The Hong Kong and China Gas Company Limited

(Stock Code: 3)

annual report 2010

Vision

To be Asia's leading energy supplier and service provider, with an environmentally friendly focus.

Mission

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

"There is no top. There are always further heights to reach."

Jascha Heifetz
(World famous violinist)

Reaching New Heights

Expanding Our Horizons…

We amended our vision and mission during the year to better reflect our growing role as a major energy supplier with a strong focus on the environment both in Hong Kong and mainland China. We were ranked sixth in Hong Kong in leading business magazine, Yazhou Zhoukan's "Global Chinese Business 1000 – Outstanding Performance Award".

Leading the Market…

We consolidated our leadership as mainland China's largest city-gas supplier with 93 city-gas ventures in 17 provinces, autonomous regions and municipalities. Customer numbers rose to about 12 million and annual gas sales grew to over 8.5 billion cubic metres.

Creating a Quality Life…

Enhancing lifestyles and enabling our customers in Hong Kong to "live the Towngas way", we launched our top-of-the-range Mia Cucina kitchen cabinets in 2010, helping customers create "one-of-a-kind" eco-friendly kitchens in their homes.

Powering Ahead…

Our growing eco-diversity is establishing the blueprint for our future. From the successful establishment and operation of the aviation fuel facility in Hong Kong to our ground-breaking liquefied coalbed methane and liquefied coal-mine methane facilities on the mainland, to the production of methanol in Inner Mongolia, we are blazing new trails in the development of clean and alternative energies.

Driving Sustainability…

Ensuring the sustainability of our planet, we are totally committed to low carbon concepts in our operations. We also involve our stakeholders, encouraging their participation in our low carbon efforts.

Contents

Towngas' Businesses in 2010

The Right Region…The Right Trade…The Right Time

As the largest consumer of energy in the world, China's demand for clean energy will be exponential. Natural gas, as the cleanest fossil fuel available, will be the leading clean energy fuel in the foreseeable future.

TOWNGAS PIPED CITY-GAS PROJECTS

Guangdong Province
1. Panyu
2. Zhongshan
3. Dongyong
4. Jianke
5. Shunde
6. Shenzhen
7. Chaoan

Central China
8. Wuhan
9. Xinmi

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

Shandong Province
28. Jinan East

Northern China
29. Jilin
30. Beijing Economic-technological Development Area

Northwestern China
31. Xi'an

Hainan Province
32. Qionghai

MIDSTREAM PROJECTS

33. Guangdong LNG
34. Hangzhou NG
35. Anhui NG
36. Hebei NG
37. Jilin NG
38. Suzhou NG

WATER PROJECTS

39. Wujiang
40. Suzhou Industrial Park
41. Wuhu

TELECOMMUNICATION PROJECTS

42. Jinan
43. Jinan Chibo
44. Dalian DETA

NEW ENERGY PROJECTS

Coal Mining
45. Jiangxi Fengcheng
46. Inner Mongolia Erdos

Coal-based Chemical
47. Jiangxi Fengcheng
48. Inner Mongolia Erdos

CNG/LNG Filling Stations
49. Shaanxi Xianyang
50. Shaanxi Huitai
51. Anhui Maanshan
52. Shanxi Yuanping
53. Dalian DETA
54. Shandong Chiping
55. Shandong Jining
56. Shandong Dongping

Upstream Projects
57. Shanxi LCBM
58. Jilin NG
59. Chongqing LCMM

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province
60. Foshan
61. Shaoguan
62. Qingyuan
63. Yangdong

Eastern China
64. Nanjing Gaochun
65. Maanshan
66. Anqing
67. Chizhou
68. Tunxi
69. Huangshan
70. Huizhou
71. Tongxiang
72. Huzhou
73. Yuhang
74. Changjiu
75. Fuzhou
76. Jiujiang

Shandong Province
77. Jimo
78. Laoshan
79. Zibo
80. Zibo Lubo
81. Longkou
82. Jinan West
83. Jinan Changqing
84. Weifang
85. Weihai
86. Taian
87. Chiping
88. Linqu
89. Laiyang

Northeastern China
90. Benxi
91. Chaoyang
92. Tieling
93. Fuxin
94. Shenyang Jinhai Economic Zone
95. Yingkou
96. Dalian Changxingdao
97. Dalian Economic and Technical Development Zone
98. Anshan
99. Lvshun
100. Kazuo
101. Changchun
102. Gongzhuling
103. Qiqihar

Southwestern China
104. Ziyang
105. Weiyuan
106. Pengxi
107. Lezhi
108. Pingchang
109. Dayi
110. Yuechi
111. Cangxi
112. Chengdu
113. Zhongjiang
114. Jianyang
115. Pengshan
116. Mianyang
117. Xinjin
118. Xindu
119. Qijiang
120. Guilin


Heilongjiang
Jilin
Liaoning
Inner Mongolia
Beijing
Hebei
Shanxi
Shandong
Yellow Sea
Jiangsu
Shaanxi
Henan
Anhui
Sichuan
Hubei
Chongqing
Zhejiang
East China Sea
Jiangxi
Guangdong
Guangxi
Hong Kong
Hainan
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
Compressed natural gas / liquefied natural gas filling stations
Coal mining
Coal-based chemical processing
Upstream projects

Business Highlights

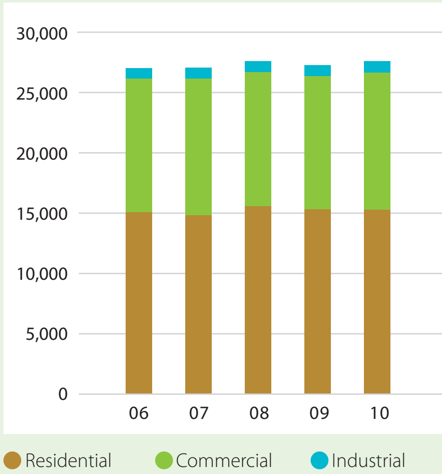
	2010	2009	Change %
Operating (Company)			
Number of Customers as at 31st December	1,724,316	1,698,723	+2
Number of Customers per km of Mains	535	531	+1
Installed Capacity, thousand m^3 per hour	511	511	–
Peak Hourly Demand, thousand m^3	483	490	-2
Town Gas Sales, million MJ	27,578	27,274	+1
Number of Employees as at 31st December	1,923	1,908	+1
Number of Customers per Employee	897	890	+1
Financial			
Revenue, HK million dollars	19,375	12,352	+57
Profit attributable to Shareholders, HK million dollars	5,585	5,275*	+6
Dividends, HK million dollars	2,514	2,285	+10
Shareholders			
Issued Shares, million of shares	7,182	6,529	+10
Shareholders' Funds, HK million dollars	37,464	33,865*	+11
Earnings per Share, HK cents	77.8	73.0*	+7
Dividends per Share, HK cents	35.0	31.8*	+10
Shareholders' Funds, HK dollars per share	5.22	4.72*	+11
Number of Shareholders as at 31st December	11,781	11,922	-1

* Adjusted for the bonus issue in 2010 and the adoption of HKAS 12 (amendment), where applicable.

Five-Year Summary

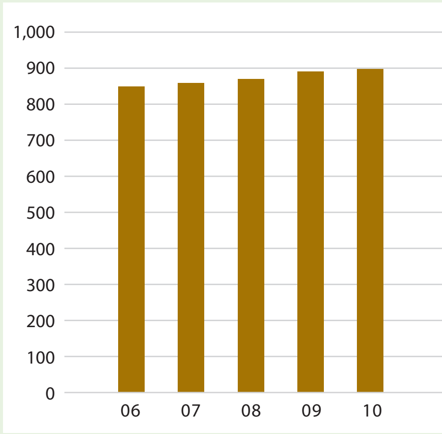
Town Gas Sales

Company (million MJ)



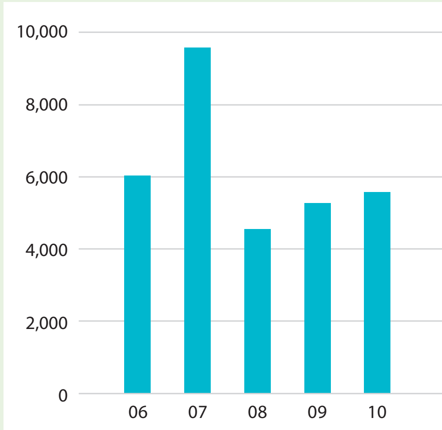
Number of Customers per Employee

Company



Profit Attributable to Shareholders*

(HK$ million)



* 2006 – 2009 figures have been restated for the adoption of HKAS 12 (amendment)

Dividends

(HK$ million)

Chairman's Statement

The performance of
the Group's gas business in Hong Kong
remained steady in 2010.
The Group's mainland businesses
progressed well in 2010.

The Year's Results

The performance of the Group's gas business in Hong Kong remained steady in 2010. 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 proactively developed.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$5,584.8 million, an increase of HK$309.7 million compared to the restated profit of 2009. Earnings per share for the year amounted to HK 77.8 cents, an increase of 6.6 per cent over 2009. Profit growth in 2010 was mainly due to growth in profit of mainland businesses.

During the year under review, the Group invested HK$4,277.5 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various businesses in Hong Kong and the mainland.

Gas Business in Hong Kong

The local economy continued to recover in 2010. An increase in the number of inbound tourists, prosperous tourism, restaurant and hotel sectors and lower average temperatures than 2009 helped the total volume of gas sales in Hong Kong to rise by 1.1 per cent compared to 2009. Total number of appliances sold in 2010 was 233,313 units, an increase of 6.1 per cent over 2009. This was due to the Company's launch of more new products, expansion of sales channels and strengthening of market promotions.

As at the end of 2010, the number of customers was 1,724,316, an increase of 25,593 compared to 2009.

Business Development in Mainland China

The Group's mainland businesses progressed well in 2010.

The mainland economy maintained strong momentum in 2010 benefiting the Group's city-gas and natural gas businesses which recorded continuous growth in the year under review. 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 also progressing well. ECO is currently at a stage of developing projects for investment. Construction work for some of its projects has already begun. 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 2010, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 120 projects spread across 20 provinces/ autonomous regions/municipalities, encompassing upstream, midstream and downstream natural gas sectors, the water supply and wastewater treatment sectors, natural gas filling stations and emerging environmentally-friendly energy and energy resources projects.

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 ventures and the energy sector.

Utility Businesses in Mainland China

The Group's city-gas businesses progressed well in 2010, with a further new project successfully established in Yonganzhou Industrial Park, Taizhou, Jiangsu province. Inclusive of eight new projects established by Towngas China in 2010, the Group had 93 city-gas projects in mainland cities spread across 17 provinces/autonomous regions/municipalities as at the end of 2010. During the year under review, the number of gas customers on the mainland reached 11.88 million and total volume of gas sales was 8,540 million cubic metres. The Group has now become the largest city-gas enterprise on the mainland.

In the coming years, with completion of large-scale natural gas projects, including the 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 national sources, the current shortfall in natural gas supply will be mitigated. The Group therefore anticipates its mainland projects will have access to sufficient gas sources to enable them to 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 and Hangzhou, Zhejiang province; a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in 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 joint ventures generate good returns and help the Group develop and strengthen its downstream city-gas market interests.

The Group also operates water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. These projects are progressing well.

The Group will 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, 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, the first being a phase-one coalbed methane liquefaction facility located in Jincheng, Shanxi province which was commissioned in late 2008. Construction of a phase-two facility was successfully completed during the year under review, and is expected to be commissioned in the first quarter of 2011. Annual production capacity of the whole facility, the largest liquefaction and utilisation project of its kind on the mainland, will then increase to approximately 250 million standard cubic metres of liquefied coalbed methane which will be subsequently transported by road tankers to downstream markets.

Construction of ECO's coal-mine methane liquefaction project in Chongqing is progressing well; commissioning is expected in the first quarter of 2012. Coal-mine gas, which typically contains about 40 per cent of methane, will be used to produce liquefied methane deploying coal-mine gas deoxidisation and coalbed methane cryogenic liquefaction technologies. Other than in-situ power generation plants, this project, with an estimated annual production capacity of 91 million standard cubic metres, is slated to become the world's first large-scale coal-mine gas utilisation facility to convert otherwise wasteful resources to fuel of high value. ECO has also confirmed its investment in a second coal-mine methane deoxidisation and liquefaction project located in Yangquan mining district, Shanxi province to expand this business and provide the Group's city-gas projects with more environmentally-friendly gas sources 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 utilisation. To this end, ECO's construction of a methanol production plant and development of a coal mine in Junger, Erdos, Inner Mongolia are progressing well; both are expected to be commissioned in 2011. With an annual production capacity of 200,000 tonnes, the methanol production plant has already entered the commissioning stage. ECO's coking coal mining and plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. This project will provide an additional gas source for the Group's Fengcheng city-gas project. ECO will continue to expand its resources reserves of both thermal coal and prime coking coal and endeavour to develop more far-sighted clean coal utilisation techniques.

Energy-related Logistics and Facilities Businesses

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

ECO's aviation fuel facility in Area 38, Tuen Mun, to service Hong Kong International Airport, was completed and commissioned in November 2010. Jetties and facilities are available for berthing tankers of 80,000 tonnes and 50,000 tonnes and unloading their aviation fuel into eight large tanks with a total capacity of 264,000 cubic metres. After re-certification, the fuel is then transported to the airport via submarine pipelines.

The facility has now become a major logistics base for supply of aviation fuel in Hong Kong.

Establishment of Chinese Holding Company

In tandem with the rapid development of its emerging environmentally-friendly energy businesses on the mainland, ECO established a Chinese holding company in Erdos, Inner Mongolia at the end of 2009 to increase management effectiveness and financing channels.

The energy market on the mainland has great potential to expand. ECO's development of 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 profit after taxation attributable to its shareholders, amounting to HK$436 million in 2010, an increase of approximately 64.4 per cent over 2009.

In mid-July 2010, the Group completed the injection of its entire equity interests in six piped city-gas project companies in Liaoning and Zhejiang provinces into Towngas China in exchange for the allotment and issue of 485 million new shares by Towngas China. The transaction raised the Group's shareholding in Towngas China from approximately 45.5 per cent to approximately 56.3 per cent. As such, Towngas China has become a majority-owned subsidiary of the Group, and its position as a leading operator of piped-gas businesses on the mainland has been enhanced. Standard & Poor's Ratings Services, an international rating agency, has raised its long-term corporate credit rating on Towngas China to BBB with a stable rating outlook, demonstrating the agency's positive evaluation of Towngas China's closer integration with the Group.

In mid-November 2010, the Group took 250 million Towngas China shares placed by a subsidiary of Enerchina Holdings Limited (stock code: 622.HK), the second largest shareholder of Towngas China, for an aggregate consideration of HK$907.5 million. As a result, the Group's interests in Towngas China were further increased to approximately 66.5 per cent.

In 2010, Towngas China acquired eight new projects located in the New Industrial District of Anshan, Dalian Lvshun Economic Development Zone, Kazuo county of Chaoyang in Liaoning province; in the Lingui New District of Guilin in Guangxi Zhuang Autonomous Region; in the Nanhai New District of Laiyang and Linqu county of Weifang in Shandong province; and in the Chengdong Harbour District of Jiujiang and the Fubei Industrial Park of Fuzhou in Jiangxi province. The project in the Lingui New District of Guilin, the Group's first in Guangxi, is a stepping stone to acquiring more projects in this region in future. 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.

Pipelaying Projects

In order to cope with growth in future demand and enhance reliability of gas supply in Hong Kong, several pipelaying projects are currently underway. 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. 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 regions are underway. Route planning for a new submarine pipeline from Ma Tau Kok to North Point is progressing well.

Meanwhile, construction of the gas supply trunk mains to Ocean Park Hong Kong to support new attractions, facilities and future extensions has been completed. As a result, tourists can now view spectacular fire effects fuelled by town gas at Ocean Park's Aqua City.

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, consisting of approximately 1.22 million square feet, 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.

The Group has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. Approximately 1.74 million square feet had been sold by the end of December 2010, representing over 99 per cent of the total residential floor area of the project.

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 good. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and Four Seasons Place, remains high.

Financing Programmes

In tandem with the Group's long-term investments on the mainland, HKCG (Finance) Limited, a wholly-owned subsidiary of the Group, successfully issued and sold US$1 billion of notes guaranteed by the Company (the "Notes"; stock code: 4303.HK) in August 2008 and further established a US$1 billion medium term note programme (the "MTN Programme") in May 2009. Since the establishment of the MTN Programme, the Group has issued medium term notes with, up to now, an aggregate amount of HK$3.01 billion at nominal interest rates ranging from 3.90 per cent to 5.00 per cent per annum and with a maturity of 10 to 40 years. These term notes have included the first ever issue of 30-year and 40-year notes, the longest term corporate papers ever issued, in the Hong Kong dollar bond market. The good reception to these corporate papers reflects investors' confidence towards the Group's very strong credit standing and long-term development.

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. 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.

Company Awards

In a survey conducted by The Wall Street Journal Asia, the Company was honoured to be positioned eighth in Hong Kong in Asia's 200 Most Admired Companies for the year 2010, which was the best ranking among energy utility companies in Hong Kong. Readers of the journal rated approximately 40 companies in each market for the year according to criteria such as innovation, long-term vision, quality, corporate reputation and financial reputation.

In addition, the Company once again gained the "Global Chinese Business 1000 – Outstanding Performance Award" for the year 2010 from Yazhou Zhoukan which ranks companies in Chinese-concentrated Asian districts such as mainland China, Hong Kong, Taiwan, Malaysia and Singapore according to market capitalisation. With a market capitalisation of US$17,860 million as at the end of July 2010, the Company's ranking in Hong Kong was raised from ninth in 2009 to sixth in 2010.

Towngas China also gained the Hong Kong Outstanding Enterprises Award 2010 from a locally-renowned financial magazine, "Economic Digest", in recognition of its rapid project development, continuous business growth and its overall good corporate strength.

Employees and Productivity

As at the end of 2010, the number of employees engaged in the town gas business in Hong Kong was 1,923, the number of customers had increased by 25,593 since 2009, and each employee served the equivalent of 897 customers, slightly up compared to each employee serving 890 customers as at the end of 2009. Total manpower costs for employees directly involved in the town gas business amounted to HK$660 million for 2010. In 2010, there was an approximately 3 per cent average increase in remuneration over 2009. 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 27th May 2011. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 3rd June 2011, and if passed, share certificates will be posted on 7th June 2011.

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 27th May 2011. Including the interim dividend of HK 12 cents per share paid on 18th October 2010, the total dividend payout for the whole year shall be HK 35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2011 after bonus share issue shall not be less than that for 2010.

Business Outlook for 2011

The Company predicts steady growth and an increase of about 25,000 new customers in Hong Kong for 2011. Hong Kong's economy maintains momentum, with different business sectors including tourism, restaurant, and hotel sectors continuing to prosper. The Group expects commercial and industrial gas sales and appliance sales in Hong Kong will increase in 2011 compared to 2010.

In tandem with the gradual implementation of the Twelfth Five-Year Plan, the central government will advocate increasing urbanisation and domestic demand, more energy conservation and a reduction of gas emissions. With a blooming mainland economy, 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 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 anticipated that the combined results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will reach the same level as that of its Hong Kong gas business in 2012, and will have faster growth momentum than the Hong Kong gas business thereafter.

LEE Shau Kee
Chairman
Hong Kong, 15th March 2011

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
Lee Ka Kit

Alfred Chan Wing Kin
Leung Hay Man

Colin Lam Ko Yin
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 82. 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 76. 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 59. Mr. Lam was appointed to the Board of Directors of the Company in 1983. He has more than 37 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., M.A. Cantab. (Economics & Law), Hon. D.Sc. (Imperial), Hon. D.B.A. (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), 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., 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, Officier de la Légion d'Honneur,

Independent Non-executive Director

Age 72. 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, 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. He was a Director of China Merchants China Direct Investments 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 47. 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. 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 39. 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 71. 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., B.Sc. (Eng), M.Sc. (Eng),

Managing Director

Age 60. 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, a listed public company. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited. He is a member of the Eleventh Wuhan Committee of the Chinese People's Political Consultative Conference and a Vice Chairman of China Gas Association. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer, 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., B.Sc. (Eng), M.B.A.,

Executive Director and Chief Operating Officer

Age 59. 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, a listed public company. He is currently a member of Construction Industry Council, a member of Transport Advisory Committee and a member of the Vocational Training Council of the Hong Kong Special Administrative Region and a member of the Twelfth Nanjing Committee of the Chinese People's Political Consultative Conference. He was 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

Leading the Market

Serve about
12 million customers
with annual gas sales of over 8.5 billion cubic metres

Sold a total of
670,000 gas appliances
in five years

Operate
93 city-gas projects
in 17 provinces, autonomous regions and municipalities

The Mainland China Gas Business

Benefitting from the robust economy and thriving energy demand on the mainland, our 120 projects spread over 20 provinces, autonomous regions and municipalities, performed strongly in 2010. Total turnover for this business sector, which consists of our city-gas businesses, upstream and midstream operations, new energy facilities, water businesses etc, rose to HK$34.8 billion, translating into an increase of 36 per cent over the previous year.

Our Customer Service Centre Network

Growing to 119 outlets in 60 cities during the year, customers can make enquiries, sign up for gas services, pay their bills, arrange for maintenance, and look into the latest Bauhinia appliances available, at our one-stop-shop service centres.

Our City-gas Businesses

Nine new projects were launched in 2010. Added to our existing activities, the number of our ventures grew to a total of 93 city-gas businesses in 17 provinces, autonomous regions and municipalities. This extensive city-gas network forms the core of our mainland business portfolio.

Cementing our position as the number one supplier of city-gas in the country, customer numbers grew by almost 2 million during the year, to reach a grand total of about 12 million customers as at the end of 2010. Turnover grew 37 per cent to HK$30.6 billion on the back of gas sales of 8.5 billion cubic metres, 10 times the gas consumed in Hong Kong and an increase of 23 per cent over 2009.

Our activities in mainland China are continuing from strength to strength. In addition to the prospering economy and escalating demand, the gas supply situation continues to improve as the supply infrastructure expands. During the year, the second West-to-East natural gas pipeline commenced partial operations. Together with the completion of the Sichuan to East and Myanmar to China pipelines, both due in 2012, this pipeline infrastructure is laying the groundwork for the expected quantum leap in the usage of natural gas in the next decade. Natural gas consumption is expected to reach 260 billion cubic metres by 2015, more than three and a half times the 2007 figure of 71 billion cubic metres.

Not only are our city-gas businesses ideally based to benefit from this burgeoning demand, this positive picture is further brightened by the completion of phase two of our liquefied coalbed methane (LCBM) plant in Shanxi, as the whole facility will then triple production to a total annual output of 250 million cubic metres.

Growing City-gas Use in Industrial Sector

In view of its clean and economical properties, there is high demand for natural gas in the industrial sector. This is particularly true for high energy consuming industries such as steel and iron, ceramics, glass, paper and food manufacturing. Our industrial customers on the mainland thus account for a significant share of our gas sales.

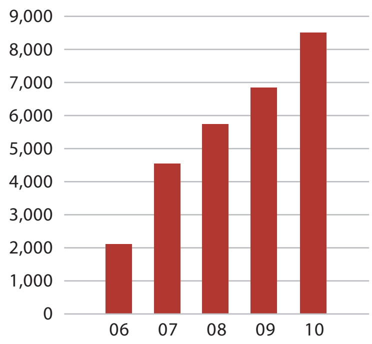
With its economical transportability by road to wherever it is needed, this new source of supply will not only find a ready market, it will greatly help to alleviate bottlenecks and restrictions in supply.

We are also reaping the benefits of our continuing investment in the country. As the number of our businesses has grown, profitability has shown a corresponding increase, driven by greater customer numbers, higher gas sales, better efficiencies and improved economies of scale. We expect these synergies to improve yet further both through organic growth and as we add new city-gas projects to our portfolio.

Upstream and Midstream Projects

Focusing on our vision to become the leading energy supplier in Asia, we have been actively exploring the production and supply of alternative and clean forms of energy. Apart from a natural gas exploration facility in Jilin, our primary upstream facility currently consists of our LCBM plant in Shanxi province. Commissioned in late 2008, construction of phase-two facility was successfully completed and is expected to be commissioned in the first quarter of 2011.

China Joint Ventures Gas Sales (million m^3)



Our coal chemical project in Inner Mongolia has already entered the commissioning stage, while the coal-mine methane (CMM) liquefaction project in Chongqing is proceeding to construction as scheduled and is expected to be commissioned in the first quarter of 2012. Other than in-situ power generation plants, the Chongqing project will represent the first large-scale utilisation of coal-mine gas, in China and probably the world. Anticipating the growing use of clean coal technology, we are also looking into obtaining more projects and building up our coal resources to create synergies.

Continuing to feed gas supplies to our city-gas businesses, our midstream projects consist of high-pressure pipeline networks in Anhui, Hebei, Zhejiang and Jilin provinces, a natural gas valve station project in Suzhou Industrial Park, together with a liquefied natural gas (LNG) receiving terminal in Guangdong province. Moreover, we are also building our first LNG storage facility in Henan.

Safe Flame Cooking for a Healthy and Tasty Meal

Celebrating Bauhinia's fifth birthday, we organised a nationwide "Safe Flame Cooking for a Healthy and Tasty Meal" competition to promote the safety of our products. Together with a widespread advertising campaign as well as the expansion of our marketing network into major equipment and appliance chains, we expect our Bauhinia products to continue their strong growth into the future.

Serving Our Customers

On the customer front, we continue to enjoy strong brand recognition as well as a leading reputation for our commitment to safety and service excellence. Transporting our successful Towngas lifestyle model from Hong Kong, we became the first gas service supplier to not only offer quality gas appliances and equipment under our own Bauhinia brand name, but also to offer comprehensive safety inspection and maintenance services on a regular basis.

The foundations for this one-stop service model are based both on our comprehensive network of service centres as well as our Towngas Customer Information System (TCIS). Our customer centres provide easy access to our services, while TCIS provides the brains for this service, standardising procedures and integrating information to provide efficient and effective services throughout our network.

Customer Convenience with Our Towngas Customer Information System

Our TCIS 2.0 system provides self-service auto-prepayment machines, which offer total-solutions for either pre-paid or post-paid gas payments. Using these machines, customers enjoy a secure and easy way to make their gas payments via credit card.

With 27 companies currently using TCIS, synergies will grow yet further as more businesses are connected to the system.

The popularity of our Bauhinia gas appliances also continues unabated. Sales maintained their high growth levels, reaching 280,000 units in 2010, and bringing the total sales of our appliances to well over 670,000 units in just five years of operation. Apart from their efficiency and cost-effectiveness, every Bauhinia appliance that is sold means a quality product that boosts gas safety at homes. Our appliances not only comply with all established safety standards, they also include the latest safety features.

Enhancing Gas Safety and Risk Management

There is no compromise whatsoever in our safety operations as we continue to make sure that a "safety first" mindset is encoded into every DNA of our existence. On the customer front, we continued our annual regular safety inspections of gas appliances and the condition of gas pipes in customers' homes. These routine visits are invaluable in helping to identify problems and thus reducing the number of possible accidents. They also provide us with the opportunity to reach out directly to our customers and to take gas safety message into their homes.

Our General Manager Monthly Safety and Risk Management programme gained further momentum with our senior management giving it topmost priority. Walking this talk, our Managing Director conducts a number of these inspections himself.

We conduct research and analysis on gas safety problems and incidents to identify and eliminate potential risk. Commencing in Northeastern China, where gas safety is especially important in view of the tightly enclosed spaces in winter, the programme has also been extended to the Southwestern regions to further improve gas safety.

Safety Committees, set up in our mainland businesses, help to enhance operational safety, and, working on the premise that "what gets measured gets done", safety key performance indicators were also agreed. A number of safety and risk management audits were also completed with results showing a positive improvement in safety standards throughout our operations.

A 10.10.10 Safety Action programme promoting safety "TIPS" (Ten Integrated Proactive Safety) was launched throughout our businesses on the mainland. The three 10s consist of 10 measures for safe operation and 10 "Don'ts" for employee safety, while 10 customer reminders prompt safety at homes. The programme was well-received with over 100,000 employees and customers signing up at our website to pledge their commitment towards this safety initiative.

Driving this culture of safety and safe work behaviour, mainland employees also attended safety training programmes in Hong Kong, where they were involved in training exercises co-organised with the Hong Kong Fire Services Department. These programmes provide employees with the opportunity to take part in an actual safety exercise and to experience behaviour-based safety concepts for themselves.

Regular Safety Inspections

A committed programme of regular safety inspections has helped to foster a safety mindset and raise safety standards throughout our mainland operations.

To ensure the emergency preparedness of our operations, several tabletop emergency exercises were also arranged in companies throughout the various regions with the aid of a web-based video conferencing tool. This tool greatly enhances the effectiveness of emergency communication between our mainland companies and the Group.

Over the years, our ongoing commitment to safety has reaped significant results. In addition to significant improvements in our safety performance, we also have gained a number of public awards. In 2010, for instance, we won a Merit Award in the National Work Safety Emergency Quiz.

Gas Businesses in Mainland China in 2010

TOWNGAS PIPED CITY-GAS PROJECTS

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
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	1,230	26.8%
Chaoan	2007	185	99	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	245	100	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%
Northwestern China				
Xi'an	2006	1,668	1,000	49%
Hainan Province				
Qionghai	2008	110	50	49%

MIDSTREAM PROJECTS

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
Guangdong LNG	2004	7,628	2,289	3%
Hangzhou NG	2005	760	304	10%
Anhui NG	2005	245	200	25%
Hebei NG	2005	660	220	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
Anqing
Chizhou
Tunxi
Huangshan
Huizhou
Tongxiang
Huzhou
Yuhang
Changjiu
Fuzhou
Jiujiang

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

Northwestern China
Benxi
Chaoyang
Tieling
Fuxin
Shenyang Jinhai Economic Zone
Yingkou
Dalian Changxingdao
Dalian Economic and Technical Development Zone
Anshan
Lvshun
Kazuo
Changchun
Gongzhuling
Qiqihar

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

THE HONG KONG GAS BUSINESS

Living the Towngas Way

Ranked Eighth in **"Wall Street Journal Asia 200"** top Hong Kong's Most Admired Companies list

New high-efficient **Lotus Flame** hob drives record high sales of built-in hobs to over 30,000 units

Specialist kitchen design service, **Mia Cucina**, takes retail business in new direction

The Hong Kong Gas Business

2010 proved to be a fruitful year for our core Hong Kong business. We saw our customer base increase by 25,593 new customers to 1.72 million and we also experienced encouraging growth in the total volume of gas sales, with figures rising 1.1 per cent. This gain was due primarily to the rebound in the economy, which resulted in enhanced sales in the commercial sector. Benefitting from the booming property market, our appliance sales also enjoyed a record year with a growth of 6.1 per cent in units sold over 2009.

Serving our Business Customers

Growing our commercial customer base, our aim is to use our professional knowhow to offer total customer solutions that are not only tailor-made to their business needs, but also to provide energy-efficient strategies that save costs and reduce carbon emissions.

Our Commercial and Industrial Activities

Buoyed by the rebound in the economy as well as our committed sales efforts, town gas sales in this sector rose an encouraging 2.8 per cent in 2010. Much of this growth was due to the boom in tourism and associated industries, such as restaurants, hotels and the catering trade. A number of hotels and hospitals have turned to town gas to meet their large-scale energy demands in the supply of steam and hot water; and meeting the needs of the catering industry, we have made every effort to develop a greener and cooler kitchen environment with modern and efficient gas appliances.

We extended our range of commercial kitchen appliances, introducing a new stockpot and wok range, which raise efficiencies by over 30 per cent. We also launched a range of appliances specially designed for elderly homes, and, consolidating our position in the commercial dishwasher market, we established partnerships with several top dishwasher suppliers in the catering trade.

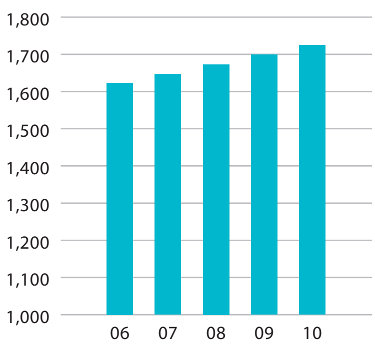
The Residential Market

In meeting the needs of our residential customers, we make every effort to offer a full range of attractive, energy-efficient and user-friendly gas appliances that will make life easier for the users. This service philosophy has resulted in a number of award winning products as well as a strongly growing market.

Building on the success of our premium Elemento hob series, we introduced our Lotus Flame built-in hob in 2010. With its safety flame-failure device, digital timer and sealed ceramic surface offering easy

Number of Customers

Company (Thousand)



Our New High-efficient Lotus Flame Hob

Launched during the year, our Lotus Flame built-in hob with its stylish and high-efficient design, easy to use facilities as well as its digital timer, has taken off. More than 1,500 units were sold in just three months after its launch, a record high in our operations.

cooking and cleaning, as well as its "double-deck" flame which provides a 20 per cent saving in energy usage, it is proving to be extremely popular.

Building on our years of experience in designing and building stylish yet functional kitchens for residential projects, we transferred this expertise into the retail market and, Mia Cucina, our kitchen consultancy and design service was born. Mia Cucina not only provides customers with eco-friendly and custom-designed high-end kitchens, customers can also choose from a range of the latest appliances to suit their own particular needs.

During the year, we introduced a flush louvre-type flue terminal design for water heaters, new temperature-regulated water heaters as well as a series of more sophisticated cooker hoods. These modern and streamlined products, with their improved safety features and easier operations, provide a "win-win" situation all round. On the one hand, they improve the quality of life in Hong Kong, while on the other they are essential in helping us to grow our market and stay ahead of competition.

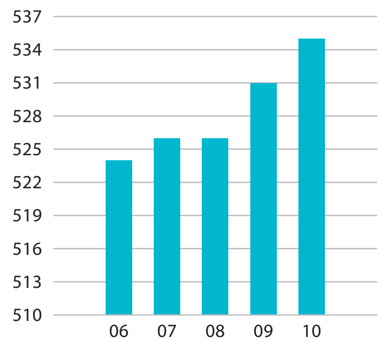
Promoting Towngas Lifestyle

In creating a quality lifestyle for our customers, apart from providing safe and reliable energy services, we also seek to provide caring, competent and efficient services. This means that we must have the interests of our customers at heart in everything we do. This service commitment earned us the "Q-mark Service Scheme Accreditation" for the seventh year running.

Our eBilling initiative gained momentum during the year with special promotions to persuade customers to sign up for this green service. By the end of the year, there were a total of over 45,000 eBilling customers, more than double the figure in 2009. With each eBilling customer reducing carbon emissions by 316 grams a year in view of the paper and postage saved, this growing group of customers is making a significant contribution to the environment. Extending this green message, eBilling customers were also invited to our tree planting activity, under the Afforestation Scheme organised by Friends of the Earth (HK). This scheme is based on our donation of HK$6 to Friends of the Earth (HK) for every customer who successfully applies for ebilling service.

Promoting our green products and services, we launched a Green Dollar programme during the year.

Number of Customers per km of Mains Company



Towngas Avenue Promotes Quality Lifestyle

Our iconic lifestyle approach is particularly evident at our two Towngas Avenue centres, in Causeway Bay and Tsim Sha Tsui, which are famed for their cookery workshops, community and social enterprise programmes as well as their popular corporate team building exercises. A new Flame restaurant, showcasing the many benefits of flame cooking and extending our lifestyle philosophy, also opened at Towngas Avenue in Tsim Sha Tsui.

Under this programme, customers earn leaf and tree stickers that can be redeemed for cash coupons, when they make purchases at our outlets. At the same time, helping our customers to maintain a green lifestyle, a Green Living Corner offers a series of low carbon products such as energy-saving and easy-to-clean cookwares, as well as environmentally-friendly cleaning products.

Bringing the benefits of flame cooking to Hong Kong's young people, we held a year-round programme of student visits to more than 100 flame-cooking demonstrations. We also launched a number of initiatives using new and electronic media, and, riding the mobile data wave, we introduced our first smartphone application. This mobile application links users to over 1,000 recipes and allows them to report meter readings, play fun cookery games and use a practical low carbon diary.

Smart Living

Riding the tremendous popularity of the new social media, we pioneered the use of these eCommunication channels to keep in touch with our customers and promote flame cooking, new products and services, as well as a low carbon lifestyle.

We also reach out to our customers, visiting their homes with regular 18-month safety inspections, to check both the condition of gas systems and equipment within their premises. Making the most of this opportunity to deal directly with our customers and boost home safety, we also encourage customers with older appliances, to upgrade to newer and safer models. As a result of these measures, emergency reports have been falling steadily, decreasing a positive 23 per cent in 2010.

Our Gas Infrastructure

As we maintain our focus on providing clean and green energy services, we continue to increase the use of natural gas in our production. This use of natural gas, which has replaced around 60 per cent of naphtha as feedstock, provides a dual benefit – our customers enjoy both a cleaner source of energy as well as more economical services.

Further extending this use of natural gas, the 15 km natural gas pipeline to our Ma Tau Kok plant is making good progress. Our use of landfill gas (LFG) is also forging ahead with supplies coming both from the landfill at Shuen Wan as well as the site in the North Eastern New Territories. These LFG supplies, which account for about 2.3 per cent of our total production fuel, translated into the reduction of approximately 45,000 tonnes of carbon emissions, as well as saving around 14,000 tonnes of naphtha during the year. Building on this positive outlook, we are looking into the possibility of developing further LFG projects in the territory.

Our comprehensive pipeline network extends throughout the territory linking our customers directly to our gas supply. As this network has grown, our focus in recent years has not so much been on extending this network as on enhancing and reinforcing it, to improve both supply security and delivery. To this end, the laying of a 9 km ring-feed pipeline in Tuen Mun continues on schedule. Further enhancements include an extension project to serve the new South East Kowloon Development area, where Hong Kong's new Cruise Terminal is under construction. Network enhancements were also completed to meet the service needs of Ocean Park, where new expansion will include three hotels on site.

The safety and integrity of this network is monitored and enhanced by our network monitoring system, coupled with a comprehensive preventive maintenance programme.

Results of Towngas Service Pledge 2010

Reliability

Uninterrupted gas supply (over 99.99%)
99.993%

In case of supply interruption on account of maintenance or engineering work (three days prior notification)
100%

Restoration of gas supply within 12 hours
100%

Safety

Emergency Team arrived on site within 30 minutes (at 90% of the times)[1]
96.67%

Appointments

Availability of maintenance and installation services within two working days
Average 1.07 day

Speed and Convenience

Customer Service Hotline (calls answered within four rings)
95.20%

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]
8.69

Courteous and friendly attitude[2]
8.69

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 19.72 minutes.
2. The result was based on monthly surveys conducted from January to December 2010 by an independent research company. Our target is to exceed a score of eight out of ten.

Aided by the most up-to-date technologies, this programme consists of proactive monitoring activities, site inspections and leakage surveys. During the year, we completed over 163,000 inspections on some 18,400 third-party excavation sites and surveyed over 7,000 km of pipelines.

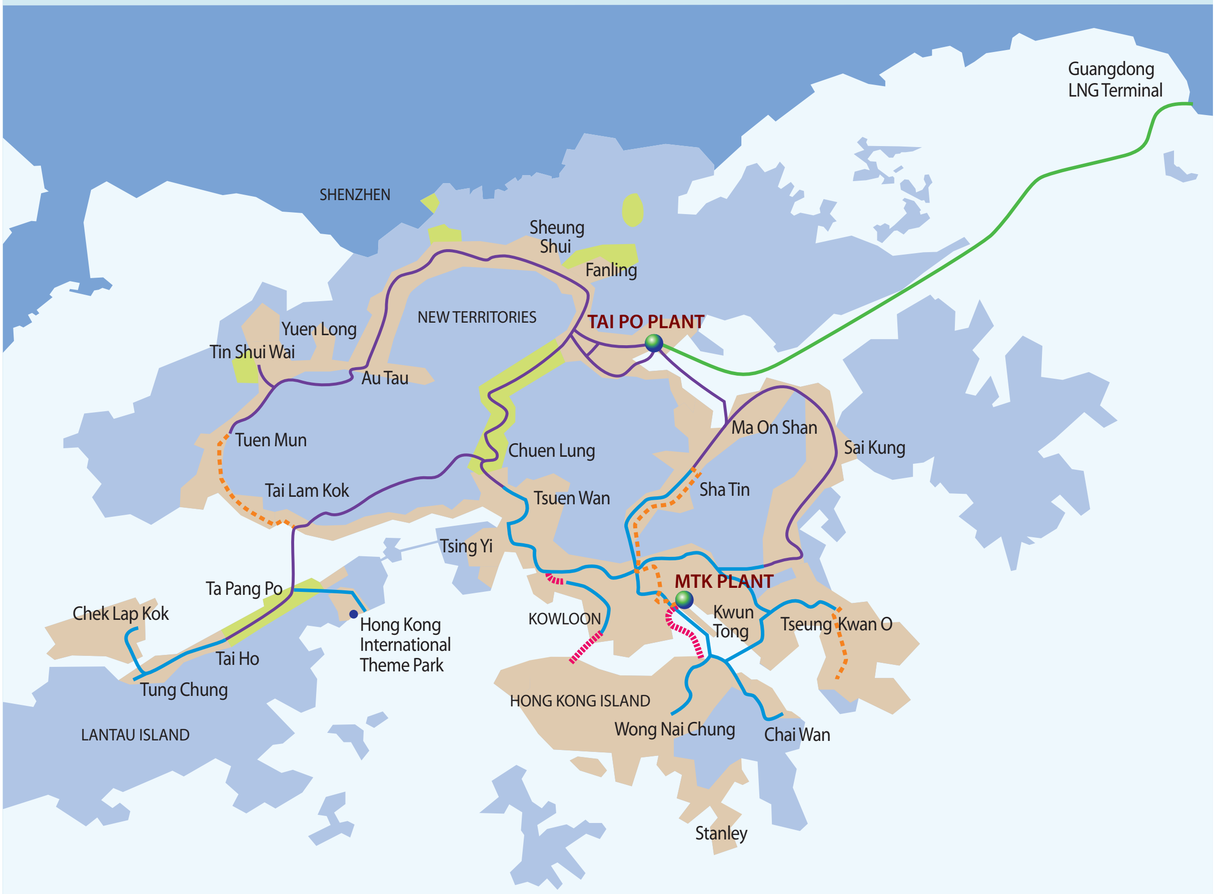
Together with the use of improved quality materials over the years, both third party pipeline damage incidents and other public reported gas escapes have significantly dropped by over 75 per cent over the past decade. Maintaining this vigilance and enhancing safety and emergency procedures in our production plants and gas facilities, a number of joint fire-prevention and fire-fighting exercises with the Fire Services Department and tabletop exercises were conducted during the year.

Driving this culture of safety among our contractors, a Pay for Safety, Quality and Environmental Appraisal System was introduced in our pipelaying contracts as an added incentive to contractors and their frontline workers.

A recently introduced "Riser Inspection Robot", which uses digital imaging and gas leakage detection equipment to carry out routine preventive maintenance, has greatly helped to enhance the quality of our riser network, the gas pipelines that lead into buildings and customers' premises. This device, which has also helped to raise safety levels as employees no longer need to work at a height, won the "Safety Enhancement Programme Gold Award" as well as the "Best Presentation Award – Silver" under the "Hong Kong Occupational Safety and Health Award", co-organised by the Occupational Safety and Health Council, the Labour Department and other professional organisations.

Towngas Network in Hong Kong

The foundations for our service excellence rest on our gas infrastructure, which consists of two production plants, one in Tai Po and the other at Ma Tau Kok, as well as a widespread gas transportation network of more than 3,400 km of gas pipelines. Hong Kong currently enjoys a supply continuity rate of over 99.99 per cent.



Existing areas of supply

Planned new areas of supply

Planned high pressure or intermediate pressure town gas pipelines

Under construction high pressure or intermediate pressure gas pipelines

Completed high pressure town gas pipelines

Completed intermediate pressure town gas pipelines

Completed natural gas submarine pipeline from Guangdong LNG Terminal to Tai Po plant

OUR DIVERSIFIED, ECO-FRIENDLY AND NEW ENERGY BUSINESSES

Powering Ahead

Inaugurated **Hong Kong's aviation fuel facility** in Tuen Mun

Commenced commissioning of **coal-based methanol plant** in Inner Mongolia

Launched our **world-class data centre** in Jinan

Our Diversified, Eco-friendly and New Energy Businesses

The continued diversification of our business and our growing exploration, development and distribution of new and non-conventional energies brought us closer to our vision to become a major energy supplier in Asia with an environmentally focus. As the world increasingly turns towards the use of these cleaner and more sustainable forms of energy, we see tremendous prospects for our future growth and activities in this direction.

Vehicular Fuel Development

As we grow our vehicular fuel facilities, we see tremendous scope for expansion in this market. Technology is increasingly making it possible for natural gas to power more forms of transport, such as marine vessels.

New Eco-energy

Since the 1990s, ECO Environmental Investments Limited (ECO), a wholly owned subsidiary of the Towngas Group, has been driving the active diversification of our traditional gas activities into the clean, new energy business. Since then, ECO has established a number of firsts, establishing a breadth of knowledge and depth of experience in the supply of clean energy in the region. These advantages have enabled the honing of our business portfolio, keeping us poised for the right moment to capture the best market opportunities.

Energy-related Logistics and Infrastructure

ECO's first energy logistics and infrastructure business took off in 2000 with the building and operation of five dedicated liquefied petroleum gas (LPG) filling stations in Hong Kong. Today, our annual sales account for about 30 per cent of this environmentally-friendly vehicular fuel market, which serves Hong Kong's fleet of 18,000 taxis and 2,300 public light buses.

In 2008, we began building our network of gas filling stations in mainland China, to provide a cleaner and more economical alternative to diesel fuel. The first project to come into operation was the compressed natural gas (CNG) filling station in Shaanxi. Opening in 2008, the CNG filling station was customised to serve heavy-duty trucks shuttling coal along a dedicated route from the coal mine to the downstream power plant market in the region. In 2010, this network grew significantly both in geographical coverage and in the number of operating stations. New projects have taken root in Shaanxi, Shandong, Liaoning, and Henan provinces, offering CNG and liquefied natural gas (LNG) both to meet fuel requirements for heavy-duty vehicles in the vicinity, as well as to supplement energy supply requirements in those regions.

ECO Aviation Fuel Facility (EAFF)

Completed during the year, EAFF consists of eight aviation fuel tanks with a total storage capacity of 264,000 cubic metres, together with supporting infrastructure. Built to the highest international standards, rigorous safety systems came into play with the opening of the facility. Ensuring the quality of these systems and fine tuning emergency procedures, a fire exercise was held in conjunction with the Fire Services Department in March, while a tabletop exercise was completed in October.

Another important energy logistics and infrastructure project is ECO's aviation fuel facility (EAFF) in Tuen Mun, which commenced operation during the year. In 2002, ECO obtained a 40-year franchise to build and operate this facility, to meet the aviation fuel requirements of the Hong Kong International Airport. Linked directly to the airport via submarine pipelines, the facility consists of two jetties, which can berth tankers of 80,000 and 50,000 tonnes at the same time, as well as a tank farm with eight mega-sized aviation fuel tanks totaling 264,000 cubic metres of storage. With the commissioning of phase one of this project at the beginning of 2010, followed by the coming on stream of phase two in November 2010, EAFF is now fully operational and fulfilling its vital role of receiving, storing and supplying 100 per cent of the aviation fuel needs of the Hong Kong International Airport.

Aiming to build a diversified portfolio in this energy logistics and infrastructure business, ECO is continuing to look for business opportunities in the delivery of energy resources, with activities ranging from sourcing, all the way through the supply chain, to the user end.

Coalbed Methane and Unconventional Gas

Our unconventional gas business began in Hong Kong with the use of landfill gas (LFG) as a substitute for some of our heating fuel in the gas production process. Commencing with the use of LFG from Shuen Wan landfill in 1999, this initiative came of age in 2007 with the commissioning of our North Eastern New Territories (NENT) landfill gas project. The environmental benefits of using LFG are significant – its use not only conserves resources by transforming a waste material into useful energy, it also reduces the emission of greenhouse gases since there is no longer the need to flare the gas off on site. One of the largest projects of its kind in the world, the NENT LFG project has paved the way for ECO to embark on even larger projects on a more diverse stage in the unconventional gas business in mainland China.

China has abundant methane resources, which are embedded in coalbed seams. These methane resources can be extracted as coalbed methane (CBM) before the coal is mined, or as coal-mine methane (CMM) during the mining process. Riding our experience in the utilisation of LFG, we focused our efforts on the development of new technology to make use of these unconventional gas energy resources.

The extraction and use of CBM and CMM not only create a safer environment for miners, less greenhouse gases are released into the atmosphere and the use of traditional fossil fuels is also reduced. Unfortunately, as most coal mines are remotely located from gas markets or pipelines, there is typically little use for the gas other than to satisfy energy needs within the immediate vicinity.

Tackling this problem, ECO employed cryogenic technology, enabling the CBM to be turned into liquefied form. Liquefied coalbed methane (LCBM) occupies 600 times less volume than its gaseous form, enabling the product to be economically transported in bulk by road tankers. This concept was successfully put into operation at our CBM liquefaction plant, which opened in Shanxi in December 2008. The plant will have a total annual output of 250 million cubic metres of LCBM, when the phase-two facility comes into full operation in 2011.

Our first project to make use of CMM is located in Chongqing. This project will use technology developed in collaboration with a research institute to remove the oxygen present in CMM, together with the cryogenic techniques used in the liquefaction of CBM. The construction work is progressing well and it is expected to have an annual production capacity of 91 million cubic metres of LCMM when commissioning in the first quarter of 2012. The harnessing and use of CMM echoes the benefits of CBM – in view of these advantages, we are set to pin down yet another CMM project in Shanxi province in the near future.

In addition to CBM and CMM, ECO is looking into other opportunities to develop further forms of unconventional gas energy, one example being the methanation of coke oven gas from coke.

Coal Resources and Clean Coal Utilisation

While China continues to rely on coal as an energy resource, it is placing a strong emphasis on developing clean coal technology to mitigate unwanted emissions. Instead of burning coal as in conventional power plants, coal can instead be gasified into synthetic gas and then chemically modified into a range of useful products, one of which is methanol. The entire process is free of sulphur oxides and nitrogen oxides emissions, and any carbon dioxide produced is in pure form, making it ready for capture and storage for other uses. Riding these advantages, the construction of our coal-based methanol plant in Inner Mongolia, with an annual capacity of 200,000 tonnes is going well – plant commissioning has commenced and production is expected to come on stream in 2011. Methanol is both a

Enhancing Plant Safety

Our new facilities all seek to maintain the highest levels of safety. Now up and running, our CBM plant in Shanxi has begun the process of acquiring its OHSAS 18001 and ISO 14001 certification, to make sure that its management systems and work processes are on par with the highest standards in the world. At the same time, emergency tabletop exercises were conducted at both our LPG filling stations and the CBM plant to improve emergency handling procedures.

This commitment to safety has helped to reap strong dividends. Our methanol plant in Inner Mongolia, for example, not only achieved its "One Million Working Hours Accident Free" goal in 2009, it also made the switch from construction to production with an accident-free record in 2010.

useful chemical feedstock as well as a highly efficient and clean burning fuel, which can be blended into gasoline. It therefore commands excellent market potential.

Seizing the potential in this clean coal business, we are building up our coal resources. A coal mine is currently being developed in the vicinity of our methanol plant. Scheduled for commissioning in the second half of 2011, coal from this mine will provide the feedstock for our methanol production.

A second coal-based chemical project, which will be operational in 2012, is taking shape in Jiangxi. Using coking coal from a nearby mine, this coke oven plant will produce coke and coke oven gas. The gas will be fed into the local distribution network, which is operated by the Group, for use as city-gas.

Business Outlook

These projects and the "firsts" achieved have enabled us to build up tremendous areas of expertise in the development and provision of clean and alternative forms of energy. This knowledge platform will provide a springboard for our future activities as we increasingly make our way into the clean coal era and the world of alternative energies.

Hua Yan Water Celebrates Fifth Anniversary

Hua Yan Water has done much to drive a culture of quality and to raise the modernity of the industry. During the year, the company's Wuhu operations not only celebrated its fifth anniversary, it also completed renovations upgrading the working environment at its headquarters. This quality environment has in turn led to greater employee engagement and better work practices, while also bringing in high praise from the local government.

Telecommunications

Towngas Telecommunications Company Limited (Towngas Telecom) continues to provide high-end telecommunication infrastructure services and quality network solutions for telecom carriers, service providers and large corporations. In addition to providing effective service solutions, our optical fibre network, which rides on our gas networks using either glass-in-gas (GIG) or glass-along-gas (GAG) techniques, also offers considerable cost synergies.

In recent years, Towngas Telecom has seen rapid growth in the data centre business. Providing management and operations for computer equipment housed in our data centre, hand-in-hand with the highest standards of service excellence, 24-hour operations, optimum climatic conditions as well as full-time back up and support, our centre in Hong Kong, virtually doubled in size in 2010. This business is seeing a rising trend as demand for IT outsourcing and "cloud computing", where computer services are increasingly being sold as a "utility", continue to grow.

We are also riding this trend on the mainland. First expanding into mainland China in 2007, Towngas Telecom currently operates a world-class top-level data centre in Jinan with an area of 16,000 square metres. We have also invested in two GAG projects in Liaoning and Shandong, providing more cost-efficient and environmentally-friendly telecommunications and infrastructure networks for carriers and broadcasters.

Water Supplies and Waste Water Operations

Our three water projects managed by Hong Kong & China Water Limited (Hua Yan Water) continued to prosper. Customer numbers increased 13 per cent, while the total volume of water sales rose to 344 million tonnes. With the support of the local government as well as an adjustment in tariffs at the Suzhou Industrial Park, total revenues of water sector rose 19 per cent, while net profit grew a significant 118 per cent over 2009. Enhancing its systems and services during the year, phase two expansion work at the Yang Jia Men water plant in Wuhu was completed, while the raw water transmission pipeline in Wujiang's second water plant commenced construction.

Civil and Building Services Engineering

U-Tech Engineering Company Limited (U-Tech) maintains its leadership in the building of underground utility networks using the less disruptive and more environmentally-friendly "trenchless" technologies. With U-Tech's considerable experience in the laying of pipelines, it has completed a number of projects for the Water Supplies Department (WSD) and Electrical and Mechanical Services Department in Hong Kong. In 2010, the company successfully won its first Waterworks Group C contract, the construction of a salt-water service reservoir and a pumping station, from WSD.

In 2010, we also acquired a "Hot Tapping" contract from WSD, facilitating their application of this new technology in leakage surveys. Also known as under-pressure tapping, "Hot Tapping" involves the drilling of access holes on pressurised live water mains without the need to empty them. In other words, the pipe can continue to be used during "Hot Tapping" and subsequent leakage surveys.

Recognising our specialist expertise, we were also included on the Roads and Drainage Contractor List for the Development Bureau in 2010.

New Energy and Other Projects in Mainland China in 2010

	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	2009	1,170	400	70.1%
Coal-based Chemical				
Jiangxi Fengcheng	2009	1,250	350	40%
Inner Mongolia Erdos	2009	447	120	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%
Upstream Projects				
Shanxi LCBM	2006	600	200	70%
Jilin NG	2007	140	5	50%
Chongqing LCMM	2010	520	180	50%
TELECOMMUNICATION PROJECTS				
Jinan	2008	80	40	90.1%
Jinan Chibo	2009	170	68	58.82%
Dalian DETA	2010	14	10	49%
WATER PROJECTS				
Wujiang	2005	1,550	560	80%
Suzhou Industrial Park	2005	3,685	2,197	50%
Wuhu	2005	700	300	75%

Ensuring Our Future Sustainability

Received Hang Seng **PRD Environmental Awards –** Grand Award

Distributed a record high of **230,000 healthy mooncakes**

Our Carbon Reduction Competition on the mainland **reduced emissions by 13,000 tonnes**, with the Wujiang water project taking the top prize

Corporate Social Responsibility

Trust can only be built if we act responsibly and ethically with the interests of our customers, stakeholders and communities at heart. Corporate social responsibility thus acts as the cornerstone of all our activities.

Protecting Our Environment

Reflecting our role as a major energy supplier with a strong focus on the environment, we make every effort to use environmentally-friendly fuel in the gas production process. In Hong Kong, this process started in the early 1970s when we switched to naphtha, significantly reducing sulphur dioxide emissions in the production of town gas. The subsequent introduction of natural gas, one of the cleanest fossil fuels, as well as the use of landfill gas, together accounting for about 60 per cent of our total production fuel, also meant a substantial reduction in greenhouse gas emissions.

On the mainland, with our city-gas operations based on natural gas and with our growing portfolio of new and alternative energy programmes, we have established a reputation as being in the forefront of the clean energy industry. Together with the quantum leap expected in the use of natural gas over the next decade, we expect these activities to define our future growth and drive our ongoing sustainability.

Within the community, we actively supported green group activities, including Friends of the Earth (HK)'s Tree Planting Challenge as well as Corporate Afforestation Project, the latter of which will plant 10,000 trees in three years. We also sponsored the No Air-con Night campaign organised by Hong Kong Green Sense urging people to turn off their air-conditioners for a night in September. Supporting WWF's Earth Hour, our mainland companies also turned off their lights for an hour both at work and at home. They also organised a range of environmental activities, for example, a total of 19 companies in Wuhan, Chongqing, Suzhou, Yixing, Zhongshan, Weifang and Chaozhou among others, have launched tree planting programmes.

Our major initiative on the mainland was the launch of a Carbon Reduction Project Competition, which brought in a total of 38 submissions, reducing 13,000 tonnes of carbon emissions per year in total. The winning entry was a project submitted by Hua Yan Water in Wujiang – by adjusting workflow and using surplus pressure, not only was a saving of RMB7.5 million in electricity costs made,

Volunteer Service

During the year, our Hong Kong Towngas Volunteer Service Team contributed 48,815 service hours, delivering warmth and care to the community, and won the championship of the Social Welfare Department's "Highest Service Hour Award in 2009, Private Organisations – Best Customer Participation" for the third year running.

Hang Seng Pearl River Delta Environmental Awards 2010

Towngas Executive Director and Chief Operating Officer James Kwan received the Grand Award trophy from the Federation of Hong Kong Industries. We won the award for our efforts to operate in a clean and green manner, minimise our impact on the environment and reduce our carbon footprint. We also won the "Others" category award for our Low Carbon Action! campaign as well as the "Energy Conservation" category award for our cold energy recovery and utilisation project in Shunde.

Other Key Environmental Awards in 2010

Hong Kong

- Wastewi$e Label – Class of Excellence
- Hong Kong Green Awards 2010 : Green Purchasewi$e Award – Platinum Category
- U Green Awards 2009 by U Magazine
- Outstanding Green Excellence Awards – Enterprise Winner by Capital Magazine

Mainland China

- Low Carbon Innovative Company Award

the emission of 8,620 tonnes of carbon dioxide into the atmosphere was also avoided annually.

Reaching Out to the Community

In seeking to promote a quality lifestyle, our efforts also extend to the less fortunate or the financially disadvantaged, where the lending of a helping hand can make a real difference.

In 2010, under our annual Rice Dumplings for the Community campaign, we prepared and delivered more than 210,000 rice dumplings to the needy. Our volunteers also organised a workshop for visually impaired members from the Hong Kong Society for the Blind, teaching them how to wrap rice dumplings during the Dragon Boat Festival. Our Mooncakes for the Community initiative brought 520 Legislative Councillors and District Council members, 55 district organisations and Towngas volunteers together, to distribute a new record of 230,000 mooncakes to the elderly and the less fortunate in Hong Kong.

We also placed a strong focus on the development and support of corporate social enterprises (CSEs). In addition to our CookEasy programme, which won Next Magazine's "CSE Service Award", we employed a social enterprise cleaning service for our offices. Another initiative, Igniting Bright Future was launched to offer a one-year internship to marginal youth at our new restaurant, Flame in Tsim Sha Tsui, where they are given the opportunity to train as professional chefs in a working kitchen.

Low Carbon Action! Campaign

Encouraging the people of Hong Kong to lead a greener life under the campaign's slogan to reduce carbon emissions by one million tonnes, we rolled out a series of green initiatives including tree planting activities, a Low Carbon Rice Dumpling Recipe Design Competition, an interactive environmental game launched with Hong Kong Education City, low carbon menus from Towngas Avenue as well as a Low Carbon Reward Lucky Draw to persuade customers to sign up for our eBilling services. The highlight however was our Low Carbon Living Photo Contest looking for photos that show the best way to reduce carbon emissions – the winner shown here, submitted a photo promoting the benefits of low carbon diet.

Working in conjunction with the Labour Department and the Vocational Training Council, we provide on-the-job programmes, grooming trainees and young graduates to enter the workplace with greater confidence and professional skills. On the mainland, we launched the Jingqi Mentoring Scheme in collaboration with the Virya Foundation, under which managers from our businesses in Xi'an and Chongqing provide a one-year mentoring programme for university students.

More than 70 per cent of our mainland businesses have also set up volunteer teams. In 2010, the cumulative service hours for these teams reached 376,587 hours benefitting 460,776 recipients.

A major initiative was the help and assistance provided to victims of the earthquake in Yushu, Qinghai, which occurred in April. With support from across the Group including companies and employees in Hong Kong and mainland China, more than HK$2.3 million was raised to this worthy cause.

Further to the 2008 earthquake in Sichuan, a number of subsidies were provided to students in the area to carry out gas studies in Changzhou. Thirty students graduated during the year, returning to Sichuan to commence internships with our city-gas ventures there. These activities and projects won us "China's Outstanding Corporate Citizenship" and "National Community Service Advanced Company" awards in 2010.

Empowering Our People

In view of the rapid expansion of our business horizons in recent years, we have seen a corresponding leap in the need for experienced and qualified employees. Apart from offering a comprehensive remuneration package to attract the most suitable talents available, we provide the essential learning and career development to retain these talents.

In optimising the talent of our people, our investment in leadership development is unrelenting. Riding on the success of our Towngas Leadership Competency programmes in Hong Kong, these assessment tools and career management processes have been extended to our mainland operations, enabling the development of clear views and a focused direction among management to tie in with the Group's culture, values and business strategies. During the year, 71 per cent of our general managers on the mainland completed this assessment.

Cultivating our Towngas culture in ECO's mainland operations, we intensified training for ECO staff in Inner Mongolia. Workshops were also organised for all employees in our Shanxi and Xi'an operations. ECO's Management Trainee programme, expected to nurture a large and fast growing number of graduates, commenced in 2011. Apart from leadership skills and management training, trainees also receive comprehensive technical training in their own particular areas of expertise.

Our Towngas Engineering Academy (TEA) continues its objective to foster a lifelong learning culture within the Group. A total of 2,185 training hours of Continuing Professional Development talks, with distinguished speakers from the engineering, technical and academic field took place in 2010. Also meeting its goal to provide outreach training and consultancy services for the entire Group, TEA ran a number of Train-the-Trainer programmes during the year.

Making sure that frontline service employees in Hong Kong maintain the delivery of superior customer services, a series of service refreshment training programmes were organised, racking up 2,556 learning hours in the process. These training programmes were also extended to cover our business partners.

Maintaining technical competencies within the gas industry, in addition to our Gas Fitter Apprentice Training and Trainee Network Fitter Training Schemes, we also organised Registered Gas Installer Training for contractors as well as refresher training programmes, completing more than 36,000 man-hours of training during the year. To cope with the rapid growth of downstream gas businesses on the mainland, we seek to raise the technical competency and safety mindset of our technicians there. To this end, we completed more than 74,000 man-hours of training for 2,607 technicians during the year.

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 4.59 kg/TJ of town gas.

Total SOx output was 0.03 kg/TJ of town gas.

Total CO_2 output was 11.96 metric tonnes/TJ of town gas.

Greenhouse Gas Emission

Greenhouse gas emissions from major gas production equipment were 355,958 metric tonnes in terms of CO_2 equivalent.

Water Quality

Total waste water output was 4.68 m^3/TJ of town gas.

Chemical Waste

Total chemical waste output was 2.37 kg/TJ of town gas.

Noise

All installations and operations complied with the statutory requirements.

No noise abatement notice has ever been received.

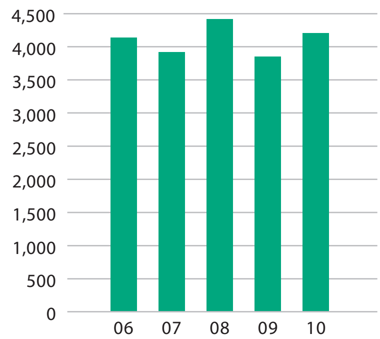
All legal requirements relating to environmental protection were fully complied with.

Rice Dumplings for the Community

Extending this initiative into mainland China, over 90 companies in 17 provinces participated in this scheme to prepare and distribute rice dumplings to people in need during the year.

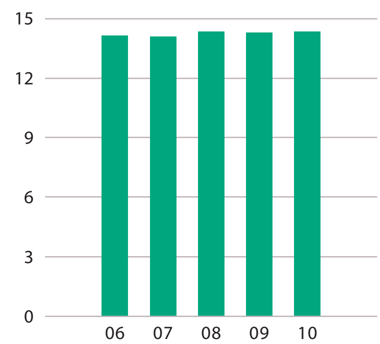
Revenue per Employee

Company (HK$ thousand)



Town Gas Sales per Employee

Company (million MJ)



Employee Well-being

Our efforts to ensure the well-being of our colleagues have not only led to our ranking among the top ten most preferred employers in Hong Kong and our 11th rank in a global consultant's survey on "The Top 100 Ideal Employers" in Hong Kong, we also placed first as the most Ideal Energy Employer in Hong Kong under a survey based on the views of 400,000 students and professionals worldwide. We were also cited as "The Best Company for Employee Development" on the mainland.

In recent years, we have launched a series of initiatives to improve the work-life balance of our employees. These include the introduction of a five-day work week, three-day paternity and marriage leave entitlements, together with healthy and de-stressing programmes such as yoga, kick-boxing, pilates, etc.

Seeking to raise employee engagement levels and making Towngas a better place to work in, we conducted an Employee Engagement Survey during the year under the theme "Your Voice, Our Drive". The response rate of the survey reached a highly satisfactory 97 per cent, reflecting the enthusiastic support of our workforce.

Occupational health and safety (OHS) training has also been designed for employees working long hours on computers. The training helps office workers to maintain a good posture when sitting at a desk, to prevent back strain and other back problems.

During the year, we maintained the highest standards of OHS, achieving satisfactory results in our corporate industrial safety performance yet again. In 2010, there were 12 industrial accidents in our core business, resulting in an Accident Frequency Rate of 0.29, on par with 2009 levels.

Financial Resources Review

Liquidity and Capital Resources

As at 31st December 2010, the Group had a net current deposits position of HK$1,356 million (31st December 2009: HK$8,422 million) and long-term borrowings of HK$11,746 million (31st December 2009: HK$15,672 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$529 million (31st December 2009: HK$405 million), net current funds as at 31st December 2010 amounted to HK$1,885 million (31st December 2009: HK$8,827 million). In addition, banking facilities available for use amounted to HK$6,966 million (31st December 2009: HK$5,897 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. 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. Up to 31st December 2010, the Group issued notes in the total amount of HK$3,010 million (31st December 2009: HK$2,760 million) with maturity terms of 10 years, 15 years, 30 years and 40 years in Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the MTNs as at 31st December 2010 was HK$2,951 million (31st December 2009: HK$2,710 million).

As at 31st December 2010, 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 2009: US$995 million) and the carrying value was HK$7,654 million (31st December 2009: HK$7,626 million).

As at 31st December 2010, 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, was US$141 million (31st December 2009: HK$141 million) and the carrying value was HK$1,114 million (31st December 2009: HK$1,110 million). The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

As at 31st December 2010, the Group's borrowings amounted to HK$21,728 million (31st December 2009: HK$20,420 million). The increase was mainly due to new issue of MTNs of HK$250 million and net drawn down of bank loans for the rest. Other than the Notes mentioned on above which had fixed interest rate while the Guaranteed Senior Notes were secured by a pledge of shares of certain subsidiaries of Towngas China Company Limited, all bank and other loans were unsecured and had a floating interest rate, of which HK$1,141 million (31st December 2009: HK$4,226 million) were long-term bank loans while HK$8,868 million (31st December 2009: HK$4,748 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2010, the maturity profile of the Group's borrowings was 46 per cent within 1 year, 5 per cent within 2 to 5 years and 49 per cent over 5 years (31st December 2009: 23 per cent within 1 year; 23 per cent within 1 to 2 years, 3 per cent within 2 to 5 years and 51 per cent over 5 years).

The US dollar Guaranteed Notes issued are hedged to Hong Kong dollars by currency swaps and the Group's bank borrowings are primarily denominated in Hong Kong dollars; 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 2010 remained healthy at 22 per cent (31st December 2009: 18 per cent). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$529 million as at 31st December 2010 (31st December 2009: HK$405 million), the net gearing ratio [net debt / (shareholders' funds + net debt)] stood at 21 per cent (31st December 2009: 17 per cent).

Contingent Liabilities

As at 31st December 2010, 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 2009: 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 either Hong Kong dollars 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.

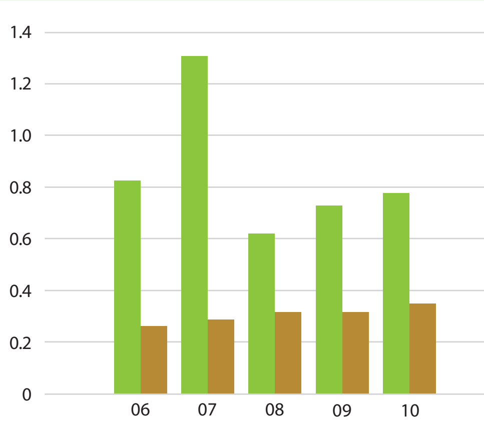
Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2010, the investments in securities amounted to HK$3,970 million (31st December 2009: HK$3,401 million). The performance of the Group's investments in securities was satisfactory.

Five-Year Financial Statistics

Earnings and Dividends per Share

(HK$)

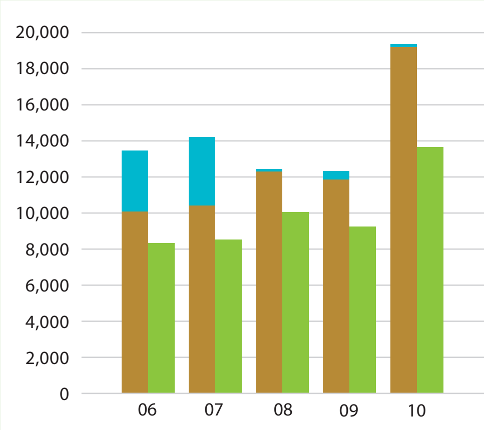


Earnings per Share* Dividends per Share

* 2006 – 2009 figures have been restated for the adoption of HKAS 12 (amendment)

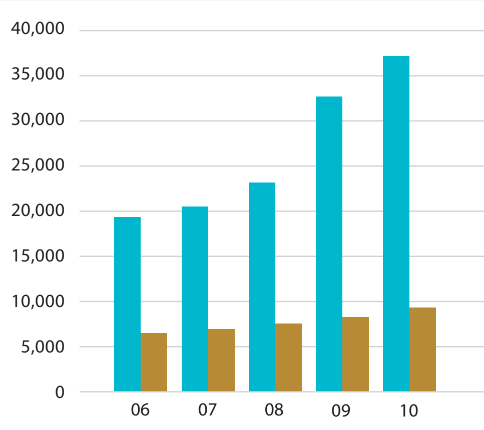
Revenue and Gas Sales

(HK$ million)



Revenue (Excluding Property Sales)
Property Sales Gas Sales

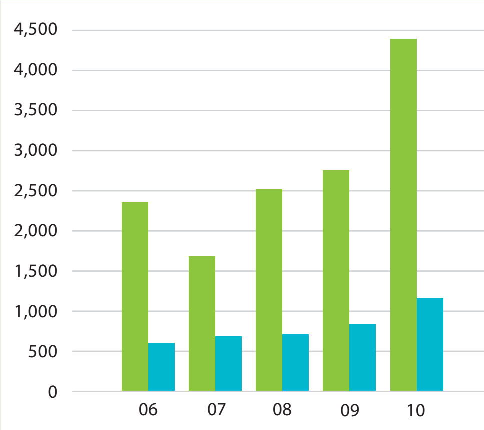
Property, Plant, Equipment and Leasehold Land (HK$ million)



Property, Plant, Equipment and Leasehold Land
Accumulated Depreciation and Amortisation

Capital Expenditures

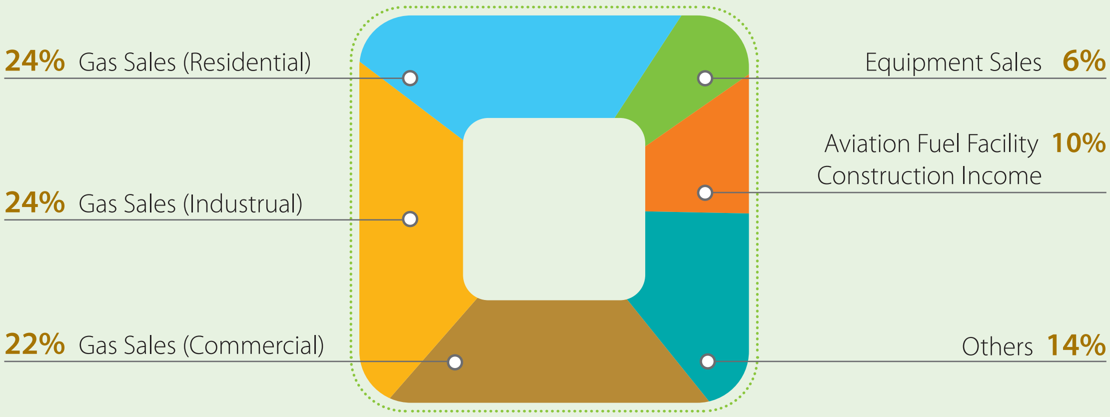
(HK$ million)



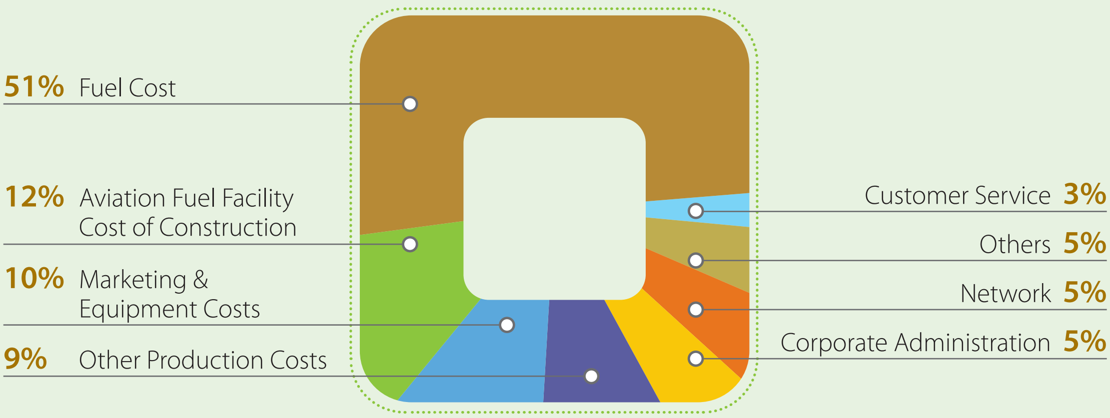
Capital Expenditures
Depreciation and Amortisation

2010 Financial Analysis

Analysis of Revenue



Analysis of Expenditures



Comparison of Ten-Year Results

	2010	2009*	2008*
Highlights (Company)			
Number of Customers as at 31st December	**1,724,316**	1,698,723	1,672,084
Town gas Sales, million MJ	**27,578**	27,574	27,583
Installed Capacity, thousand m^3 per day	**12,260**	12,260	12,260
Maximum Daily Demand, thousand m^3	**6,191**	6,621	7,158
Revenue & Profit	**HK$ M**	HK$ M	HK$ M
Revenue	**19,375.4**	12,351.8	12,352.2
Profit before Taxation	**7,086.7**	6,159.9	5,189.6
Taxation	**(1,038.8)**	(750.6)	(546.3)
Profit after Taxation	**6,047.9**	5,409.3	4,643.3
Non-controlling Interests	**(463.1)**	(134.2)	(92.3)
Profit Attributable to Shareholders	**5,584.8**	5,275.1	4,551.0
Dividends	**2,513.8**	2,285.3	2,333.0
Assets & Liabilities			
Property, Plant, Equipment and Leasehold Land	**27,825.8**	24,452.6	15,638.0
Investment Property	**501.0**	501.0	523.0
Intangible Asset	**2,575.6**	2,461.7	196.4
Associated Companies	**10,802.2**	9,304.0	11,327.7
Jointly Controlled Entities	**7,768.8**	7,011.2	6,164.0
Available-for-Sale Financial Assets	**3,441.2**	2,996.0	1,105.2
Other Non-Current Assets	**2,791.9**	722.7	153.8
Current Assets	**16,957.6**	19,622.3	17,708.2
Current Liabilities	**(16,523.4)**	(10,628.8)	(5,407.7)
Non-Current Liabilities	**(14,932.1)**	(18,635.4)	(14,989.7)
Net Assets	**41,208.6**	37,807.3	32,418.9
Capital & Reserves			
Share Capital	**1,795.6**	1,632.3	1,666.4
Share Premium	**3,455.3**	3,618.6	3,618.6
Reserves	**30,561.3**	27,112.3	24,752.6
Proposed Dividend	**1,651.9**	1,501.8	1,533.1
Shareholders' Funds	**37,464.1**	33,865.0	31,570.7
Non-controlling Interests	**3,744.5**	3,942.3	848.2
Total Equity	**41,208.6**	37,807.3	32,418.9
Earnings per Share, HK Dollar	**0.78**	0.73	0.62
Dividends per Share, HK Dollar	**0.35**	0.32	0.32
Dividend Cover	**2.22**	2.31	1.95

* Adjusted for the bonus issue in 2010 and the adoption of HKAS 12 (amendment), where applicable.

2007*	2006*	2005*	2004*	2003*	2002*	2001*
1,646,492	1,622,648	1,597,273	1,562,278	1,520,166	1,470,738	1,407,408
27,041	27,034	27,261	27,137	27,002	26,641	26,564
12,260	12,260	12,050	11,210	11,000	11,000	11,000
5,806	6,279	6,614	6,694	5,848	5,695	5,530
HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M
14,225.5	13,465.3	9,350.9	8,154.0	7,288.8	6,878.0	6,857.4
10,577.3	6,986.4	6,047.3	3,966.1	3,842.2	3,455.9	3,797.0
(933.8)	(914.6)	(628.6)	(623.0)	(735.2)	(523.7)	(470.0)
9,643.5	6,071.8	5,418.7	3,343.1	3,107.0	2,932.2	3,327.0
(64.1)	(27.0)	(10.4)	(12.9)	(13.6)	(9.6)	(4.2)
9,579.4	6,044.8	5,408.3	3,330.2	3,093.4	2,922.6	3,322.8
2,120.9	1,928.1	1,935.7	1,966.7	1,975.2	1,991.8	1,830.5
13,585.7	12,864.7	11,067.0	8,969.9	9,644.3	9,324.2	11,862.6
410.0	–	–	–	–	–	–
185.1	48.6	45.8	–	–	–	–
9,016.6	3,817.8	2,239.5	1,258.4	2,712.1	2,542.2	2,482.6
6,501.7	5,815.0	5,197.5	1,709.5	2,558.9	241.6	208.7
1,066.9	848.5	768.0	624.3	861.3	1,651.9	1,490.2
148.0	100.7	–	–	–	–	–
12,961.2	13,028.2	10,457.7	8,584.0	5,991.4	6,420.0	4,398.4
(7,188.3)	(7,141.0)	(8,182.5)	(4,182.6)	(3,203.7)	(2,539.3)	(2,194.5)
(6,517.0)	(7,803.5)	(4,570.1)	(2,022.9)	(1,852.0)	(1,688.1)	(896.3)
30,169.9	21,579.0	17,022.9	14,940.6	16,712.3	15,952.5	17,351.7
1,514.9	1,377.2	1,377.2	1,403.7	1,410.9	1,422.7	1,300.9
3,770.1	3,907.8	3,907.8	3,907.8	3,907.8	3,907.8	4,037.1
22,769.1	14,502.5	10,042.5	8,052.7	9,873.1	9,191.6	10,688.1
1,393.7	1,267.0	1,267.0	1,291.4	1,298.0	1,308.9	1,196.9
29,447.8	21,054.5	16,594.5	14,655.6	16,489.8	15,831.0	17,223.0
722.1	524.5	428.4	285.0	222.5	121.5	128.7
30,169.9	21,579.0	17,022.9	14,940.6	16,712.3	15,952.5	17,351.7
1.31	0.83	0.73	0.45	0.41	0.39	0.43
0.29	0.26	0.26	0.26	0.26	0.26	0.24
4.52	3.14	2.79	1.69	1.57	1.47	1.82

Report of the Directors

The Directors have pleasure in submitting to shareholders their Report and the Audited Accounts for the year ended 31st December 2010 which are to be presented at the Annual General Meeting to be held at the Four Seasons Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Friday, 3rd June 2011.

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 2010 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 70 and 71 of this Annual Report.

An interim dividend of HK 12 cents per share was paid to shareholders on 18th October 2010 and the Directors recommend a final dividend of HK 23 cents per share payable on 7th June 2011 to shareholders whose names are on the register of members on 27th May 2011.

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 27th May 2011. 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 2010 amounted to HK$5,115,700,000 (2009: HK$4,648,400,000) before the proposed final dividend for the year ended 31st December 2010.

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$2,900,000 and HK$3,200,000 (2009: HK$3,000,000 and HK$400,000) respectively in 2010.

Directors

At the Annual General Meeting held on 28th May 2010, Mr. Leung Hay Man, Mr. Lee Ka Kit, Mr. James Kwan Yuk Choi and Professor Poon Chung Kwong were re-elected as Directors of the Company. Dr. the Hon. Lee Shau Kee, Mr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po, Mr. Lee Ka Shing and Mr. Alfred Chan Wing Kin 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, Dr. the Hon. Lee Shau Kee, Mr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po, non-executive directors, and Mr. Alfred Chan Wing Kin, 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 2010, 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	4,294,037		2,976,388,182 (Note 5)			2,980,682,219	41.50
	Dr. the Hon. David Li Kwok Po	20,020,000					20,020,000	0.28
	Mr. Lee Ka Kit				2,976,388,182 (Note 4)		2,976,388,182	41.44
	Mr. Alfred Chan Wing Kin	136,858*					136,858*	0.00
	Mr. James Kwan Yuk Choi	48,315	54,741				103,056	0.00
	Mr. Lee Ka Shing				2,976,388,182 (Note 4)		2,976,388,182	41.44
	Professor Poon Chung Kwong			43,923 (Note 6)			43,923	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 (Note 7)			9,500	95
	Mr. Lee Ka Kit				9,50 (Note 7)		9,500	95
	Mr. Lee Ka Shing				9,500 (Note 7)		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 (Note 8)			2	100
	Mr. Lee Ka Kit				2 (Note 8)		2	100
	Mr. Lee Ka Shing				2 (Note 8)		2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee			1,628,172,901 (Note 9)			1,628,172,901	66.49
	Mr. Lee Ka Kit				1,628,172,901 (Note 9)		1,628,172,901	66.49
	Mr. Lee Ka Shing				1,628,172,901 (Note 9)		1,628,172,901	66.49
	Mr. Alfred Chan Wing Kin					3,618,000 (Note 10)	3,618,000	0.15
	Mr. James Kwan Yuk Choi					3,015,000 (Note 10)	3,015,000	0.12

* These shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.
**Percentage which the aggregate long position in the shares represents to the issued share capital of the Company or 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 2010 were as follows:

Name of Company	Director	Date of Grant	Exercise Period	Exercise Price (HK$)	Number of Shares Subject to Outstanding Options as at 01.01.2010*	Number of Shares Subject to Outstanding Options as at 31.12.2010*
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 2010, 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 2010, 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)	1,542,661,734	21.48
	Timpani Investments Limited (Note 1)	2,187,165,208	30.45
	Faxson Investment Limited (Note 1)	2,863,990,251	39.88
	Henderson Land Development Company Limited (Note 1)	2,863,990,251	39.88
	Henderson Development Limited (Note 2)	2,869,269,624	39.95
	Hopkins (Cayman) Limited (Note 3)	2,976,388,182	41.44
	Riddick (Cayman) Limited (Note 4)	2,976,388,182	41.44
	Rimmer (Cayman) Limited (Note 4)	2,976,388,182	41.44
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	676,825,043	9.42
	Chelco Investment Limited (Note 1)	676,825,043	9.42
	Medley Investment Limited (Note 1)	644,503,474	8.97
	Commonwealth Bank of Australia (Note 11)	523,597,235	7.29

* 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 2010, 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 2,863,990,251 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 64.86% of the total issued shares of HLD. Of these 2,869,269,624 shares, 2,863,990,251 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 2,976,388,182 shares, 2,869,269,624 shares represented the shares described in Notes 1 and 2 and 107,118,558 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 2,976,388,182 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 2,976,388,182 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 43,923 shares were beneficially owned by a company which was jointly owned by Professor Poon Chung Kwong and his spouse.
7. 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.
8. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. 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 1,628,172,901 shares in Towngas China representing 66.49% 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.
10. These options represent personal interests held by the Directors.
11. Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 523,597,235 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 recognise the contribution of certain directors 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.

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 (2009: 3,618,000), representing 0% (2009: 0.18%) of the issued share capital of Towngas China as at the date of this report.

Share options were granted under the Pre-GEM Scheme in 2001 in consideration of HK$1.00 per grant, at an exercise price of HK$0.57, being the issue price of the shares of Towngas China on listing on GEM Board. The exercise price was subsequently adjusted to HK$0.475 upon capitalisation 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 are exercisable on a cumulative basis until the expiry date on 3rd April 2011. The options under the Pre-GEM Scheme were granted to recognise 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. The provision of the Pre-GEM Scheme shall remain in full force and effect.

B. 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of 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 2001 GEM Scheme remained in force for a period of 10 years commencing 4th April 2001.

Share Option Schemes of Towngas China (Continued)

B. 2001 GEM Share Option Scheme (Continued)

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

As at the date of this report, the outstanding number of shares of Towngas China in respect of which options had been granted under the 2001 GEM Scheme was 8,797,500 (2009: 12,763,500), representing 0.36% (2009: 0.65%) of the issued share capital of Towngas China as at the date of this report.

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

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 and there will be no options granted under the 2001 GEM Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the 2001 GEM Scheme shall remain in full force and effect.

C. 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by, inter alia, the resolution of 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 the date of adoption of the scheme, i.e. 18th May 2005.

Share Option Schemes of Towngas China (Continued)

C. 2005 GEM Share Option Scheme (Continued)

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.

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

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

The total number of shares 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.

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.

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

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

Share Option Schemes of Towngas China (Continued)

D. 2005 Main Board Share Option Scheme (Continued)

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.

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$)	Outstanding at 01.01.2010	Exercised during the Year	Lapsed during the Year	Outstanding at 31.12.2010	Weighted Average Closing Price of Shares of Towngas China Immediately before the Date(s) on which Options were Exercised (HK$)
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	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	1,206,000	–
	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	–	–	15,678,000	
Category 2: Employees of Towngas China	Pre- GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14
		04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14
	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73
		19.11.2004	31.12.2006 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,899,400	482,400	–	3,417,000	3.73
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	482,400	180,900	–	301,500	3.65
		03.10.2006	04.04.2008 – 27.11.2015	2.796	723,600	180,900	–	542,700	3.65
		03.10.2006	04.10.2008 – 27.11.2015	2.796	964,800	241,200	–	723,600	3.73
	2007 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					17,547,300	5,427,000	–	12,120,300	
All categories					33,225,300	5,427,000	–	27,798,300	

Notes:
1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no share option was cancelled under any share option schemes.
3. During the year, no new option was granted.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since each of the applicable percentage ratios was less than 5%:

As disclosed in an announcement dated 14th November 2010, Hong Kong & China Gas (China) Limited, a wholly-owned subsidiary of the Company, agreed to take a placing of 250,000,000 shares in Towngas China (the "Placing Shares"), placed by Kenson Investment Limited (the "Vendor"), a wholly-owned subsidiary of Enerchina Holdings Limited (stock code: 622), through Morgan Stanley & Co. International plc at the aggregate consideration of HK$907,500,000 (equivalent to HK$3.63 per Placing Share) on 13 November 2010. As the Vendor was a substantial shareholder of Towngas China which is a non wholly-owned subsidiary of the Company, the Vendor was a connected person of the Company under the Listing Rules and the aforesaid acquisition constituted a connected transaction for the Company under 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 Group's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its own 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 17 per cent and 61 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, 15th March 2011

Corporate Governance Report

The Board is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasise 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 2010, 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 2010, 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 2011.

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 2010, the Board met four 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 2010 is set out below:

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

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 2010.

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:

Audit Committee

The Audit Committee was formed in May 1996. During the year ended 31st December 2010, 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.

Board Committees (Continued)

Audit Committee (Continued)

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 2010 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2009 annual results and 2010 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 2010 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 2010, 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 by 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 2010, 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 2010, 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 2010 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 2010, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to HK$6.8 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$3.4 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 2010, 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 2010, 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 2010, 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, 15th March 2011

Consolidated Income Statement

for the year ended 31st December 2010

	Note	2010 HK$'M	Restated 2009 HK$'M
Revenue	5	**19,375.4**	12,351.8
Total operating expenses	6	**(14,697.4)**	(8,490.4)
		4,678.0	3,861.4
Other gains, net	7	**702.3**	827.2
Interest expense	9	**(711.2)**	(567.8)
Share of profits less losses of associated companies		**1,528.1**	1,268.1
Share of profits less losses of jointly controlled entities		**889.5**	771.0
Profit before taxation	10	**7,086.7**	6,159.9
Taxation	13	**(1,038.8)**	(750.6)
Profit for the year		**6,047.9**	5,409.3
Attributable to:			
Shareholders of the Company		**5,584.8**	5,275.1
Non-controlling interests		**463.1**	134.2
		6,047.9	5,409.3
Dividends	15	**2,513.8**	2,285.3
Earnings per share - basic and diluted, HK cents	16	**77.8**	73.0*

* Adjusted for the bonus issue in 2010 and the adoption of HKAS 12 (amendment)

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

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2010

	2010 HK$'M	Restated 2009 HK$'M
Profit for the year	**6,047.9**	5,409.3
Other comprehensive income:		
Revaluation (deficit)/surplus of available-for-sale financial assets transferred to equity	**(9.6)**	830.2
Change in fair value of cash flow hedges	**138.6**	486.9
Exchange differences	**810.2**	2.7
Other comprehensive income for the year, net of tax	**939.2**	1,319.8
Total comprehensive income for the year	**6,987.1**	6,729.1
Total comprehensive income attributable to:		
Shareholders of the Company	**6,365.0**	6,596.0
Non-controlling interests	**622.1**	133.1
	6,987.1	6,729.1

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

Consolidated Balance Sheet

as at 31st December 2010

	Note	2010 HK$'M	Restated 2009 HK$'M	Restated As at 1st January 2009 HK$'M
Assets				
Non-current assets				
Property, plant and equipment	17	**26,890.1**	23,573.3	15,077.0
Investment property	18	**501.0**	501.0	523.0
Leasehold land	19	**935.7**	879.3	561.0
Intangible asset	20	**2,575.6**	2,461.7	196.4
Associated companies	22	**10,802.2**	9,304.0	11,327.7
Jointly controlled entities	23	**7,768.8**	7,011.2	6,164.0
Available-for-sale financial assets	24	**3,441.2**	2,996.0	1,105.2
Derivative financial instruments	35	**351.8**	186.4	–
Retirement benefit assets	25	**68.3**	59.3	64.7
Other non-current assets	26	**2,371.8**	477.0	89.1
		55,706.5	47,449.2	35,108.1
Current assets				
Completed property for sale		**–**	29.0	110.1
Inventories	27	**1,303.3**	2,588.0	1,806.0
Trade and other receivables	28	**3,312.5**	3,164.7	2,429.9
Loan and other receivables from associated companies	22	**70.7**	41.2	29.4
Loan and other receivables from jointly controlled entities	23	**338.5**	83.2	86.6
Loan and other receivables from non-controlling shareholders		**38.1**	106.7	85.4
Housing loans to staff		**27.5**	35.0	46.8
Financial assets at fair value through profit or loss	29	**528.7**	405.2	767.4
Time deposits over three months	30	**1,642.0**	351.9	55.7
Time deposits up to three months, cash and bank balances	30	**9,696.3**	12,817.4	12,290.9
		16,957.6	19,622.3	17,708.2
Current liabilities				
Trade and other payables	31	**(5,801.6)**	(5,190.7)	(2,746.7)
Amounts due to jointly controlled entities	23	**(5.0)**	(22.2)	(34.0)
Loan and other payables to non-controlling shareholders		**(26.2)**	(111.4)	–
Provision for taxation		**(708.2)**	(556.9)	(384.5)
Borrowings	32	**(9,982.4)**	(4,747.6)	(2,242.5)
		(16,523.4)	(10,628.8)	(5,407.7)
Net current assets		**434.2**	8,993.5	12,300.5
Total assets less current liabilities		**56,140.7**	56,442.7	47,408.6

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

Consolidated Balance Sheet (Continued)

as at 31st December 2010

	Note	2010 HK$'M	Restated 2009 HK$'M	Restated As at 1st January 2009 HK$'M
Non-current liabilities				
Customers' deposits	33	**(1,133.9)**	(1,114.4)	(1,074.3)
Deferred taxation	34	**(2,017.5)**	(1,836.8)	(1,216.1)
Borrowings	32	**(11,745.7)**	(15,672.0)	(12,342.5)
Loans payable to non-controlling shareholders		**(35.0)**	(12.2)	(44.7)
Derivative financial instruments		**–**	–	(312.1)
		(14,932.1)	(18,635.4)	(14,989.7)
Net assets		**41,208.6**	37,807.3	32,418.9
Capital and reserves				
Share capital	36	**1,795.6**	1,632.3	1,666.4
Share premium	37	**3,455.3**	3,618.6	3,618.6
Reserves	38	**30,561.3**	27,112.3	24,752.6
Proposed dividend	38	**1,651.9**	1,501.8	1,533.1
Shareholders' funds		**37,464.1**	33,865.0	31,570.7
Non-controlling interests		**3,744.5**	3,942.3	848.2
Total equity		**41,208.6**	37,807.3	32,418.9

Approved by the Board of Directors on 15th March 2011

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 2010

	Note	2010 HK$'M	2009 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**9,092.1**	8,908.5
Leasehold land	19	**235.5**	241.9
Subsidiaries	21	**16,968.3**	15,524.8
Jointly controlled entities	23	**933.4**	933.4
Available-for-sale financial assets	24	**87.9**	104.6
Retirement benefit assets	25	**68.3**	59.3
		27,385.5	25,772.5
Current assets			
Inventories	27	**976.9**	838.0
Trade and other receivables	28	**1,419.2**	1,382.6
Loans to subsidiaries	21	**268.6**	163.1
Loan and other receivables from associated companies	22	**27.7**	28.8
Amounts due from jointly controlled entities	23	**2.9**	–
Housing loans to staff		**27.4**	35.0
Financial assets at fair value through profit or loss	29	**4.4**	2.7
Time deposits up to three months, cash and bank balances	30	**1,831.7**	1,233.1
		4,558.8	3,683.3
Current liabilities			
Trade and other payables	31	**(727.0)**	(666.8)
Amounts due to jointly controlled entities	23	**(3.2)**	(1.3)
Provision for taxation		**(185.1)**	(128.1)
Borrowings	32	**(200.0)**	(1,200.0)
		(1,115.3)	(1,996.2)
Net current assets		**3,443.5**	1,687.1
Total assets less current liabilities		**30,829.0**	27,459.6
Non-current liabilities			
Amounts due to subsidiaries	21	**(17,417.3)**	(14,657.1)
Customers' deposits	33	**(1,127.8)**	(1,108.1)
Deferred taxation	34	**(1,074.9)**	(1,056.3)
Borrowings	32	**(600.0)**	(500.0)
		(20,220.0)	(17,321.5)
Net assets		**10,609.0**	10,138.1
Capital and reserves			
Share capital	36	**1,795.6**	1,632.3
Share premium	37	**3,455.3**	3,618.6
Reserves	38	**3,706.2**	3,385.4
Proposed dividend	38	**1,651.9**	1,501.8
		10,609.0	10,138.1

Approved by the Board of Directors on 15th March 2011

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 2010

	Note	2010 HK$'M	2009 HK$'M
Net cash from operating activities	42	**5,234.2**	3,975.4
Investing activities			
Receipt from sale of property, plant and equipment		**15.3**	4.0
Receipt from sale of leasehold land		**19.0**	–
Purchase of property, plant and equipment		**(4,200.2)**	(2,721.1)
Payment for leasehold land		**(77.3)**	(39.1)
Increase in investments in associated companies		**(526.5)**	(166.8)
Increase in loans to associated companies		**(31.2)**	(82.9)
Repayment of loans by associated companies		**43.7**	–
Increase in investments in jointly controlled entities		**(139.6)**	(112.5)
Increase in loans to jointly controlled entities		**(108.6)**	(48.3)
Increase in loans from jointly controlled entities		**6.7**	27.1
Repayment of loans by jointly controlled entities		**140.9**	18.2
Consideration paid for acquisition of subsidiaries in prior periods		**(165.7)**	–
Deferred consideration received		**40.0**	–
Acquisition of subsidiaries	44(a)	**(115.7)**	(630.8)
Consolidation of a subsidiary		**–**	923.9
Further acquisition of a subsidiary	42(c)	**(908.4)**	–
Deconsolidation of a subsidiary	42(b)	**(79.6)**	–
Sale of financial assets at fair value through profit or loss		**1,021.5**	981.6
Sale of available-for-sale financial assets		**632.5**	206.3
Purchase of available-for-sale financial assets		**(930.7)**	(1,324.9)
Purchase of financial assets at fair value through profit or loss		**(1,172.3)**	(287.4)
Increase in time deposits over three months		**(1,288.6)**	(256.1)
Interest received		**232.1**	222.1
Dividends received from investments in securities		**175.5**	97.1
Dividends received from associated companies		**545.5**	513.7
Dividends received from jointly controlled entities		**391.0**	846.0
Net cash used in investing activities		**(6,480.7)**	(1,829.9)
Financing activities			
Shares repurchased		**–**	(1,999.0)
Issue of shares of a subsidiary under share option scheme		**7.6**	–
Change in loans with non-controlling shareholders		**(7.0)**	(52.5)
Capital injection by non-controlling shareholders		**87.1**	88.9
Increase in borrowings		**6,854.9**	3,737.4
Repayment of borrowings		**(5,571.3)**	(402.5)
Interest paid		**(834.5)**	(601.2)
Dividends paid to shareholders of the Company	38	**(2,363.7)**	(2,302.7)
Dividends paid to non-controlling shareholders		**(136.2)**	(73.5)
Net cash used in financing activities		**(1,963.1)**	(1,605.1)
(Decrease)/increase in cash and cash equivalents		**(3,209.6)**	540.4
Cash and cash equivalents at 1st January		**12,817.4**	12,290.9
Effect of foreign exchange rate changes		**88.5**	(13.9)
Cash and cash equivalents at 31st December		**9,696.3**	12,817.4
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**4,129.1**	4,007.2
Time deposits up to three months		**5,567.2**	8,810.2
		9,696.3	12,817.4

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

Consolidated Statement of Changes in Equity

for the year ended 31st December 2010

	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 2010, as previously reported	**1,632.3**	**3,618.6**	**27,594.9**	**3,942.3**	**36,788.1**
Effect of adoption of HKAS 12 (amendment)	**–**	**–**	**1,019.2**	**–**	**1,019.2**
Total equity as at 1st January 2010, as restated	**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 (Note 44(a))	**–**	**–**	**–**	**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**
Total equity as at 1st January 2009, as previously reported	1,666.4	3,618.6	25,366.6	848.2	31,499.8
Effect of adoption of HKAS 12 (amendment)	–	–	919.1	–	919.1
Total equity as at 1st January 2009, as restated	1,666.4	3,618.6	26,285.7	848.2	32,418.9
Profit for the year	–	–	5,275.1	134.2	5,409.3
Other comprehensive income:					
Revaluation surplus of available-for-sale financial assets transferred to equity	–	–	830.2	–	830.2
Change in fair value of cash flow hedges	–	–	486.9	–	486.9
Exchange differences	–	–	3.8	(1.1)	2.7
Total comprehensive income for the year	–	–	6,596.0	133.1	6,729.1
Capital injection	–	–	–	88.9	88.9
Acquisition of subsidiaries	–	–	–	489.1	489.1
Dividends paid to shareholders of the Company	–	–	(2,302.7)	–	(2,302.7)
Dividends paid to non-controlling shareholders	–	–	–	(73.5)	(73.5)
Share repurchased	(34.1)	–	(1,964.9)	–	(1,999.0)
Consolidation of a subsidiary	–	–	–	2,456.5	2,456.5
Total equity as at 31st December 2009	1,632.3	3,618.6	28,614.1	3,942.3	37,807.3

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

Notes to the 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 15th March 2011.

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 2010

The Group has adopted the following new or revised standards, interpretations and amendments which are mandatory for the financial year ended 31st December 2010.

HKAS 27 (revised)	"Consolidated and Separate Financial Statements"
HKAS 39 (amendment)	"Financial Instruments: Recognition and Measurement"
HKFRS 2 (amendment)	"Group Cash - settled Share-based Payment Transactions"
HKFRS 3 (revised)	"Business Combinations"
HK(IFRIC) - Int 17	"Distribution of Non-cash Assets to Owners"
HK-Int 5	"Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"

HKICPA's Improvements to HKFRS 2008 and 2009

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) New or revised standards, interpretations and amendments adopted in 2010 (Continued)

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.

In addition, the Group has early adopted HKAS 12 (amendment) "Deferred Tax: Recovery of Underlying Assets" which is effective for the financial year beginning on 1st January 2012.

The amendment introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale.

The effects of adoption are disclosed as follows.

As disclosed in Notes 5 and 18, the Group has interest in investment properties measured at their fair values. As required by the amendment, the Group has re-measured the deferred tax relating to these investment properties according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively. The comparative figures for 2009 have been restated to reflect the change in accounting policy, as summarised below.

Effects on balance sheets	31st December 2010 HK$'M	31st December 2009 HK$'M	1st January 2009 HK$'M
Decrease in deferred tax liabilities	**53.2**	53.2	56.8
Increase in associated companies	**1,087.1**	966.0	862.3
Increase in unappropriated profits	**1,140.3**	1,019.2	919.1

Effects on income statements	2010 HK$'M	2009 HK$'M
Increase in share of profits less losses of associated companies	**121.1**	103.7
Increase in deferred tax expense	**–**	(3.6)
Increase in net profit attributable to the equity holders of the Company	**121.1**	100.1
Increase in basic and diluted EPS	**HK1.7 cents**	HK1.4 cents

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) New or revised standards and amendments that are not yet effective for the year ended 31st December 2010 but relevant to the Group and have not been early adopted by the Group

The HKICPA has issued the following new or revised HKFRS, interpretations, amendments or improvements to existing standards which are not yet effective for the year ended 31st December 2010 and have not been early adopted by the Group:

New or revised standards and amendments		Effective for accounting periods beginning on or after
HKAS 24 (revised)	"Related Party Disclosures"	1st January 2011
HKAS 32 (amendment)	"Classification of Rights Issues"	1st February 2010
HKFRS 9	"Financial Instruments"	1st January 2013
HK(IFRIC) 14 (amendment)	"Prepayments of a Minimum Funding Requirement"	1st January 2011
HK(IFRIC) 19	"Extinguishing Financial Liabilities with Equity Instruments"	1st July 2010
HKICPA's Improvements to HKFRS 2010		1st January 2011

The Group will apply the above standards, interpretations and amendments from 1st January 2011 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.

The Group uses the acquisition method of accounting 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 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. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses 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) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between 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.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, 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 amount 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.

(iii) 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 and are initially recognised at cost. The Group's investments in associated companies include goodwill (net of any accumulated impairment) identified on acquisition.

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. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associated company.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(iii) Associated companies (Continued)

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also 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.

(iv) 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 and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill (net of any accumulated impairment) identified on acquisition.

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. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also 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.

2 Summary of significant accounting policies (Continued)

(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.

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 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.

2 Summary of significant accounting policies (Continued)

(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.

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.

2 Summary of significant accounting policies (Continued)

(f) Investment property (Continued)

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.

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.

2 Summary of significant accounting policies (Continued)

(h) Intangible asset

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 asset". 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.

(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.

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. Derivatives are classified as held for trading unless they are designated as hedges. 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.

2 Summary of significant accounting policies (Continued)

(j) Financial assets (Continued)

(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 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.

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.

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.

2 Summary of significant accounting policies (Continued)

(j) Financial assets (Continued)

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.

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. Trading derivatives are classified as a current asset or liability.

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".

2 Summary of significant accounting policies (Continued)

(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.

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) Loans and receivables

Loans and 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.

Loans and 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

(a) 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.

2 Summary of significant accounting policies (Continued)

(p) Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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.

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.

(b) 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 profit or loss – 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 profit or loss, the impairment loss is reversed through the separate income statement.

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

2 Summary of significant accounting policies (Continued)

(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.

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 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.

2 Summary of significant accounting policies (Continued)

(t) Current and deferred taxation (Continued)

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) Maintenance and service charges – when services are provided.
(vi) Interest income – recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
(vii) Dividend income – recognised when the right to receive payment is established.
(viii) 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.
(ix) Rental income – recognised on a straight-line accrual basis over the terms of lease agreements.
(x) Construction income – recognised under percentage of completion method.

(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.

2 Summary of significant accounting policies (Continued)

(v) Employee benefits (Continued)

(i) Defined contribution retirement schemes (Continued)

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.

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.

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 2010, if the RMB had weakened/strengthened by 2 per cent against the USD and HKD with all other variables held constant, pre-tax profit for the year would have been HK$34.1 million (2009: HK$19.6 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of the USD and HKD denominated borrowings.

(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$1,704.2 million (2009: HK$1,814.1 million) and HK$145.0 million (2009: HK$137.0 million) respectively. 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 and Tokyo Stock Price Index.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(ii) *Price risk* (Continued)

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	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Hang Seng Index	**3.2**	1.7	**157.7**	141.2
S&P 500 Index	**17.8**	19.9	**19.3**	32.3
FTSE 100 Index	**3.3**	2.4	**2.9**	11.1
CAC Index	**–**	–	**–**	13.5
Swiss Market Index	**–**	–	**–**	1.9
Tokyo Stock Price Index	**–**	–	**2.2**	2.0

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.

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$11,338.3 million (2009: HK$13,169.3 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$10,008.7 million (2009: HK$8,973.7 million), fixed rate borrowings of HK$11,719.4 million (2009: HK$11,445.9 million) and floating rate deposits received from customers of HK$1,133.9 million (2009: HK$1,114.4 million). No fixed rate equity linked investments classified as financial assets at fair value through profit and loss as at 31st December 2010 (2009: HK$135.3 million).

At 31st December 2010, 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$113.3 million (2009: HK$124.3 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank deposits.

At 31st December 2010, 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$107.7 million (2009: HK$95.7 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk (Continued)

The Company

The Company's interest bearing assets mainly comprise floating rates bank deposits of HK$1,831.7 million (2009: HK$1,233.1 million). The Company's interest rate risk arises from floating rate borrowings of HK$800.0 million (2009: HK$1,700.0 million) and floating rate deposits received from customers of HK$1,127.8 million (2009: HK$1,108.1 million).

At 31st December 2010, 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$9.1 million (2009: HK$8.1 million) higher/lower, mainly as a result of higher/lower bank deposits interest income on floating rate bank deposits.

At 31st December 2010, 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$27.4 million (2009: HK$27.9 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

(b) Credit risk

Credit risk of the Group and Company mainly arises from:

	Group		Company	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Cash and bank deposits	**11,338.3**	13,169.3	**1,831.7**	1,233.1
Debt securities and derivative instruments	**1,944.0**	1,133.0	**0.9**	–
Trade receivables	**1,839.3**	1,646.4	**1,278.6**	1,223.4
Other receivables	**864.4**	833.3	**127.2**	141.8
Instalment receivables	**6.9**	57.4	**–**	–
Loan and other receivables from jointly controlled entities	**1,144.0**	931.1	**85.5**	82.6
Loan and other receivables from associated companies	**117.9**	88.8	**27.7**	28.8
Loan and other receivables from non-controlling interests	**38.1**	106.7	**–**	–
Other non-current assets	**2,371.8**	477.0	**–**	–

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 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 limited to financial institutions 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.

3 Financial risk management (Continued)

(b) Credit risk (Continued)

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.

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	
	2010 %	2009 %	**2010 %**	2009 %
Cash and bank deposits				
AA	**10.1**	21.6	**5.1**	35.1
A	**59.0**	49.7	**94.3**	64.7
BBB	**23.9**	23.7	**0.6**	0.2
Unrated	**7.0**	5.0	**–**	–
	100.0	100.0	**100.0**	100.0
Debt securities and derivative instruments				
AAA	**0.8**	1.7	**–**	N/A
AA	**36.6**	45.0	**100.0**	N/A
A	**55.0**	47.4	**–**	N/A
BBB	**2.0**	3.1	**–**	N/A
Unrated	**5.6**	2.8	**–**	N/A
	100.0	100.0	**100.0**	N/A

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 2010				
Trade and other payables	**5,801.6**	**–**	**–**	**–**
Borrowings	**10,624.5**	**571.5**	**2,757.2**	**14,306.3**
At 31st December 2009				
Trade and other payables	5,190.7	–	–	–
Borrowings	5,458.8	5,262.1	2,301.4	14,246.9
Company				
At 31st December 2010				
Trade and other payables	**727.0**	**–**	**–**	**–**
Borrowings	**204.2**	**3.8**	**607.4**	**–**
At 31st December 2009				
Trade and other payables	666.8	–	–	–
Borrowings	1,204.4	201.0	301.0	–

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 2010 and 2009 are as follows:

	2010 HK$'M	Restated 2009 HK$'M
Total borrowings	**(21,728.1)**	(20,419.6)
Less: Time deposits, cash and bank deposits	**11,338.3**	13,169.3
Net borrowing	**(10,389.8)**	(7,250.3)
Shareholders' funds	**(37,464.1)**	(33,865.0)
	(47,853.9)	(41,115.3)
Gearing ratio	**22%**	18%

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 2010 and 2009.

	Level 1		Level 2		Total	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Assets						
Financial assets at fair value through profit or loss						
– Debt securities	**81.2**	99.2	**292.9**	158.0	**374.1**	257.2
– Equity securities	**145.0**	137.0	**–**	–	**145.0**	137.0
Derivative financial instruments	**–**	–	**361.4**	197.4	**361.4**	197.4
Available-for-sale financial assets						
– Debt securities	**1,134.6**	658.4	**73.9**	20.0	**1,208.5**	678.4
– Equity investments	**1,704.2**	1,814.1	**–**	–	**1,704.2**	1,814.1
Total assets	**3,065.0**	2,708.7	**728.2**	375.4	**3,793.2**	3,084.1

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 2010, 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 separately recognised 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 certain value-in-use calculations. These calculations require the use of estimates.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(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.

(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.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(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.

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:

	2010 HK$'M	2009 HK$'M
Gas sales before fuel cost adjustment	**12,628.6**	8,704.2
Fuel cost adjustment	**1,036.2**	539.9
Gas sales after fuel cost adjustment	**13,664.8**	9,244.1
Equipment sales	**1,105.0**	963.5
Maintenance and services	**323.0**	296.6
Water sales	**381.2**	313.1
Property sales	**166.9**	493.4
Rental income	**30.8**	29.1
Aviation fuel facility construction income	**1,839.7**	–
Other sales	**1,864.0**	1,012.0
	19,375.4	12,351.8

5 Segment information (Continued)

The chief operating decision-maker has been identified as the executive committee members (the "ECM"). The ECM review the Group's internal reporting in order to assess performance and allocate resources. The ECM consider 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 assess 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.

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, loan and other receivables from non-controlling interests and housing loans to staff.

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			Restated				Restated
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Revenue	**10,550.1**	7,831.2	**8,566.2**	3,946.0	**197.7**	522.5	**61.4**	52.1	**19,375.4**	12,351.8
Adjusted EBITDA	**4,149.7**	3,880.2	**2,130.2**	1,044.2	**153.6**	199.6	**16.7**	19.5	**6,450.2**	5,143.5
Depreciation and amortisation	**(569.9)**	(541.2)	**(554.5)**	(277.5)	**(0.2)**	(0.2)	**(18.3)**	(7.7)	**(1,142.9)**	(826.6)
Unallocated corporate expenses									**(629.3)**	(455.5)
									4,678.0	3,861.4
Other gains, net									**702.3**	827.2
Interest expense									**(711.2)**	(567.8)
Share of profits less losses of associated companies	**–**	–	**418.7**	327.5	**1,110.1**	941.2	**(0.7)**	(0.6)	**1,528.1**	1,268.1
Share of profits less losses of jointly controlled entities	**–**	–	**827.4**	575.2	**63.2**	197.1	**(1.1)**	(1.3)	**889.5**	771.0
Profit before taxation									**7,086.7**	6,159.9
Taxation									**(1,038.8)**	(750.6)
Profit for the year									**6,047.9**	5,409.3

5 Segment information (Continued)

Share of profits of associated companies includes HK$734.2 million (restated 2009: HK$628.6 million), being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

Share of profits of jointly controlled entities includes HK$63.2 million (2009: HK$197.1 million), being the Group's share of post-tax profits arising from the sale of a portion of the residential units of Grand Promenade.

	Gas, water and energy related business				Property		All other segments		Total	
	Hong Kong		Mainland China							
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	Restated 2009 HK$'M	2010 HK$'M	2009 HK$'M	2010 HK$'M	Restated 2009 HK$'M
Segment assets	**18,312.7**	18,185.4	**31,782.3**	27,537.4	**7,743.8**	7,294.2	**5,404.6**	4,158.6	**63,243.4**	57,175.6
Unallocated assets:										
Available-for-sale financial assets									**3,441.2**	2,996.0
Financial assets at fair value through profit or loss									**528.7**	405.2
Time deposits, cash and bank balances excluded from segment assets									**4,576.3**	5,630.3
Others									**874.5**	864.4
Total assets	**18,312.7**	18,185.4	**31,782.3**	27,537.4	**7,743.8**	7,294.2	**5,404.6**	4,158.6	**72,664.1**	67,071.5

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2010 is HK$10,795.0 million (2009: HK$8,394.0 million), and the revenue from external customers in the PRC is HK$8,580.4 million (2009: HK$3,957.8 million).

At 31st December 2010, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other countries are HK$17,331.2 million and HK$32,142.2 million (restated 2009: HK$16,562.9 million and HK$27,167.6 million) respectively.

For the year ended 31st December 2010, the percentage of revenues attributable to the Group's five largest customers is less than 30 per cent.

6 Total operating expenses

	Group 2010 HK$'M	Group 2009 HK$'M
Stores and materials used	**8,230.0**	4,617.7
Aviation fuel facility cost of construction	**1,772.6**	–
Cost of property sold	**38.5**	139.6
Manpower costs (Note 11)	**1,466.6**	1,120.2
Depreciation and amortisation	**1,152.0**	836.3
Other operating items	**2,037.7**	1,776.6
	14,697.4	8,490.4

7 Other gains, net

	Group 2010 HK$'M	Group 2009 HK$'M
Net investment gains (Note 8)	**707.5**	552.6
Gain on deconsolidation of a subsidiary (Note 42(b))	**42.0**	–
Provision for other receivables	**(32.9)**	(91.8)
Provision for investment in a jointly controlled entity	**(23.6)**	(50.1)
Fair value loss on investment property (Note 18)	**–**	(22.0)
Ineffective portion on cash flow hedges (Note 35)	**2.5**	5.5
Gain on acquisition of a subsidiary	**–**	259.9
Gain on deemed disposal of interests in an associated company	**–**	194.9
Others	**6.8**	(21.8)
	702.3	827.2

8 Net investment gains

	Group 2010 HK$'M	Group 2009 HK$'M
(a) Interest income		
Bank deposits	**106.0**	47.9
Listed available-for-sale financial assets	**29.8**	12.9
Unlisted available-for-sale financial assets	**0.1**	0.6
Loans to associated companies and jointly controlled entities	**21.2**	23.9
Others	**171.8**	21.3
	328.9	106.6
(b) Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
Listed securities	**22.5**	105.4
Unlisted securities	**18.4**	321.9
Exchange differences	**5.2**	16.8
	46.1	444.1
(c) Net realised gains/(losses) on available-for-sale financial assets		
Listed securities	**169.2**	(85.9)
Unlisted securities	**–**	(2.6)
Exchange differences	**(17.5)**	2.2
	151.7	(86.3)
(d) Dividend income		
Listed available-for-sale financial assets	**82.8**	55.7
Unlisted available-for-sale financial assets	**92.5**	40.9
Listed financial assets at fair value through profit or loss	**0.2**	0.5
	175.5	97.1
(e) Other investment gain/(loss)	**5.3**	(8.9)
	707.5	552.6

9 Interest expense

	Group 2010 HK$'M	Group 2009 HK$'M
Interest on bank loans and overdrafts wholly repayable within five years	**196.3**	141.9
Interest on guaranteed notes not wholly repayable within five years	**639.8**	468.1
Interest on customers' deposits	**–**	1.1
	836.1	611.1
Less: Amount capitalised	**(124.9)**	(43.3)
	711.2	567.8

The interest expense is capitalised at an average rate of 3.68 per cent (2009: 3.52 per cent) per annum.

10 Profit before taxation

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

	Group	
	2010 HK$'M	2009 HK$'M
Cost of inventories sold	**9,113.9**	5,197.5
Depreciation and amortisation	**1,152.0**	836.3
Loss on disposal/write off of property, plant and equipment	**50.3**	89.9
(Gain)/loss on disposal of leasehold land	**(0.7)**	2.1
Impairment loss of trade receivables	**10.5**	20.2
Impairment loss of available-for-sale financial assets	**23.3**	87.5
Research and development expenditures	**–**	34.1
Operating lease rentals		
– land and buildings	**46.8**	50.5
– plant and equipment	**9.3**	9.3
Rental income from investment property		
– gross rental income	**(30.8)**	(29.1)
– outgoing expenses	**15.7**	20.6
Auditors' remuneration	**13.9**	7.2
Net loss on residential maintenance (Note)	**15.5**	18.0
Note		
Analysis of net loss on residential maintenance:		
Residential maintenance revenue	**(186.0)**	(183.6)
Less expenses:		
Manpower costs	**112.4**	108.4
Other operating and administrative expenses	**89.1**	93.2
Net loss	**15.5**	18.0

11 Manpower costs

	Group	
	2010 HK$'M	2009 HK$'M
Salaries and wages	**1,294.0**	984.7
Pension costs – defined contribution retirement schemes	**177.2**	125.6
Pension costs – defined benefit retirement scheme (Note 25)	**(4.6)**	9.9
	1,466.6	1,120.2

12 Directors' and senior management's emoluments

(a) Directors' emoluments

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 (Note)	**0.2**	**5.1**	**22.9**	**3.8**	**32.0**
James Kwan Yuk Choi (Note)	**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**

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 being consolidated into the Group as at 31st December 2009. In this connection, Mr Alfred Chan Wing Kin received director's fee of HK$0.2 million (2009: nil) and share-based payments of HK$0.2 million (2009: nil), while Mr James Kwan Yuk Choi received director's fee of HK$0.2 million (2009: nil) and share-based payments of HK$0.1 million (2009: nil).

The remuneration paid to every director for the year ended 31st December 2009 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	0.1	4.9	19.4	3.6	28.0
James Kwan Yuk Choi	0.1	3.0	7.0	2.6	12.7
Lee Shau Kee	0.3	0.1	–	–	0.4
Liu Lit Man	0.2	–	–	–	0.2
Leung Hay Man	0.2	–	–	–	0.2
Colin Lam Ko Yin	0.1	0.1	–	–	0.2
Lee Ka Kit	0.1	–	–	–	0.1
Lee Ka Shing	0.1	–	–	–	0.1
David Li Kwok Po	0.2	0.1	–	–	0.3
Poon Chung Kwong	0.1	–	–	–	0.1
	1.5	8.2	26.4	6.2	42.3

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$41.6 million (2009: HK$36.1 million) and post-employment benefits of HK$6.4 million (2009: HK$6.2 million) paid to the Group's key management during the year ended 31st December 2010. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2009: nil).

(b) Five highest paid individuals

The above analysis includes two (2009: two) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining three (2009: three) individuals are as follows:

	2010 HK$'M	2009 HK$'M
Fee, salaries, allowances and benefits in kind	**9.2**	5.3
Performance bonus	**10.4**	6.0
Contributions to retirement scheme	**2.5**	2.5
	22.1	13.8

The above senior management's emoluments for the year of 2010 include HK$6.7 million (2009: nil) paid by Towngas China since it has become a subsidiary of the Group on 31st December 2009.

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	2010	2009
9.0 – 10.0	**1**	–
7.0 – 8.0	**1**	–
5.0 - 6.0	**1**	1
4.0 - 5.0	**–**	1
3.0 - 4.0	**–**	1

13 Taxation

The amount of taxation charged to the income statement represents:

	Group 2010 HK$'M	Restated 2009 HK$'M
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year	**621.0**	537.7
Current taxation - provision for PRC Enterprise Income Tax at the prevailing rates on the estimated assessable profit for the year	**251.8**	63.7
Current taxation - under provision in prior years	**2.9**	1.2
Deferred taxation - origination and reversal of temporary differences	**76.2**	79.9
Withholding tax	**86.9**	68.1
	1,038.8	750.6

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 2010 HK$'M	Restated 2009 HK$'M
Profit before taxation	**7,086.7**	6,159.9
Less: Share of profits less losses of associated companies	**(1,528.1)**	(1,268.1)
Share of profits less losses of jointly controlled entities	**(889.5)**	(771.0)
	4,669.1	4,120.8
Calculated at a tax rate of 16.5% (2009: 16.5%)	**770.4**	679.9
Effect of different tax rates in other countries	**82.0**	73.0
Income not subject to taxation	**(141.3)**	(237.1)
Expenses not deductible for taxation purposes	**223.9**	150.6
Utilisation of previously unrecognised tax losses	**(3.6)**	(6.0)
Under provision in prior years	**2.9**	1.2
Withholding tax	**86.9**	68.1
Others	**17.6**	20.9
	1,038.8	750.6

Share of associated companies' taxation for the year ended 31st December 2010 of HK$189.5 million (restated 2009: HK$140.8 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 2010 of HK$284.6 million (2009: HK$202.6 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$2,831.0 million (2009: HK$2,610.1 million).

15 Dividends

	Company	
	2010 HK$'M	2009 HK$'M
Interim, paid of HK 12 cents per ordinary share (2009: HK 12 cents per ordinary share)	**861.9**	783.5
Final, proposed of HK 23 cents per ordinary share (2009: HK 23 cents per ordinary share)	**1,651.9**	1,501.8
	2,513.8	2,285.3

At a meeting held on 15th March 2011, the directors of the Company declared a final dividend of HK 23 cents per ordinary share for the year ended 31st December 2010. 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 2010.

16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$5,584.8 million (restated 2009: HK$5,275.1 million) and the weighted average of 7,182,321,942 shares (2009: 7,230,476,109 shares*) in issue during the year.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the year (2009: nil), the diluted earnings per share for the year ended 31st December 2010 is approximately the same as the basic earnings per share.

* Adjusted for the bonus issue in 2010

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 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 (Note 44(a))	–	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 (Note 42(b))	(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 (Note 42(b))	(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

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 2009	6,450.8	12,182.9	2,023.8	–	–	1,850.2	22,507.7
Additions	502.9	181.9	269.5	–	–	1,756.7	2,711.0
Acquisition of subsidiaries	10.9	–	–	1,531.6	7.1	882.4	2,432.0
Consolidation of a subsidiary	734.8	3,067.5	–	–	182.2	274.9	4,259.4
Transfers from capital work in progress	105.9	1,047.5	1.6	–	–	(1,155.0)	–
Disposals/write off	(132.6)	(53.2)	(26.1)	–	–	–	(211.9)
Exchange differences	2.9	7.0	0.2	0.3	–	1.8	12.2
At 31st December 2009	7,675.6	16,433.6	2,269.0	1,531.9	189.3	3,611.0	31,710.4
Accumulated depreciation							
At 1st January 2009	3,309.3	2,961.3	1,160.1	–	–	–	7,430.7
Charge for the year	340.8	326.6	155.8	–	–	–	823.2
Disposals/write off	(79.1)	(23.6)	(15.3)	–	–	–	(118.0)
Exchange differences	0.6	0.6	–	–	–	–	1.2
At 31st December 2009	3,571.6	3,264.9	1,300.6	–	–	–	8,137.1
Net book value							
At 31st December 2009	4,104.0	13,168.7	968.4	1,531.9	189.3	3,611.0	23,573.3
At 31st December 2008	3,141.5	9,221.6	863.7	–	–	1,850.2	15,077.0

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 2009	4,379.2	8,036.3	1,903.6	851.2	15,170.3
Additions	52.3	–	269.3	488.2	809.8
Transfers from capital work in progress	0.4	354.6	–	(355.0)	–
Disposals/write off	(85.4)	(22.5)	(26.1)	–	(134.0)
At 31st December 2009	4,346.5	8,368.4	2,146.8	984.4	15,846.1
Accumulated depreciation					
At 1st January 2009	2,800.8	2,577.1	1,119.2	–	6,497.1
Charge for the year	174.2	205.6	148.4	–	528.2
Disposals/write off	(57.1)	(15.2)	(15.4)	–	(87.7)
At 31st December 2009	2,917.9	2,767.5	1,252.2	–	6,937.6
Net book value					
At 31st December 2009	1,428.6	5,600.9	894.6	984.4	8,908.5
At 31st December 2008	1,578.4	5,459.2	784.4	851.2	8,673.2

18 Investment property

	Group	
	2010 HK$'M	2009 HK$'M
At 1st January	**501.0**	523.0
Fair value loss (Note 7)	**–**	(22.0)
At 31st December	**501.0**	501.0

The Group's interest in investment property is held in Hong Kong under leases of over 50 years. The investment property was revalued at 31st December 2010 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	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Held in Hong Kong:				
Leases of 10 to 50 years	**306.7**	318.9	**235.5**	241.9
Held outside Hong Kong:				
Leases of 10 to 50 years	**625.3**	558.5	**–**	–
Leases of over 50 years	**3.7**	1.9	**–**	–
	935.7	879.3	**235.5**	241.9

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

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
At 1st January	**879.3**	561.0	**241.9**	248.4
Additions	**77.3**	40.1	**–**	–
Acquisition of subsidiaries (Note 44(a))	**4.5**	72.7	**–**	–
Consolidation of a subsidiary	**–**	222.8	**–**	–
Disposals	**(18.3)**	(2.1)	**–**	–
Deconsolidation of a subsidiary (Note 42(b))	**(3.4)**	–	**–**	–
Amortisation	**(25.9)**	(15.6)	**(6.4)**	(6.5)
Exchange differences	**22.2**	0.4	**–**	-
At 31st December	**935.7**	879.3	**235.5**	241.9

20 Intangible asset

	Group	
	2010 HK$'M	2009 HK$'M
Goodwill		
At 1st January	**2,461.7**	196.4
Additions (Note 44(a))	**105.5**	2,264.8
Exchange differences	**8.4**	0.5
At 31st December	**2,575.6**	2,461.7

20 Intangible asset (Continued)

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 6.0 per cent (2009: 7.0 per cent) per annum which are determined by considering both internal and external factors relating to the cash-generating units. Discount rate used of 7.5 per cent or 10.0 per cent (2009: 7.5 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 asset as at 31st December 2010 and 2009.

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

21 Subsidiaries

	Company	
	2010 HK$'M	2009 HK$'M
Unlisted shares and registered capital at cost	**307.6**	307.7
Loans and amounts due from subsidiaries – non-current	**16,660.7**	15,217.1
	16,968.3	15,524.8
Loans to subsidiaries – current	**268.6**	163.1
Amounts due to subsidiaries – non-current	**(17,417.3)**	(14,657.1)

Loans to subsidiaries in the PRC of HK$268.6 million (2009: HK$163.1 million) is 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.

Amounts due to subsidiaries denominated in HKD, USD and RMB amount to HK$11,709.5 million (2009: HK$9,571.1 million), HK$5,493.4 million (2009: HK$4,967.9 million) and HK$213.6 million (2009: HK$101.9 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 listed company in The Stock Exchange of Hong Kong Limited. The market value of the Group's investment as at 31st December 2010 in Towngas China amounted to HK$6,073.1 million (2009:2,795.6 million).

22 Associated companies

	Group		Company	
	2010 HK$'M	Restated 2009 HK$'M	2010 HK$'M	2009 HK$'M
Investments in associated companies, including goodwill	**10,752.1**	9,256.4	**–**	–
Loan to an associated company – non-current	**50.1**	47.6	**–**	–
	10,802.2	9,304.0	**–**	–
Loan and other receivables from associated companies – current	**70.7**	41.2	**27.7**	28.8

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$50.1 million (2009: HK$47.6 million), 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 2015.

(b) Loan and other receivables from associated companies of HK$70.7 million (2009: HK$41.2 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 2010 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
[1] Dalian DETA ECO Environmental Energy Company Limited		RMB20.0 million	49	PRC	Natural gas filling station
GH-Fusion Limited		200 shares of US$1 each	50	British Virgin Islands	Investment holding
Hebei Natural Gas Company Limited		RMB220.0 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)	RMB1,230.0 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
[1] 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	Natural gas filling 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
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.		RMB100.0 million	27	PRC	Gas sales and related businesses

1 Newly formed 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 2010, the Group held 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 2010 in SGCL amounted to HK$906.6 million (2009: HK$791.7 million) and HK$4,830.4 million (2009: HK$6,289.4 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 income statement:

	Group	
	2010 HK$'M	Restated 2009 HK$'M
Assets		
Non-current assets	**15,362.4**	12,572.6
Current assets	**2,920.6**	2,090.4
	18,283.0	14,663.0
Liabilities		
Non-current liabilities	**(4,764.1)**	(4,142.2)
Current liabilities	**(3,166.7)**	(1,622.8)
	(7,930.8)	(5,765.0)
Net assets	**10,352.2**	8,898.0
Income	**3,944.9**	3,189.3
Expenses, including taxation	**(2,416.8)**	(1,921.2)
Profit after taxation	**1,528.1**	1,268.1

23 Jointly controlled entities

	Group 2010 HK$'M	Group 2009 HK$'M	Company 2010 HK$'M	Company 2009 HK$'M
Investments in jointly controlled entities, including goodwill	**6,963.3**	6,163.3	**850.8**	850.8
Loans to jointly controlled entities – non-current	**805.5**	847.9	**82.6**	82.6
	7,768.8	7,011.2	**933.4**	933.4
Loan and other receivables from jointly controlled entities – current	**338.5**	83.2	**2.9**	–
Amounts due to jointly controlled entities – current	**(5.0)**	(22.2)	**(3.2)**	(1.3)

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 2012 to 2016.

- HK$188.8 million (2009: 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 and fully repayable in 2013.
- HK$235.9 million (2009: nil) to Wuhan joint venture with fixed interest rate of 5.00 per cent per annum and fully repayable in 2013 to 2014.
- HK$84.9 million (2009: nil) to the joint ventures of Towngas China with fixed interest rates ranging from 4.25 per cent to 5.84 per cent per annum and fully repayable in 2011.
- In 2009, HK$10.7 million to Hangzhou joint venture and HK$5.7 million to a joint venture of Towngas China with fixed interest rates ranging from 5.31 per cent to 7.74 per cent per annum were fully repaid in 2010.

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 amount to HK$261.9 million (2009: HK$255.9 million), HK$424.3 million (2009: HK$487.1 million) and HK$204.1 million (2009: HK$188.1 million), respectively.

(b) Amounts due to jointly controlled entities are denominated in HKD and RMB amount to HK$0.9 million (2009: HK$9.9 million) and HK$4.1 million (2009: HK$12.3 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 2010 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 Company Limited	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	Natural gas filling 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	RMB100.0 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
1 Chongqing Energy ECO CBM Company Limited	RMB180.0 million	50	PRC	Gas sales and related businesses
# 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
2 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
1 Newly formed during the year
2 Reclassified from subsidiary to jointly controlled entity during the year

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 income statement:

	Group 2010 HK$'M	Group 2009 HK$'M
Assets		
Non-current assets	**9,802.1**	8,816.2
Current assets	**3,028.5**	2,286.1
	12,830.6	11,102.3
Liabilities		
Non-current liabilities	**(1,492.0)**	(1,660.8)
Current liabilities	**(4,915.5)**	(3,658.6)
	(6,407.5)	(5,319.4)
Net assets	**6,423.1**	5,782.9
Income	**6,446.0**	4,389.8
Expenses, including taxation	**(5,556.5)**	(3,618.8)
Profit after taxation	**889.5**	771.0

24 Available-for-sale financial assets

	Group 2010 HK$'M	Group 2009 HK$'M	Company 2010 HK$'M	Company 2009 HK$'M
Debt securities (Note (a))	**1,208.5**	678.4	**–**	–
Equity securities (Note (b))	**2,232.7**	2,317.6	**87.9**	104.6
	3,441.2	2,996.0	**87.9**	104.6
Market value of listed investments	**2,838.8**	2,472.5	**87.9**	104.6

24 Available-for-sale financial assets (Continued)

	Group 2010 HK$'M	Group 2009 HK$'M	Company 2010 HK$'M	Company 2009 HK$'M
Notes				
(a) Debt securities				
Listed – Hong Kong	**104.7**	–	**–**	–
Listed – overseas	**1,029.9**	658.4	**–**	–
Unlisted	**73.9**	20.0	**–**	–
	1,208.5	678.4	**–**	–
(b) Equity securities				
Listed – Hong Kong	**1,461.8**	1,210.5	**50.6**	58.6
Listed – overseas	**242.4**	603.6	**37.3**	46.0
Unlisted (Note (c))	**528.5**	503.5	**–**	–
	2,232.7	2,317.6	**87.9**	104.6

(c) The unlisted equity securities 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 2010, the fair values of debt and equity securities assets reclassified during 2008 are HK$173.7 million (2009: HK$389.5 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$14.4 million (2009: increased by HK$165.1 million).

(e) Available-for-sale financial assets denominated in HKD, USD, RMB, EUR, GBP, CHF, JPY and AUD amount to HK$1,461.8 million (2009: HK$1,210.4 million), HK$1,326.4 million (2009: HK$1,008.4 million), HK$580.1 million (2009: HK$503.5 million), HK$8.3 million (2009: HK$138.5 million), HK$29.7 million (2009: HK$82.2 million), nil (2009: HK$21.2 million), HK$18.8 million (2009: HK$17.3 million) and HK$16.1 million (2009: HK$14.5 million) respectively.

25 Retirement benefit assets

	Group and Company	
	2010	2009
	HK$'M	HK$'M
At 31st December	**68.3**	59.3

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 in the balance sheet and the history of experience adjustments are shown as follows:

	Group and Company				
	2010	2009	2008	2007	2006
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Fair value of plan assets	**484.3**	434.9	325.1	512.9	376.8
Present value of funded obligations	**(331.6)**	(332.4)	(394.5)	(260.6)	(272.0)
Present value of overfunded/ (underfunded) obligations	**152.7**	102.5	(69.4)	252.3	104.8
Unrecognised actuarial (gains)/losses	**(84.4)**	(43.2)	134.1	(210.1)	(687.0)
Assets/(liabilities) in the balance sheet	**68.3**	59.3	64.7	42.2	(582.2)
Experience adjustments arising on plan liabilities – (losses)/gains	**(4.6)**	9.9	(6.9)	3.2	5.5
Experience adjustments arising on plan assets – gains/(losses)	**22.6**	94.5	(215.4)	116.4	119.3

The plan assets did not include any ordinary shares of the Company as at 31st December 2010 (2009: nil).

The amounts recognised in the income statement are as follows:

	Group and Company	
	2010	2009
	HK$'M	HK$'M
Current service cost	**13.0**	16.2
Interest cost	**8.0**	4.8
Expected return on plan assets	**(25.5)**	(16.5)
Net actuarial (gains)/losses recognised for the year	**(0.1)**	5.4
Total (Note 11)	**(4.6)**	9.9

25 Retirement benefit assets (Continued)

The movement in the defined benefit obligation is as follows:

	Group and Company	
	2010 HK$'M	2009 HK$'M
At 1st January	**332.4**	394.5
Current service cost	**13.0**	16.2
Interest cost	**7.9**	4.8
Benefits paid	**(3.1)**	(5.7)
Actuarial gains	**(18.6)**	(77.4)
At 31st December	**331.6**	332.4

The movement in the fair value of plan assets is as follows:

	Group and Company	
	2010 HK$'M	2009 HK$'M
At 1st January	**434.9**	325.1
Expected return on plan assets	**25.5**	16.5
Actuarial gains	**22.6**	94.5
Contribution paid	**4.4**	4.5
Benefits paid	**(3.1)**	(5.7)
At 31st December	**484.3**	434.9

The movement in the asset recognised in the balance sheet:

	Group and Company	
	2010 HK$'M	2009 HK$'M
At 1st January	**59.3**	64.7
Total income/(expense) (Note 11)	**4.6**	(9.9)
Contribution paid	**4.4**	4.5
At 31st December	**68.3**	59.3

The actual returns on plan assets were HK$48.1 million (2009: HK$111.1 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	
	2010 %	2009 %
Equity securities	**66.0**	66.0
Debt securities	**26.0**	28.0
Cash	**8.0**	6.0

The principal actuarial assumptions used are as follows:

	Group and Company	
	2010 %	2009 %
Discount rate	**3.0**	2.5
Expected rate of return on plan assets	**6.0**	6.0
Expected rate of future salary increases	**3.5**	3.5

Expected contributions to the scheme for the year ending 31st December 2011 are HK$4.4 million.

26 Other non-current assets

	Group	
	2010 HK$'M	2009 HK$'M
Second mortgage loans receivable (Note (a))	**43.5**	96.9
Deferred consideration receivable (Note (b))	**242.3**	283.3
Aviation fuel facility construction receivable (Note (c))	**1,983.0**	–
Other receivable (Note (d))	**103.0**	96.8
	2,371.8	477.0

(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)

(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:

	2010 HK$'M	2009 HK$'M
Non-current assets	**242.3**	283.3
Current assets (included under trade and other receivables)	**39.5**	39.3
	281.8	322.6

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 deominated in Hong Kong dollars, unsecured and will be recovered by monthly instalments up to 2047.

(d) Balance represents a loan to joint venture partner of Jilin Province Natural Gas Exploitation Company Limited, 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 Exploitation Company Limited, 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 discount is not significant.

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

27 Inventories

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Stores and materials	**882.6**	722.3	**566.5**	458.1
Work in progress	**420.7**	1,865.7	**410.4**	379.9
	1,303.3	2,588.0	**976.9**	838.0

The Group wrote inventories down by HK$3.0 million (2009: wrote down by HK$2.6 million) to net realisable value during the year.

28 Trade and other receivables

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Trade receivables (Note (a))	**1,839.3**	1,646.4	**1,278.6**	1,223.4
Instalment receivables (Note (b))	**6.9**	57.4	**–**	–
Payments in advance (Note (c))	**601.9**	627.6	**13.4**	17.4
Other receivables	**864.4**	833.3	**127.2**	141.8
	3,312.5	3,164.7	**1,419.2**	1,382.6

Trade and other receivables of the Group denominated in HKD, USD and RMB amount to HK$1,597.9 million (2009: HK$1,628.9 million), HK$44.4 million (2009: HK$112.1 million) and HK$1,664.5 million (2009: HK$1,385.1 million) respectively. Remaining balances are denominated in other currencies.

Trade and other receivables of the Company denominated in HKD and USD amount to HK$1,417.2 million (2009: HK$1,374.2 million) and HK$0.9 million (2009: HK$7.5 million) respectively. Remaining balances are denominated in other currencies.

Notes

(a) The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges 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 2010, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
0 - 30 days	**1,604.1**	1,404.6	**1,136.8**	1,066.4
31 - 60 days	**48.7**	38.5	**29.8**	24.9
61 - 90 days	**19.0**	26.3	**11.4**	22.3
Over 90 days	**167.5**	177.0	**100.6**	109.8
	1,839.3	1,646.4	**1,278.6**	1,223.4

(i) At 31st December 2010, trade receivables of the Group and the Company that were neither past due nor impaired amount to HK$1,440.9 million (2009: HK$1,256.3 million) and HK$1,046.2 million (2009: HK$1,000.6 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	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
0 – 30 days	**163.2**	148.3	**90.5**	65.8
31 – 60 days	**48.7**	38.5	**29.9**	24.9
61 – 90 days	**19.0**	26.3	**11.4**	22.3
Over 90 days	**167.5**	177.0	**100.6**	109.8
	398.4	390.1	**232.4**	222.8

(iii) As at 31st December 2010, trade receivables of the Group and the Company amounting to HK$47.9 million (2009: HK$56.1 million) and HK$41.1 million (2009: HK$42.3 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	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
At 1st January	**56.1**	55.6	**42.3**	41.9
Impairment loss recognised	**10.5**	20.2	**10.2**	19.6
Uncollectible amounts written off	**(19.2)**	(19.7)	**(11.4)**	(19.2)
Exchange differences	**0.5**	–	**–**	–
At 31st December	**47.9**	56.1	**41.1**	42.3

(b) This represents the instalment receivables for the sale of residential units of Grand Waterfront. The balances are denominated in HKD, interest free and repayable in accordance with the terms of the contracts. As at 31st December 2010, no balances were past due (2009: HK$19.1 million). The management had critically assessed the impairment of the balances and no provision for impairment was made (2009: nil). Before full settlement of the balances, the legal titles of the units are retained by the Group.

(c) 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 2010, the directors of the Company reviewed the composition of the balance and considered the amount recoverable.

29 Financial assets at fair value through profit or loss

	Group		Company	
	2010	2009	**2010**	2009
	HK$'M	HK$'M	**HK$'M**	HK$'M
Debt securities (Note (a))	**374.1**	257.2	**–**	–
Equity securities (Note (b))	**145.0**	137.0	**3.5**	2.7
Derivative instruments	**9.6**	11.0	**0.9**	–
	528.7	405.2	**4.4**	2.7
Market value of listed investments	**226.2**	214.8	**3.5**	2.7
Notes				
(a) Debt securities				
Listed – Hong Kong	**81.2**	77.8	**–**	–
Unlisted	**292.9**	179.4	**–**	–
	374.1	257.2	**–**	–
(b) Equity securities				
Listed – Hong Kong	**41.6**	33.6	**–**	–
Listed – overseas	**103.4**	103.4	**3.5**	2.7
	145.0	137.0	**3.5**	2.7

No equity linked investments included in unlisted debt securities this year (2009: HK$135.3 million), whose fair values are determined by valuation technique taking into account market interest rate and share price of underlying equity securities.

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'M	HK$'M	**HK$'M**	HK$'M
USD	**368.1**	111.5	**0.9**	–
GBP	**18.5**	14.4	**3.5**	2.7
HKD	**132.4**	135.0	**–**	–
RMB	**9.7**	9.1	**–**	–
AUD	**–**	111.2	**–**	–
NZD	**–**	24.0	**–**	–
	528.7	405.2	**4.4**	2.7

30 Time deposits, cash and bank balances

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Time deposits over three months	**1,642.0**	351.9	**–**	–
Time deposits up to three months	**5,567.2**	8,810.2	**1,590.1**	627.6
Cash and bank balances	**4,129.1**	4,007.2	**241.6**	605.5
	9,696.3	12,817.4	**1,831.7**	1,233.1

The effective interest rates on time deposits in Hong Kong and mainland China are 1.39 per cent and 1.38 per cent per annum respectively (2009: 0.20 per cent and 1.22 per cent per annum). These deposits have an average maturity within 60 days (2009: 60 days).

Time deposits, cash and bank balances of the Group denominated in HKD, USD and RMB amount to HK$2,884.4 million (2009: HK$5,984.9 million), HK$4,962.5 million (2009: HK$4,702.1 million) and HK$3,439.1 million (2009: HK$2,359.1 million) respectively. Remaining balances are denominated in other currencies.

Time deposits, cash and bank balances of the Company denominated in HKD, USD and RMB amount to HK$1,748.9 million (2009: HK$424.5 million), HK$22.6 million (2009: HK$776.2 million) and HK$56.6 million (2009: nil) respectively. Remaining balances are denominated in other currencies.

31 Trade and other payables

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
Trade payables (Note (a))	**1,271.5**	1,171.7	**153.8**	182.0
Other payables and accruals (Note (b))	**4,530.1**	4,019.0	**573.2**	484.8
	5,801.6	5,190.7	**727.0**	666.8

Notes

(a) At 31st December 2010, the aging analysis of the trade payables is as follows:

	Group		Company	
	2010 HK$'M	2009 HK$'M	2010 HK$'M	2009 HK$'M
0 - 30 days	**733.5**	581.4	**151.9**	177.0
31 - 60 days	**151.4**	63.6	**1.9**	4.9
61 - 90 days	**91.6**	40.4	**–**	0.1
Over 90 days	**295.0**	486.3	**–**	–
	1,271.5	1,171.7	**153.8**	182.0

31 Trade and other payables (Continued)

Notes (Continued)

(b) The balance includes an amount of approximately HK$37.2 million (2009: HK$60.7 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 work and accrual for services or goods received from suppliers.

(c) Trade and other payables of the Group denominated in HKD, USD and RMB amount to HK$942.7 million (2009: HK$974.7 million), HK$225.8 million (2009: HK$235.7 million) and HK$4,598.6 million (2009: HK$3,939.8 million) respectively. Remaining balances are denominated in other currencies.

Trade and other payables of the Company denominated in HKD and USD amount to HK$465.6 million (2009: HK$386.5 million) and HK$218.5 million (2009: HK$227.5 million) respectively. Remaining balances are denominated in other currencies.

32 Borrowings

	Group		Company	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Non-current				
Bank and other loans	**1,140.8**	4,226.1	**600.0**	500.0
Guaranteed notes (Note (a))	**10,604.9**	11,445.9	**–**	–
	11,745.7	15,672.0	**600.0**	500.0
Current				
Bank and other loans	**8,867.9**	4,747.6	**200.0**	1,200.0
Guaranteed notes (Note (a))	**1,114.5**	–	**–**	–
	9,982.4	4,747.6	**200.0**	1,200.0
Total borrowings	**21,728.1**	20,419.6	**800.0**	1,700.0

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. The market value of the notes as at 31st December 2010 was HK$8,789.9 million (2009: HK$8,266.7 million).

(ii) The HK$3,010,000,000 guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company between 2nd June 2009 and 12th January 2010. The notes are unsecured and guaranteed by the Company as to repayment, carry fixed coupon rates ranging from 3.90 per cent to 5.00 per cent per annum payable quarterly or annually in arrear and have maturity terms between 10 and 40 years.

32 Borrowings (Continued)

Notes (Continued)

(a) (iii) The US$200,000,000 8.25 per cent guaranteed senior notes were issued by Towngas China on 23rd September 2004. The notes are listed on the Singapore Exchange Securities Trading Limited and secured by a pledge of shares of certain subsidiaries of Towngas China. The notes bear interest at 8.25 per cent per annum, payable semi-annually in arrears. The outstanding principal amount of the notes will be repaid in 2011 at 100 per cent. At 31st December 2010, notes with a principal amount of US$141,000,000 (2009: US$141,000,000) are still outstanding in the market and the market value of the notes was HK$1,142.6 million (2009: HK$1,188.4 million).

(b) The maturity of borrowings is as follows:

	Group				Company	
	Bank and other loans		Guarantee notes		Bank loans	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Within 1 year	**8,867.9**	4,747.6	**1,114.5**	–	**200.0**	1,200.0
Between 1 and 2 years	**20.8**	3,526.2	**–**	1,109.7	**–**	200.0
Between 2 and 5 years	**1,071.2**	638.2	**–**	–	**600.0**	300.0
Wholly repayable within 5 years	**9,959.9**	8,912.0	**1,114.5**	1,109.7	**800.0**	1,700.0
Over 5 years	**48.8**	61.7	**10,604.9**	10,336.2	**–**	–

(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					
	2010			2009		
	HKD	**USD**	**RMB**	HKD	USD	RMB
Bank and other loans	**0.7%**	**N/A**	**4.6%**	0.4%	N/A	4.5%
Guaranteed notes	**5.1%**	**8.7%**	**N/A**	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 discount is not significant.

32 Borrowings (Continued)

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

	Group		Company	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
HKD	**8,406.0**	8,387.3	**800.0**	1,700.0
RMB	**4,514.3**	3,259.7	**–**	–
USD	**8,768.6**	8,736.4	**–**	–
Others	**39.2**	36.2	**–**	–
	21,728.1	20,419.6	**800.0**	1,700.0

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 movement in the deferred taxation is as follows:

	Group		Company	
	2010 HK$'M	Restated 2009 HK$'M	**2010 HK$'M**	2009 HK$'M
At 1st January	**1,836.8**	1,216.1	**1,056.3**	1,030.2
Charged to income statement	**149.0**	143.4	**18.6**	26.1
Acquisition of subsidiaries (Note 44(a))	**2.7**	390.7	**–**	–
Consolidation of a subsidiary	**–**	86.5	**–**	–
Exchange differences	**29.0**	0.1	**–**	–
At 31st December	**2,017.5**	1,836.8	**1,074.9**	1,056.3

34 Deferred taxation (Continued)

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

Group

Deferred tax liabilities	Accelerated tax depreciation 2010 HK$'M	Accelerated tax depreciation 2009 HK$'M	Revaluation surplus of investment property 2010 HK$'M	Revaluation surplus of investment property Restated 2009 HK$'M	Revaluation surplus of mining rights 2010 HK$'M	Revaluation surplus of mining rights 2009 HK$'M	Others 2010 HK$'M	Others 2009 HK$'M	Total 2010 HK$'M	Total Restated 2009 HK$'M
At 1st January	**1,315.0**	1,219.8	**–**	–	**347.7**	–	**193.5**	35.1	**1,856.2**	1,254.9
Charged to income statement	**78.0**	70.7	**–**	–	**–**	–	**73.7**	53.3	**151.7**	124.0
Acquisition of subsidiaries	**2.7**	–	**–**	–	**–**	347.7	**–**	43.0	**2.7**	390.7
Consolidation of a subsidiary	**–**	24.5	**–**	–	**–**	–	**–**	62.0	**–**	86.5
Exchange differences	**9.5**	–	**–**	–	**13.3**	–	**6.2**	0.1	**29.0**	0.1
At 31st December	**1,405.2**	1,315.0	**–**	–	**361.0**	347.7	**273.4**	193.5	**2,039.6**	1,856.2

Deferred tax assets	Provisions 2010 HK$'M	Provisions 2009 HK$'M	Tax losses 2010 HK$'M	Tax losses 2009 HK$'M	Total 2010 HK$'M	Total Reststed 2009 HK$'M
At 1st January	**(8.3)**	(10.2)	**(11.1)**	(28.6)	**(19.4)**	(38.8)
Charged/(credited) to income statement	**–**	1.9	**(2.7)**	17.5	**(2.7)**	19.4
At 31st December	**(8.3)**	(8.3)	**(13.8)**	(11.1)	**(22.1)**	(19.4)
Net deferred tax liabilities at 31st December					**2,017.5**	1,836.8

34 Deferred taxation (Continued)

Company

Deferred tax liabilities	Accelerated tax depreciation 2010 HK$'M	Accelerated tax depreciation 2009 HK$'M
At 1st January	**1,064.5**	1,038.4
Charged to income statement	**18.6**	26.1
At 31st December	**1,083.1**	1,064.5

Deferred tax assets	Provisions 2010 HK$'M	Provisions 2009 HK$'M
At 1st January and 31st December	**(8.2)**	(8.2)
Net deferred tax liabilities at 31st December	**1,074.9**	1,056.3

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$104.9 million (2009: HK$85.7 million) in respect of losses amounting to HK$512.3 million (2009: HK$432.8 million) that can be carried forward against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$239.2 million (2009: HK$167.8 million) which will expire at various dates up to and including 2015 (2009: 2014).

35 Derivative financial instruments

	Group 2010 HK$'M	Group 2009 HK$'M
Cross currency swaps contracts - cash flow hedges	**351.8**	186.4

The full fair value of a hedging derivative is classified as non-current assets 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$2.5 million (2009: gain of HK$5.5 million) (Note 7).

The notional principal amounts of the outstanding cross currency swaps contracts at 31st December 2010 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.

Gains and losses recognised in the hedging reserve in equity (Note 38) on cross currency swap contracts as of 31st December 2010 will be continuously released to the income statement until the repayment of the guaranteed notes (Note 32).

36 Share capital

	Group and Company Ordinary shares of HK$0.25 each			
	Number of shares		Nominal Value	
	2010	2009	**2010 HK$'M**	2009 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	**6,529,383,584**	6,665,599,584	**1,632.3**	1,666.4
Share repurchased	**–**	(136,216,000)	**–**	(34.1)
Bonus issue	**652,938,358**	–	**163.3**	–
At 31st December	**7,182,321,942**	6,529,383,584	**1,795.6**	1,632.3

By an ordinary resolution passed on 28th May 2010, the issued share capital was increased by way of a bonus issue by applying HK$163.3 million charging to the share premium account in payment in full at par of 652,938,358 shares of HK$0.25 each on the basis of one new share for every ten shares held on 20th May 2010. These shares rank pari passu with the existing shares.

37 Share premium

	Group and Company	
	2010 HK$'M	2009 HK$'M
At 1st January	**3,618.6**	3,618.6
Less: Bonus issue	**(163.3)**	–
At 31st December	**3,455.3**	3,618.6

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 2010, as previously reported	513.6	223.8	199.7	155.5	–	1,497.6	23,502.9	26,093.1
Effect of adoption of HKAS 12 (amendment)	–	–	–	–	–	–	1,019.2	1,019.2
At 1st January 2010, as restated	513.6	223.8	199.7	155.5	–	1,497.6	24,522.1	27,112.3
Profit for the year	–	–	–	–	–	–	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 for the year	–	–	–	–	–	–	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

38 Reserves (Continued)

	Investment revaluation reserve HK$'M	General reserve HK$'M	Capital redemption reserve HK$'M	Hedging reserve HK$'M	Capital reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group								
At 1st January 2009, as previously reported	(316.6)	3,320.0	189.7	(287.2)	155.5	1,493.8	19,278.3	23,833.5
Effect of adoption of HKAS 12 (amendment)	–	–	–	–	–	–	919.1	919.1
	(316.6)	3,320.0	189.7	(287.2`)	155.5	1,493.8	20,197.4	24,752.6
Profit for the year	–	–	–	–	–	–	5,275.1	5,275.1
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	830.2	–	–	–	–	–	–	830.2
Change in fair value of cash flow hedges	–	–	–	486.9	–	–	–	486.9
Exchange differences	–	–	–	–	–	3.8	–	3.8
Total comprehensive income for the year	830.2	–	–	486.9	–	3.8	5,275.1	6,596.0
2008 final dividend proposed	–	–	–	–	–	–	1,533.1	1,533.1
2008 final dividend paid	–	–	–	–	–	–	(1,519.2)	(1,519.2)
2009 interim dividend paid	–	–	–	–	–	–	(783.5)	(783.5)
Share repurchased	–	–	34.1	–	–	–	(1,999.0)	(1,964.9)
Transfer from general reserve	–	(3,320.0)	–	–	–	–	3,320.0	–
At 31st December 2009	513.6	–	223.8	199.7	155.5	1,497.6	26,023.9	28,614.1
Company and subsidiaries	513.6	–	223.8	199.7	13.7	495.2	14,539.8	15,985.8
Associated companies	–	–	–	–	–	295.9	6,944.7	7,240.6
Jointly controlled entities	–	–	–	–	141.8	706.5	4,539.4	5,387.7
	513.6	–	223.8	199.7	155.5	1,497.6	26,023.9	28,614.1
Balance after 2009 final dividend proposed	513.6	–	223.8	199.7	155.5	1,497.6	24,522.1	27,112.3
2009 final dividend proposed	–	–	–	–	–	–	1,501.8	1,501.8
	513.6	–	223.8	199.7	155.5	1,497.6	26,023.9	28,614.1
Company								
At 1st January 2009	(62.2)	3,320.0	189.7	–	–	–	1,486.9	4,934.4
Profit for the year	–	–	–	–	–	–	2,610.1	2,610.1
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	77.2	–	–	–	–	–	–	77.2
Total comprehensive income for the year	77.2	–	–	–	–	–	2,610.1	2,687.3
2008 final dividend proposed	–	–	–	–	–	–	1,533.1	1,533.1
2008 final dividend paid	–	–	–	–	–	–	(1,519.2)	(1,519.2)
2009 interim dividend paid	–	–	–	–	–	–	(783.5)	(783.5)
Share repurchased	–	–	34.1	–	–	–	(1,999.0)	(1,964.9)
Transfer from general reserve	–	(3,320.0)	–	–	–	–	3,320.0	–
At 31st December 2009	15.0	–	223.8	–	–	–	4,648.4	4,887.2
Balance after 2009 final dividend proposed	15.0	–	223.8	–	–	–	3,146.6	3,385.4
2009 final dividend proposed	–	–	–	–	–	–	1,501.8	1,501.8
	15.0	–	223.8	–	–	–	4,648.4	4,887.2

38 Reserves (Continued)

The general reserve in 2009 represented unappropriated profits set aside by and at the discretion of the Board of Directors. It is applicable for any purpose to which the profits of the Company may properly be applied, for employment in the business of the Company or for investments as the Board of Directors from time to time thinks fit.

39 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2010.

40 Commitments

(a) Capital expenditures for property, plant and equipment

	Group		Company	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Authorised but not brought into the accounts at 31st December	**1,910.1**	2,382.8	**594.4**	691.2
Of which, contracts had been entered into at 31st December	**1,884.6**	2,252.0	**594.4**	691.2

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

	Group	
	2010 HK$'M	2009 HK$'M
Authorised but not brought into the accounts at 31st December	**2,626.0**	2,098.1
Of which, contracts had been entered into at 31st December	**1,381.4**	1,199.1

(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 2010, the Group's commitments to these projects were approximately HK$739.1 million (2009: HK$851.9 million).

40 Commitments (Continued)

(d) Lease commitments

Lessee

At 31st December 2010, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

	Group		Company	
	2010 HK$'M	2009 HK$'M	**2010 HK$'M**	2009 HK$'M
Not later than 1 year	**53.2**	53.8	**16.6**	15.2
Later than 1 year and not later than 5 years	**89.3**	88.3	**41.7**	38.6
Later than 5 years	**224.1**	230.9	**151.9**	161.2
	366.6	373.0	**210.2**	215.0

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 2010, future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2010 HK$'M	2009 HK$'M
Not later than 1 year	**14.0**	12.1
Later than 1 year and not later than 5 years	**12.2**	16.7
	26.2	28.8

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	
	2010 HK$'M	2009 HK$'M
Associated companies		
Sale of goods and services (Note (i))	**4.7**	1.7
Loan interest income (Note (ii))	**3.0**	18.3
Jointly controlled entities		
Sale of goods and services (Note (i))	**54.1**	42.3
Loan interest income (Note (ii))	**18.2**	12.8
Other related parties		
Sale of goods and services (Note (i))	**11.5**	23.0
Interest income from bank deposits (Note (i))	**11.7**	18.8

(b) Interest expense and purchase of goods and services

	Group	
	2010 HK$'M	2009 HK$'M
Associated companies		
Purchase of goods and services (Note (i))	**51.1**	7.2
Jointly controlled entities		
Purchase of goods and services (Note (i))	**16.5**	15.2
Other related parties		
Purchase of goods and services (Note (i))	**14.8**	16.3
Interest expense on bank loans (Note (i))	**59.9**	42.5

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.

41 Related party transactions (Continued)

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

	Group 2010 HK$'M	Group 2009 HK$'M
Loans and interest receivables from:		
Associated companies	**117.9**	88.8
Jointly controlled entities	**1,139.0**	908.9
Time deposits and interest receivable from:		
Other related parties	**1,322.8**	5,439.4
Bank loans and interest payable to:		
Other related parties	**1,717.7**	1,815.7
Trade receivables from:		
Associated companies	**2.5**	2.3
Jointly controlled entities	**8.4**	11.5
Other related parties	**3.2**	6.6
Trade payables to:		
Associated companies	**3.7**	0.8
Jointly controlled entities	**1.3**	1.2
Other related parties	**0.9**	0.4

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

42 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash from operating activities

	Group 2010 HK$'M	Group Restated 2009 HK$'M
Profit before taxation	**7,086.7**	6,159.9
Share of profits less losses of associated companies	**(1,528.1)**	(1,268.1)
Share of profits less losses of jointly controlled entities	**(889.5)**	(771.0)
Gain on acquisition of a subsidiary	**–**	(259.9)
Gain on deconsolidation of a subsidiary	**(42.0)**	–
Gain on deemed disposal of interests in associated company	**–**	(194.9)
Fair value loss on investment property	**–**	22.0
Provision for investment in a jointly-controlled entity	**23.6**	50.1
Ineffective portion on cash flow hedges	**(2.5)**	(5.5)
Interest income	**(398.8)**	(218.9)
Interest expense	**711.2**	567.8
Dividend income from investments in securities	**(175.5)**	(97.1)
Depreciation and amortisation	**1,152.0**	836.3
Loss on disposal/write off of property, plant and equipment	**50.3**	89.9
(Gain)/loss on disposal of leasehold land	**(0.7)**	2.1
(Gain)/loss on disposal of available-for-sale financial assets	**(169.2)**	88.5
Net realised and unrealised losses/(gains) on investments in financial assets at fair value through profit or loss	**29.8**	(326.5)
Tax paid	**(720.4)**	(624.3)
Exchange differences	**12.2**	6.7
Changes in working capital		
Increase in customers' deposits	**19.5**	40.1
Decrease in completed property for sale	**29.0**	81.1
Decrease/(increase) in inventories	**1,306.5**	(678.6)
Increase in trade and other receivables	**(1,969.1)**	(244.1)
Decrease in housing loans to staff	**7.5**	11.8
Increase in trade and other payables	**710.7**	702.6
(Increase)/decrease in retirement benefit assets	**(9.0)**	5.4
Net cash from operating activities	**5,234.2**	3,975.4

42 Notes to consolidated cash flow statement (Continued)

(b) Deconsolidation of a subsidiary

On 31st December 2010, the group disposed 1 per cent of Zhangjiagang Hong Kong and China Gas Company Limited ("Zhangjiagang") for cash consideration of HK$1.5 million. Since the Group's interest in Zhangjiagang reduced to 50 per cent and lost control on Zhangjiagang, relevant assets and liabilities are deconsolidated from the Group's financial statements.

The assets and liabilities deconsolidated are as follows:

	HK$'M
Property, plant and equipment (Note 17)	**381.9**
Leasehold land (Note 19)	**3.4**
Inventories	**9.4**
Trade and other receivables	**95.2**
Cash and bank balances	**81.1**
Trade and other payables	**(171.1)**
Borrowings	**(147.4)**
Provision for taxation	**(2.6)**
Net assets	**249.9**
Non-controlling interests	**(120.9)**
	129.0
Interest retained by the Group as a jointly controlled entity	**(169.5)**
Gain on deconsolidation	**42.0**
Consideration	**1.5**

Analysis of net cash outflow of cash and cash equivalents in respect of deconsolidation of a subsidiary:

	HK$'M
Cash consideration	**1.5**
Cash and cash equivalent disposed	**(81.1)**
	(79.6)

(c) Major non-cash transaction / further acquisition of a subsidiary

On 31st December 2009, the Group obtained effective control over the majority of the board of directors of Towngas China, which was then accounted for and consolidated into the consolidated accounts of the Company as a subsidiary.

On 15th July 2010, the Group's interest in Towngas China, increased from 45.5 per cent to 56.3 per cent upon the completion of the disposal of six piped gas projects from a wholly-owned subsidiary of the Group to Towngas China and settled through the issuance of new ordinary shares of Towngas China. On 13th November 2010, the Group's interest in Towngas China further increased to 66.5 per cent following a placement of shares at a cash consideration of HK$908.4 million.

43 Share option schemes

Pursuant to share option scheme (the "Share Option Scheme") adopted by shareholders of Towngas China on 4th April 2001, 24th 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 2010, total number of share options outstanding and exercisable are 27,798,300 and 27,798,300 respectively. The weighted average exercise price for the outstanding and exercisable options are HK$3.7 and HK$3.6 respectively. Had all the outstanding vested share options been exercised on 31st December 2010, the Group would have received cash proceeds of approximately HK$95.5 million.

44 Business combinations

(a) On 1st July 2010 and 9th September 2010, the Group acquired 95 per cent and 60 per cent of Guilin Hong Kong and China Gas Co., Ltd. ("Guilin") and Jiujiang Hong Kong and China Gas Co., Ltd. ("Jiujiang") for cash consideration of approximately HK$58.9 million and HK$73.0 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:

	Guilin HK$'M	Jiujiang HK$'M	Total HK$'M
Purchase consideration	58.9	73.0	131.9
Fair value of net identifiable assets acquired (see below)	(19.5)	(6.9)	(26.4)
Goodwill (Note 20)	39.4	66.1	105.5

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

44 Business combinations (Continued)

(a) (Continued)

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

	Acquirees' carrying amount HK$'M	Acquirees' fair value amount HK$'M
Property, plant and equipment	2.6	12.3
Prepaid lease payments	3.5	4.5
Inventories	0.9	1.0
Trade receivables	1.3	1.3
Other receivables, deposits and prepayments	19.5	19.5
Bank balances and cash	4.7	4.7
Trade payables	(1.3)	(1.3)
Other payables and accrued charges	(3.4)	(3.4)
Taxation payable	(1.0)	(1.0)
Borrowings	(2.9)	(2.9)
Deferred taxation	–	(2.7)
Net assets	23.9	32.0
Non-controlling interests	(5.6)	(5.6)
Net identifiable assets acquired	18.3	26.4

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	120.4
Cash and cash equivalents in subsidiaries acquired	(4.7)
Cash outflow on acquisition of subsidiaries	115.7

As at 31st December 2010, purchase consideration of HK$11.5 million for Guilin remained unpaid and included in trade and other payables.

(b) Apart from the above, there were no other material acquisitions during the year ended 31st December 2010.

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2010:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
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 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

Direct subsidiaries of the Company

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2010:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
Hong Kong & China Gas (Jilin Province) Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
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
Hong Kong and China Gas (Xinmi) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2010:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of Incorporation/ operation	Principal activity
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
Monarch Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ 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	2,448,787,330 shares of HK$0.1 each	66.5	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

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2010:

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
[1] 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

1 Newly formed during the year

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 2010:

	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
1	Chiping ECO Yi Yun Gas Co. Ltd.	RMB15.0 million	70	PRC	Vehicular fuel refilling station
1†	Dandong YiYuan Trade Co., Ltd.	US$20.0 million	100	PRC	Sale of machineries and accessories for coal mining
	Danyang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses
1	Dong Ping ECO Energy Co. Ltd.	RMB14.0 million	91	PRC	Vehicular fuel refilling station
1†	ECO Environmental Resources Investments Limited	US$100.0 million	100	PRC	Chinese holding company
1†	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$30.0 million	100	PRC	Investment holding
	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
1	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 business

1 Newly formed 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 2010:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
1† Qinhuangdao YiTeng Trade Co. Ltd.	US$1.5 million	100	PRC	Sale of machineries and accessories for coal mining
1 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	Gas sales and related businesses
# 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
1 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	58.8	PRC	Data outsourcing project
Towngas Telecom (Shandong) Company Limited (Formerly known as Towngas TelChina (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	RMB560.0 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 business
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

Direct subsidiaries of the Company
1 Newly formed 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 2010:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activity
江西港華天然氣有限公司	RMB25.9 million	56	PRC	Gas sales and related businesses
渾源縣油頁岩開發利用有限責任公司	RMB30.0 million	80	PRC	Oil shale project
† 豐縣港華燃氣有限公司	US$4.5 million	100	PRC	Gas sales and related businesses
Held by Towngas China				
1† Anshan Hong Kong and China Gas Company Limited	US$15.0 million	100	PRC	Gas sales and related businesses
Benxi Hong Kong and China Gas Company Limited	RMB280.0 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	RMB89.2 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
1† 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
2 Guilin Hong Kong and China Gas Company Limited	RMB10.0 million	95	PRC	Gas sales and related businesses
† Huangshan Hong Kong and China Gas Co., Ltd.	US$3.5 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

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 2010:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activities
Held by Towngas China (Continued)				
† 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
2 Jiujiang Hong Kong and China Gas Co., Ltd.	RMB10.0 million	60	PRC	Gas sales and related businesses
1† Kazuo Hong Kong and China Gas Co., Ltd.	US$6.4 million	100	PRC	Gas sales and related businesses
1† 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
† Mianyang Hong Kong and China Gas Company Limited	RMB90.0 million	100	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	90	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
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

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 2010:

Name	Registered capital	Percentage of registered capital held	Place of Incorporation/ operation	Principal activities
Held by Towngas China (Continued)				
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	US$12.5 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
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
† 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	RMB12.5million	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

† 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

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
Email: invrelation@towngas.com

Corporate Communications Department
Tel: 2963 3493
Fax: 2516 7368
Email: ccd@towngas.com

Company Secretarial Department
Tel: 2963 3292
Fax: 2562 6682
Email: compsec@towngas.com

Financial Calendar

Half-Year Results	Announced on Tuesday, 24th August 2010
Full-Year Results	Announced on Tuesday, 15th March 2011
Annual Report	Posted to Shareholders on Tuesday, 26th April 2011
Register of Shareholders	To be closed on Wednesday, 25th May 2011 to Friday, 27th May 2011
Annual General Meeting	To be held on Friday, 3rd June 2011
Dividends – Interim	12 cents - Paid on Monday, 18th October 2010
– Final (Proposed)	23 cents - Payable on Tuesday, 7th June 2011
Bonus Issue of Shares (Proposed)	Share certificates to be posted to Shareholders on Tuesday, 7th June 2011

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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