Financial Review

For the year ended 31 December 2011, the Group booked a turnover of HK$4,321 million, a growth of 44.9% when compared to 2010. Profit after taxation attributable to shareholders of the Company amounted to HK$709 million, a surge of 62.6% as compared to the previous year. Basic earnings per share amounted to 28.84 HK cents, representing an increase of 44.7% compared to 2010.

Financial Review

Turnover

Sales of Piped Gas and Related Products

Turnover from the sales of piped gas and related products increased 43.8% from HK$2,286 million to HK$3,288 million in 2011. This growth was primarily attributable to the substantial increase in the volume of gas sold and higher average gas sales prices. New subsidiaries and city piped gas projects acquired from The Hong Kong and China Gas Company Limited ("HKCG") in July 2010 accounted for 23.5% of this increase, while the remaining 76.5% was attributable to the organic growth of existing subsidiaries.

Gas Connection

In the gas connection business, income from connection fees for the year amounted to HK$1,033 million, a rise of 48.7% when compared to 2010. This was attributable to an increase of approximately 232,000 new household connections of subsidiaries in 2011.

Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used increased from HK$1,888 million in 2010 to HK$2,755 million in 2011. The increase in expenses was mainly attributable to the increase in the volume of gas sold.

Overheads

Overheads in 2011 amounted to HK$980 million, up 28.4% as compared to HK$763 million in 2010. The increase was mainly due to the Group's business development together with escalations in wages and inflation, among which increases in staff costs, depreciation and amortisation expenses and other expenses rising by 24.9%, 24.9% and 35.9% respectively. An increase of HK$47 million in overheads was due to new subsidiaries and city piped gas projects acquired from HKCG in July 2010.

Staff Costs

Staff costs increased from HK$316 million in 2010 to HK$394 million in 2011. The increase in staff costs was a result of the increase in the number of staff due to business development needs, new subsidiaries and the rise in average salaries in the mainland.

Finance Costs

Finance costs in 2011 amounted to HK$142 million, maintaining a similar level as compared to 2010. This was mainly attributable to the decrease in interest expenses due to the repayment of guaranteed senior notes, which bore an effective interest rate of 8.69%, by bank loans with lower interest rates in September 2011. However, the above decrease was offset by the increase in loans due to the acquisition of new projects, which gave rise to the increase in finance costs.

Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas"), which pays increasing dividends to the Group every year. Chengdu Gas was stated at cost and no impairment provision was necessary during the year.

Financial Review

Credit Ratings

In April 2011, Moody's Investors Service, a rating agency, raised the issuer rating of Towngas China and assigned an upgraded "Baa2" rating to the Company's senior unsecured bonds, outlook for the credit rating was considered to be stable while also reflecting the continuously enhancing credit strength of Towngas China. In April 2011, Standard & Poor's, another rating agency, launched its first credit rating specifically for Greater China, to meet the growing demand from capital market investors in the region. In September 2011, Standard & Poor's assigned a new "cnA" rating to the long term credit of Towngas China, which affirmed the Group's strong financial position.

Financial Resources and Position

As at 31 December 2011, the Group's total borrowings amounted to HK$4,887 million, of which HK$472 million represented loans from HKCG due between 1 to 5 years, HK$2,857 million represented bank loans and other loans due between 1 to 5 years, and HK$1,513 million represented bank loans and other loans due within 1 year. During the year, the Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowings of HK$350 million to the fixed-rate borrowings. Other than the HK$682 million bank loans and other borrowings which bore interest at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As at the end of the year, the Group had a current ratio of 0.8 times and a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 19.6%.

As at 31 December 2011, there was a secured bank loan of RMB59 million under a newly acquired project of the Group, with HK$12.62 million fixed assets being pledged. The project had secured such bank loan and pledged on assets before acquisition. Other than the above pledge on assets, the Group did not have any pledge on assets.

As at 31 December 2011, the Group had held unutilised facilities amounting to HK$1,297 million.

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$1,923 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and its shareholders. The Group maintains a consistently strong liquidity position with cash and cash equivalents on hand and unutilised banking facilities, and has adequate financial resources to meet all contractual obligations and operating requirements. Benefiting from its high credit ratings, the Group enjoys favourable interest rates on bank loans.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2011.

Currency Profile

The Group's activities are predominantly operated and conducted in Hong Kong and mainland China. Cash, cash equivalents or borrowings are thus mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As such, no material foreign exchange risk exposure is expected.

Final Dividend

In view of the continuous growth in the Group's results, the Board recommended the payment of a final dividend for the year ended 31 December 2011 of five HK cents per share (2010: three HK cents per share), representing an increase of 66.7% over last year.