised standards, interpretations and amendments that are not yet effective for the year ended 31st December 2011 but relevant to the Group and have not been early adopted by the Group

The HKICPA has issued the following new or revised standards, interpretations and amendments to existing standards which are not yet effective for the year ended 31st December 2011 and have not been early adopted by the Group:

New or revised standards, interpretations and amendments		Effective for accounting periods beginning on or after
HKFRS 7 (amendment)	"Financial Instruments: Disclosure – Transfer of Financial Assets"	1 July 2011
HKAS 1 (amendment)	"Presentation of Financial Statements – Presentation of Items on Other Comprehensive Income"	1 July 2012
HKFRS 7 (amendment)	"Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"	1 January 2013
HKFRS 10	"Consolidated Financial Statements"	1 January 2013
HKFRS 11	"Joint Arrangements"	1 January 2013
HKFRS 12	"Disclosure of Interest in Other Entities"	1 January 2013
HKFRS 13	"Fair Value Measurement"	1 January 2013
HKAS 19 (amendment 2011)	"Employee Benefits"	1 January 2013
HKAS 27 (revised 2011)	"Separate Financial Statements"	1 January 2013
HKAS 28 (revised 2011)	"Investments in Associates and Joint Ventures"	1 January 2013
HK(IFRIC) 20	"Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013
HKAS 32 (amendment)	"Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"	1 January 2014
HKFRS 9	"Financial Instruments"	1 January 2015

The Group will apply the above standards, interpretations and amendments from 1st January 2012 or later periods. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether there will be any substantial changes to the Group's significant accounting policies and presentation of financial information will be resulted.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in the other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the other comprehensive income are reclassified to the income statement.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(iv) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill identified on acquisition.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the income statement where appropriate.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits less losses of associated companies" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated company are recognised in the Group's accounts only to the extent of unrelated investor's interests in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the income statement.

(v) Jointly controlled entities

Jointly controlled entities are joint ventures whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for by the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in jointly controlled entities includes goodwill identified on acquisition.

If the ownership interest in a jointly controlled entity is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the income statement where appropriate.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(v) Jointly controlled entities (Continued)

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount adjacent to "share of profits less losses of jointly controlled entities" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entity are recognised in the Group's accounts only to the extent of unrelated investor's interests in the jointly controlled entities. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in jointly controlled entities are recognised in the income statement.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee members that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars ("HKD"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in carrying amount are recognised in the other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities, including associated companies and jointly controlled entities, (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in the other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to the other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The capitalised costs in respect of capital work in progress include direct materials, direct labour costs, subcontracting costs, capitalised borrowing costs and other direct overheads. Capital work in progress are transferred to relevant categories of property, plant and equipment upon completion of their respective work.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement.

2 Summary of significant accounting policies (Continued)

(e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated on a straight-line basis to allocate the cost less accumulated impairment of each component of the asset to its residual value over its estimated useful life as follows:

Production plant	10 - 30 years
Vehicles, office furniture and equipment	5 - 15 years
Compressors	10 years
Gas mains	40 years
Water mains	40 - 50 years
Risers, gasholders, office, store and buildings	30 years
Meters and installations	5 - 20 years
Mining rights	Based on the units of production method utilising only recoverable coal reserves as the depletion base
Others	3 - 30 years
Capital work in progress	No depreciation

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

(f) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market value, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors ("HKIS"). These valuations are reviewed annually by qualified valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

Property that is being constructed or developed for future use as investment property is classified as investment properties and measured at fair value unless fair value cannot be reliably determined. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

2 Summary of significant accounting policies (Continued)

(f) Investment property (Continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment, the gain is recognised in the income statement.

(g) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are carried at cost less accumulated depreciation and impairment. They are depreciated over the shorter of the useful life of the assets and the lease term.

(h) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies and jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill arising on an acquisition of an associated company or jointly controlled entity is included in the cost of the investment of the relevant associated company or jointly controlled entity. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately recognised goodwill is allocated to cash-generating units, primarily individual projects, for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible asset is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over the period of the relevant right of 15 years.

(i) Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2 Summary of significant accounting policies (Continued)

(i) Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets (Continued)

An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than separately recognised goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and with no intention of trading the receivables. They are included in the current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

The unlisted equity securities are carried at cost less impairment when these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 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 stated at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Loans and receivables are carried at amortised cost using effective interest method.

2 Summary of significant accounting policies (Continued)

(j) Financial assets (Continued)

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other gains, net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of "other gains, net" when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in the carrying amount are recognised in the other comprehensive income.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses on disposal of available-for-sale financial assets under "other gains, net".

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of "other gains, net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of "other gains, net" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group may choose to reclassify a non-derivative trading financial asset out of the financial assets at fair value through profit or loss category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the financial assets at fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

(k) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2 Summary of significant accounting policies (Continued)

(k) Derivative financial instruments and hedging activities (Continued)

The fair values of the derivative instruments used for hedging purposes are disclosed in Note 35. Movements on the hedging reserve in shareholders' equity are shown in Note 38. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other gains, net".

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of changes in the fair value of derivatives is recognised in the income statement within "interest expense". The gain or loss relating to the ineffective portion is recognised in the income statement within "other gains, net". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within "other gains, net".

(l) Completed property for sale

Completed property for sale is stated at the lower of carrying amount and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) Inventories

Inventories comprise stores and materials and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

2 Summary of significant accounting policies (Continued)

(n) Construction contracts (Continued)

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

(o) Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

(p) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies (Continued)

(p) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the separate income statement. Impairment losses recognised in the separate income statement on equity instruments are not reversed through the separate income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the separate income statement.

Impairment testing of trade and other receivables is described in Note 2(o).

(q) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, cash and cash equivalents are presented as time deposits up to three months, cash and bank balances in current assets and bank overdrafts are included in borrowings in current liabilities.

(r) Trade payables and customers' deposits

Trade payables and customers' deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

2 Summary of significant accounting policies (Continued)

(s) Borrowings and borrowing costs (Continued)

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

(t) Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity. In this case, the tax is also recognised in the other comprehensive income or directly in equity.

The current taxation is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, deferred taxation is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(u) Revenue and income recognition

(i) Gas sales - based on gas consumption derived from meter readings.
(ii) Water sales - based on water consumption derived from meter readings.
(iii) Liquefied petroleum gas sales - upon completion of the gas filling transaction.
(iv) Equipment sales - upon completion of installation work or when equipment, materials and parts are delivered to customers and title has passed.
(v) Coal sales - upon completion of delivery and title has passed.
(vi) Maintenance and service charges - when services are provided.
(vii) Interest income - recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
(viii) Dividend income - recognised when the right to receive payment is established.
(ix) Sales of property - recognised upon the signing of the sale and purchase agreements or the issue of occupation permits by the relevant government authorities, whichever is the later.
(x) Rental income - recognised on a straight-line accrual basis over the terms of lease agreements.
(xi) Construction income - recognised under percentage of completion method.

2 Summary of significant accounting policies (Continued)

(v) Employee benefits

Salaries, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Group.

The Group operates a number of defined contribution and one defined benefit retirement schemes and the assets of the schemes are held separately from those of the Group in independently administered funds. The retirement schemes are funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

(i) Defined contribution retirement schemes

The Group contributes to defined contribution retirement schemes and Mandatory Provident Fund schemes which are available to salaried employees in Hong Kong. The Group's contributions to these retirement schemes are calculated as a percentage of the employees' basic salaries or relevant income and are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

For employees in mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial government in the PRC based on a certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Defined benefit retirement scheme

The Group also operates a defined benefit retirement scheme, namely the Workmen Retirement Scheme, in Hong Kong. The scheme provides benefit to employees based on final salary. The Group's net obligation in respect of the defined benefit retirement scheme is calculated separately for the scheme using the projected unit credit method. The costs of providing scheme benefit are charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with advice of the actuaries who carry out a full valuation of the scheme annually. The benefit obligation is measured as the present value of the estimated future benefit that employees have earned for their service in the current and prior years using interest rates of government bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefit becomes vested.

(w) Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of significant accounting policies (Continued)

(w) Provisions and contingencies (Continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage and reduce certain risk exposures.

Risk management is carried out by treasury and investment departments (Group Treasury) under policies approved by the Treasury Committee, comprising all the executive directors of the Company. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Treasury Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong and mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has also entered into cross currency swap contracts to manage its exposure to foreign exchange risk from recognised liabilities. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts and other suitable financial instruments.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Transactions denominated in the USD mainly arise from the Group's operation in Hong Kong. Pursuant to Hong Kong's Linked Exchange Rate System under which HKD is pegged to the USD, management considers there are no significant foreign exchange risks with respect to the USD.

At 31st December 2011, if the RMB had weakened/strengthened by 2 per cent against HKD with all other variables held constant, pre-tax profit for the year would have been HK$139.4 million (2010: HK$34.1 million) lower/higher.

(ii) Price risk

The Group is exposed to equity securities price risk for the listed equity investments held by the Group which are classified as available-for-sale financial assets and financial assets at fair value through profit or loss of HK$1,354.6 million (2010: HK$1,704.2 million) and HK$39.6 million (2010: HK$145.0 million) respectively.

The Group also held unlisted equity investments which are classified as available-for-sale financial assets of HK$260.0 million (2010: nil). The underlyings of the investments are listed equity securities, which making them subject to equity securities price risk.

It is the Group's policy to maintain a well-diversified portfolio of investments to minimise impact of price risk.

Majority of the Group's equity securities are publicly traded and are included in one of the following indexes: Hang Seng Index, S&P 500 Index, Financial Times Stock Exchange ("FTSE") 100 Index, Cotation Assistée en Continu ("CAC") Index, Swiss Market Index, Tokyo Stock Price Index and MSCI AC Asia Pacific excluding Japan ("MSCI Asia Pacific ex-Japan") Index.

The table below summarises the impact of increases/decreases of the following indexes on the Group's pre-tax profit for the year and on equity. The analysis is based on the assumption that the indexes had increased/decreased by 10 per cent with all other variables held constant and all the Group's equity securities moved according to the historical correlation with the indexes.

	Group			
	Impact on pre-tax profit		Impact on equity	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Hang Seng Index	**1.8**	3.2	**131.3**	157.7
S&P 500 Index	**0.7**	17.8	**4.0**	19.3
FTSE 100 Index	**1.3**	3.3	**7.7**	2.9
CAC Index	**–**	–	**3.0**	–
Swiss Market Index	**–**	–	**2.9**	–
Tokyo Stock Price Index	**–**	–	**1.1**	2.2
MSCI Asia Pacific ex-Japan Index	**–**	–	**27.5**	–

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

The Company has no significant equity securities and the Company's financial results are not significantly affected by equity securities price risk.

(iii) Cash flow and fair value interest rate risk

The Group

Financial instruments at fixed and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group's interest-bearing assets mainly comprise floating and fixed rate bank deposits of HK$11,735.9 million (2010: HK$11,338.3 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$11,700.7 million (2010: HK$10,008.7 million), fixed rate borrowings of HK$14,148.5 million (2010: HK$11,719.4 million) and floating rate deposits received from customers of HK$1,165.7 million (2010: HK$1,133.9 million).

At 31st December 2011, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$119.8 million (2010: HK$113.3 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank deposits.

At 31st December 2011, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$122.8 million (2010: HK$107.7 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

The Company

The Company's interest bearing assets mainly comprise floating and fixed rates bank deposits of HK$1,581.2 million (2010: HK$1,831.7 million). The Company's interest rate risk arises from floating rate borrowings of HK$1,100.0 million (2010: HK$800.0 million) and floating rate deposits received from customers of HK$1,158.9 million (2010: HK$1,127.8 million).

At 31st December 2011, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$17.7 million (2010: HK$9.1 million) higher/lower, mainly as a result of higher/lower bank deposits interest income on floating rate bank deposits.

At 31st December 2011, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$24.6 million (2010: HK$27.4 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

3 Financial risk management (Continued)

(b) Credit risk

Credit risk of the Group and Company mainly arises from:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Cash and bank deposits	**11,735.9**	11,338.3	**1,581.2**	1,831.7
Debt securities and derivative instruments	**1,695.1**	1,944.0	**–**	0.9
Trade receivables	**2,851.2**	1,839.3	**1,430.2**	1,278.6
Other receivables	**1,272.6**	891.9	**177.0**	154.6
Instalment receivables	**0.5**	6.9	**–**	–
Loan and other receivables from jointly controlled entities	**1,805.1**	1,144.0	**87.1**	85.5
Loan and other receivables from associated companies	**263.0**	120.8	**29.5**	27.7
Loan and other receivables from non-controlling interests	**135.4**	38.1	**–**	–
Other non-current assets	**2,258.9**	2,371.8	**–**	–

The Group has no significant concentrations of credit risk. The Group has credit policy to handle credit risk of customers. There is no significant concentration of sales to any individual customer. The top five largest customers account for less than 30 per cent of the total revenues. Furthermore, security deposits are required for gas customers. This also applies to the PRC joint ventures where there is no significant concentration of sales to any individual customer. Other non-current assets mainly represent aviation fuel facility construction receivable. Management considered that counter party default risk is low and there is no history of default in repayment. Debt securities, derivative and cash transactions counter parties are with good credit rating of investment grade or above. The Group has policies that limit the amount of credit exposure to any one financial institution.

The Group and Company monitor the exposure to credit risk in respect of the financial assistance provided to its subsidiaries, jointly controlled entities and associated companies through exercising control or influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

3 Financial risk management (Continued)

(b) Credit risk (Continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates is as follows:

	Group		Company	
	2011 %	2010 %	**2011 %**	2010 %
Cash and bank deposits				
AA	**13.5**	10.1	**36.8**	5.1
A	**60.2**	59.0	**63.1**	94.3
BBB	**19.9**	23.9	**0.1**	0.6
BB	**0.8**	–	**–**	–
Unrated	**5.6**	7.0	**–**	–
	100.0	100.0	**100.0**	100.0
Debt securities and derivative instruments				
AAA	**–**	0.8	**N/A**	–
AA	**15.6**	36.6	**N/A**	100.0
A	**72.3**	55.0	**N/A**	–
BBB	**5.6**	2.0	**N/A**	–
Unrated	**6.5**	5.6	**N/A**	–
	100.0	100.0	**N/A**	100.0

Credit ratings are quoted from Bloomberg.

Credit quality of loan and other receivables from associated companies, loan and other receivables from jointly controlled entities, other non-current assets and trade and other receivables are disclosed in Notes 22, 23, 26 and 28 respectively to the accounts. None of the financial assets that are fully performing has been renegotiated during the year.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping adequate free cash and credit lines available.

The Group determines that there is no significant liquidity risk in view of our adequate and stable sources of funds and unutilised banking facilities.

3 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's major financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year HK$'M	Between 1 and 2 years HK$'M	Between 2 and 5 years HK$'M	Over 5 years HK$'M
Group				
At 31st December 2011				
Trade and other payables	**5,438.5**	**–**	**–**	**–**
Amounts due to jointly controlled entities	**31.7**	**–**	**–**	**–**
Loan and other payables to non-controlling shareholders	**283.6**	**–**	**–**	**–**
Borrowings	**5,050.2**	**2,449.4**	**9,578.7**	**16,079.2**
Derivative financial instruments	**21.4**	**10.7**	**43.3**	**39.7**
At 31st December 2010				
Trade and other payables	5,801.6	–	–	–
Amounts due to jointly controlled entities	5.0	–	–	–
Loan and other payables to non-controlling shareholders	26.2	–	–	–
Borrowings	10,624.5	571.5	2,757.2	14,306.3
Derivative financial instruments	–	–	–	–
Company				
At 31st December 2011				
Trade and other payables	**610.3**	**–**	**–**	**–**
Borrowings	**8.1**	**806.8**	**305.4**	**–**
At 31st December 2010				
Trade and other payables	727.0	–	–	–
Borrowings	204.2	3.8	607.4	–

The customers' deposits are not presented in the above liquidity analysis as management considers it is not practical to allocate the deposits into maturity groupings and the movement in customers' deposits is not significant based on past experience.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase existing shares, drawdown and repay borrowings, issue new shares or sell assets to reduce debt.

3 Financial risk management (Continued)

Capital risk management (Continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowing divided by shareholders' funds and net borrowing. Net borrowing is calculated as total borrowings, less time deposits, cash and bank deposits as shown in the consolidated balance sheet.

The gearing ratios at 31st December 2011 and 2010 are as follows:

	2011 HK$'M	2010 HK$'M
Total borrowings	(25,849.2)	(21,728.1)
Less: Time deposits, cash and bank deposits	11,735.9	11,338.3
Net borrowing	(14,113.3)	(10,389.8)
Shareholders' funds	(41,584.1)	(37,464.1)
	(55,697.4)	(47,853.9)
Gearing ratio	25%	22%

Fair value estimation

The Group's financial instruments are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31st December 2011 and 2010.

	Level 1		Level 2		Total	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Assets						
Financial assets at fair value through profit or loss						
– Debt securities	81.4	81.2	192.3	292.9	273.7	374.1
– Equity securities	39.6	145.0	–	–	39.6	145.0
Derivative financial instruments	–	–	452.3	361.4	452.3	361.4
Available-for-sale financial assets						
– Debt securities	916.5	1,134.6	52.6	73.9	969.1	1,208.5
– Equity investments	1,614.7	1,704.2	–	–	1,614.7	1,704.2
Total assets	2,652.2	3,065.0	697.2	728.2	3,349.4	3,793.2
Liabilities						
Derivative financial instruments	–	–	115.1	–	115.1	–

3 Financial risk management (Continued)

Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 31st December 2011, the Group did not have financial instruments under this category.

Specific valuation techniques used to value financial instruments includes:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(a) Critical accounting estimates

(i) Estimated impairment of assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in the accounts Note 2(i). Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less cost to sell or value-in-use calculations. These value-in-use calculations require the use of estimates.

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(iii) Estimate of fair value of investment property

The valuation of investment properties (including those held by an associated company) are performed in accordance with the "The HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- rental income derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of the rental income.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are mainly determined using income capitalisation valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(iv) Estimate of gas and water consumption

Revenue for gas and water supply may include an estimation of the gas and water supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. As of the year-end date, the overall billed gas and water sales are in line with the gas and water supplied to the customers.

(v) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining rights for a coal mine in mainland China. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(v) Reserve estimates (Continued)

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

5 Segment information

The Group's principal activity is the production, distribution and marketing of gas, water and energy related activities in Hong Kong and mainland China. The revenue comprises the following:

	2011 HK$'M	2010 HK$'M
Gas sales before fuel cost adjustment	15,442.8	12,628.6
Fuel cost adjustment	1,471.6	1,036.2
Gas sales after fuel cost adjustment	16,914.4	13,664.8
Equipment sales	1,177.9	1,105.0
Maintenance and services	331.5	323.0
Water sales	444.8	381.2
Coal sales	734.0	–
Property sales	–	166.9
Rental income	33.0	30.8
Aviation fuel facility construction income	–	1,839.7
Other sales	2,791.2	1,864.0
	22,426.8	19,375.4

The chief operating decision-maker has been identified as the executive committee members (the "ECM"). The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspective. From a product perspective, management assesses the performance of (a) gas, water and energy related business; and (b) property business. Gas, water and energy related business is further evaluated on a geographic basis (Hong Kong and Mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM are measured in a manner consistent with that in the accounts.

5 Segment information (Continued)

Segment assets exclude available-for-sale financial assets, financial assets at fair value through profit or loss, time deposits, cash and bank balances other than those included under segment assets for operation purposes, derivative financial instruments, retirement benefit assets, other non-current assets other than those included under segment assets and loan and other receivables from non-controlling shareholders.

The segment information provided to the ECM for the reportable segments is as follows:

	Gas, water and energy related business				Property		All other segments		Total	
	Hong Kong		Mainland China							
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Revenue	9,847.1	10,550.1	11,747.0	8,566.2	33.0	197.7	799.7	61.4	22,426.8	19,375.4
Adjusted EBITDA	4,429.5	4,149.7	2,902.9	2,130.2	17.4	153.6	277.7	16.7	7,627.5	6,450.2
Depreciation and amortisation	(603.0)	(569.9)	(639.0)	(554.5)	(0.2)	(0.2)	(61.4)	(18.3)	(1,303.6)	(1,142.9)
Unallocated corporate expenses									(649.3)	(629.3)
									5,674.6	4,678.0
Other gains, net									589.7	702.3
Interest expense									(752.0)	(711.2)
Share of profits less losses of associated companies	–	–	513.9	418.7	1,133.9	1,110.1	(0.1)	(0.7)	1,647.7	1,528.1
Share of profits less losses of jointly controlled entities	–	–	891.2	827.4	20.3	63.2	(2.8)	(1.1)	908.7	889.5
Profit before taxation									8,068.7	7,086.7
Taxation									(1,344.0)	(1,038.8)
Profit for the year									6,724.7	6,047.9

Share of profits of associated companies includes HK$725.0 million (2010: HK$734.2 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

5 Segment information (Continued)

	Gas, water and energy related business				Property		All other segments		Total	
	Hong Kong		Mainland China							
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M	**2011 HK$'M**	2010 HK$'M	**2011 HK$'M**	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Segment assets	**18,308.3**	18,312.7	**39,652.5**	31,782.3	**8,402.3**	7,743.8	**10,572.2**	5,404.6	**76,935.3**	63,243.4
Unallocated corporate assets:										
Available-for-sale financial assets									**3,110.6**	3,441.2
Financial assets at fair value through profit or loss									**313.3**	528.7
Time deposits, cash and bank balances excluded from segment assets									**3,728.7**	4,576.3
Others									**1,001.0**	874.5
Total assets	**18,308.3**	18,312.7	**39,652.5**	31,782.3	**8,402.3**	7,743.8	**10,572.2**	5,404.6	**85,088.9**	72,664.1

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2011 is HK$9,934.0 million (2010: HK$10,795.0 million), and the revenue from external customers in the PRC is HK$12,492.8 million (2010: HK$8,580.4 million).

At 31st December 2011, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other countries are HK$18,431.7 million and HK$40,798.9 million (2010: HK$17,331.2 million and HK$32,142.2 million) respectively.

For the year ended 31st December 2011, the percentage of revenues attributable to the Group's five largest customers is less than 30 per cent.

6 Total operating expenses

	Group	
	2011 HK$'M	2010 HK$'M
Stores and materials used	**10,736.2**	8,230.0
Cost of coal purchased	**416.0**	–
Manpower costs (Note 11)	**1,700.1**	1,466.6
Depreciation and amortisation	**1,311.0**	1,152.0
Aviation fuel facility cost of construction	**–**	1,772.6
Cost of property sold	**–**	38.5
Other operating items	**2,588.9**	2,037.7
	16,752.2	14,697.4

7 Other gains, net

	Group	
	2011 HK$'M	2010 HK$'M
Net investment gains (Note 8)	**432.9**	707.5
Fair value gain on investment property (Note 18)	**17.0**	–
Gain on acquisition of a subsidiary (Note 44(c))	**124.6**	–
Gain on deconsolidation of a subsidiary	**–**	42.0
Provision for other receivables	**–**	(32.9)
Provision for investment in a jointly controlled entity	**–**	(23.6)
Ineffective portion on cash flow hedges (Note 35)	**12.6**	2.5
Others	**2.6**	6.8
	589.7	702.3

8 Net investment gains

	Group 2011 HK$'M	Group 2010 HK$'M
(a) Interest income		
Bank deposits	**157.6**	106.0
Listed available-for-sale financial assets	**34.4**	29.8
Unlisted available-for-sale financial assets	**1.2**	0.1
Loans to associated companies and jointly controlled entities	**49.9**	21.2
Others	**19.0**	171.8
	262.1	328.9
(b) Net realised and unrealised (losses)/gains and interest income on financial assets at fair value through profit or loss and derivative financial instruments		
Listed securities	**(68.0)**	22.5
Unlisted securities	**(89.3)**	18.4
Exchange differences	**15.0**	5.2
	(142.3)	46.1
(c) Net realised gains on available-for-sale financial assets		
Listed securities	**58.8**	169.2
Unlisted securities	**(42.4)**	-
Exchange differences	**1.3**	(17.5)
	17.7	151.7
(d) Dividend income		
Listed available-for-sale financial assets	**87.7**	82.8
Unlisted available-for-sale financial assets	**90.5**	92.5
Listed financial assets at fair value through profit or loss	**0.2**	0.2
	178.4	175.5
(e) Other investment and exchange gain	**117.0**	5.3
	432.9	707.5

9 Interest expense

	Group 2011 HK$'M	Group 2010 HK$'M
Interest on bank loans and overdrafts wholly repayable within five years	**301.3**	196.3
Interest on guaranteed notes not wholly repayable within five years	**634.1**	639.8
	935.4	836.1
Less: Amount capitalised	**(183.4)**	(124.9)
	752.0	711.2

The interest expense is capitalised at an average rate of 3.58 per cent (2010: 3.68 per cent) per annum.

10 Profit before taxation

Profit before taxation is stated after charging and (crediting) the following:

	Group	
	2011 HK$'M	2010 HK$'M
Cost of inventories sold	**12,601.1**	9,113.9
Depreciation and amortisation	**1,311.0**	1,152.0
Loss on disposal/write off of property, plant and equipment	**34.1**	50.3
Gain on disposal of leasehold land	**(11.3)**	(0.7)
Impairment loss of trade receivables	**17.8**	10.5
Impairment loss of available-for-sale financial assets	**78.3**	23.3
Operating lease rentals		
– land and buildings	**59.5**	46.8
– plant and equipment	**9.3**	9.3
Rental income from investment property		
– gross rental income	**(33.0)**	(30.8)
– outgoing expenses	**15.6**	15.7
Auditors' remuneration	**15.8**	13.9
Net loss on residential maintenance (Note)	**14.8**	15.5

Note

Analysis of net loss on residential maintenance:

Residential maintenance revenue	**(188.6)**	(186.0)
Less expenses:		
Manpower costs	**113.3**	112.4
Other operating and administrative expenses	**90.1**	89.1
Net loss	**14.8**	15.5

11 Manpower costs

	Group	
	2011 HK$'M	2010 HK$'M
Salaries and wages	**1,504.9**	1,294.0
Pension costs – defined contribution retirement schemes	**203.9**	177.2
Pension costs – defined benefit retirement scheme (Note 25)	**(8.7)**	(4.6)
	1,700.1	1,466.6

12 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration paid to every director for the year ended 31st December 2011 for their service on the Board of the Company is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin (Note)	0.2	5.3	24.2	4.2	33.9
James Kwan Yuk Choi (Note)	0.2	3.0	8.5	2.9	14.6
Lee Shau Kee	0.3	0.2	–	–	0.5
Leung Hay Man	0.3	–	–	–	0.3
Colin Lam Ko Yin	0.2	–	–	–	0.2
Lee Ka Kit	0.2	–	–	–	0.2
Lee Ka Shing	0.2	–	–	–	0.2
David Li Kwok Po	0.3	0.1	–	–	0.4
Poon Chung Kwong	0.3	–	–	–	0.3
	2.2	8.6	32.7	7.1	50.6

Note

Both Mr Alfred Chan Wing Kin and Mr James Kwan Yuk Choi are also directors of Towngas China Company Limited ("Towngas China"), a significant subsidiary of the Group. In this connection, Mr Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi each received director's fee of HK$0.2 million (2010: HK$0.2 million) and no share-based payments were made during the year while HK$0.2 million and HK$0.1 million were made respectively in 2010.

The remuneration paid to every director for the year ended 31st December 2010 for their service on the Board of the Company is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin	0.2	5.1	22.9	3.8	32.0
James Kwan Yuk Choi	0.2	3.0	8.0	2.6	13.8
Lee Shau Kee	0.3	0.2	–	–	0.5
Leung Hay Man	0.3	–	–	–	0.3
Colin Lam Ko Yin	0.2	0.1	–	–	0.3
Lee Ka Kit	0.2	–	–	–	0.2
Lee Ka Shing	0.2	–	–	–	0.2
David Li Kwok Po	0.3	0.1	–	–	0.4
Poon Chung Kwong	0.3	–	–	–	0.3
	2.2	8.5	30.9	6.4	48.0

12 Directors' and senior management's emoluments (Continued)

(a) Directors' emoluments (Continued)

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK$43.5 million (2010: HK$41.6 million) and post-employment benefits of HK$7.1 million (2010: HK$6.4 million) paid to the Group's key management during the year ended 31st December 2011. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2010: nil).

(b) Five highest paid individuals

The above analysis includes two (2010: two) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining three (2010: three) individuals are as follows:

	2011 HK$'M	2010 HK$'M
Fee, salaries, allowances and benefits in kind	9.3	9.2
Performance bonus	11.5	10.4
Contributions to retirement scheme	2.7	2.5
	23.5	22.1

The above senior management's emoluments for the year of 2011 include HK$7.2 million (2010: HK$6.7 million) paid by Towngas China.

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	2011	2010
9.0 – 10.0	1	1
7.0 – 8.0	1	1
6.0 – 7.0	1	–
5.0 - 6.0	–	1

13 Taxation

The amount of taxation charged to the income statement represents:

	Group	
	2011 HK$'M	2010 HK$'M
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year	**606.3**	621.0
Current taxation - provision for PRC Enterprise Income Tax at the prevailing rates on the estimated assessable profits for the year	**522.3**	251.8
Current taxation - (over)/under provision in prior years	**(14.5)**	2.9
Deferred taxation - origination and reversal of temporary differences	**103.6**	76.2
Withholding tax	**126.3**	86.9
	1,344.0	1,038.8

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Group	
	2011 HK$'M	2010 HK$'M
Profit before taxation	**8,068.7**	7,086.7
Less: Share of profits less losses of associated companies	**(1,647.7)**	(1,528.1)
Share of profits less losses of jointly controlled entities	**(908.7)**	(889.5)
	5,512.3	4,669.1
Calculated at a tax rate of 16.5% (2010: 16.5%)	**909.5**	770.4
Effect of different tax rates in other countries	**204.4**	82.0
Income not subject to taxation	**(145.2)**	(141.3)
Expenses not deductible for taxation purposes	**216.7**	223.9
Utilisation of previously unrecognised tax losses	**(6.2)**	(3.6)
(Over)/under provision in prior years	**(14.5)**	2.9
Withholding tax	**126.3**	86.9
Others	**53.0**	17.6
	1,344.0	1,038.8

Share of associated companies' taxation for the year ended 31st December 2011 of HK$229.0 million (2010: HK$189.5 million) is included in the income statement as share of profits less losses of associated companies.

Share of jointly controlled entities' taxation for the year ended 31st December 2011 of HK$465.5 million (2010: HK$284.6 million) is included in the income statement as share of profits less losses of jointly controlled entities.

14 Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$9,079.3 million (2010: HK$2,831.0 million).

15 Dividends

	Company	
	2011 HK$'M	2010 HK$'M
Interim, paid of HK 12 cents per ordinary share (2010: HK 12 cents per ordinary share)	**948.1**	861.9
Final, proposed of HK 23 cents per ordinary share (2010: HK 23 cents per ordinary share)	**1,817.1**	1,651.9
Special, proposed of HK 17.5 cents per ordinary share (2010: nil)	**1,382.6**	–
	4,147.8	2,513.8

At a meeting held on 19th March 2012, the directors of the Company declared a final and a special dividend of HK 23 cents and HK 17.5 cents per ordinary share for the year ended 31st December 2011 respectively. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2011.

16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$6,149.6 million (2010: HK$5,584.8 million) and the weighted average of 7,900,554,136 shares (2010: 7,900,554,136 shares [1]) in issue during the year.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the year (2010: nil), the diluted earnings per share for the year ended 31st December 2011 is approximately the same as the basic earnings per share.

[1] Adjusted for the bonus issue in 2011

17 Property, plant and equipment

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining rights HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Group							
Cost							
At 1st January 2011	8,568.1	18,247.6	2,504.9	1,590.8	222.7	4,954.6	36,088.7
Additions	444.9	328.4	251.5	–	–	3,559.0	4,583.8
Acquisition of subsidiaries (Note 44)	57.7	99.4	–	760.5	73.3	344.3	1,335.2
Transfers from capital work in progress	851.7	1,474.7	–	–	–	(2,326.4)	–
Disposals/write off	(121.1)	(32.4)	(40.8)	–	–	(7.7)	(202.0)
Exchange differences	189.7	464.7	5.7	79.2	12.2	178.9	930.4
At 31st December 2011	9,991.0	20,582.4	2,721.3	2,430.5	308.2	6,702.7	42,736.1
Accumulated depreciation							
At 1st January 2011	3,960.7	3,750.9	1,469.4	–	17.9	(0.3)	9,198.6
Charge for the year	514.5	522.5	206.8	36.3	17.4	–	1,297.5
Disposals/write off	(89.5)	(11.9)	(24.3)	–	–	–	(125.7)
Exchange differences	48.0	57.9	2.4	–	2.3	–	110.6
At 31st December 2011	4,433.7	4,319.4	1,654.3	36.3	37.6	(0.3)	10,481.0
Net book value							
At 31st December 2011	5,557.3	16,263.0	1,067.0	2,394.2	270.6	6,703.0	32,255.1
At 31st December 2010	4,607.4	14,496.7	1,035.5	1,590.8	204.8	4,954.9	26,890.1

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Company					
Cost					
At 1st January 2011	4,397.6	8,832.4	2,379.5	923.6	16,533.1
Additions	86.8	–	254.2	442.5	783.5
Transfers from capital work in progress	0.8	415.9	–	(416.7)	–
Disposals/write off	(31.6)	(6.7)	(37.3)	–	(75.6)
At 31st December 2011	4,453.6	9,241.6	2,596.4	949.4	17,241.0
Accumulated depreciation					
At 1st January 2011	3,054.1	2,972.6	1,414.3	–	7,441.0
Charge for the year	158.7	226.9	201.5	–	587.1
Disposals/write off	(31.6)	(5.2)	(21.4)	–	(58.2)
At 31st December 2011	3,181.2	3,194.3	1,594.4	–	7,969.9
Net book value					
At 31st December 2011	1,272.4	6,047.3	1,002.0	949.4	9,271.1
At 31st December 2010	1,343.5	5,859.8	965.2	923.6	9,092.1

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining rights HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Group							
Cost							
At 1st January 2010	7,675.6	16,433.6	2,269.0	1,531.9	189.3	3,611.0	31,710.4
Additions	710.7	606.3	259.4	–	25.4	2,710.7	4,312.5
Acquisition of subsidiaries	–	11.0	–	–	–	1.3	12.3
Transfers from capital work in progress	232.5	1,185.3	1.1	–	–	(1,418.9)	–
Deconsolidation of a subsidiary	(71.0)	(304.9)	(0.6)	–	(0.1)	(39.5)	(416.1)
Disposals/write off	(105.9)	(19.6)	(28.9)	–	–	(16.6)	(171.0)
Exchange differences	126.2	335.9	4.9	58.9	8.1	106.6	640.6
At 31st December 2010	8,568.1	18,247.6	2,504.9	1,590.8	222.7	4,954.6	36,088.7
Accumulated depreciation							
At 1st January 2010	3,571.6	3,264.9	1,300.6	–	–	–	8,137.1
Charge for the year	451.8	476.8	184.5	–	16.7	–	1,129.8
Deconsolidation of a subsidiary	(16.8)	(17.1)	–	–	–	(0.3)	(34.2)
Disposals/write off	(76.2)	(11.6)	(17.6)	–	–	–	(105.4)
Exchange differences	30.3	37.9	1.9	–	1.2	–	71.3
At 31st December 2010	3,960.7	3,750.9	1,469.4	–	17.9	(0.3)	9,198.6
Net book value							
At 31st December 2010	4,607.4	14,496.7	1,035.5	1,590.8	204.8	4,954.9	26,890.1
At 31st December 2009	4,104.0	13,168.7	968.4	1,531.9	189.3	3,611.0	23,573.3

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Company					
Cost					
At 1st January 2010	4,346.5	8,368.4	2,146.8	984.4	15,846.1
Additions	70.8	–	258.5	425.7	755.0
Transfers from capital work in progress	7.0	478.4	1.1	(486.5)	–
Disposals/write off	(26.7)	(14.4)	(26.9)	–	(68.0)
At 31st December 2010	4,397.6	8,832.4	2,379.5	923.6	16,533.1
Accumulated depreciation					
At 1st January 2010	2,917.9	2,767.5	1,252.2	–	6,937.6
Charge for the year	162.7	215.8	177.8	–	556.3
Disposals/write off	(26.5)	(10.7)	(15.7)	–	(52.9)
At 31st December 2010	3,054.1	2,972.6	1,414.3	–	7,441.0
Net book value					
At 31st December 2010	1,343.5	5,859.8	965.2	923.6	9,092.1
At 31st December 2009	1,428.6	5,600.9	894.6	984.4	8,908.5

18 Investment property

	Group	
	2011 HK$'M	2010 HK$'M
At 1st January	**501.0**	501.0
Fair value gain (Note 7)	**17.0**	–
At 31st December	**518.0**	501.0

The Group's interest in investment property is located in Hong Kong under a land lease of over 50 years. The investment property was revalued at 31st December 2011 by an independent professionally qualified valuer, Knight Frank Petty Limited, on an open market value basis.

19 Leasehold land

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Held in Hong Kong:				
Leases of 10 to 50 years	**319.0**	306.7	**225.1**	235.5
Held outside Hong Kong:				
Leases of 10 to 50 years	**1,028.8**	625.3	**–**	–
Leases of over 50 years	**3.4**	3.7	**–**	–
	1,351.2	935.7	**225.1**	235.5

The Group's interests in leasehold land and land use rights movements during the year are analysed as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
At 1st January	**935.7**	879.3	**235.5**	241.9
Additions	**63.1**	77.3	**–**	–
Acquisition of subsidiaries (Note 44)	**357.3**	4.5	**–**	–
Deconsolidation of a subsidiary	**–**	(3.4)	**–**	–
Disposals	**(4.0)**	(18.3)	**(4.0)**	–
Amortisation	**(31.5)**	(25.9)	**(6.4)**	(6.4)
Exchange differences	**30.6**	22.2	**–**	–
At 31st December	**1,351.2**	935.7	**225.1**	235.5

Certain bank borrowings of the Group are secured on land use rights with an aggregate carrying amount of HK$203.7 million (2010: nil).

20 Intangible assets

	Group	
	2011 HK$'M	2010 HK$'M
(a) Goodwill		
At 1st January	**2,575.6**	2,461.7
Additions (Note 44)	**767.1**	105.5
Exchange differences	**10.8**	8.4
At 31st December	**3,353.5**	2,575.6

20 Intangible assets (Continued)

	Group 2011 HK$'M	Group 2010 HK$'M
(b) Other intangible asset		
Cost		
At 1st January	–	–
Additions	83.1	–
At 31st December	83.1	–
Accumulated amortisation		
At 1st January	–	–
Amortisation	(1.8)	–
At 31st December	(1.8)	–
Net book value		
At 31st December	81.3	–
Total intangible assets	3,434.8	2,575.6

Goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired. For the purpose of impairment test, the recoverable amount of the cash-generating units is determined based on either fair value less costs to sell or value in use calculations. The fair value less costs to sell is by referencing to an active market. The value in use calculations are derived from cash flow projections based on the most recent financial budget for the next five years approved by management. Cash flows beyond five year period have been extrapolated using growth rates from 0.0 per cent to 10.0 per cent (2010: 0.0 per cent to 6.0 per cent) per annum which are determined by considering both internal and external factors relating to the cash-generating units. Discount rate used of 8.0 per cent or 10.0 per cent (2010: 7.5 per cent or 10.0 per cent) is adopted to reflect specific risks relating to the relevant cash-generating units. Based on impairment tests prepared, there is no impairment for intangible assets as at 31st December 2011 and 2010.

Assuming growth rate decreased by 25 basis points or discount rate increased by 25 basis points, there is still adequate headroom and no impairment charge is required.

21 Subsidiaries

	Company 2011 HK$'M	Company 2010 HK$'M
Unlisted shares and registered capital at cost	307.6	307.6
Loans and amounts due from subsidiaries – non-current	25,612.2	16,660.7
	25,919.8	16,968.3
Loans to subsidiaries – current	384.7	268.6
Amounts due to subsidiaries – non-current	(19,671.4)	(17,417.3)

21 Subsidiaries (Continued)

Loans to subsidiaries in the PRC of HK$384.7 million (2010: HK$268.6 million) are denominated in USD, unsecured and bear interest at the prevailing lending rate quoted by The People's Bank of China Rate and repayable on demand.

Loans and amounts due from/(to) subsidiaries are unsecured, interest free and no fixed terms of repayment except for HK$1,690.0 million (2010: HK$1,789.3 million) to a subsidiary of the Group is carried at an average rate of 3.58 per cent (2010: 3.68 per cent) per annum.

Amounts due to subsidiaries denominated in HKD, USD and RMB amounted to HK$13,747.0 million (2010: HK$11,709.5 million), HK$5,449.0 million (2010: HK$5,493.4 million) and HK$475.2 million (2010: HK$213.6 million) respectively. Remaining balances are denominated in other currencies. Amounts due from subsidiaries are neither past due nor impaired and there is no history of default. The principal subsidiaries of the Company are shown on pages 148 to 156 of the accounts.

Towngas China is a company listed in The Stock Exchange of Hong Kong Limited. The market value of the Group's investment in Towngas China amounted to HK$6,838.3 million as at 31st December 2011 (2010: HK$6,073.1 million).

22 Associated companies

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Investments in associated companies, including goodwill	**12,517.1**	10,752.1	**–**	–
Loans to associated companies – non-current	**189.7**	50.1	**–**	–
	12,706.8	10,802.2	**–**	–
Loan and other receivables from associated companies – current	**73.3**	70.7	**29.5**	27.7

Notes

Carrying amounts of loans to associated companies approximate their fair value and comprises the following:

(a) Loan to Jiangxi Feng Long Mining Company Limited of HK$65.8 million (2010: HK$50.1 million), which is denominated in USD, unsecured, bears interest at the prevailing lending rate quoted by The People's Bank of China Rate (2010: The People's Bank of China Rate) and fully repayable in 2016 (2010: 2015).

(b) Loan to Fengcheng Xingao Coking Company Limited of HK$123.9 million (2010: nil), which is denominated in USD, unsecured, bears interest at the prevailing lending rate quoted by The People's Bank of China Rate and fully repayable in 2017.

(c) Loans to associated companies of Towngas China of HK$30.8 million (2010: nil), are denominated in RMB, unsecured with fixed interest rates ranging from 6.56 per cent to 7.26 per cent per annum and fully repayable in 2012.

(d) Loan and other receivables from associated companies of HK$42.5 million (2010: HK$70.7 million) are mainly for financing PRC gas business related projects and are denominated in USD, unsecured, interest free and have no fixed terms of repayment.

Loan and other receivables from associated companies are neither past due nor impaired and there is no history of default.

22 Associated companies (Continued)

Particulars of the principal associated companies as at 31st December 2011 are listed below:

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Anhui Province Natural Gas Development Company Limited		RMB200.0 million	25	PRC	Mid-stream natural gas project
Dalian DETA ECO Environmental Energy Company Limited		RMB20.0 million	49	PRC	Vehicular fuel refilling station
GH-Fusion Limited		200 shares of US$1 each	50	British Virgin Islands	Investment holding
Hebei Natural Gas Company Limited		RMB420.0 million	45	PRC	Mid-stream natural gas project
Lane Success Development Limited	(i)	10,000 shares of HK$1 each	45	Hong Kong	Property development
Central Waterfront Property Investment Holdings Limited	(ii)	100 shares of US$1 each	15.8	British Virgin Islands/ Hong Kong	Investment holding
Shenzhen Gas Corporation Limited	(iii)	RMB1,320.3 million	26.8	PRC	Gas sales and related businesses
Jiangxi Feng Long Mining Company Limited		RMB236.1 million	25	PRC	Coal mining and related businesses
Hainan Petrochina Kunlun Hong Kong & China Gas Company Limited		RMB50.4 million	49	PRC	Gas sales and related businesses
Towngas DETA Telecom (Dalian) Co., Limited		RMB10.0 million	49	PRC	Telecommunications business
Shanxi Yuanping Guoxin Compressed Natural Gas Co. Limited		RMB20.0 million	42	PRC	Vehicular fuel refilling station
Suzhou Petrochina Kunlun Hong Kong and China Gas Company Limited		RMB40.0 million	29	PRC	Mid-stream natural gas project
Fengcheng Xingao Coking Company Limited		RMB350.0 million	40	PRC	Coal-based chemical and related businesses
[2] 杭州西園管道燃氣有限公司		RMB15.0 million	29.9	PRC	Investment holding
[1] 中新蘇州工業園區環保技術有限公司		RMB300.0 million	49	PRC	Water treatment project
Held by Towngas China					
Changchun Gas Company Limited		RMB461.5 million	26	PRC	Gas sales and related businesses
Dalian DETA Hong Kong and China Gas Company Limited		RMB137.2 million	40	PRC	Gas sales and related businesses
Foshan Gas Group Ltd.		RMB276.0 million	43	PRC	Gas sales and related businesses
Fuzhou Fubei Natural Gas Co., Ltd.		RMB8.0 million	40	PRC	Gas sales and related businesses
Linqu Hong Kong & China Gas Company Ltd.		US$2.1 million	42.4	PRC	Gas sales and related businesses
Shandong Jihua Gas Co., Ltd.		RMB400.0 million	48	PRC	Gas sales and related businesses
Zibo Lubo Gas Company Ltd.		RMB50.0 million	27	PRC	Gas sales and related businesses

[1] Newly formed during the year
[2] Newly acquired during the year

22 Associated companies (Continued)

Notes

(i) The Group holds a 45 per cent interest in Lane Success Development Limited whose principal activity is the development of King's Park Hill project. The completed property development project is a joint development with Henderson Land Development Company Limited.

(ii) The Group has an effective interest of approximately 15.8 per cent in the IFC complex through its interest in Central Waterfront Property Investment Holdings Limited ("CWPI"). With the Group's presence in the board of directors of CWPI and participation in the financial and operating policies of the IFC complex, the Group could exercise a significant influence over CWPI and accordingly the investment is accounted for as an associated company.

(iii) On 25th December 2009, Shenzhen Gas Corporation Limited ("SGCL") was listed on the Shanghai Stock Exchange. As at 31st December 2011, the Group held 354,227,490 shares (2010: 330,000,000 shares) of SGCL or approximately 26.8 per cent equity interest of SGCL. The carrying value and the market value of the Group's investment as at 31st December 2011 in SGCL amounted to HK$1,337.0 million (2010: HK$906.6 million) and HK$4,851.3 million (2010: HK$4,830.4 million) respectively.

The following amounts represent the Group's share of the assets and liabilities, and income and results of the associated companies and are included in the consolidated balance sheet and the income statement:

	Group	
	2011 HK$'M	2010 HK$'M
Assets		
Non-current assets	**16,568.7**	15,362.4
Current assets	**3,906.9**	2,920.6
	20,475.6	18,283.0
Liabilities		
Non-current liabilities	**(1,792.8)**	(4,764.1)
Current liabilities	**(6,757.9)**	(3,166.7)
	(8,550.7)	(7,930.8)
Net assets	**11,924.9**	10,352.2
Income	**6,414.0**	3,944.9
Expenses, including taxation	**(4,766.3)**	(2,416.8)
Profit after taxation	**1,647.7**	1,528.1

23 Jointly controlled entities

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Investments in jointly controlled entities, including goodwill	**7,627.7**	6,963.3	**850.8**	850.8
Loans to jointly controlled entities – non-current	**1,337.0**	805.5	**82.6**	82.6
	8,964.7	7,768.8	**933.4**	933.4
Loan and other receivables from jointly controlled entities – current	**468.1**	338.5	**4.5**	2.9
Amounts due to jointly controlled entities – current	**(31.7)**	(5.0)	**(1.9)**	(3.2)

Notes

(a) Loan and other receivables from jointly controlled entities of the Group are unsecured, interest free and with no fixed terms of repayment except those disclosed as below. Amount due within twelve months are shown as current and the remaining are fully repayable in 2013 to 2016.

- HK$150.1 million (2010: HK$188.8 million) to Nanjing joint venture with fixed interest rates ranging from 2.88 per cent to 3.06 per cent per annum (2010: from 2.88 per cent to 3.06 per cent per annum) and fully repayable in 2014 (2010: 2013).
- HK$274.0 million (2010: HK$235.9 million) to Wuhan joint venture at the prevailing lending rate quoted by The People's Bank of China Rate (2010: fixed interest rate of 5.00 per cent per annum) and fully repayable in 2013 to 2014.
- HK$42.9 million (2010: nil) to Changzhou joint venture with fixed interest rate of 5.94 per cent per annum and fully repayable in 2013.
- HK$254.3 million (2010: nil) to Suzhou joint venture with fixed interest rate of 5.49 per cent per annum and fully repayable in 2014.
- HK$255.9 million (2010: nil) to Suzhou water joint venture with fixed interest rate of 5.49 per cent per annum and fully repayable in 2014.
- HK$120.0 million (2010: nil) to Zhangjiaguang joint venture with fixed interest rate of 5.52 per cent per annum and fully repayable in 2012.
- HK$140.4 million (2010: HK$84.9 million) to the joint ventures of Towngas China with fixed interest rates ranging from 4.25 per cent to 7.87 per cent per annum (2010: from 4.25 per cent to 5.84 per cent per annum) and fully repayable in 2012 (2010: 2011).

Loan and other receivables from jointly controlled entities are neither past due nor impaired and there is no history of default.

Loan and other receivables from jointly controlled entities denominated in HKD, USD and RMB amounted to HK$312.3 million (2010: HK$261.9 million), HK$411.2 million (2010: HK$424.3 million) and HK$1,081.6 million (2010: HK$457.8 million) respectively.

(b) Amounts due to jointly controlled entities are denominated in HKD (2010: denominated in HKD and RMB amounted to HK$0.9 million and HK$4.1 million respectively). The amounts are unsecured, interest free and with no fixed terms of repayment.

23 Jointly controlled entities (Continued)

Particulars of the principal jointly controlled entities as at 31st December 2011 are listed below:

Name	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Yieldway International Limited	2 shares of HK$1 each	50	Hong Kong	Property development
# Beijing Beiran & HKCG Gas Company Limited	RMB44.4 million	50	PRC	Gas sales and related businesses
Changzhou Hong Kong and China Gas Company Limited	RMB166.0 million	50	PRC	Gas sales and related businesses
吉林天元石油有限公司	RMB5.0 million	50	PRC	Natural gas exploitation
Jilin Province Natural Gas Limited Company	RMB220.0 million	49	PRC	Mid stream natural gas project
Jinan Hong Kong and China Gas Company Limited	RMB470.0 million	50	PRC	Gas sales and related businesses
Maanshan ECO Auto Fuel Company Limited	RMB10.5 million	30	PRC	Vehicular fuel refilling station
Nanjing Hong Kong and China Gas Company Limited	RMB600.0 million	50	PRC	Gas sales and related businesses
Suzhou Hong Kong and China Gas Company Limited	RMB200.0 million	55	PRC	Gas sales and related businesses
Suzhou Industrial Park Qingyuan Hong Kong & China Water Company Limited	RMB2,197.0 million	50	PRC	Water supply and sewage treatment
Chongqing Energy ECO CBM Company Limited	RMB180.0 million	50	PRC	Coalbed methane project
# Tongling Hong Kong and China Gas Company Limited	RMB100.0 million	70	PRC	Gas sales and related businesses
Wuhan Natural Gas Company Limited	RMB420.0 million	50	PRC	Gas sales and related businesses
# Xian Qinhua Natural Gas Company Limited	RMB1,000.0 million	49	PRC	Gas sales and related businesses
Zhangjiagang Hong Kong and China Gas Company Limited	RMB100.0 million	50	PRC	Gas sales and related business
Held by Towngas China				
Zibo Hong Kong and China Gas Company Limited	RMB56.0 million	50	PRC	Gas sales and related businesses
Weifang Hong Kong and China Gas Company Limited	RMB140.0 million	50	PRC	Gas sales and related businesses
Weihai Hong Kong and China Gas Company Limited	RMB99.2 million	50	PRC	Gas sales and related businesses
Taian Tai Shan Hong Kong and China Gas Company Limited	RMB80.0 million	50	PRC	Gas sales and related businesses
Maanshan Hong Kong and China Gas Company Limited	US$13.0 million	50	PRC	Gas sales and related businesses
Anqing Hong Kong and China Gas Company Limited	RMB73.0 million	50	PRC	Gas sales and related businesses
Chongqing Hong Kong and China Gas Company Limited	RMB18.9 million	50	PRC	Gas sales and related businesses
Hangzhou Hong Kong and China Gas Company Limited	US$20.0 million	50	PRC	Gas sales and related businesses

Direct jointly controlled entities of the Company

23 Jointly controlled entities (Continued)

The following amounts represent the Group's share of the assets and liabilities, and income and results of the jointly controlled entities and are included in the consolidated balance sheet and the income statement:

	Group	
	2011 HK$'M	2010 HK$'M
Assets		
Non-current assets	**11,074.4**	9,802.1
Current assets	**4,073.8**	3,028.5
	15,148.2	12,830.6
Liabilities		
Non-current liabilities	**(1,104.8)**	(1,492.0)
Current liabilities	**(6,978.4)**	(4,915.5)
	(8,083.2)	(6,407.5)
Net assets	**7,065.0**	6,423.1
Income	**8,432.0**	6,446.0
Expenses, including taxation	**(7,523.3)**	(5,556.5)
Profit after taxation	**908.7**	889.5

24 Available-for-sale financial assets

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Debt securities (Note (a))	**969.1**	1,208.5	**–**	–
Equity securities (Note (b))	**2,141.5**	2,232.7	**42.7**	87.9
	3,110.6	3,441.2	**42.7**	87.9
Market value of listed investments	**2,271.0**	2,838.8	**42.7**	87.9

24 Available-for-sale financial assets (Continued)

	Group 2011 HK$'M	Group 2010 HK$'M	Company 2011 HK$'M	Company 2010 HK$'M
Notes				
(a) Debt securities				
Listed – Hong Kong	**96.1**	104.7	**–**	–
Listed – overseas	**820.4**	1,029.9	**–**	–
Unlisted	**52.6**	73.9	**–**	–
	969.1	1,208.5	**–**	–
(b) Equity securities				
Listed – Hong Kong	**1,169.2**	1,461.8	**42.7**	50.6
Listed – overseas	**185.4**	242.4	**–**	37.3
Unlisted (Note (c))	**786.9**	528.5	**–**	–
	2,141.5	2,232.7	**42.7**	87.9

(c) Included in the unlisted equity securities of HK$526.9 million (2010: HK$528.5 million) are carried at cost less impairment as these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

(d) In 2008 under a rare circumstance, the Group reclassified debt and equity securities that are no longer held for the purpose of selling in the near term out of the financial assets at fair value through profit or loss category into available-for-sale category.

As at 31st December 2011, the fair values of debt and equity securities assets reclassified during 2008 are HK$89.0 million (2010: HK$173.7 million).

If the Group had not reclassified the debt and equity securities during 2008, fair value gain recognised for the year in the income statement will be increased by HK$0.6 million (2010: increased by HK$14.4 million).

(e) Available-for-sale financial assets denominated in HKD, USD, RMB, EUR, GBP, CHF, JPY and AUD amounted to HK$1,169.2 million (2010: HK$1,461.8 million), HK$1,273.1 million (2010: HK$1,326.4 million), HK$579.5 million (2010: HK$580.1 million), HK$38.5 million (2010: HK$8.3 million), HK$ nil (2010: HK$29.7 million), HK$23.3 million (2010: nil), HK$10.2 million (2010: HK$18.8 million) and HK$16.8 million (2010: HK$16.1) respectively.

25 Retirement benefit assets

	Group and Company	
	2011 HK$'M	2010 HK$'M
At 31st December	**81.4**	68.3

The Group operates a defined benefit retirement scheme in Hong Kong, namely the Workmen Retirement Scheme which is a final salary defined benefit scheme.

The amounts recognised on the balance sheet and the history of experience adjustments are shown as follows:

	Group and Company				
	2011 HK$'M	2010 HK$'M	2009 HK$'M	2008 HK$'M	2007 HK$'M
Fair value of plan assets	**453.2**	484.3	434.9	325.1	512.9
Present value of funded obligations	**(429.9)**	(331.6)	(332.4)	(394.5)	(260.6)
Present value of overfunded/ (underfunded) obligations	**23.3**	152.7	102.5	(69.4)	252.3
Unrecognised actuarial losses/(gains)	**58.1**	(84.4)	(43.2)	134.1	(210.1)
Assets on the balance sheet	**81.4**	68.3	59.3	64.7	42.2
Experience adjustments on plan liabilities – (losses)/gains	**(7.1)**	(4.6)	9.9	(6.9)	3.2
Experience adjustments on plan assets – (losses)/gains	**(54.9)**	22.6	94.5	(215.4)	116.4

The plan assets did not include any ordinary shares of the Company as at 31st December 2011 (2010: nil).

The amounts recognised in the income statement are as follows:

	Group and Company	
	2011 HK$'M	2010 HK$'M
Current service cost	**12.5**	13.0
Interest cost	**9.6**	8.0
Expected return on plan assets	**(28.5)**	(25.5)
Net actuarial gains recognised for the year	**(2.3)**	(0.1)
Total (Note 11)	**(8.7)**	(4.6)

25 Retirement benefit assets (Continued)

The movements in the defined benefit obligations are as follows:

	Group and Company	
	2011 **HK$'M**	2010 HK$'M
At 1st January	**331.6**	332.4
Current service cost	**12.5**	13.0
Interest cost	**9.6**	7.9
Benefits paid	**(9.1)**	(3.1)
Actuarial losses/(gains)	**85.3**	(18.6)
At 31st December	**429.9**	331.6

The movements in the fair value of plan assets are as follows:

	Group and Company	
	2011 **HK$'M**	2010 HK$'M
At 1st January	**484.3**	434.9
Expected return on plan assets	**28.5**	25.5
Actuarial (losses)/gains	**(54.9)**	22.6
Contribution paid	**4.4**	4.4
Benefits paid	**(9.1)**	(3.1)
At 31st December	**453.2**	484.3

The movements in the assets recognised on the balance sheet are as follows:

	Group and Company	
	2011 **HK$'M**	2010 HK$'M
At 1st January	**68.3**	59.3
Total income (Note 11)	**8.7**	4.6
Contribution paid	**4.4**	4.4
At 31st December	**81.4**	68.3

The actual losses on plan assets were HK$26.4 million (2010: return of HK$48.1 million).

25 Retirement benefit assets (Continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	Group and Company	
	2011	2010
	%	%
Equity securities	**57.0**	66.0
Debt securities	**37.0**	26.0
Cash	**6.0**	8.0

The principal actuarial assumptions used are as follows:

	Group and Company	
	2011	2010
	%	%
Discount rate	**1.5**	3.0
Expected rate of return on plan assets	**5.3**	6.0
Expected rate of future salary increases	**3.5**	3.5

Expected contributions to the scheme for the year ending 31st December 2012 are HK$4.4 million.

26 Other non-current assets

	Group	
	2011	2010
	HK$'M	HK$'M
Second mortgage loans receivable (Note (a))	**18.2**	43.5
Deferred consideration receivable (Note (b))	**203.7**	242.3
Aviation fuel facility construction receivable (Note (c))	**1,914.4**	1,983.0
Other receivable (Note (d))	**122.6**	103.0
	2,258.9	2,371.8

Notes

(a) Balance represents non-current portion of second mortgage loans to buyers of the Grand Waterfront developed by the Group which are denominated in HKD. Second mortgage loans are secured by the mortgaged properties, bear interest at prime rate and are repayable by instalments in periods ranging from 15 to 25 years from the dates of drawdown.

26 Other non-current assets (Continued)

Notes (Continued)

(b) The balance represents consideration receivable in relation to disposal of certain subsidiaries of Towngas China in June 2009 for HK$379.0 million which is to be settled in cash by the purchaser under five annual instalments of HK$40.0 million each commencing from June 2010 for five years, and a balancing sum of HK$179.0 million in June 2015. The amount is secured against the entire share capital of the holding company of the disposed subsidiaries 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 3.0 per cent per annum. The carrying value of the loan balance approximates the fair value as the impact of discount is not significant. The carrying amounts are analysed for reporting purpose as follows:

	2011 HK$'M	2010 HK$'M
Non-current assets	203.7	242.3
Current assets (included in trade and other receivables)	39.3	39.5
	243.0	281.8

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 sound financial position.

(c) Aviation fuel facility construction receivable is denominated in HKD, unsecured and will be recovered by monthly instalments up to 2047.

(d) The balance includes HK$110.1 million (2010:103.0 million) represented a loan to the joint venture partner of Jilin Province Natural Gas Limited Company, a jointly controlled entity of the Group. The loan balance is denominated in RMB, secured by the borrower's interest in Jilin Province Natural Gas Limited Company, bear interest at a fixed interest rate of 2.4 per cent per annum and repayable in 2015. The carrying value of the loan balance approximates the fair value as the impact of discounting is not significant.

The loan balance is neither past due nor impaired and there is no history of default.

27 Inventories

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Stores and materials	1,212.7	882.6	480.3	566.5
Work in progress	409.7	420.7	397.6	410.4
	1,622.4	1,303.3	877.9	976.9

The Group wrote down the carrying value of inventories by HK$2.7 million (2010: wrote down by HK$3.0 million) to its net realisable value during the year.

28 Trade and other receivables

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Trade receivables (Note (a))	**2,851.2**	1,839.3	**1,430.2**	1,278.6
Instalment receivables	**0.5**	6.9	**–**	–
Payments in advance (Note (b))	**1,482.4**	601.9	**5.6**	13.4
Other receivables	**1,272.6**	891.9	**177.0**	154.6
	5,606.7	3,340.0	**1,612.8**	1,446.6

Trade and other receivables of the Group denominated in HKD, USD and RMB amounted to HK$2,079.9 million (2010: HK$1,625.4 million), HK$127.5 million (2010: HK$44.4 million) and HK$3,393.0 million (2010: HK$1,664.5 million) respectively. Remaining balances are denominated in other currencies.

Trade and other receivables of the Company denominated in HKD and USD amounted to HK$1,609.9 million (2010: HK$1,444.6 million) and HK$0.6 million (2010: HK$0.9 million) respectively. Remaining balances are denominated in other currencies.

Notes

(a) The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 31st December 2011, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
0 - 30 days	**2,599.5**	1,604.1	**1,273.1**	1,136.8
31 - 60 days	**63.0**	48.7	**43.1**	29.8
61 - 90 days	**27.6**	19.0	**18.3**	11.4
Over 90 days	**161.1**	167.5	**95.7**	100.6
	2,851.2	1,839.3	**1,430.2**	1,278.6

(i) At 31st December 2011, trade receivables of the Group and the Company that were neither past due nor impaired amounted to HK$1,937.5 million (2010: HK$1,440.9 million) and HK$1,168.7 million (2010: HK$1,046.2 million) respectively. These balances mainly relate to individuals or companies that have been the Group's or the Company's customers for more than 6 months and with no history of default in the past.

28 Trade and other receivables (Continued)

Notes (Continued)

(a) (ii) Receivables that were past due but not impaired relate to a wide range of customers and management believes that no impairment provision is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The aging analysis of trade receivables that were past due but not impaired is as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
0 - 30 days	662.0	163.2	104.4	90.5
31 - 60 days	63.0	48.7	43.1	29.9
61 - 90 days	27.6	19.0	18.3	11.4
Over 90 days	161.1	167.5	95.7	100.6
	913.7	398.4	261.5	232.4

(iii) As at 31st December 2011, trade receivables of the Group and the Company amounting to HK$49.8 million (2010: HK$47.9 million) and HK$38.4 million (2010: HK$41.1 million) respectively were impaired, all of which are aged over 90 days. The individually impaired receivables mainly relate to customers that have either been placed under liquidation or in severe financial difficulties.

The movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
At 1st January	47.9	56.1	41.1	42.3
Impairment loss recognised	17.8	10.5	10.7	10.2
Uncollectible amounts written off	(16.4)	(19.2)	(13.4)	(11.4)
Exchange differences	0.5	0.5	–	–
At 31st December	49.8	47.9	38.4	41.1

(b) Balance mainly represents prepayment for purchase of material, services and equipments in relation to the Group's gas business in Hong Kong and mainland China. As at 31st December 2011, the directors of the Company reviewed the composition of the balance and considered the amount is recoverable.

29 Financial assets at fair value through profit or loss

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Debt securities (Note (a))	273.7	374.1	–	–
Equity securities (Note (b))	39.6	145.0	1.8	3.5
Derivative instruments	–	9.6	–	0.9
	313.3	528.7	1.8	4.4
Market value of listed investments	121.0	226.2	1.8	3.5

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Notes				
(a) Debt securities				
Listed – Hong Kong	81.4	81.2	–	–
Unlisted	192.3	292.9	–	–
	273.7	374.1	–	–
(b) Equity securities				
Listed – Hong Kong	26.4	41.6	–	–
Listed – overseas	13.2	103.4	1.8	3.5
	39.6	145.0	1.8	3.5

Financial assets at fair value through profit or loss are denominated in the following currencies:

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
USD	197.0	368.1	–	0.9
HKD	98.0	132.4	–	–
RMB	9.8	9.7	–	–
GBP	8.5	18.5	1.8	3.5
	313.3	528.7	1.8	4.4

30 Time deposits, cash and bank balances

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Time deposits over three months	493.7	1,642.0	99.8	–
Time deposits up to three months	5,537.3	5,567.2	1,323.4	1,590.1
Cash and bank balances	5,704.9	4,129.1	158.0	241.6
	11,242.2	9,696.3	1,481.4	1,831.7

The effective interest rates on time deposits in Hong Kong and mainland China are 1.81 per cent and 2.68 per cent per annum respectively (2010: 1.39 per cent and 1.38 per cent per annum). These deposits have average maturity dates within 60 days (2010: 60 days).

Time deposits, cash and bank balances of the Group denominated in HKD, USD and RMB amounted to HK$3,894.0 million (2010: HK$2,884.4 million), HK$1,128.9 million (2010: HK$4,962.5 million) and HK$6,663.1 million (2010: HK$3,439.1 million) respectively. Remaining balances are denominated in other currencies.

Time deposits, cash and bank balances of the Company denominated in HKD, USD and RMB amounted to HK$642.8 million (2010: HK$1,748.9 million), HK$48.7 million (2010: HK$22.6 million) and HK$877.1 million (2010: HK$56.6 million) respectively. Remaining balances are denominated in other currencies.

31 Trade and other payables

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Trade payables (Note (a))	1,736.7	1,271.5	122.4	153.8
Other payables and accruals (Note (b))	6,253.8	4,530.1	590.0	573.2
	7,990.5	5,801.6	712.4	727.0

Notes

(a) At 31st December 2011, the aging analysis of the trade payables is as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
0 - 30 days	863.5	733.5	120.2	151.9
31 - 60 days	218.7	151.4	2.1	1.9
61 - 90 days	146.8	91.6	0.1	–
Over 90 days	507.7	295.0	–	–
	1,736.7	1,271.5	122.4	153.8

31 Trade and other payables (Continued)

Notes (Continued)

(b) The balance includes an amount of approximately HK$45.7 million (2010: HK$37.2 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront. Remaining balances mainly represents advance received from customers for construction works and accrual for services or goods received from suppliers.

(c) Trade and other payables of the Group denominated in HKD, USD and RMB amounted to HK$1,124.1 million (2010: HK$942.7 million), HK$81.9 million (2010: HK$225.8 million) and HK$6,764.7 million (2010: HK$4,598.6 million) respectively. Remaining balances are denominated in other currencies.

Trade and other payables of the Company denominated in HKD and USD amounted to HK$616.3 million (2010: HK$465.6 million) and HK$76.0 million (2010: HK$218.5 million) respectively. Remaining balances are denominated in other currencies.

32 Borrowings

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
Non-current				
Bank and other loans	**8,161.4**	1,140.8	**1,100.0**	600.0
Guaranteed notes (Note (a))	**13,467.0**	10,604.9	**–**	–
	21,628.4	11,745.7	**1,100.0**	600.0
Current				
Bank and other loans	**4,220.8**	8,867.9	**–**	200.0
Guaranteed notes (Note (a))	**–**	1,114.5	**–**	–
	4,220.8	9,982.4	**–**	200.0
Total borrowings	**25,849.2**	21,728.1	**1,100.0**	800.0

Notes

(a) Guaranteed notes comprise of:

(i) The US$1 billion guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, on 7th August 2008. The notes are unsecured and guaranteed by the Company as to repayment, carry a fixed coupon rate of 6.25 per cent per annum payable semi-annually in arrear and have a maturity term of 10 years. The notes are listed on The Stock Exchange of Hong Kong Limited. At 31st December 2011, notes with a principal amount of US$995.0 million (2010: US$995.0 million) are outstanding in the market and the market value of the notes was HK$8,996.0 million (2010: HK$8,789.9 million).

32 Borrowings (Continued)

Notes (Continued)

(a) (ii) The HK$5,854.7 million (2010: HK$3,010.0 million) guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, between 2nd June 2009 and 21st December 2011. The notes are unsecured and guaranteed by the Company as to repayment, carry fixed coupon rates ranging from 1.40 per cent to 6.43 per cent per annum payable quarterly, half-yearly or annually in arrear and have maturity terms between 5 to 40 years. At 31st December 2011, the balance denominated in HKD, RMB and AUD amounted to HK$4,183.7 million (2010: HK$2,950.8 million), HK$1,227.6 million (2010: nil) and HK$396.0 million (2010: nil) respectively.

(iii) Towngas China issued US$200.0 million 8.25 per cent guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23rd September 2004. The Guaranteed Senior Notes were listed on the Singapore Exchange Securities Trading Limited and were secured by a pledge of shares of certain subsidiaries of Towngas China. The Guaranteed Senior Notes bore interest at 8.25 per cent per annum, payable semi-annually in arrears. The effective interest rate of Guaranteed Senior Notes was 8.69 per cent. The Guaranteed Senior Notes was fully repaid in September 2011.

(b) The maturity of borrowings is as follows:

	Group				Company	
	Bank and other loans		Guarantee notes		Bank loans	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Within 1 year	4,220.8	8,867.9	–	1,114.5	–	200.0
Between 1 and 2 years	1,719.8	20.8	–	–	800.0	–
Between 2 and 5 years	6,302.9	1,071.2	1,227.6	–	300.0	600.0
Wholly repayable within 5 years	12,243.5	9,959.9	1,227.6	1,114.5	1,100.0	800.0
Wholly repayable over 5 years	138.7	48.8	12,239.4	10,604.9	–	–

(c) The exposure of the Group's and Company's borrowings to interest rate changes and the contractual repricing dates are all within 6 months from the balance sheet date, except for guaranteed notes as they are subjected to fixed interest rate and with maturity date ranged from 2 to 40 years. The effective interest rates of the Group's borrowings at the balance sheet date are as follows:

	Group						
	2011				2010		
	HKD	USD	RMB	AUD	HKD	USD	RMB
Bank and other loans	1.0%	N/A	6.6%	N/A	0.7%	N/A	4.6%
Guaranteed notes	4.2%	5.4%	1.6%	3.4%	5.1%	8.7%	N/A

(d) Saved as disclosed above, carrying value of borrowings approximate their fair value as the balances either at variable rates or the impact of discounting is not significant.

32 Borrowings (Continued)

Notes (Continued)

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
HKD	**12,422.5**	8,406.0	**1,100.0**	800.0
USD	**7,659.7**	8,768.6	**–**	–
RMB	**5,332.2**	4,514.3	**–**	–
AUD	**396.0**	–	**–**	–
Others	**38.8**	39.2	**–**	–
	25,849.2	21,728.1	**1,100.0**	800.0

33 Customers' deposits

Customers' deposits mainly represent deposits received from customers pursuant to gas supply contracts agreed with customers and are repayable upon termination of gas supply contracts. The carrying values of the deposits approximate the fair value as the impact of discount is not significant.

The balances are denominated in HKD and bear interest at bank saving rate.

34 Deferred taxation

The movements in the deferred taxation are as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	**2011 HK$'M**	2010 HK$'M
At 1st January	**2,017.5**	1,836.8	**1,074.9**	1,056.3
Charged to income statement	**209.9**	149.0	**22.4**	18.6
Acquisition of subsidiaries (Note 44)	**174.2**	2.7	**–**	–
Exchange differences	**42.5**	29.0	**–**	–
At 31st December	**2,444.1**	2,017.5	**1,097.3**	1,074.9

34 Deferred taxation (Continued)

Prior to offsetting of balances within the same taxation jurisdiction, the movements in deferred tax liabilities and assets during the year are as follows:

Group

Deferred tax liabilities	Accelerated tax depreciation 2011 HK$'M	Accelerated tax depreciation 2010 HK$'M	Revaluation surplus of mining rights 2011 HK$'M	Revaluation surplus of mining rights 2010 HK$'M	Others 2011 HK$'M	Others 2010 HK$'M	Total 2011 HK$'M	Total 2010 HK$'M
At 1st January	1,405.2	1,315.0	361.0	347.7	273.4	193.5	2,039.6	1,856.2
Charged to income statement	81.6	78.0	–	–	125.3	73.7	206.9	151.7
Acquisition of subsidiaries	8.0	2.7	122.6	–	43.6	–	174.2	2.7
Exchange differences	16.5	9.5	16.7	13.3	9.3	6.2	42.5	29.0
At 31st December	1,511.3	1,405.2	500.3	361.0	451.6	273.4	2,463.2	2,039.6

Deferred tax assets	Provisions 2011 HK$'M	Provisions 2010 HK$'M	Tax losses 2011 HK$'M	Tax losses 2010 HK$'M	Total 2011 HK$'M	Total 2010 HK$'M
At 1st January	(8.3)	(8.3)	(13.8)	(11.1)	(22.1)	(19.4)
Charged/(credited) to income statement	–	–	3.0	(2.7)	3.0	(2.7)
At 31st December	(8.3)	(8.3)	(10.8)	(13.8)	(19.1)	(22.1)
Net deferred tax liabilities at 31st December					2,444.1	2,017.5

Company

Deferred tax liabilities	Accelerated tax depreciation 2011 HK$'M	Accelerated tax depreciation 2010 HK$'M
At 1st January	1,083.1	1,064.5
Charged to income statement	22.4	18.6
At 31st December	1,105.5	1,083.1

Deferred tax assets	Provisions 2011 HK$'M	Provisions 2010 HK$'M
At 1st January and 31st December	(8.2)	(8.2)
Net deferred tax liabilities at 31st December	1,097.3	1,074.9

34 Deferred taxation (Continued)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$133.1 million (2010: HK$104.9 million) in respect of losses amounting to HK$648.9 million (2010: HK$512.3 million) that can be carried forward and set off against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$306.7 million (2010: HK$239.2 million) which will expire at various dates up to and including 2016 (2010: 2015).

35 Derivative financial instruments

	Group			
	2011		2010	
	HK$'M Assets	**HK$'M Liabilities**	HK$'M Assets	HK$'M Liabilities
Cross currency swaps and interest rate swap contracts – cash flow hedges (Note)	**452.3**	**43.3**	351.8	–
Interest rate swaps contracts – held-for-trading	**–**	**71.8**	–	–
	452.3	**115.1**	351.8	–

Note

The full fair values of hedging derivatives are classified as non-current assets or liabilities as the remaining maturity of the hedged items is more than 12 months.

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of HK$12.6 million (2010: HK$2.5 million) (Note 7).

The notional principal amounts of the outstanding cross currency swaps contracts at 31st December 2011 amounting to US$1 billion has been exchanged at inception and will be re-exchanged on expiry date at an exchange rate of US$1 to HK$7.8. Under these contracts, the fixed interest rates ranging from 5.20 per cent to 5.65 per cent per annum on the exchanged HKD principal amounts would be paid quarterly or semi-annually and the fixed interest rate at 6.25 per cent per annum on the original USD principal amounts would be received semi-annually.

The notional principal amounts of the outstanding cross currency swaps contracts at 31st December 2011 amounting to RMB1 billion will be exchanged on expiry date at an exchange rate of RMB1 to HK$1.21. Under these contracts, the fixed interest rate of 1.57 per cent and 1.60 per cent per annum on the HKD principal amounts to be exchanged would be paid semi-annually and the fixed interest rate at 1.40 per cent per annum on the original RMB principal amounts would be received semi-annually.

The notional principal amounts of the outstanding cross currency swaps contract at 31st December 2011 amounting to AUD50 million has been exchanged at inception and will be re-exchanged on expiry date at an exchange rate of AUD1 to HK$7.78. Under this contract, the fixed interest rate 3.42 per cent per annum on the exchanged HKD principal amounts would be paid semi-annually and the fixed interest rate 6.43 per cent per annum on the original AUD principal amounts would be received semi-annually.

35 Derivative financial instruments (Continued)

The Group also had an interest rate swap designated to its floating-rate loan of HK$350 million. The terms of the interest rate swap contract has been negotiated to match the terms of the respective designated hedged item. The interest rate swap contract swaps the interest rate from HIBOR to 1.975 per cent per annum.

Gains and losses recognised in the hedging reserve in equity (Note 38) on cross currency swaps and interest rate swap contracts as of 31st December 2011 will be continuously released to the income statement until the repayment of relevant borrowings.

36 Share capital

	Group and Company Ordinary shares of HK$0.25 each			
	Number of shares		Nominal Value	
	2011	2010	**2011 HK$'M**	2010 HK$'M
Authorised:				
At 1st January and at 31st December	**10,000,000,000**	10,000,000,000	**2,500.0**	2,500.0
Issued and fully paid:				
At 1st January	**7,182,321,942**	6,529,383,584	**1,795.6**	1,632.3
Bonus issue	**718,232,194**	652,938,358	**179.5**	163.3
At 31st December	**7,900,554,136**	7,182,321,942	**1,975.1**	1,795.6

By an ordinary resolution passed on 3rd June 2011, the issued share capital was increased by way of a bonus issue by applying HK$179.5 million charging to the share premium account in payment in full at par of 718,232,194 shares of HK$0.25 each on the basis of one new share for every ten shares held on 3rd June 2011. These shares rank pari passu with the existing ordinary shares.

37 Share premium

	Group and Company	
	2011 HK$'M	2010 HK$'M
At 1st January	**3,455.3**	3,618.6
Less: Bonus issue	**(179.5)**	(163.3)
At 31st December	**3,275.8**	3,455.3

38 Reserves

	Investment revaluation reserve HK$'M	Capital redemption reserve HK$'M	Hedging reserve HK$'M	Capital reserve HK$'M	Other reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group								
At 1st January 2011	504.0	223.8	338.3	155.5	(0.8)	2,148.8	27,191.7	30,561.3
Profit attributable to shareholders	–	–	–	–	–	–	6,149.6	6,149.6
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(401.0)	–	–	–	–	–	–	(401.0)
Impairment loss on available-for-sale financial assets transferred to income statement	78.3	–	–	–	–	–	–	78.3
Change in fair value of cash flow hedges	–	–	40.6	–	–	–	–	40.6
Exchange differences	–	–	–	–	–	858.9	–	858.9
Total comprehensive income for the year	(322.7)	–	40.6	–	–	858.9	6,149.6	6,726.4
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
2010 final dividend paid	–	–	–	–	–	–	(1,651.9)	(1,651.9)
2011 interim dividend paid	–	–	–	–	–	–	(948.1)	(948.1)
Further acquisition of subsidiaries	–	–	–	–	–	–	4.9	4.9
Issue of shares of a subsidiary under share option schemes	–	–	–	–	(11.3)	–	–	(11.3)
At 31st December 2011	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Company and subsidiaries	181.3	223.8	378.9	155.5	(12.1)	1,385.0	15,940.0	18,252.4
Associated companies	–	–	–	–	–	437.3	10,120.5	10,557.8
Jointly controlled entities	–	–	–	–	–	1,185.4	6,337.6	7,523.0
	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Balance after 2011 final and special dividend proposed	181.3	223.8	378.9	155.5	(12.1)	3,007.7	29,198.4	33,133.5
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Company								
At 1st January 2011	18.6	223.8	–	–	–	–	3,463.8	3,706.2
Profit attributable to shareholders	–	–	–	–	–	–	9,079.3	9,079.3
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(16.1)	–	–	–	–	–	–	(16.1)
Total comprehensive income for the year	(16.1)	–	–	–	–	–	9,079.3	9,063.2
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
2010 final dividend paid	–	–	–	–	–	–	(1,651.9)	(1,651.9)
2011 interim dividend paid	–	–	–	–	–	–	(948.1)	(948.1)
At 31st December 2011	2.5	223.8	–	–	–	–	11,595.0	11,821.3
Balance after 2011 final and special dividend proposed	2.5	223.8	–	–	–	–	8,395.3	8,621.6
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
	2.5	223.8	–	–	–	–	11,595.0	11,821.3

38 Reserves (Continued)

	Investment revaluation reserve HK$'M	Capital redemption reserve HK$'M	Hedging reserve HK$'M	Capital reserve HK$'M	Other reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group								
At 1st January 2010	513.6	223.8	199.7	155.5	–	1,497.6	24,522.1	27,112.3
Profit attributable to shareholders	–	–	–	–	–	–	5,584.8	5,584.8
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(9.6)	–	–	–	–	–	–	(9.6)
Change in fair value of cash flow hedges	–	–	138.6	–	–	–	–	138.6
Exchange differences	–	–	–	–	–	651.2	–	651.2
Total comprehensive income for the year	(9.6)	–	138.6	–	–	651.2	5,584.8	6,365.0
2009 final dividend proposed	–	–	–	–	–	–	1,501.8	1,501.8
2009 final dividend paid	–	–	–	–	–	–	(1,501.8)	(1,501.8)
2010 interim dividend paid	–	–	–	–	–	–	(861.9)	(861.9)
Further acquisition of a subsidiary	–	–	–	–	–	–	(401.4)	(401.4)
Others	–	–	–	–	(0.8)	–	–	(0.8)
At 31st December 2010	504.0	223.8	338.3	155.5	(0.8)	2,148.8	28,843.6	32,213.2
Company and subsidiaries	504.0	223.8	338.3	155.5	(0.8)	853.7	14,941.9	17,016.4
Associated companies	–	–	–	–	–	365.7	8,472.8	8,838.5
Jointly controlled entities	–	–	–	–	–	929.4	5,428.9	6,358.3
	504.0	223.8	338.3	155.5	(0.8)	2,148.8	28,843.6	32,213.2
Balance after 2010 final dividend proposed	504.0	223.8	338.3	155.5	(0.8)	2,148.8	27,191.7	30,561.3
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
	504.0	223.8	338.3	155.5	(0.8)	2,148.8	28,843.6	32,213.2
Company								
At 1st January 2010	15.0	223.8	–	–	–	–	3,146.6	3,385.4
Profit attributable to shareholders	–	–	–	–	–	–	2,831.0	2,831.0
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	3.6	–	–	–	–	–	–	3.6
Total comprehensive income for the year	3.6	–	–	–	–	–	2,831.0	2,834.6
2009 final dividend proposed	–	–	–	–	–	–	1,501.8	1,501.8
2009 final dividend paid	–	–	–	–	–	–	(1,501.8)	(1,501.8)
2010 interim dividend paid	–	–	–	–	–	–	(861.9)	(861.9)
At 31st December 2010	18.6	223.8	–	–	–	–	5,115.7	5,358.1
Balance after 2010 final dividend proposed	18.6	223.8	–	–	–	–	3,463.8	3,706.2
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
	18.6	223.8	–	–	–	–	5,115.7	5,358.1

39 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2011.

40 Commitments

(a) Capital expenditures for property, plant and equipment

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Authorised but not brought into the accounts at 31st December	3,092.8	1,910.1	640.5	594.4
Of which, contracts had been entered into at 31st December	2,751.0	1,884.6	640.5	594.4

(b) Share of capital expenditures for property, plant and equipment of jointly controlled entities

	Group	
	2011 HK$'M	2010 HK$'M
Authorised but not brought into the accounts at 31st December	3,016.8	2,626.0
Of which, contracts had been entered into at 31st December	2,050.4	1,381.4

(c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to certain joint ventures under various joint venture contracts to finance relevant gas and new energy projects in mainland China. The directors of the Company estimate that as at 31st December 2011, the Group's commitments to these projects were approximately HK$1,180.3 million (2010: HK$739.1 million).

(d) Lease commitments

Lessee

At 31st December 2011, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

	Group		Company	
	2011 HK$'M	2010 HK$'M	2011 HK$'M	2010 HK$'M
Not later than 1 year	66.7	53.2	15.3	16.6
Later than 1 year and not later than 5 years	114.9	89.3	39.9	41.7
Later than 5 years	209.6	224.1	142.6	151.9
	391.2	366.6	197.8	210.2

40 Commitments (Continued)

(d) Lease commitments (Continued)

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront under operating leases. Except for certain car parks are rented out on an hourly or a monthly basis, these leases typically run for an initial period of 2 to 3 years. Further details of the carrying value of the property are contained in Note 18. At 31st December 2011, future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2011 HK$'M	2010 HK$'M
Not later than 1 year	**14.2**	14.0
Later than 1 year and not later than 5 years	**10.9**	12.2
	25.1	26.2

41 Related party transactions

Henderson Land Development Company Limited ("Henderson") is a related party of the Group by virtue of its significant interest in and influence over the Group. Other related parties include subsidiaries of Henderson and two banks with common directors with the Company during the year. During the year, the transactions carried out and year end balances with the associated companies, jointly controlled entities and other related parties are shown as follows:

(a) Interest income and sales of goods and services

	Group	
	2011 HK$'M	2010 HK$'M
Associated companies		
Sale of goods and services (Note (i))	**3.4**	4.7
Loan interest income (Note (ii))	**3.8**	3.0
Jointly controlled entities		
Sale of goods and services (Note (i))	**18.6**	54.1
Loan interest income (Note (ii))	**46.3**	18.2
Other related parties		
Sale of goods and services (Note (i))	**6.9**	11.5
Interest income from bank deposits (Note (i))	**11.6**	11.7

41 Related party transactions (Continued)

(b) Interest expense and purchase of goods and services

	Group	
	2011 HK$'M	2010 HK$'M
Associated companies		
Purchase of goods and services (Note (i))	**80.1**	51.1
Jointly controlled entities		
Purchase of goods and services (Note (i))	**15.0**	16.5
Other related parties		
Purchase of goods and services (Note (i))	**15.1**	14.8
Interest expense on bank loans (Note (i))	**74.8**	59.9

Notes

(i) These related party transactions were conducted at prices and terms as agreed by parties involved.

(ii) For the terms of loans, please refer to Notes 22 and 23.

(c) Year end balances arising from interest income, interest expense and sale or purchase of goods and services

	Group	
	2011 HK$'M	2010 HK$'M
Loans and interest receivables from:		
Associated companies	**262.8**	117.9
Jointly controlled entities	**1,773.5**	1,139.0
Time deposits and interest receivable from:		
Other related parties	**271.6**	1,322.8
Bank loans and interest payable to:		
Other related parties	**1,134.9**	1,717.7
Trade receivables from:		
Associated companies	**–**	2.5
Jointly controlled entities	**1.6**	8.4
Other related parties	**2.3**	3.2
Trade payables to:		
Associated companies	**3.2**	3.7
Jointly controlled entities	**–**	1.3
Other related parties	**0.2**	0.9

(d) Other related party transactions are also disclosed in Notes 12, 22, 23, 28 and 31.

42 Notes to consolidated cash flow statement

Reconciliation of profit before taxation to net cash from operating activities

	Group	
	2011 HK$'M	2010 HK$'M
Profit before taxation	**8,068.7**	7,086.7
Share of profits less losses of associated companies	**(1,647.7)**	(1,528.1)
Share of profits less losses of jointly controlled entities	**(908.7)**	(889.5)
Gain on acquisition of a subsidiary	**(124.6)**	–
Gain on deconsolidation of a subsidiary	**–**	(42.0)
Fair value gain on investment property	**(17.0)**	–
Provision for investment in a jointly controlled entity	**–**	23.6
Ineffective portion on cash flow hedges	**(12.6)**	(2.5)
Interest income	**(264.9)**	(398.8)
Interest expense	**752.0**	711.2
Dividend income from investments in securities	**(178.4)**	(175.5)
Depreciation and amortisation	**1,311.0**	1,152.0
Loss on disposal/write off of property, plant and equipment	**34.1**	50.3
Gain on disposal of leasehold land	**(11.3)**	(0.7)
Gain on disposal of available-for-sale financial assets	**(19.1)**	(169.2)
Net realised and unrealised losses on investments in financial assets at fair value through profit or loss and derivative financial instruments	**144.7**	29.8
Tax paid	**(960.6)**	(720.4)
Exchange differences	**(115.6)**	12.2
Changes in working capital		
Increase in customers' deposits	**31.8**	19.5
Decrease in completed property for sale	**–**	29.0
(Increase)/decrease in inventories	**(284.6)**	1,306.5
Increase in trade and other receivables	**(1,728.3)**	(1,961.6)
Increase in trade and other payables	**901.5**	710.7
Increase in retirement benefit assets	**(13.1)**	(9.0)
Net cash from operating activities	**4,957.3**	5,234.2

43 Share option schemes

Pursuant to share option scheme (the "Share Option Scheme") adopted by shareholders of Towngas China on 4th April 2001, 26th April 2005 and 28th November 2005, Towngas China may grant options to employees of Towngas China and its subsidiaries for the recognition of their contributions to the Towngas China. Share options granted must be taken up within 28 days from the date of grant, upon payment of HK$1 per option and the vesting period of share options is from the date of grant until the commencement of the exercisable period. Share options granted are exercisable in accordance with the terms of the Share Option Scheme at any time for a period to be determined by the directors of Towngas China, which shall not be more than 10 years after the date of grant.

As at 31st December 2011, total number of outstanding and exercisable share options is 16,240,800. The weighted average exercise price for the outstanding and exercisable share options is HK$3.7. Had all the outstanding vested share options been exercised on 31st December 2011, the Group would have received cash proceeds of approximately HK$60.3 million.

44 Business combinations

(a) Business combinations under Towngas China

In January 2011, the Group acquired 100 per cent and 80 per cent of Wuning Hong Kong and China Gas Co., Ltd. ("Wuning") and Xiushui Hong Kong and China Gas Co., Ltd. ("Xiushui") for cash consideration of approximately HK$80.2 million and HK$42.5 million respectively.

Also, in July and December 2011, the Group acquired 70 per cent and 80 per cent of Miluo Red-Horse Natural Gas Development Company Limited ("Miluo") and Beipiao Hong Kong and China Gas Company Limited ("Beipiao") for cash consideration of approximately HK$161.0 million and HK$78.9 million respectively.

The inclusion of the acquired businesses do not have a significant impact of the Group's turnover and profit for the year.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	Wuning HK$'M	Xiushui HK$'M	Miluo HK$'M	Beipiao HK$'M	Total HK$'M
Purchase consideration	80.2	42.5	161.0	78.9	362.6
Fair value of net identifiable assets acquired (see below)	(3.0)	(1.8)	(12.7)	(32.0)	(49.5)
Goodwill (Note 20)	77.2	40.7	148.3	46.9	313.1

The goodwill is attributable to the future profitability of the acquired business of Wuning, Xiushui, Miluo and Beipiao and the synergies expected to arise after the Group's acquisitions.

44 Business combinations (Continued)

(a) Business combinations under Towngas China (Continued)

The identifiable assets and liabilities arising from the acquisition are as follows:

	Acquirees' fair value amount HK$'M
Property, plant and equipment	169.6
Leasehold land	10.9
Inventories	5.0
Trade and other receivables	37.7
Bank balances and cash	1.5
Trade and other payables	(69.6)
Provision for taxation	(0.4)
Borrowings	(83.3)
Deferred taxation	(8.0)
Net assets	63.4
Non-controlling interests	(13.9)
Net identifiable assets acquired	49.5

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	172.9
Cash and cash equivalents in subsidiaries acquired	(1.5)
Cash outflow on acquisition of subsidiaries	171.4

As at 31st December 2011, purchase consideration of HK$30.3 million for Xiushui remained unpaid and included in trade and other payables whereas purchase consideration of HK$80.5 million and HK$78.9 million for Miluo and Beipiao respectively remained unpaid and included in loan and other payables to non-controlling shareholders.

44 Business combinations (Continued)

(b) Business combinations under the Group's PRC gas business

In July 2011 and August 2011, the Group acquired 60 per cent and 81 per cent of 潮州市華迅能源配送有限公司("Huaxun") and Jingxian Hong Kong and China Gas Company Limited ("Jingxian") for cash consideration of approximately HK$302.4 million and HK$233.5 million respectively.

The inclusion of the acquired businesses do not have a significant impact of the Group's turnover and profit for the year.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	Huaxun HK$'M	Jingxian HK$'M	Total HK$'M
Purchase consideration	302.4	233.5	535.9
Fair value of net identifiable assets acquired (see below)	(60.3)	(54.1)	(114.4)
Goodwill (Note 20)	242.1	179.4	421.5

The goodwill is attributable to the future profitability of the acquired business of Huaxun and Jingxian and the synergies expected to arise after the Group's acquisitions.

The identifiable assets and liabilities arising from the acquisition are as follows:

	Acquirees' fair value amount HK$'M
Property, plant and equipment	102.1
Leasehold land	116.1
Trade and other receivables	49.0
Bank balances and cash	14.9
Trade and other payables	(114.8)
Net assets	167.3
Non-controlling interests	(52.9)
Net identifiable assets acquired	114.4

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	270.5
Cash and cash equivalents in subsidiaries acquired	(14.9)
Cash outflow on acquisition of subsidiaries	255.6

As at 31st December 2011, purchase consideration of HK$124.6 million and HK$140.8 million for Huaxun and Jingxian respectively remained unpaid and included in trade and other payables.

44 Business combinations (Continued)

(c) Business combinations under the Group's new energy business

In September 2011 and October 2011, the Group acquired 100 per cent and 55 per cent of Inner Mongolia Ke Jian Coal Company Limited ("Ke Jian") and 嘉祥縣恒生貿易有限公司 ("Heng Sheng") for cash consideration of approximately HK$274.6 million and HK$143.7 million respectively.

The inclusion of the acquired businesses do not have a significant impact of the Group's turnover and profit for the year.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	Ke Jian HK$'M	Heng Sheng HK$'M	Total HK$'M
Purchase consideration	274.6	143.7	418.3
Fair value of net identifiable assets acquired (see below)	(399.2)	(111.2)	(510.4)
(Gain on acquisition) (Note 7)/goodwill (Note 20)	(124.6)	32.5	

The goodwill is attributable to the future profitability of the acquired business of Ke Jian and Heng Sheng and the synergies expected to arise after the Group's acquisitions.

The identifiable assets and liabilities arising from the acquisition are as follows:

	Acquirees' fair value amount HK$'M
Property, plant and equipment	1,063.5
Leasehold land	230.3
Inventories	0.2
Trade and other receivables	53.4
Bank balances and cash	9.6
Trade and other payables	(465.5)
Taxation payable	(1.8)
Borrowings	(122.1)
Deferred taxation	(166.2)
Net assets	601.4
Non-controlling interests	(91.0)
Net identifiable assets acquired	510.4

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	319.9
Cash and cash equivalents in subsidiaries acquired	(9.6)
Cash outflow on acquisition of subsidiaries	310.3

As at 31st December 2011, unsettled purchase considerations of HK$54.9 million and HK$43.5 million for Ke Jian and Heng Sheng respectively are included in trade and other payables.

(d) Apart from the above, there were no other material acquisitions during the year ended 31st December 2011.

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2011:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
[2] Apex Time Holdings Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Barnaby Assets Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Securities investment
Danetop Services Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Securities investment
# Eagle Legend International Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
ECO Aviation Fuel Development Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Aviation fuel facility construction
ECO Aviation Fuel Services Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Aviation fuel facility operation
ECO Environmental Investments Limited	2 ordinary shares of HK$1 each	100	Hong Kong	LPG filling stations
ECO Environmental Investment (China) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
ECO Landfill Gas (NENT) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Landfill gas project
Fanico Investments Limited	1 ordinary share of HK$1 each	100	Hong Kong	Investment holding
HDC Data Centre Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Data centre operation
HKCG (Finance) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
Hong Kong & China Gas (Anhui) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Changzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Chaozhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (China) Limited	10,000 ordinary shares of HK$1 each	100	British Virgin Islands	Investment holding
Hong Kong & China Gas (Danyang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Fengcheng) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Guangzhou Science City) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Guangzhou) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Hebei) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jilin Province) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding

\# Direct subsidiaries of the Company
2 Newly acquired during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2011:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
Hong Kong & China Gas (Jinan) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jintan) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Nanjing) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Panyu) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Suzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Taizhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wuhan) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wujiang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Xuzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yixing) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhangjiagang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhongshan) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water (Suzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water (Wujiang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water Limited	1 ordinary share of US$1 each	100	British Virgin Islands	Investment holding
Hong Kong and China Gas (Hainan) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Jiangxi) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
[1] Hong Kong and China Gas (Jingxian) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Xinmi) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Zhangshu) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Investstar Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Securities investment

1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2011:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
Monarch Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
[1] M-Tech Instrument Corporation (Holding) Limited	119 ordinary shares of HK$1 each	58	Hong Kong	Investment holding
Pathview Properties Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Prominence Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
# P-Tech Engineering Company Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Engineering, and production of industrial gas
# Quality Testing Services Limited	10,000 ordinary shares of HK$1 each	100	Hong Kong	Appliance testing
Sky Global Limited	100 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Starmax Assets Limited	90 million ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Property development
Summit Result Developments Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Superfun Enterprises Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Securities investment
Towngas China Company Limited	2,460,344,830 shares of HK$0.1 each	66.2	Cayman Island/ PRC	Investment holding
Towngas Enterprise Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Café, restaurant and retail sales
# Towngas International Company Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
# Towngas Investment Company Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Towngas Telecommunications Fixed Network Limited	35,000,000 ordinary shares of HK$1 each	100	Hong Kong	Telecommunications business
Upwind International Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Securities investment
U-Tech Engineering Company Limited	12,600,000 ordinary shares of HK$1 each	100	Hong Kong	Engineering and related businesses
Uticom Limited	100 ordinary shares of HK$1 each	60	Hong Kong	Development of automatic meter reading system

\# Direct subsidiaries of the Company
1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2011:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
Held by Towngas China				
China Overlink Holdings Co, Limited	1 ordinary share of US$1 each	100	British Virgin Islands	Investment holding
Hong Kong & China Gas (Anqing) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Dalian) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Huzhou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Maanshan) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Qingdao) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Taian) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Weifang) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Weihai) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yantai) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yingkou) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zibo) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
TCCL (Finance) Limited	1 ordinary share of HK$1 each	100	Hong Kong	Financing
Towngas (BVI) Holdings Limited	1 ordinary share of US$1 each	100	British Virgin Islands	Investment holding
Towngas China Group Limited	12,821 ordinary shares of US$1 each	100	British Virgin Islands	Investment holding

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2011:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
Chaozhou Hong Kong and China Limited	HK$100.0 million	60	PRC	Gas sales and related businesses
Chiping ECO Yi Yun Gas Co. Ltd.	RMB15.0 million	70	PRC	Vehicular fuel refilling station
† Dandong YiYuan Trade Co., Ltd.	US$20.0 million	100	PRC	Coal trading
Danyang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses
Dong Ping ECO Energy Co. Ltd.	RMB14.0 million	91	PRC	Vehicular fuel refilling station
[1] ECO Environmental Energy Investment Limited	US$100.0 million	100	PRC	Chinese holding company
† ECO Environmental Resources Investments Limited	US$299.0 million	100	PRC	Chinese holding company
† ECO Services Management Company Limited	RMB50.0 million	100	PRC	Project management
Fengcheng Hong Kong and China Gas Company Limited	RMB88.0 million	55	PRC	Gas sales and related businesses
Guangzhou Dongyong Hong Kong & China Gas Limited	HK$50.0 million	80	PRC	Gas sales and related businesses
Guangzhou Hong Kong and China Gas Company Limited	RMB105.0 million	80	PRC	Gas sales and related businesses
† Guangzhou Jianke Hong Kong and China Gas Company Limited	RMB22.5 million	100	PRC	Gas sales and related businesses
† Hong Kong & China Gas Investment Limited	US$75.0 million	100	PRC	Investment holding
[2] Inner Mongolia Ke Jian Coal Company Limited	RMB150.0 million	100	PRC	Coal mining and related businesses
Inner Mongolia SanWei Coal Chemical Technology Company Limited	RMB400.0 million	70.1	PRC	Coal-based chemical and related businesses
Inner Mongolia SanWei Resource Group Xiao Yu Gou Coal Company Limited	RMB120.0 million	70.1	PRC	Coal mining and related businesses
Jilin Hong Kong and China Gas Company Limited	RMB100.0 million	63	PRC	Gas sales and related businesses
Jining Jikuang ECO New Energy Co., Ltd.	RMB15.0 million	51	PRC	Vehicular fuel refilling station
Jintan Hong Kong and China Gas Company Limited	RMB60.0 million	60	PRC	Gas sales and related businesses
† Pingxiang Hong Kong & China Gas Company Limited	US$5.1 million	100	PRC	Gas sales and related businesses

1 Newly formed during the year
2 Newly acquired during the year
† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2011:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
† Qinhuangdao YiTeng Trade Co. Ltd.	US$1.5 million	100	PRC	Coal trading
Shaan Xi ECO Hui Tai Clean Energy Co. Ltd.	RMB27.0 million	60	PRC	Vehicular fuel refilling station
Shanxi ECO Coalbed Gas Company Limited	RMB200.0 million	70	PRC	Coalbed methane project
# Shunde Hong Kong and China Gas Company Limited	RMB100.0 million	60	PRC	Gas sales and related businesses
† Suining Hong Kong and China Gas Company Limited	US$5.0 million	100	PRC	Gas sales and related businesses
Taizhou Hong Kong and China Gas Company Limited	RMB83.0 million	65	PRC	Gas sales and related businesses
Taizhou Yongan Hong Kong & China Gas Co., Ltd.	US$10.0 million	93.9	PRC	Gas sales and related businesses
Towngas Chibo Data Service (Jinan) Co., Ltd.	RMB68.0 million	65	PRC	Data outsourcing project
Towngas Telecom (Shandong) Company Limited	RMB40.0 million	90.1	PRC	Telecommunication pipe-laying project
† Towngas Telecommunications (Shenzhen) Limited	RMB1.0 million	100	PRC	Telecom businesses
# Wuhu Hong Kong and China Water Company Limited	RMB300.0 million	75	PRC	Water supply and related businesses
Wujiang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses
Wujiang Hong Kong and China Water Company Limited	RMB860.0 million	80	PRC	Water supply and related businesses
† Xinmi Hong Kong and China Gas Company Limited	US$12.5 million	100	PRC	Gas sales and related businesses
Xuzhou Hong Kong and China Gas Company Limited	RMB125.0 million	80	PRC	Gas sales and related businesses
Yixing Hong Kong and China Gas Company Limited	RMB124.0 million	80	PRC	Gas sales and related businesses
† Zhang Shu Hong Kong & China Gas Company Limited	US$5.01 million	100	PRC	Gas sales and related businesses
Zhongshan Hong Kong and China Gas Limited	RMB96.0 million	70	PRC	Gas sales and related businesses
Jiangxi Hong Kong and China Gas Company Limited	RMB25.9 million	56	PRC	Gas sales and related businesses

Direct subsidiaries of the Company
† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2011:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
† 豐縣港華燃氣有限公司	US$4.5 million	100	PRC	Gas sales and related businesses
2 潮州市華迅能源配送有限公司	HK$126.0 million	60	PRC	Gas sales and related businesses
1† 卓度計量技術（深圳）有限公司	RMB14.0 million	100	PRC	Gas meter and related businesses
1† 卓度計量技術（成都）有限公司	RMB2.8 million	58	PRC	Gas meter and related businesses
2 景縣港華燃氣有限公司	RMB79.0 million	81	PRC	Gas sales and related businesses
1 大連億達名氣通數據有限公司	RMB76.0 million	90	PRC	Telecommunication project
1 萊陽名氣通電訊有限公司	RMB10.0 million	90	PRC	Telecommunication project
2 嘉祥縣恒生貿易有限公司	RMB180.0 million	55	PRC	Port logistics project
Held by Towngas China				
† Anshan Hong Kong and China Gas Company Limited	US$15.0 million	100	PRC	Gas sales and related businesses
† Beipiao Hong Kong and China Gas Company Limited	RMB56.0 million	80	PRC	Gas sales and related businesses
Benxi Hong Kong and China Gas Company Limited	RMB210.0 million	80	PRC	Gas sales and related businesses
† Cangxi Hong Kong and China Gas Co., Ltd.	RMB10.0 million	100	PRC	Gas sales and related businesses
Chaoyang Hong Kong and China Gas Company Limited	US$10.8 million	90	PRC	Gas sales and related businesses
Chi Ping Hong Kong & China Gas Company Limited	RMB40.0 million	85	PRC	Gas sales and related businesses
† Chizhou Hong Kong and China Gas Company Limited	RMB20.0 million	100	PRC	Gas sales and related businesses
† Dalian Changxing Hong Kong and China Gas Company Limited	US$14.0 million	100	PRC	Gas sales and related businesses
† Dalian Lvshun Hong Kong and China Gas Company Limited	US$15.0 million	100	PRC	Gas sales and related businesses
† Dayi Hong Kong and China Gas Company Limited	RMB10.0 million	100	PRC	Gas sales and related businesses
Fuxin Hong Kong and China Gas Co., Ltd.	RMB77.2 million	90	PRC	Gas sales and related businesses
† Gao Chun Hong Kong and China Gas Co., Ltd.	US$4.0 million	100	PRC	Gas sales and related businesses
† Gongzhuling Towngas Limited	RMB53.0 million	100	PRC	Gas sales and related businesses

1 Newly formed during the year
2 Newly acquired during the year
† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2011:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
Held by Towngas China (Continued)				
Guilin Hong Kong and China Gas Company Limited	RMB14.0 million	100	PRC	Gas sales and related businesses
† Huangshan Hong Kong and China Gas Co., Ltd.	RMB40.0 million	100	PRC	Gas sales and related businesses
† Huangshan Huizhou Hong Kong and China Gas Co., Ltd.	US$2.1 million	100	PRC	Gas sales and related businesses
† Huangshan Taiping Hong Kong and China Gas Co., Ltd.	US$3.5 million	100	PRC	Gas sales and related businesses
Huzhou Hong Kong and China Gas Co., Ltd.	US$10.5 million	98.9	PRC	Gas sales and related businesses
Jianyang Hong Kong and China Gas Co., Ltd.	RMB10.0 million	100	PRC	Gas sales and related businesses
Jinan Jihua Gas Co., Ltd	RMB100.0 million	51	PRC	Gas sales and related businesses
Jiujiang Hong Kong and China Gas Co., Ltd.	RMB10.0 million	60	PRC	Gas sales and related businesses
† Kazuo Hong Kong and China Gas Co., Ltd.	US$6.4 million	100	PRC	Gas sales and related businesses
† Laiyang Hong Kong and China Gas Co., Ltd	US$5.4 million	100	PRC	Gas sales and related businesses
† Lezhi Hong Kong and China Gas Co., Ltd.	RMB10.0 million	100	PRC	Gas sales and related businesses
† Longkou Hong Kong and China Gas Company Limited	US$7.1 million	100	PRC	Gas sales and related businesses
† Maanshan Bowang Hong Kong and China Gas Company Limited	US$10.0 million	75.1	PRC	Gas sales and related businesses
† Mianyang Hong Kong and China Gas Company Limited	RMB90.0 million	100	PRC	Gas sales and related businesses
[2] Miluo Red-Horse Natural Gas Development Company Limited	RMB50.0 million	70	PRC	Gas sales and related businesses
Pengshan Hong Kong and China Gas Company Limited	RMB10.0 million	70	PRC	Gas sales and related businesses
Pengxi Hong Kong and China Gas Company Limited	RMB3.6 million	100	PRC	Gas sales and related businesses
Pingchang Hong Kong and China Gas Company Limited	RMB10.0 million	90	PRC	Gas sales and related businesses
Qingdao Dong Yi Hong Kong and China Gas Co., Ltd.	RMB30.0 million	60	PRC	Gas sales and related businesses
Qingdao Zhongji Hong Kong and China Gas Company Limited	RMB73.5 million	90	PRC	Gas sales and related businesses

2 Newly acquired during the year
† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2011:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
Held by Towngas China (Continued)				
Qing Yuan Hong Kong and China Gas Company Limited	RMB10.0 million	80	PRC	Gas sales and related businesses
Qiqihar Hong Kong and China Gas Company Limited	RMB128.6 million	61.7	PRC	Gas sales and related businesses
Shao Guan Hong Kong and China Gas Co., Ltd.	RMB20.0 million	100	PRC	Gas sales and related businesses
† Shenyang Hong Kong and China Gas Company Limited	US$8.0 million	100	PRC	Gas sales and related businesses
Tieling Hong Kong and China Gas Company Limited	RMB133.0 million	80	PRC	Gas sales and related businesses
Tongxiang Hong Kong and China Gas Company Limited	US$7.0 million	76	PRC	Gas sales and related businesses
† Towngas Investments Limited	US$200.0 million	100	PRC	Investment holding
Weiyuan Hong Kong and China Gas Company Limited	RMB10.0 million	99.5	PRC	Gas sales and related businesses
[2] Wuning Hong Kong and China Gas Company Limited	RMB5.0 million	100	PRC	Gas sales and related businesses
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	RMB22.0 million	100	PRC	Gas sales and related businesses
Xinjin Diyuan Natural Gas Co., Ltd.	RMB12.0 million	60	PRC	Gas sales and related businesses
Xinjin Nanfang Natural Gas Company Limited	RMB11.5 million	60	PRC	Gas sales and related businesses
[2] Xiushui Hong Kong and China Gas Company Limited	RMB20.0 million	80	PRC	Gas sales and related businesses
† Yang Jiang Hong Kong and China Gas Company Limited	RMB50.0 million	100	PRC	Gas sales and related businesses
† Yingkou Hong Kong and China Gas Company Limited	US$9.4 million	100	PRC	Gas sales and related businesses
Yuechi Hong Kong and China Gas Company Limited	RMB12.5 million	90	PRC	Gas sales and related businesses
† Zhongjiang Hong Kong and China Gas Company Limited	RMB18.8 million	100	PRC	Gas sales and related businesses
Ziyang Hong Kong and China Gas Company Limited	RMB18.9 million	90	PRC	Gas sales and related businesses

2 Newly acquired during the year
† Wholly foreign-owned enterprises

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

Corporate Information

Chairman
LEE Shau Kee

Directors
LEUNG Hay Man*
Colin LAM Ko Yin
David LI Kwok Po*
LEE Ka Kit
Alfred CHAN Wing Kin
James KWAN Yuk Choi
LEE Ka Shing
POON Chung Kwong*

* Independent Non-executive Director

Managing Director
Alfred CHAN Wing Kin

Executive Director and Chief Operating Officer
James KWAN Yuk Choi

Chief Financial Officer and Company Secretary
John HO Hon Ming

Registered Office
23rd Floor, 363 Java Road,
North Point, Hong Kong

Company's Website
www.towngas.com

Share Registrar
Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong
Tel: 2862 8555
Fax: 2865 0990

Auditor
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building,
Central,
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central,
Hong Kong

The Bank of East Asia, Limited
10 Des Voeux Road Central,
Hong Kong

Investor Relations
Corporate Investment and Investor
Relations Department
Tel: 2963 3189
Fax: 2911 9005
e-mail: invrelation@towngas.com

Corporate Communications
Department
Tel: 2963 3493
Fax: 2516 7368
e-mail: ccd@towngas.com

Company Secretarial Department
Tel: 2963 3292
Fax: 2562 6682
e-mail: compsec@towngas.com

Financial Calendar

Half-Year Results	Announced on Tuesday, 23rd August 2011
Full-Year Results	Announced on Monday, 19th March 2012
Annual Report	Posted to Shareholders on Thursday, 26th April 2012
Register of Shareholders	(i) To be closed on Friday, 1st June 2012 to Tuesday, 5th June 2012, for the purpose of determining entitlement of Shareholders to the right to attend and vote at the Annual General Meeting (ii) To be closed on Monday, 11th June 2012 to Wednesday, 13th June 2012, for the purpose of determining Shareholders who qualify for the proposed issue of bonus shares, final dividend and special dividend
Annual General Meeting	To be held on Tuesday, 5th June 2012
Dividends – Interim	12 cents - Paid on Monday, 3rd October 2011
– Final (Proposed)	23 cents - Payable on Thursday, 21st June 2012
– Special (Proposed)	17.5 cents - Payable on Thursday, 21st June 2012
Bonus Issue of Shares (Proposed)	Share certificates to be posted to Shareholders on Thursday, 21st June 2012

Both printed English and Chinese versions of this Annual Report are available upon request from the Company and the Company's share registrar free of charge. The website version of this Annual Report is also available on the Company's website.

The Hong Kong and China Gas Company Limited
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