

# Report of the Directors

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

## Principal Activities

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

## Results and Appropriations

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

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

## Bonus Issue of Shares

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

## Financial Summary

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

## Reserves

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

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

## Property, Plant and Equipment

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

## Share Capital

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

## Borrowings

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

## Charitable Donations

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

## Directors

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

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

## Biographical Details of Directors

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

## Disclosure of Interests

### A. Directors

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

#### Shares and Underlying Shares (Long Positions)

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

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

## Disclosure of Interests (Continued)

### A. Directors (Continued)

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

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

Name of Company	Director	Date of Grant	Exercise Period	Exercise Price (HK\$)	Number of Shares Subject to Outstanding Options as at 01.01.2011*	Number of Shares Subject to Outstanding Options as at 31.12.2011*
Towngas China	Mr. Alfred Chan Wing Kin	16.03.2007	16.03.2008-27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2009-27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010-27.11.2015	3.811	1,447,200	1,447,200
	<b>Total</b>				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
	<b>Total</b>				3,015,000	3,015,000

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

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

## Disclosure of Interests (Continued)

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

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

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

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

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

#### Notes:

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

## Share Option Schemes of Towngas China

### A. Pre-GEM Share Option Scheme

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

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

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

### B. 2001 GEM Share Option Scheme

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

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

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

## Share Option Schemes of Towngas China (Continued)

### B. 2001 GEM Share Option Scheme (Continued)

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

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

### C. 2005 GEM Share Option Scheme

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

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

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

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

## Share Option Schemes of Towngas China (Continued)

### C. 2005 GEM Share Option Scheme (Continued)

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

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

### D. 2005 Main Board Share Option Scheme

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

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

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

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

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



## Share Option Schemes of Towngas China (Continued)

### D. 2005 Main Board Share Option Scheme (Continued)

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

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

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

## Share Option Schemes of Towngas China (Continued)

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

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

### Notes:

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

## Arrangements to Purchase Shares or Debentures

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

## Directors' Interests in Competing Business

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

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

## Service Contracts

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

## Interests in Contracts and Connected Transactions

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

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

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

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

## Management Contracts

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

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

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

## Major Customers and Suppliers

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

## Corporate Governance

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

## Public Float

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

## Auditor

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

On behalf of the Board

**LEE Shau Kee**

*Chairman*

Hong Kong, 19th March 2012