Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General and Basis of Preparation

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company ("Directors"), the Group's parent and ultimate holding company is The Hong Kong and China Gas Company Limited ("HKCG"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the Annual Report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$793 million as at 31 December 2011. The Group's liabilities as at 31 December 2011 included borrowings of approximately HK$1,513 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had un-drawn facilities (the "Facilities") amounted to approximately HK$1,297 million of which HK$522 million of the facilities were from the ultimate holding company. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK$1,478 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

Taking into account of the internally generated funds and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC*)-INT 14	Prepayments of a minimum funding requirement
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the International Financial Reporting Interpretations Committee.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKFRS 7	Disclosures — Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax — Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. Hence, available-for-sale equity investments which are currently stated at costs less impairment will need to be measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in equity.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-INT 12 "Consolidation — Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures" and HK(SIC)-INT 13 "Jointly controlled entities — Non-monetary contributions by venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). The directors are currently assessing the impact on the adoption of these standards and are yet to quantify the impact.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are stated at fair value and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent years.

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

3. Significant Accounting Policies *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associates, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

3. Significant Accounting Policies *(Continued)*

Investments in associates *(Continued)*

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant Accounting Policies *(Continued)*

Joint ventures *(Continued)*

Jointly controlled entities *(Continued)*

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from gas connection, which relates to gas connection contracts, is recognised based on the percentage of completion method, measured by reference to the value of work carried out during the year, when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used by the customers.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less accumulated depreciation, and any impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Buildings	15–30 years
Gas pipelines	25–40 years
Plant and equipment and others	5–15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to appropriate categories of property, plant and equipment.

3. Significant Accounting Policies *(Continued)*

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Exclusive operating rights for city pipeline network

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

The estimated useful life and amortisation method of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenues, the expected loss is recognised as an expense immediately.

3. Significant Accounting Policies *(Continued)*

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into one of the two categories, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables (including deferred consideration receivable, trade receivables, other receivables, time deposits, amounts due from minority shareholders, loans to an associate , loans to jointly controlled entities, time deposits over three months and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issuance costs.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Bank and other borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to minority shareholders and loan from the ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), or hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Cash flow hedges

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

3. Significant Accounting Policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translating monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

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

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is HK$3,848,101,000 (2010: HK$3,380,743,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2011, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK$64,180,000 (2010: HK$45,504,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

4. Key Sources of Estimation Uncertainty *(Continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2011, the carrying amount of trade receivables is HK$314,965,000 (2010: HK$173,427,000).

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes borrowings and loans from the ultimate holding company disclosed in notes 28 and 29, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% determined as the proportion of net debt excluding loans from the ultimate holding company ("ND") to equity plus ND (the "Gearing Ratio").

The Gearing Ratio at the reporting date was as follows:

	2011 HK$'000	2010 HK$'000
Debt (i)	**4,886,540**	3,696,089
Time deposits over three months	**(148,583)**	(185,127)
Bank balances and cash	**(1,922,503)**	(1,248,814)
Net debt	**2,815,454**	2,262,148
Equity (ii)	**9,615,314**	8,563,437
Net debt to equity ratio	**29.3%**	26.4%
Gearing Ratio	**19.6%**	17.3%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 28 and 29.

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

6. Financial Instruments

Category of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**2,937,806**	2,102,253
Available-for-sale instruments	**169,893**	169,372
Financial liabilities		
Amortised cost	**5,693,907**	4,163,898
Derivative financial instruments	**13,616**	—

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity investments, deferred consideration receivable, loans to jointly controlled entities, loans to an associate, trade and other receivables, amounts due from minority shareholders, time deposits, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables, other financial liabilities and loans from the ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank balances, loan to jointly controlled entities, bank and other borrowings and loans from the ultimate holding company are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances, bank and other borrowings and loans from the ultimate holding company, denominated in United States Dollar (''USD'') and HKD at the end of the reporting period are set out in notes 25, 28 and 29.

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2010: 2%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 3% (2010: 2%) change in foreign currency rates.

The sensitivity analysis includes bank balances, bank and other borrowings and loan from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit for the year where RMB strengthens 3% (2010: 2%) against USD and HKD. For a 3% (2010: 2%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2011 HK$'000	2010 HK$'000
Profit for the year	**101,594**	51,340

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to jointly controlled entities and loans to an associate. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and the loans from the ultimate holding company and pay-fixed interest rate swap. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The critical terms of the interest rate swap are similar to the hedged borrowing. The interest rate swap is designed as effective hedging instruments and hedge accounting is used (see note 31 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD loan and the loan from the ultimate holding company and the fluctuation of basic borrowing rate announced by People's Bank of China arising from the Group's RMB bank loans.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loan from the ultimate holding company, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point (2010: 25 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2010: 25 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by HK$12,082,000 (2010: HK$5,628,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loan from the ultimate holding company.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to jointly controlled entities and loans to an associate are concentrated in six jointly controlled entities and one associate respectively. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

The credit risk of deferred consideration receivable is concentrated in one counterparty. Management will closely monitor the financial position of the counterparty to ensure overdue debts are timely recovered.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The Group relies on loans from the ultimate holding company, bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK$775 million (at 31 December 2010: HK$1,643 million) and unutilised loan facility from the ultimate holding company of HK$522 million (at 31 December 2010: HK$22 million). The directors have considered the Group's liquidity and going concern as stated in note 1, in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$793 million as at 31 December 2011.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Trade payables	—	164,592	249,809	92,690	—	—	507,091	507,091
Other payables	—	105,382	—	—	—	—	105,382	105,382
Amount due to minority shareholders	—	194,894	—	—	—	—	194,894	194,894
Loan from the ultimate holding company	1.79%	—	—	8,455	488,700	—	497,155	471,790
Bank loans	3.02%	—	709,110	791,679	3,186,941	—	4,687,730	4,320,490
Other loans	1.98%	32,428	—	2,331	18,743	46,709	100,211	94,260
		497,296	958,919	895,155	3,694,384	46,709	6,092,463	5,693,907
Derivative-net settlement								
Interest rate swap		—	723	1,448	11,553	—	13,724	12,693
Foreign exchange forward rate contract		—	—	—	993	—	993	923
		—	723	1,448	12,546	—	14,717	13,616

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
2010								
Trade payables	—	126,222	156,062	53,209	—	—	335,493	335,493
Other payables	—	106,686	—	—	—	—	106,686	106,686
Amount due to minority shareholders	—	25,630	—	—	—	—	25,630	25,630
Loan from the ultimate holding company	2.00%	—	—	9,392	508,988	—	518,380	471,365
Bank loans	3.25%	—	1,041,728	618,650	390,730	—	2,051,108	1,996,917
Other loans	2.79%	24,479	—	7,763	34,002	52,936	119,180	108,338
Guaranteed senior notes	8.69%	—	45,076	1,169,530	—	—	1,214,606	1,119,469
		283,017	1,242,866	1,858,544	933,720	52,936	4,371,083	4,163,898

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The fair value of interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

7. Segment Information

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors that are used to make strategic decisions.

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

Sales and distribution of piped gas and related products	—	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	—	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contributes to less than 5% of Group's total revenue.

Segments results represent the profit before taxation earned by each segment, excluding interest income, finance costs, share of results of associates, share of results of jointly controlled entities, unallocated other income and corporate expenses such as central administration costs and directors' salaries. This is the measure reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

7. Segment Information *(Continued)*

Operating segments *(Continued)*

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2011			
TURNOVER			
External	**3,287,779**	**1,033,565**	**4,321,344**
Segment results	**233,096**	**454,617**	**687,713**
Unallocated other gains, net			**195,421**
Unallocated corporate expenses			**(101,323)**
Share of results of associates			**194,522**
Share of results of jointly controlled entities			**199,088**
Finance costs			**(141,885)**
Profit before taxation			**1,033,536**
Taxation			**(256,943)**
Profit for the year			**776,593**

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2010			
TURNOVER			
External	2,286,338	695,082	2,981,420
Segment results	143,972	277,927	421,899
Unallocated other gains, net			138,410
Unallocated corporate expenses			(91,712)
Share of results of associates			183,408
Share of results of jointly controlled entities			116,102
Finance costs			(141,859)
Profit before taxation			626,248
Taxation			(136,442)
Profit for the year			489,806

7. Segment Information *(Continued)*

Operating segments *(Continued)*

Segment results included depreciation and amortisation of HK$246,754,000 (2010: HK$197,632,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and substantially all of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2011 and 2010.

8. Operating Profit Before Returns on Investments

	2011 HK$'000	2010 HK$'000
Turnover	**4,321,344**	2,981,420
Less expenses:		
Gas fuel, stores and materials used	**2,754,861**	1,888,358
Staff costs	**394,114**	315,615
Depreciation and amortisation	**246,754**	197,632
Other expenses	**339,225**	249,628
	586,390	330,187

9. Other Gains, Net

Other gains, net mainly comprised of:

	2011 HK$'000	2010 HK$'000
Dividend income from available-for-sale investments	**34,791**	35,780
Interest income	**18,486**	7,979
Exchange gain	**117,325**	64,811
Gain on disposal of leasehold land	**—**	4,553
Imputed interest income on deferred consideration receivable	**8,201**	9,151
Imputed interest on loans to jointly controlled entities	**7,590**	6,815
Loss on fair value change of derivative financial instrument	**(923)**	—

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For the year ended 31 December 2011

10. Finance Costs

	2011 HK$'000	2010 HK$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	**68,747**	42,608
— bank and other borrowings not wholly repayable within five years	**1,319**	1,645
— guaranteed senior notes	**69,682**	95,039
	139,748	139,292
Bank charges	**2,137**	2,567
	141,885	141,859

11. Profit Before Taxation

	2011 HK$'000	2010 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	**9,082**	8,988
Share-based payments for other staff	**—**	86
Other staff costs	**345,476**	274,491
Retirement benefit scheme contributions (excluding directors)	**39,556**	32,050
Total staff costs	**394,114**	315,615
Allowance for doubtful debts	**16,037**	10,000
Amortisation of intangible assets	**7,147**	6,782
Amortisation of leasehold land	**9,866**	8,557
Auditor's remuneration	**7,441**	6,578
Cost of inventories sold	**3,033,810**	2,100,380
Depreciation of property, plant and equipment	**229,741**	182,293
Loss on disposal of property, plant and equipment	**11,853**	5,811
Operating lease rentals in respect of land and buildings	**12,022**	9,063

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 9 (2010: 9) directors were as follows:

	Year ended 31 December 2011									
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000 (Note d)	Law Wai Fun, Margaret HK$'000	Li Man Bun, Brian David HK$'000	Ou Yaping HK$'000 (Note b)	Wong Wai Yee, Peter HK$'000 (Note e)	Total HK$'000
Fees	200	400	400	200	200	200	400	50	200	2,250
Other emoluments										
Salaries and other benefits	—	—	—	—	936	—	—	—	1,002	1,938
Retirement benefit scheme contributions	—	—	—	—	94	—	—	—	100	194
Performance and discretionary bonus *(Note a)*	—	—	—	—	1,695	—	—	—	3,005	4,700
Total emoluments	200	400	400	200	2,925	200	400	50	4,307	9,082

	Year ended 31 December 2010									
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000 (Note d)	Law Wai Fun, Margaret HK$'000	Li Man Bun, Brian David HK$'000	Ou Yaping HK$'000	Wong Wai Yee, Peter HK$'000 (Note e)	Total HK$'000
Fees	200	400	400	200	200	200	400	200	200	2,400
Other emoluments										
Salaries and other benefits	—	—	—	—	888	—	—	—	888	1,776
Retirement benefit scheme contributions	—	—	—	—	89	—	—	—	89	178
Performance and discretionary bonus *(Note a)*	—	—	—	—	1,600	—	—	—	2,500	4,100
Share-based payments	153	—	—	127	127	—	—	—	127	534
Total emoluments	353	400	400	327	2,904	200	400	200	3,804	8,988

Notes:

(a) The performance and discretionary bonus are determined by the Directors from time to time with reference to their duties and responsibilities and the Group's performance and profitability.

(b) Mr. Ou Yaping resigned as a director of the Company with effect from 16 March 2011.

(c) No service contracts were entered into by any directors with the Company.

(d) The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK$81,900 per month with effect from 1 January 2012.

(e) The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK$87,675 per month with effect from 1 January 2012.

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

Employees' emoluments:

For the year ended 31 December 2011, the five highest paid individuals of the Group included two (2010: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2010: three) highest paid individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefit	**3,074**	2,862
Performance related incentive payments	**1,427**	1,955
Contribution to retirement benefit scheme	**226**	166
Share-based payment	**—**	43
	4,727	5,026

The emoluments were within the following bands:

	Number of employees	
	2011	2010
HK$1,000,000 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**—**	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2011.

13. Taxation

	2011 **HK$'000**	2010 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— current year	**206,711**	107,273
Deferred taxation *(note 30)*		
— taxation charge for the year	**50,232**	29,169
	256,943	136,442

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2010: 15% to 25%).

Certain subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to EIT at concessionary rate of 15%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from EIT for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from EIT for the following three years. The reduced tax rate for the relief period was 12.5% (2010: 12.5%). EIT has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

13. Taxation *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Profit before taxation	**1,033,536**	626,248
Tax at the applicable rate of 25% (2010: 25%) *(Note)*	**258,384**	156,562
Tax effect of expenses that are not deductible for tax purposes	**89,191**	79,037
Tax effect of income that are not taxable for tax purposes	**(37,869)**	(24,300)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in EIT	**(12,337)**	(21,662)
Effect of different tax rates of subsidiaries operating in different regions	**(3,100)**	(15,774)
Tax effect of share of results of associates	**(48,631)**	(45,852)
Tax effect of share of results of jointly controlled entities	**(49,772)**	(29,026)
Tax effect of utilisation of tax losses not previously recognised	**(2,689)**	(1,057)
Tax effect of tax losses not recognised	**10,268**	6,758
Withholding tax on undistributed profits	**53,498**	31,756
Tax charge for the year	**256,943**	136,442

Note: The tax rate of 25% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for the year 2011 (2010: 25%).

At the end of the reporting period, the Group has unused tax losses of HK$64,180,000 (2010: HK$45,504,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until 2016.

14. Dividends

During the year, final dividend of HK$73,810,000 (2010: HK$39,203,000) was recognised as distribution being three HK cents per ordinary share in respect of the year ended 31 December 2010 (2010: in respect of the year ended 31 December 2009 of two HK cents per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2011 of five HK cents (2010: three HK cents) per share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

	2011 HK$'000	2010 HK$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**708,754**	435,797

	Number of shares 2011 '000	 2010 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,457,917**	2,186,260
Effects of dilutive potential ordinary shares:		
Share options	**1,623**	284
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,459,540**	2,186,544

16. Property, Plant and Equipment

	Buildings HK$'000	Gas pipelines HK$'000	Plant and equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2010	402,440	3,502,868	492,307	274,888	4,672,503
Currency realignment	18,482	147,084	23,767	18,427	207,760
Additions	25,865	88,175	79,602	524,951	718,593
Additions from acquisition of subsidiaries	18,482	181,711	53,767	40,096	294,056
Disposals	(3,286)	(983)	(28,857)	—	(33,126)
Transfer	41,080	250,286	10,901	(302,267)	—
At 31 December 2010	503,063	4,169,141	631,487	556,095	5,859,786
Currency realignment	27,513	208,145	35,756	27,088	298,502
Additions	46,423	182,690	65,934	599,251	894,298
Additions from acquisition of subsidiaries	28,363	99,434	19,592	22,230	169,619
Disposals	(6,879)	(23,030)	(20,046)	—	(49,955)
Transfer	63,353	430,052	68,740	(562,145)	—
At 31 December 2011	661,836	5,066,432	801,463	642,519	7,172,250
DEPRECIATION					
At 1 January 2010	44,881	435,392	115,020	—	595,293
Currency realignment	3,267	20,161	7,597	—	31,025
Provided for the year	19,471	105,676	57,146	—	182,293
Eliminated on disposals	(1,873)	(58)	(20,679)	—	(22,610)
At 31 December 2010	65,746	561,171	159,084	—	786,001
Currency realignment	5,069	30,222	12,812	—	48,103
Provided for the year	24,741	126,473	78,527	—	229,741
Eliminated on disposals	(432)	(6,174)	(12,956)	—	(19,562)
At 31 December 2011	95,124	711,692	237,467	—	1,044,283
CARRYING VALUES					
At 31 December 2011	566,712	4,354,740	563,996	642,519	6,127,967
At 31 December 2010	437,317	3,607,970	472,403	556,095	5,073,785

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

As at 31 December 2011, the Group has pledged certain of its property, plant and equipment with an aggregate carrying value of HK$12,620,000 (2010: nil) to secure a banking facility granted to the Group.

17. Leasehold Land

	2011 HK$'000	2010 HK$'000
Balance at the beginning of the year	**273,758**	222,841
Currency realignment	**12,673**	9,526
Additions	**18,549**	35,808
Acquired on acquisition of subsidiaries	**10,898**	28,513
Disposals	**—**	(14,373)
Charge for the year	**(9,866)**	(8,557)
Balance at the end of the year	**306,012**	273,758
Analysis for reporting purpose:		
Non-current portion	**296,226**	264,742
Current portion	**9,786**	9,016
	306,012	273,758

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

18. Intangible Assets

	HK$'000
COST	
At 1 January 2010	207,651
Currency realignment	7,836
At 31 December 2010	215,487
Currency realignment	9,831
At 31 December 2011	225,318
AMORTISATION	
At 1 January 2010	25,441
Currency realignment	1,157
Provided for the year	6,782
At 31 December 2010	33,380
Currency realignment	1,881
Provided for the year	7,147
At 31 December 2011	42,408
CARRYING VALUES	
At 31 December 2011	182,910
At 31 December 2010	182,107

At 31 December 2011, the intangible assets represent the Group's exclusive operating rights for city pipeline network.

The exclusive operating rights are amortised on a straight-line basis over a period of 25 to 30 years.

19. Goodwill

	HK$'000
At 1 January 2010	2,752,733
Currency realignment	103,876
Acquired on acquisition of subsidiaries	524,134
At 31 December 2010	3,380,743
Currency realignment	154,239
Acquired on acquisition of subsidiaries	313,119
At 31 December 2011	3,848,101

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each investment holding company operating in specific locations together with its respective subsidiaries (together referred to as the "Sub-group") represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	2011 HK$'000	2010 HK$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	**352,933**	337,534
Hong Kong & China Gas (Zibo) Limited	**379,589**	363,027
Hong Kong & China Gas (Yantai) Limited	**256,364**	245,179
Hong Kong & China Gas (Weifang) Limited	**147,511**	141,075
Hong Kong & China Gas (Weihai) Limited	**293,673**	280,859
Hong Kong & China Gas (Taian) Limited	**259,825**	248,488
Hong Kong & China Gas (Maanshan) Limited	**308,399**	294,943
Hong Kong & China Gas (Anqing) Limited	**292,310**	279,556
Mianyang Hong Kong and China Gas Co., Ltd.	**314,234**	300,523
Gongzhuling Towngas Limited	**24,346**	23,284
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	**238,822**	228,402
Xinjin Diyuan Natural Gas Co., Ltd and Xinjin Nanfang Natural Gas Co., Ltd	**29,461**	28,176
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**437,744**	418,645
Jiujiang Hong Kong and China Gas Co., Ltd. ("Jiujiang")	**69,067**	66,054
Guilin Hong Kong and China Gas Co., Ltd. ("Guilin")	**41,234**	39,435
Wuning Hong Kong & China Gas Co., Ltd. ("Wuning")	**77,213**	—
Xiushui Hong Kong & China Gas Co., Ltd. ("Xiushui")	**40,750**	—
Miluo Red-horse Natural Gas Development Company Limited. ("Miluo")	**148,229**	—
Beipiao Hong Kong & China Gas Co., Ltd. ("Beipiao ")	**46,927**	—
Others	**89,470**	85,563
	3,848,101	3,380,743

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

19. Goodwill *(Continued)*

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8% (2010: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2010: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2011.

As at 31 December 2010, adjustments have been made to reduce the carrying amount of goodwill arising from acquisition of a subsidiary, Towngas BVI, by HK$372,550,000, and increase the goodwill included in the initial carrying amounts of interest in an associate and interest in a jointly controlled entity upon completion of initial accounting of the acquisition of Towngas BVI during the current year.

20. Interests in Associates/Loans to an Associate

	2011 HK$'000	2010 HK$'000
Cost of investments in associates	**1,566,715**	1,406,662
Share of post-acquisition profits and other comprehensive income, net of dividends received	**676,884**	582,494
	2,243,599	1,989,156
Loans to an associate — Current portion	**30,826**	—

20. Interests in Associates/Loans to an Associate *(Continued)*

Details of the Group's principal associates as at 31 December 2011 are as follows:

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group 2011	2010	Principal activities
Changchun Gas Company Limited 長春燃氣股份有限公司	PRC — Limited liability company	**26%**	26%	Production and distribution of natural gas, coal gas, liquefied petroleum gas ("LPG"), metallurgical coke and coke oil
Foshan Gas Group Ltd. 佛山市燃氣集團股份有限公司	PRC — Sino-foreign equity joint venture	**43%**	43%	Provision of LPG, natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC — Limited liability company	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**42%**	42%	Provision of natural gas and related services and gas pipeline construction
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	**48%**	48%	Provision of natural gas and related services and gas pipeline construction
Zibo Lubo Gas Company Ltd. 淄博綠博燃氣有限公司	PRC — Sino-foreign equity joint venture	**27%**	27%	Provision of natural gas and related services and gas pipeline construction

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would in the opinion of the directors, result in particulars of excessive length.

20. Interests in Associates/Loans to an Associate *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Total assets	**9,363,892**	7,249,443
Total liabilities	**(5,079,809)**	(3,713,884)
Net assets	**4,284,083**	3,535,559
Income	**6,234,842**	4,785,869
Profit for the year	**511,063**	466,883

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI acquired in the year ended 31 December 2010 (note 34). Accordingly, adjustments have been made to increase the fair value of the interest in associate as at the acquisition date, thus increasing the carrying amount of goodwill included in the initial carrying amount of interest in an associate of HK$192,356,000, and decrease the goodwill arising from acquisition of Towngas BVI by the same amount. As at 31 December 2011, there was goodwill included in carrying amount of interest in associates of HK$422,492,000 arising from acquisition of associates (2010: HK$405,945,000).

The loans to an associate are unsecured and carried at amortised cost with the following details:

Principal amount 2011	2010	**Maturity date**	**Coupon interest rate**	**Effective interest rate**	**Carrying amount 2011 HK$'000**	2010 HK$'000
RMB10,000,000	—	June 2012	7.26%	7.26%	**12,330**	—
RMB15,000,000	—	October 2012	6.56%	6.56%	**18,496**	—
					30,826	—

The principal and interest will be received on respective maturity date.

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities

	2011 HK$'000	2010 HK$'000
Cost of investments in jointly controlled entities	**994,976**	960,020
Share of post-acquisition profits and other comprehensive income, net of dividends received	**486,538**	287,451
	1,481,514	1,247,471
Loans to jointly controlled entities		
— Current portion	**140,127**	84,906
— Non-current portion	**131,532**	119,160
	271,659	204,066

At 31 December 2011, the Group had interests in the following significant jointly controlled entities registered in PRC:

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2011	2010	Principal activities
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC — Limited liability company	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2011	2010	Principal activities
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC — Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

At 31 December 2011, the aggregate amount of assets and liabilities recognised in the financial statements of the jointly controlled entities in relation to the Group's interests in jointly controlled entities are as follows:

	2011 HK$'000	2010 HK$'000
Current assets	**541,522**	448,221
Non-current assets	**2,182,955**	1,826,922
Current liabilities	**(990,180)**	(756,943)
Non-current liabilities	**(252,783)**	(270,729)
Net assets	**1,481,514**	1,247,471
Income	**1,544,931**	1,180,289
Expenses	**1,345,843**	1,064,187

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI acquired in the year ended 31 December 2010 (note 34). Accordingly, adjustments have been made to increase the fair value of the interest in jointly controlled entities as at acquisition date, thus increasing the carrying amount of goodwill included in the initial carrying amount of interest in a jointly controlled entity of HK$180,194,000, and decrease the goodwill arising from acquisition of Towngas BVI by the same amount. As at 31 December 2011, there was goodwill included in the carrying amount of interest in jointly controlled entities of HK$286,971,000 arising from acquisition of jointly controlled entities (2010: HK$282,312,000).

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

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

Principal amount 2011	Principal amount 2010	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2011 HK$'000	Carrying amount 2010 HK$'000
RMB37,650,000	RMB37,650,000	December 2014	Nil	6.12%	**37,855**	34,812
RMB35,000,000	RMB35,000,000	July 2014	Nil	6.12%	**36,817**	33,121
RMB42,530,000	RMB42,530,000	July 2013	Nil	6.12%	**46,855**	42,226
RMB10,550,000	RMB10,550,000	February 2016	Nil	6.12%	**10,005**	9,001
RMB52,000,000	RMB52,000,000	February 2012	5.84%	5.84%	**64,119**	61,321
RMB5,000,000	RMB5,000,000	January 2012	4.25%	4.25%	**6,165**	5,896
—	RMB15,000,000	October 2011	4.25%	4.25%	**—**	17,689
RMB10,000,000	—	September 2012	7.87%	7.87%	**12,330**	—
USD5,830,000	—	October 2012	6.23%	6.23%	**45,183**	—
RMB10,000,000	—	December 2012	6.56%	6.56%	**12,330**	—
					271,659	204,066

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

22. Available-for-Sale Investments

	2011 HK$'000	2010 HK$'000
Unlisted shares in the PRC, at cost	**169,893**	169,372

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

23. Deferred Consideration Receivable

As part of the consideration for the disposal of certain subsidiaries during the year ended 31 December 2009, deferred consideration of HK$379,000,000 is to be settled in cash by the purchaser under five annual instalments of HK$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK$179,000,000 in June 2015 (the "Balancing Sum"). The Balancing Sum of the consideration is subject to downward adjustment up to an amount of HK$65 million, if on or before 15 June 2015, trade and other receivables of the disposed subsidiaries that were outstanding at the date of disposal have become uncollectible. The amount is secured against the entire share capital of the holding company of the operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	2011 HK$'000	2010 HK$'000
Non-current assets	**203,682**	242,481
Current assets (included in trade and other receivables, deposits and prepayments)	**39,321**	39,321
	243,003	281,802

The amount of deferred consideration receivable is within credit period. The directors of the Company consider the amounts will be recoverable because the purchaser is of good financial position.

During the year, imputed interest income from deferred consideration receivable is HK$8,201,000 (2010: HK$9,151,000).

24. Inventories

	2011 HK$'000	2010 HK$'000
Finished goods	**96,057**	62,279
Materials and consumables	**291,645**	85,606
	387,702	147,885

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets

	2011 HK$'000	2010 HK$'000
Trade receivables	**314,965**	173,427
Deferred consideration receivable	**39,321**	39,321
Prepayments	**301,182**	225,043
Other receivables and deposits	**196,720**	93,664
	852,188	531,455

Trade receivables

Included in trade and other receivables, deposits and prepayments are trade receivables of HK$314,965,000 (2010: HK$173,427,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 90 days	**301,311**	168,772
91 to 180 days	**4,675**	1,362
181 to 360 days	**8,979**	3,293
	314,965	173,427

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$5,771,000 (2010: HK$2,759,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets *(Continued)*

Trade receivables *(Continued)*

Aging of trade receivables which are past due but not impaired is as follows:

	2011 HK$'000	2010 HK$'000
0–90 days	**1,308**	1,589
91–180 days	**136**	73
181–360 days	**4,327**	1,097
Total	**5,771**	2,759

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

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	**18,039**	8,039
Impairment losses recognised on receivables	**16,037**	10,000
Balance at end of the year	**34,076**	18,039

The allowance for doubtful debts is all individually impaired receivables which represents amounts that have been long overdue and recoverability has considered remote.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 0.1% to 4.4% (2010: 0.1% to 5.5%) per annum.

25. Trade and Other Receivables, Deposits and Prepayments/Other Financial Assets *(Continued)*

Trade receivables *(Continued)*

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

	2011 HK$'000	2010 HK$'000
United States Dollar	**338,889**	481,299
Hong Kong Dollar	**52,244**	73,652

26. Amounts Due From/To Minority Shareholders

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

27. Trade and Other Payables and Accrued Charges

	2011 HK$'000	2010 HK$'000
Trade payables	**507,091**	335,493
Receipt in advance	**1,291,474**	947,491
Consideration payable for acquisitions	**88,137**	67,319
Other payables and accruals	**375,114**	289,251
Amount due to ultimate holding company *(note)*	**763**	14,427
	2,262,579	1,653,981

Note: The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 90 days	**374,361**	246,840
91 to 180 days	**39,171**	18,549
181 to 360 days	**39,599**	19,426
Over 360 days	**53,960**	50,678
	507,091	335,493

28. Borrowings

	2011 HK$'000	2010 HK$'000
Bank loans — unsecured *(note a)*	**4,247,740**	1,996,917
Bank loan — secured *(note a)*	**72,750**	—
Other loans — unsecured *(note a)*	**94,260**	108,338
Guaranteed senior notes — secured *(notes a & b)*	**—**	1,119,469
	4,414,750	3,224,724
Carrying amount repayable:		
On demand or within one year	**1,512,629**	2,792,403
More than one year but not exceeding two years	**908,723**	20,856
More than two years but not exceeding five years	**1,948,373**	365,002
More than five years	**45,025**	46,463
	4,414,750	3,224,724
Less: Amount due within one year shown under current liabilities	**(1,512,629)**	(2,792,403)
Amount due after one year	**2,902,121**	432,321

Notes:

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

	Effective interest rate	Carrying amount 2011 HK$'000	2010 HK$'000
Floating-rate loans:			
Secured RMB bank loan	1.51%	**72,750**	—
Unsecured HKD bank loans	0.90%	**2,904,239**	1,530,524
Unsecured RMB bank loans	6.08%	**754,646**	231,723
Unsecured other loans	0.51%	**1,564**	17,620
Fixed rate loans*:			
Unsecured HKD bank loans**	1.02%	**350,000**	—
Unsecured RMB bank loans	1.93%	**238,855**	234,670
Unsecured RMB other loans	2.57%	**53,844**	51,494
Unsecured other loans	1.23%	**38,852**	39,224
Guaranteed senior notes	8.69%	**—**	1,119,469
Total bank loans and other loans		**4,414,750**	3,224,724

* The majority of the Group's fixed rate loans are repayable after more than two years but not exceeding five years.

** An interest rate swap agreement was entered by the Group to swap floating interest rate on the loan for a fixed rate. Please see note 31 for details.

28. Borrowings *(Continued)*

Notes: (Continued)

(b) The Company issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes were listed on the Singapore Exchange Securities Trading Limited and were secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bore interest at 8.25% per annum, payable semi-annually in arrears. The effective interest rate of Guaranteed Senior Notes was 8.69%. The Guaranteed Senior Notes have been fully repaid in September 2011. At 31 December 2010, the market value of the Guaranteed Senior Notes amounted to US$147,437,000 (equivalent to approximately HK$1,142,634,000).

29. Loans from the Ultimate Holding Company

The amount represents unsecured loans denominated in USD and HKD which bear interest at the Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and are repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount 2011 HK$'000	2010 HK$'000
HK$277,615,000 (2010: HK$277,615,000)	April 2013 – May 2014 (2010: April 2013 – May 2014) (according to date of draw down)	1.84% (2010: 2.13%)	**277,615**	277,615
US$25,000,000 (2010: US$25,000,000)	December 2016 (2010: December 2012)	2.02% (2010: 1.81%)	**194,175**	193,750
			471,790	471,365

30. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Undistributed profits of jointly controlled entities/ associates/ subsidiaries HK$'000	Total HK$'000
At 1 January 2010	24,487	48,590	13,483	86,560
Acquired on acquisition of subsidiaries	12,552	—	10,989	23,541
Currency realignment	760	2,030	720	3,510
(Credit) charge for the year	(983)	(1,604)	31,756	29,169
At 31 December 2010	36,816	49,016	56,948	142,780
Acquired on acquisition of subsidiaries	7,967	—	—	7,967
Currency realignment	955	1,244	2,722	4,921
(Credit) charge for the year	(1,596)	(1,670)	53,498	50,232
At 31 December 2011	44,142	48,590	113,168	205,900

31. Other Financial Liabilities

	2011 HK$'000	2010 HK$'000
Other financial liabilities		
Derivative under hedge accounting		
Cash flow hedge — Interest rate swap	**12,693**	—
Derivative not under hedge accounting		
RMB forward contract	**923**	—
	13,616	—

The classification of the measure of the derivative financial instruments at 31 December 2011 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).

31. Other Financial Liabilities *(Continued)*

Cash flow hedges

As at 31 December 2011, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which has HK$350,000,000 principal and will be matured in 2016. The terms of the interest rate swap contract has been negotiated to match the terms of the loan. The interest rate swap contract swaps the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

As at 31 December 2011, fair value loss of HK$12,693,000 (2010: nil) has been recognised in other comprehensive income and accumulated in equity and is expected to be released to the income statement at various dates in the coming maturity periods after the reporting period.

Derivative not under hedge accounting

At the end of the reporting period, the Group had a foreign exchange forward contract to sell RMB200,000,000 for HKD. The contract will mature in 2013. As at 31 December 2011, the change in fair value of the forward contract recorded a loss of HK$923,000 (2010: nil) and was recognised in profit or loss included in other gains, net. The contract will be settled in HKD at exchange rate of HK$1.21:RMB1.

The fair values of foreign currency forward contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

32. Share Capital

	Number of shares	HK$'000
At 31 December 2011		
— Authorised:		
Shares of HK$0.10 each	3,000,000,000	300,000
— Issued and fully paid:		
Shares of HK$0.10 each	2,460,344,830	246,035

A summary of the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2010, 31 December 2010 and 31 December 2011	3,000,000,000	300,000

32. Share Capital *(Continued)*

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	HK$'000
At 1 January 2010	1,958,360,330	195,836
Issue of shares on exercise of share options *(note a)*	5,427,000	543
Issue of shares on acquisition of subsidiaries *(note b)*	485,000,000	48,500
At 31 December 2010 and 1 January 2011	2,448,787,330	244,879
Issue of shares on exercise of share options *(note c)*	11,557,500	1,156
At 31 December 2011	2,460,344,830	246,035

Notes:

(a) During the year ended 31 December 2010, the Company allotted and issued 3,618,000, 603,000 and 1,206,000 shares of HK$0.10 each for cash at the price of HK$0.473, HK$2.796 and HK$3.483 per share respectively, as a result of the exercise of share options.

(b) During the year ended 31 December 2010, the Company allotted and issued 485,000,000 ordinary shares of HK$0.10 each for acquisition of a subsidiary as detailed in note 34.

(c) During the year ended 31 December 2011, the Company allotted and issued 11,557,500 shares of HK$0.10 each for cash at the price of HK$3.483 per share as a result of the exercise of share options.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

33. Reserves

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

34. Acquisition of Subsidiaries/Businesses

Acquisitions in 2011

(a) Acquisition of Wuning

In January 2011, the Group acquired 100% equity interest in Wuning, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$80,220,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

Acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

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

Acquisitions in 2011 *(Continued)*

(a) Acquisition of Wuning *(Continued)*

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	8,890
Leasehold land	495
Inventories	947
Trade and other receivables *(note)*	197
Bank balances and cash	778
Trade and other payables and accrued charges	(8,300)
Net assets acquired	3,007

Note: The trade and other receivables acquired with a fair value of HK$197,000 had gross contractual amounts of HK$197,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	80,220
Less: Net assets acquired	(3,007)
Goodwill arising on acquisition	77,213

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

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

Acquisitions in 2011 *(Continued)*

(a) Acquisition of Wuning *(Continued)*

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	80,220
Bank balances and cash acquired	(778)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,442

During the year, Wuning contributed HK$4,770,000 to the Group's turnover and made a loss of HK$2,607,000 for the period between the date of acquisition and the end of the reporting period.

(b) Acquisition of Xiushui

In January 2011, the Group completed the acquisition of 80% equity interest in Xiushui, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$42,503,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	18,213
Inventories	1,083
Trade and other receivables *(note)*	686
Bank balances and cash	237
Trade and other payables and accrued charges	(7,740)
Tax payables	(28)
Borrowings	(10,260)
Net assets acquired	2,191

Note: The trade and other receivables acquired with a fair value of HK$686,000 had gross contractual amounts of HK$686,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

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

Acquisitions in 2011 *(Continued)*

(b) Acquisition of Xiushui *(Continued)*

Non-controlling interests:

The non-controlling interests in Xiushui recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$438,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	42,503
Plus: Non-controlling interests	438
Less: Net assets acquired	(2,191)
Goodwill arising on acquisition	40,750

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	42,503
Amount unpaid and included in consideration payable for acquisition	(30,325)
Bank balances and cash acquired	(237)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	11,941

During the year, Xiushui contributed HK$7,040,000 to the Group's turnover and made a loss of HK$3,907,000 for the period between the date of acquisition and the end of the reporting period.

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

Acquisitions in 2011 *(Continued)*

(c) Acquisition of Miluo

In July 2011, the Group acquired 70% equity interest in Miluo, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$161,017,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK$406,000 were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' provisional fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	103,765
Leasehold land	8,903
Inventories	2,340
Trade and other receivables *(note)*	36,756
Bank balances and cash	516
Trade and other payables and accrued charges	(52,718)
Taxation payable	(362)
Borrowings	(72,964)
Deferred taxation	(7,967)
Net assets acquired	18,269

Note: The trade and other receivables acquired with a fair value of HK$36,756,000 had gross contractual amounts of HK$36,756,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

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

Acquisitions in 2011 *(Continued)*

(c) Acquisition of Miluo *(Continued)*

Non-controlling interests:

The non-controlling interests in Miluo recognised at the acquisition date was determined with reference to the proportionate share of provisional fair value of the acquiree's net assets at the acquisition date and amounted to HK$5,481,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	161,017
Plus: Non-controlling interests	5,481
Less: Net assets acquired	(18,269)
Provisional goodwill arising on acquisition	148,229

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	161,017
Amount unpaid and included in amounts due to minority shareholders	(80,509)
Bank balances and cash acquired	(516)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,992

During the year, Miluo contributed HK$9,431,000 to the Group's turnover and made a loss of HK$5,742,000 for the period between the date of acquisition and the end of the reporting period.

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

Acquisitions in 2011 *(Continued)*

(d) Acquisition of Beipiao

In December 2011, the Group completed the acquisition of 80% equity interest in Beipiao, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$78,915,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK$144,000 were recognised as expenses in the current year, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' provisional fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	38,751
Leasehold land	1,500
Inventories	682
Trade and other payables and accrued charges	(948)
Net assets acquired	39,985

Non-controlling interests:

The non-controlling interests in Beipiao recognised at the acquisition date was determined with reference to the proportionate share of provisional fair value of the acquiree's net assets at the acquisition date and amounted to HK$7,997,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	78,915
Plus: Non-controlling interests	7,997
Less: Net assets acquired	(39,985)
Provisional goodwill arising on acquisition	46,927

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

Acquisitions in 2011 *(Continued)*

(d) Acquisition of Beipiao *(Continued)*

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	78,915
Amounts unpaid and included in amounts due to minority shareholders	(78,915)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	—

During the year, Beipiao contributed insignificant amount to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Wuning, Xiushui, Miluo and Beipiao had been completed on 1 January 2011, total consolidated revenue of the Group would have been HK$4,343,430,000, and consolidated profit for the year would have been HK$784,436,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

The goodwill arising from the acquisitions of Miluo and Beipiao is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional basis only. The provisional fair values of property, plant and equipment were arrived at the use of replacement cost method while the leasehold lands were fair valued with reference to market evidence of transaction prices for similar properties at the location and with similar conditions. The Company is in the process of obtaining independent valuation to assess the fair value. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

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

Acquisitions in 2010

(a) Acquisition of Towngas BVI

In July 2010, the Group acquired 100% equity interest in Towngas BVI from Hong Kong & China Gas (China) Limited, a wholly-owned subsidiary of HKCG. Towngas BVI is engaged in the operation of piped gas assets and related business in the PRC. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration was settled by the issue of 485,000,000 ordinary shares of HK$0.10 each. The fair value of the ordinary shares determined using the published price available at the date of acquisition amounted to HK$1,464,700,000.

Acquisition-related costs amounting to HK$4,417,000 were excluded from the consideration transferred and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	281,715
Leasehold land	24,068
Interest in associates	369,219
Interest in jointly controlled entities	345,874
Loans to jointly controlled entities	39,522
Inventories	8,559
Trade and other receivables, deposits and prepayments *(note)*	25,593
Bank balances and cash	111,738
Trade and other payables and accrued charges	(106,673)
Borrowings	(4,594)
Deferred taxation	(20,852)
Net assets acquired	1,074,169

Note: The trade and other receivables acquired with a fair value of HK$25,593,000 had gross contractual amounts of HK$25,593,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

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

Acquisitions in 2010 *(Continued)*

(a) Acquisition of Towngas BVI *(Continued)*

During the year ended 31 December 2011, the management has finalised the fair value assessment of the assets and liabilities of Towngas BVI at the date of acquisition. The amount of goodwill, interest in jointly controlled entities and interest in associates were initially recognised in the consolidated financial statements as approximately HK$791,195,000, HK$165,680,000 and HK$176,863,000 during the year ended 31 December 2010. As a result, adjustments have been made to reduce the goodwill arising from acquisition of Towngas BVI by HK$372,550,000 and increase the initial carrying amounts of interest in associates and interest in jointly controlled entities by HK$192,356,000 and HK$180,194,000, respectively. The adjusted carrying amounts of interest in associates, interest in jointly controlled entities and goodwill arising from the acquisition of Towngas BVI amounted to HK$369,219,000, HK$345,874,000 and HK$418,545,000, respectively. The fair value of the assets and liabilities of Towngas BVI were determined based on discounted cash flow analysis and with reference to the price to earnings ratio of other piped gas companies in the industry.

Accordingly, the amount of interest in associates, interest in jointly controlled entities and goodwill have been adjusted to HK$1,989,156,000, HK$1,247,471,000 and HK$3,380,743,000, respectively as at 31 December 2010.

As the acquisition took place during the year ended 31 December 2010 and no adjustments were made to the balances as stated at 1 January 2010, the consolidated statement of financial position at 1 January 2010 is therefore not presented.

Non-controlling interests:

The non-controlling interests in Towngas BVI recognised at the acquisition date was determined with reference to the proportionate share of the fair value of the acquiree's net assets at the acquisition date and amounted to HK$28,114,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	1,464,700
Plus: Non-controlling interests	28,114
Less: Net assets acquired	(1,074,169)
Goodwill arising on acquisition	418,645

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

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

Acquisitions in 2010 *(Continued)*

(a) Acquisition of Towngas BVI *(Continued)*

Goodwill arising on acquisition: (Continued)

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net inflow of cash and cash equivalents in respect of the acquisition, representing bank balances and cash acquired	111,738

During the year ended 31 December 2010, Towngas BVI contributed HK$194,078,000 to the Group's turnover and HK$43,188,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

(b) Acquisition of Jiujiang

In September 2010, the Group completed the acquisition of 60% equity interest in Jiujiang, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$73,001,000 from an independent vendor. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration of HK$73,001,000 was settled by way of cash.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

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

Acquisitions in 2010 *(Continued)*

(b) Acquisition of Jiujiang *(Continued)*

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	2,520
Leasehold land	36
Inventories	71
Trade and other receivables, deposits and prepayments *(note)*	4,331
Bank balances and cash	4,665
Trade and other payables and accrued charges	(36)
Tax payables	(8)
Net assets acquired	11,579

Note: The trade and other receivables acquired with a fair value of HK$4,331,000 had gross contractual amounts of HK$4,331,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Non-controlling interests:

The non-controlling interests in Jiujiang recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$4,632,000.

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

Acquisitions in 2010 *(Continued)*

(b) Acquisition of Jiujiang *(Continued)*

Goodwill arising on acquisition:

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

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	73,001
Bank balances and cash acquired	(4,665)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	68,336

During the year ended 31 December 2010, Jiujiang had insignificant contribution to the Group's turnover and its expenses reduced the Group's profit by HK$470,000 for the period between the date of acquisition and the end of the reporting period.

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

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin

In July 2010, the Group completed the acquisition of 95% equity interest in Guilin, which is engaged in the operation of piped gas assets and related business in the PRC at an aggregate consideration of HK$58,898,000 from an independent vendor. This transaction has been accounted for using the purchase method of accounting.

The consideration transferred:

The consideration of HK$58,898,000 was settled by way of cash and other payables of HK$47,417,000 and HK$11,481,000 respectively.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2010, within the other expenses.

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	9,821
Leasehold land	4,409
Inventories	872
Trade and other receivables, deposits and prepayments *(note)*	16,502
Bank balances and cash	47
Trade and other payables and accrued charges	(4,653)
Tax payables	(952)
Borrowings	(2,870)
Deferred taxation	(2,689)
Net assets acquired	20,487

Note: The trade and other receivables acquired with a fair value of HK$16,502,000 had gross contractual amounts of HK$16,502,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

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

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin *(Continued)*

Non-controlling interests:

The non-controlling interests in Guilin recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK$1,024,000.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	58,898
Plus: Non-controlling interests	1,024
Less: Net assets acquired	(20,487)
Goodwill arising on acquisition	39,435

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

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

Acquisitions in 2010 *(Continued)*

(c) Acquisition of Guilin *(Continued)*

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration	47,417
Bank balances and cash acquired	(47)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	47,370

During the year ended 31 December 2010, Guilin contributed HK$4,457,000 to the Group's turnover and HK$845,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Towngas BVI, Jiujiang and Guilin had been completed on 1 January 2010, total consolidated revenue of the Group would have been HK$3,154,341,000, and consolidated profit for the year would have been HK$536,855,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and increase in returns to its shareholders.

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35. Related Party Transactions

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

Name of related party	Nature of transactions	**2011 HK$'000**	2010 HK$'000
HKCG	Loan facility *(See note 29)* Interest expense Management fee	**471,790** **9,027** **—**	471,365 9,307 2,508
Shenyang Sanquan Project Management Consulting Co., Ltd. *(note a)*	Project management	**1,782**	—
Hongkong and China Technology (Wuhan) Company Limited *(note a)*	System software and supporting services	**1,650**	725
GH — Fusion Corporation Limited *(note b)*	Purchase of construction materials	**6,917**	5,046
Shanxi ECO Coalbed Methane Co., Ltd. *(note a)*	Purchase of coalbed methane	**24,619**	847
ECO Environmental Investments Limited *(note a)*	Office licence income	**468**	316
Anhui Province Natural Gas Development Company Limited *(note b)*	Purchase of compressed natural gas	**40,401**	22,547
Jilin Hong Kong and China Gas Company Limited *(note a)*	Purchase of compressed natural gas	**2,294**	1,959
Tongling Hong Kong and China Gas Company Limited *(note c)*	Purchase of compressed natural gas	**61**	494

Notes:

(a) HKCG had controlling interests in these companies.

(b) HKCG had significant influences in these companies.

(c) HKCG jointly controlled this company with another party.

35. Related Party Transactions *(Continued)*

During the year ended 31 December 2010, the Group acquired Towngas BVI from a subsidiary of HKCG, as detailed in note 34 for details.

Emoluments paid to the key management personnel of the Company which represents the Directors of the Company are set out in note 12.

36. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**6,497**	7,712
In the second to fifth year inclusive	**6,909**	7,159
Over five years	**4,022**	4,187
	17,428	19,058

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

37. Commitments

	2011 **HK$'000**	2010 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**78,084**	57,144
— acquisition of a subsidiary	**106,042**	61,321
Capital injection contracted for but not provided in the consolidated financial statements in respect of		
— investment in an associate	**51,826**	3,774

38. Share Options

The Company's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, were expired on 3 April 2011. Under the Pre-GEM Share Option Scheme and the Scheme, the Board of the Company may grant options to eligible employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 26 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink Worldwide Holdings Limited ("Sinolink") pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. In addition, pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The 2005 GEM Share Option Scheme has replaced the Scheme, there will be no options granted under the Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the Scheme shall remain in full force and effect.

The 2005 GEM Share Option Scheme and the New Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005 and 28 November 2005 respectively.

The share options under the 2005 GEM Share Option Scheme (the "2005 GEM Options") and the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

The 2005 GEM Options granted or the New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option.

38. Share Options *(Continued)*

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options				
	Outstanding at the beginning of the year	Exercised during the year	Forfeited during the year	Outstanding at the end of the year	Exercisable share options at the end of the year
For the year ended 31 December 2010					
Pre-GEM Listing options	3,618,000	(3,618,000)	—	—	—
The Scheme					
2004 options *(note a)*	12,763,500	(1,206,000)	—	11,557,500	11,557,500
New Scheme					
2006 options *(note b)*	2,170,800	(603,000)	—	1,567,800	1,567,800
2007 options *(note b)*	14,673,000	—	—	14,673,000	14,673,000
	33,225,300	(5,427,000)	—	27,798,300	27,798,300
Weighted average exercise price	3.255	1.400	—	3.617	3.617
For the year ended 31 December 2011					
The Scheme					
2004 options *(note a)*	**11,557,500**	**(11,557,500)**	**—**	**—**	**—**
New Scheme					
2006 options *(note b)*	**1,567,800**	**—**	**—**	**1,567,800**	**1,567,800**
2007 options *(note b)*	**14,673,000**	**—**	**—**	**14,673,000**	**14,673,000**
	27,798,300	**(11,557,500)**	**—**	**16,240,800**	**16,240,800**
Weighted average exercise price	**3.617**	**3.483**	**—**	**3.713**	**3.713**

38. Share Options *(Continued)*

The weighted average price of the Company's shares at the dates of exercise of 700,000 options on 20 January 2011, 800,000 options on 16 February 2011, 750,000 options on 3 March 2011, 510,000 options on 10 March 2011, 757,500 options on 22 March 2011, 3,015,000 options on 24 March 2011, 3,015,000 options on 28 March 2011, and 2,010,000 options on 30 March 2011 were HK$4.06, HK$3.99, HK$3.84, HK$3.97, HK$3.95, HK$3.97, HK$4.08 and HK$4.04, respectively.

Had all the outstanding vested share options been fully exercised on 31 December 2011, the Company would have received cash proceeds of HK$60,302,000 (2010: HK$100,557,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK$
2004 options *(note a)*	19.11.2004	30%	31.12.2005 – 30.03.2011	3.483
		30%	31.12.2006 – 30.03.2011	3.483
		40%	31.12.2007 – 30.03.2011	3.483
2006 options *(note b)*	03.10.2006	30%	04.10.2007 – 27.11.2015	2.796
		30%	04.04.2008 – 27.11.2015	2.796
		40%	04.10.2008 – 27.11.2015	2.796
2007 options *(note b)*	16.03.2007	30%	16.03.2008 – 27.11.2015	3.811
		30%	16.03.2009 – 27.11.2015	3.811
		40%	16.03.2010 – 27.11.2015	3.811

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

The Group did not recognise any expenses for the year ended 31 December 2011 (2010: HK$620,000) in relation to share options granted by the Company in previous year.

Notes:

a. The 2004 option represented the share options granted under the Scheme.

b. The 2006 and 2007 option represented the share options granted under the New Scheme.

39. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2011 amounted to approximately HK$39,311,000 (2010: HK$31,782,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2011, the Group made retirement benefit scheme contributions amounting to HK$439,000 (2010: HK$446,000).

40. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
TCCL (Finance) Limited	HK — Limited liability company	HK$1	**100%**	100%	Financing
Towngas China Group Limited	BVI — Limited liability company	US$12,821	**100%**	100%	Investment holding
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB56,000,000	**80%**	—	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB210,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Cangxi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Chaoyang Hong Kong and China Gas Company Limited 朝陽港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,791,838	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI — Limited liability company	US$1	**100%**	100%	Investment holding
Chi Ping Hong Kong and China Gas Co., Ltd. 茌平港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Limited 池州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Company Limited 大連長興港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$14,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Company Limited 大連旅順港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dayi Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hong Kong and China Gas Co., Ltd. 阜新港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB77,200,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$4,010,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Towngas Limited 公主嶺港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB53,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong and China Gas Company Limited 桂林港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB14,000,000 (2010: RMB10,000,000)	**100%**	95%	Provision of natural gas and related services and gas pipeline construction
Hong Kong and China Gas (Dalian) Limited	HK — Limited liability company	HK$100	**100%**	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI — Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK — Limited liability company	HK$100	**100%**	—	Investment holding
Huangshan Hong Kong and China Gas Co Ltd 黃山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong and China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$2,100,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Taiping Hong Kong and China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$3,500,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Huzhou Hong Kong and China Gas Co., Ltd. 湖州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,500,000	**98.85%**	98.85%	Provision of natural gas and related services and gas pipeline construction
Jianyang Hong Kong and China Gas Co., Ltd. 簡陽港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Jihua Gas Co., Ltd. 濟南濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB100,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong and China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$6,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$5,440,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Co., Ltd. 樂至港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hong Kong and China Gas Co Ltd 龍口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US$7,070,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong and China Gas Company Limited 馬鞍山博望港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US$10,000,000	**75.1%**	—	Provision of natural gas and related services and gas pipeline construction

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40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB90,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Miluo Red-horse Natural Gas Development Company Limited 汨羅市紅馬燃氣開發有限公司	PRC — Sino-foreign equity joint venture	RMB50,000,000	**70%**	—	Provision of natural gas and related services and gas pipeline construction
Pengshan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB10,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC — Limited liability company	RMB3,590,000	**100%**	90%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Co Ltd 青島東億港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co Ltd 青島中即港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB73,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB128,561,800	**61.67%**	61.67%	Provision of natural gas and related services and gas pipeline construction
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC — Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	USD8,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB132,960,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC — Sino-foreign equity joint venture	USD7,000,000	**76%**	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI — Limited liability company	USD1	**100%**	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC — Wholly foreign-owned enterprise	US$200,000,000	**100%**	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Company Limited 武寧港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB5,000,000	**100%**	—	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC — Limited liability company	RMB22,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Xinjin Diyuan Natural Gas Co., Ltd. 新津縣地源天然氣有限責任公司	PRC — Sino-foreign equity joint venture	RMB12,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Xinjin Nanfang Natural Gas Co., Ltd. 新津南方天然氣有限公司	PRC — Sino-foreign equity joint venture	RMB11,500,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction

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40. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Indirectly-owned subsidiaries (Continued)					
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB20,000,000	**80%**	—	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB50,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Company Limited 營口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	USD9,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB12,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB18,810,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC — Limited liability company	RMB18,890,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.