# THE HONG KONG AND CHINA GAS COMPANY LIMITED

*(Incorporated in Hong Kong under the Companies Ordinance)*

(Stock Code: 3)

# PRELIMINARY ANNOUNCEMENT OF 2011 ANNUAL RESULTS

## CHAIRMAN'S STATEMENT

### THE YEAR'S RESULTS

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

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

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

### GAS BUSINESS IN HONG KONG

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

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

## BUSINESS DEVELOPMENT IN MAINLAND CHINA

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

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

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

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

## UTILITY BUSINESSES IN MAINLAND CHINA

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

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

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

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

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

## EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Coalbed Methane and Non-conventional Methane Utilisation Businesses

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been successfully operating in Hong Kong for several years. The North East New Territories landfill gas treatment facility contributes to improving air quality in Hong Kong, minimising the use of fossil fuels and reducing greenhouse gas emissions. Since 2008, ECO has been developing similar clean and environmentally-friendly energy projects on the mainland with an extended scope of application. A coalbed methane liquefaction facility located in Jincheng, Shanxi province was fully commissioned during the first quarter of 2011. The annual production capacity of the whole facility is 250 million standard cubic metres of liquefied coalbed methane supported by a secure upstream coalbed methane supply. The facility, which is operating well, has now become the largest liquefaction and utilisation project of its kind on the mainland.

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

Coal Resources and Coal Chemical Processing

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

Energy-related Logistics and Facilities Businesses

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

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

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

Development of New Energy Technologies

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

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

**TOWNGAS CHINA COMPANY LIMITED (STOCK CODE: 1083.HK)**

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

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

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

**DEVELOPMENT OF TOWN GAS NETWORK AND FACILITIES IN HONG KONG**

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

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

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

**PROPERTY DEVELOPMENTS**

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

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

## FINANCING PROGRAMMES

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

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

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

## COMPANY AWARDS

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

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

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

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

## HONG KONG EMPLOYEES AND PRODUCTIVITY

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

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

## BONUS ISSUE OF SHARES

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

## FINAL DIVIDEND AND SPECIAL DIVIDEND

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

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

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

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

**BUSINESS OUTLOOK FOR 2012**

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

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

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

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

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

**LEE Shau Kee**
*Chairman*
Hong Kong, 19th March 2012

The Board of Directors has pleasure in presenting a summary of results of the Group for the year ended 31st December 2011 with comparative figures for the previous corresponding year as follows:

**CONSOLIDATED INCOME STATEMENT**
**For the year ended 31st December 2011**

| | Note | **2011 HK$ Million** | 2010 HK$ Million |
|---|---|---|---|
| **Revenue** | **2** | **22,426.8** | 19,375.4 |
| **Total operating expenses** | **3** | **(16,752.2)** | (14,697.4) |
| | | **5,674.6** | 4,678.0 |
| **Other gains, net** | | **589.7** | 702.3 |
| **Interest expense** | | **(752.0)** | (711.2) |
| **Share of profits less losses of associated companies** | | **1,647.7** | 1,528.1 |
| **Share of profits less losses of jointly controlled entities** | | **908.7** | 889.5 |
| **Profit before taxation** | | **8,068.7** | 7,086.7 |
| **Taxation** | **4** | **(1,344.0)** | (1,038.8) |
| **Profit for the year** | | **6,724.7** | 6,047.9 |
| **Attributable to:** | | | |
| **Shareholders of the Company** | | **6,149.6** | 5,584.8 |
| **Non-controlling interests** | | **575.1** | 463.1 |
| | | **6,724.7** | 6,047.9 |
| **Dividends** | **5** | **4,147.8** | 2,513.8 |
| **Earnings per share – basic and diluted, HK cents** | **6** | **77.8** | 70.7 * |
| **Town gas sold in Hong Kong, million MJ** | | **28,147.1** | 27,577.8 |
| **Number of customers in Hong Kong as at 31st December** | | **1,750,553** | 1,724,316 |

* *Adjusted for the bonus issue in 2011*

## CONSOLIDATED BALANCE SHEET
## As at 31st December 2011

| | Note | At 31st December 2011 HK$ Million | At 31st December 2010 HK$ Million |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **32,255.1** | 26,890.1 |
| Investment property | | **518.0** | 501.0 |
| Leasehold land | | **1,351.2** | 935.7 |
| Intangible assets | | **3,434.8** | 2,575.6 |
| Associated companies | | **12,706.8** | 10,802.2 |
| Jointly controlled entities | | **8,964.7** | 7,768.8 |
| Available-for-sale financial assets | | **3,110.6** | 3,441.2 |
| Derivative financial instruments | | **452.3** | 351.8 |
| Retirement benefit assets | | **81.4** | 68.3 |
| Other non-current assets | | **2,258.9** | 2,371.8 |
| | | **65,133.8** | 55,706.5 |
| **Current assets** | | | |
| Inventories | | **1,622.4** | 1,303.3 |
| Trade and other receivables | 7 | **5,606.7** | 3,340.0 |
| Loan and other receivables from associated companies | | **73.3** | 70.7 |
| Loan and other receivables from jointly controlled entities | | **468.1** | 338.5 |
| Loan and other receivables from non-controlling shareholders | | **135.4** | 38.1 |
| Financial assets at fair value through profit or loss | | **313.3** | 528.7 |
| Time deposits over three months | | **493.7** | 1,642.0 |
| Time deposits up to three months, cash and bank balances | | **11,242.2** | 9,696.3 |
| | | **19,955.1** | 16,957.6 |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **(7,990.5)** | (5,801.6) |
| Amounts due to jointly controlled entities | | **(31.7)** | (5.0) |
| Loan and other payables to non-controlling shareholders | | **(282.4)** | (26.2) |
| Provision for taxation | | **(878.0)** | (708.2) |
| Borrowings | | **(4,220.8)** | (9,982.4) |
| | | **(13,403.4)** | (16,523.4) |
| **Net current assets** | | **6,551.7** | 434.2 |
| **Total assets less current liabilities** | | **71,685.5** | 56,140.7 |
| **Non-current liabilities** | | | |
| Customers' deposits | | **(1,165.7)** | (1,133.9) |
| Deferred taxation | | **(2,444.1)** | (2,017.5) |
| Borrowings | | **(21,628.4)** | (11,745.7) |
| Loans payable to non-controlling shareholders | | **-** | (35.0) |
| Derivative financial instruments | | **(115.1)** | - |
| | | **(25,353.3)** | (14,932.1) |
| **Net assets** | | **46,332.2** | 41,208.6 |
| **Capital and reserves** | | | |
| Share capital | | **1,975.1** | 1,795.6 |
| Share premium | | **3,275.8** | 3,455.3 |
| Reserves | | **33,133.5** | 30,561.3 |
| Proposed dividend | | **3,199.7** | 1,651.9 |
| Shareholders' funds | | **41,584.1** | 37,464.1 |
| **Non-controlling interests** | | **4,748.1** | 3,744.5 |
| **Total equity** | | **46,332.2** | 41,208.6 |

**Notes:**

## 1. Changes in accounting policies

The principal accounting policies applied in the preparation of the consolidated accounts have been consistently applied to the two years presented, unless otherwise stated.

The Group has applied the following new or revised standards, interpretations and amendments to Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January 2011. There is however no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

- HKAS 24 (revised) "Related Party Disclosures"
- HKAS 32 (amendment) "Classification of Rights Issues"
- HK(IFRIC) 14 "Prepayments of a Minimum Funding Requirement"
- HK(IFRIC) 19 "Extinguishing Financial Liabilities with Equity Instruments"
- HKICPA's Improvements to HKFRS 2010

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning 1st January 2011 and have not been early adopted by the Group.

## 2. 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. Revenue comprises turnover which includes the following:

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

2. **Segment information (Continued)**

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

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM is 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 deposit, cash and bank balances other than those included under segment assets for operation purposes, derivative financial instruments, retirement benefit assets, other non-current assets and loan and other receivables from non-controlling shareholders.

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

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

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

## 2. Segment information (Continued)

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

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

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

## 3. Total operating expenses

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

## 4. Taxation

| The amount of taxation charged to the consolidated income statement represents: | **2011 HK$ Million** | 2010 HK$ Million |
|---|---|---|
| Current taxation - provision for Hong Kong profits tax at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year | **606.3** | 621.0 |
| Current taxation - provision for PRC enterprise income tax at the prevailing rates on the estimated assessable profit for the year | **522.3** | 251.8 |
| Current taxation – (over)/under provision in prior years | **(14.5)** | 2.9 |
| Deferred taxation - origination and reversal of temporary differences | **103.6** | 76.2 |
| Withholding tax | **126.3** | 86.9 |
| | **1,344.0** | 1,038.8 |

## 5. Dividends

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

## 6. Earnings per share

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

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

* *Adjusted for the bonus issue in 2011*

## 7. Trade and other receivables

| | **2011** **HK$ Million** | 2010 HK$ Million |
|---|---|---|
| Trade receivables (Note) | **2,851.2** | 1,839.3 |
| Instalment receivables | **0.5** | 6.9 |
| Payment in advance | **1,482.4** | 601.9 |
| Other receivables | **1,272.6** | 891.9 |
| | **5,606.7** | 3,340.0 |

Note:

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 2011, the aging analysis of the trade receivables, net of impairment provision, is as follows:

| | **2011** **HK$ Million** | 2010 HK$ Million |
|---|---|---|
| 0 – 30 days | **2,599.5** | 1,604.1 |
| 31 – 60 days | **63.0** | 48.7 |
| 61 – 90 days | **27.6** | 19.0 |
| Over 90 days | **161.1** | 167.5 |
| | **2,851.2** | 1,839.3 |

## 8. Trade and other payables

| | **2011** **HK$ Million** | 2010 HK$ Million |
|---|---|---|
| Trade payables (Note a) | **1,736.7** | 1,271.5 |
| Other payables and accruals (Note b) | **6,253.8** | 4,530.1 |
| | **7,990.5** | 5,801.6 |

Notes:

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

| | **2011** **HK$ Million** | 2010 HK$ Million |
|---|---|---|
| 0 – 30 days | **863.5** | 733.5 |
| 31 – 60 days | **218.7** | 151.4 |
| 61 – 90 days | **146.8** | 91.6 |
| Over 90 days | **507.7** | 295.0 |
| | **1,736.7** | 1,271.5 |

(b) The balance includes an amount of approximately HK$45.7 million (2010: HK$37.2 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront.

## DIVIDENDS AND BONUS SHARE ISSUE

The Board now recommends a final dividend of HK 23 cents per share and a special dividend of HK 17.5 cents per share both payable to shareholders of the Company whose names are on the register of members of the Company on 13th June 2012. The Board also recommends the issue of bonus shares on the basis of one bonus share for every ten existing shares held by shareholders registered as such on the register of members on 13th June 2012. The necessary resolutions will be proposed at the forthcoming Annual General Meeting on 5th June 2012, and if passed, dividend warrants and share certificates will be posted on 21st June 2012.

## CLOSING OF REGISTER OF MEMBERS

**In order to determine entitlement of shareholders to the right to attend and vote at the forthcoming Annual General Meeting (or any adjournment thereof), the register of members of the Company will be closed from Friday, 1st June 2012 to Tuesday, 5th June 2012, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 31st May 2012.**

**In order to determine shareholders who qualify for the proposed issue of bonus shares, final dividend and special dividend, the register of members of the Company will be closed from Monday, 11th June 2012 to Wednesday, 13th June 2012, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration no later than 4:30 p.m. on Friday, 8th June 2012.**

### ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Tuesday, 5th June 2012. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Thursday, 26th April 2012.

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### FINANCIAL RESOURCES REVIEW

#### Liquidity and capital resources

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

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

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

**Borrowing structure**

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

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

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

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

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

**Contingent liabilities**

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

**Currency profile**

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

**Group's investments in securities**

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

## CORPORATE GOVERNANCE

During the year ended 31st December 2011, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The audit committee has reviewed the Group's consolidated accounts for the year ended 31st December 2011, including the accounting principles and practices adopted by the Group, in conjunction with PricewaterhouseCoopers, the Group's external auditor and internal auditor.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

**By Order of the Board**
**JOHN H.M. HO**
**Chief Financial Officer and Company Secretary**

Hong Kong, 19th March 2012

As at the date of this announcement, the Board comprises:

| | |
|---|---|
| *Non-executive Directors:* | Dr. the Hon. Lee Shau Kee (Chairman), Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing |
| *Independent Non-executive Directors:* | Mr. Leung Hay Man, Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong |
| *Executive Directors:* | Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi |

Towngas
The Hong Kong and China Gas Company Limited