

Report of the Directors

The Board have pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

Principal Activities

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. Particulars of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 63.

The Directors have recommended the payment of a final dividend out of share premium account of three HK cents per share (2009: two HK cents per share) to shareholders whose names are on the register of members of the Company on 30 May 2011. Subject to approval by shareholders at the AGM to be held on 30 May 2011 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 20 June 2011 and the register of members of the Company will be closed from Wednesday, 25 May 2011 to Monday, 30 May 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 67.

The Company's reserves available for distribution to shareholders at 31 December 2010 amounted to HK\$4,587 million (2009: HK\$3,324 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2010 is set out on page 4.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

Directors

The Directors during the year and up to the date of this Annual Report were as follows:

Executive Directors:

Mr. Chan Wing Kin, Alfred (*Chairman*)
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John (*Company Secretary*)
Ms. Law Wai Fun, Margaret
Mr. Ou Yaping (resigned on 16 March 2011)
Mr. Tang Yui Man, Francis (resigned on 16 March 2011)
(*Alternate Director to Mr. Ou Yaping*)

Independent Non-Executive Directors:

Dr. Chow Yei Ching
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

In accordance with Article 112 of the Articles of Association, Mr. Wong Wai Yee, Peter, Mr. Kwan Yuk Choi, James and Mr. Ho Hon Ming, John, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of Independent Non-Executive Directors to be independent.

Each of the Independent Non-Executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The biographical details of the Directors of the Company are set out on pages 30 to 33 of this Annual Report.

Report of the Directors

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2010, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and underlying Shares

Name of Company	Name of Director	Capacity	Interest in shares			Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of issued share capital of the Company or its associated corporation as at 31.12.2010
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	-	-	-	-	3,618,000	3,618,000	0.15%
	Wong Wai Yee, Peter	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Kwan Yuk Choi, James	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Ho Hon Ming, John	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Ou Yaping	Interest in controlled corporations	-	-	195,487,245 (Note)	195,487,245	-	195,487,245	7.98%
	Chow Yei Ching	Beneficial owner	1,600,000	-	-	1,600,000	-	1,600,000	0.07%
	Tang Yui Man, Francis (Alternate Director to Ou Yaping)	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
The Hong Kong and China Gas Company Limited	Chan Wing Kin, Alfred	Interest held jointly with spouse	136,858	-	-	136,858	-	136,858	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	48,315	54,741	-	103,056	-	103,056	0.00%
	Ho Hon Ming, John	Beneficial owner	21,434	-	-	21,434	-	21,434	0.00%
	Law Wai Fun, Margaret	Beneficial owner	13,068	-	-	13,068	-	13,068	0.00%

Note: The 195,487,245 Shares represent the aggregate of (i) 9,046,568 Shares held by Kenson Investment Limited ("Kenson") and (ii) 186,440,677 Shares held by Supreme All Investments Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina Holdings Limited ("Enerchina"). As Asia Pacific Promotion Limited ("Asia Pacific") was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 195,487,245 Shares.

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures (Continued)

Long positions in Shares and underlying Shares (Continued)

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2010 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2010	Exercise price HK\$	as at 31.12.2010	
					Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.06%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.04%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.04%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.05%

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- During the year, no option was granted to or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.
- These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2010, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Schemes of the Company

(a) Pre-GEM Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the “Pre-GEM Scheme”) by resolutions of the then sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Scheme was to recognize the contribution of certain Directors and employees of the Group and group members of Sinolink (the holding company of the Company at that time) to the growth of the Group and/or to the listing of the Shares on GEM Board.

As at the date of this report, no Share in respect of which options had been granted under the Pre-GEM Scheme was outstanding (2009: 3,618,000), representing 0% (2009: 0.18%) of the issued share capital of the Company as at the date of this report.

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

The Pre-GEM Scheme ended on the date on which dealings in the Shares commenced on GEM Board (i.e. 20 April 2001), and no further options would be offered or granted after that date. The provision of the Pre-GEM Scheme shall remain in full force and effect.

(b) 2001 GEM Share Option Scheme

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

The 2001 GEM Scheme remained in force for a period of 10 years commencing on 4 April 2001.

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

As at the date of this report, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Scheme was 9,307,500 (2009: 12,763,500), representing 0.38% (2009: 0.65%) of the issued share capital of the Company as at the date of this report.

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

Share Option Schemes of the Company (Continued)

(b) 2001 GEM Share Option Scheme (Continued)

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

The 2005 GEM Scheme has replaced the 2001 GEM Scheme and there will be no options granted under the 2001 GEM Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the 2001 GEM Scheme shall remain in full force and effect.

(c) 2005 GEM Share Option Scheme

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

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

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

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

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

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

2005 GEM Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date.

Share Option Schemes of the Company (Continued)

(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 ("2005 Main Board Scheme"), options may be granted 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. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

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

The share options under 2005 Main Board Scheme 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.

As at the date of this report, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 16,240,800 (2009: 16,843,800), representing 0.66% (2009: 0.86%) of the issued share capital of the Company as at the date of this report.

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

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

Share Option Schemes of the Company (Continued)

Details of specific categories of options are as follows:

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



Report of the Directors

Share Option Schemes of the Company (Continued)

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

	Option types	Date of Grant	Exercise Period	Exercise Price (HK\$)	Outstanding at 01.01.2010	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Category 1:									
Directors									
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	–	–	1,085,400	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	–	–	1,085,400	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	–	–	1,447,200	–
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	–	1,206,000	–
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	–	1,206,000	–
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	–	1,206,000	–
Tang Yui Man, Francis (Alternate Director to Ou Yaping)	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	904,500	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	1,206,000	–
Total for Directors					15,678,000	–	–	15,678,000	

Share Option Schemes of the Company (Continued)

	Option types	Date of Grant	Exercise Period	Exercise Price (HK\$)	Outstanding at 01.01.2010	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)	
Category 2: Employees	Pre-GEM	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14	
	Options	04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	1,809,000	–	–	3.14	
	2004	19.11.2004	31.12.2005 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73	
	GEM	19.11.2004	31.12.2006 – 30.03.2011	3.483	2,924,550	361,800	–	2,562,750	3.73	
	Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	3,899,400	482,400	–	3,417,000	3.73	
	2006	03.10.2006	04.10.2007 – 27.11.2015	2.796	482,400	180,900	–	301,500	3.65	
	Options	03.10.2006	04.04.2008 – 27.11.2015	2.796	723,600	180,900	–	542,700	3.65	
			03.10.2006	04.10.2008 – 27.11.2015	2.796	964,800	241,200	–	723,600	3.73
	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	–	–	603,000	–	
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	–	–	603,000	–	
			16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	–	–	804,000	–
	Total for Employees					17,547,300	5,427,000	–	12,120,300	
All categories					33,225,300	5,427,000	–	27,798,300		

Notes:

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

Arrangements to Purchase Shares or Debentures

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

Report of the Directors

Directors' Interests in Contracts of Significance

There are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

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

Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of The Hong Kong and China Gas Company Limited ("HKCG") and Mr. Kwan Yuk Choi, James, an Executive Director of the Company, is an executive director of HKCG.

HKCG and its subsidiaries (excluding the Group) ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

Substantial Shareholders

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2010
Lee Chau Kee	Interest of controlled corporations	1,628,172,901 (Note 1)	66.49%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 (Note 2)	66.49%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 (Note 2)	66.49%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.49%
HKCG	Interest of controlled corporations	1,628,172,901 (Note 3)	66.49%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 (Note 3)	64.73%
HK&CG (China)	Beneficial owner	1,585,202,901 (Note 3)	64.73%
Asia Pacific	Interest of controlled corporations	195,487,245 (Note 4)	7.98%
Enerchina	Interest of controlled corporations	195,487,245 (Note 4)	7.98%
Supreme All	Beneficial owner	186,440,677 (Note 4)	7.61%

Substantial Shareholders (Continued)

Long positions in Shares and underlying Shares in the Company (Continued)

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 1,628,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,628,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,585,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
4. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 9,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by, Kenson, Supreme All, Enerchina and Asia Pacific.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2010, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short positions in Shares and underlying Shares in the Company

As at 31 December 2010, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2010, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Connected Transactions and Continuing Connected Transactions

Set out below is the information in relation to the connected transactions and continuing connected transactions that existed during the year ended 31 December 2010 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and note 36 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Liquefied Coalbed Methane Purchase Transactions

On 16 January 2009, the Company and HKCG entered into an agreement (the "LCBM Agreement") for a term commencing from 16 January 2009 up to 30 June 2010 in respect of the purchase of liquefied coalbed methane by members of the Group from members of the HKCG Group (the "LCBM Transactions"). As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. Thus, the LCBM Transactions constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements but are exempted from the independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

The LCBM Transactions were subject to a cap amount of RMB43,000,000 (approximately HK\$49,369,000) for the period from 1 January 2010 to 30 June 2010. Particulars of the LCBM Agreement and the LCBM Transactions were disclosed in an announcement of the Company dated 16 January 2009.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the LCBM Transactions for the period from 1 January 2010 to 11 May 2010 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available from independent third parties; and
- (iii) in accordance with the LCBM Agreement on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

The LCBM Agreement was terminated and replaced by the Gas Purchase Master Agreement with effect from 12 May 2010.

Disposal of LPG Business

On 2 April 2009, the Company and Top Diligent Limited (the “Purchaser”, which was then ultimately owned as to 40% by Mr. Shen Lian Jin (who resigned as Executive Director of the Company on 19 March 2009 but was then a director of certain subsidiaries of the Company), 30% by Mr. Li Zi Hong (then a director of certain subsidiaries of the Company) and 30% by Mr. Luo Yun Jin entered into an agreement (the “LPG Disposal Agreement”) pursuant to which the Company sold all the issued shares of Panva LPG Investment Holdings Limited (“Panva LPG”, the Company’s then wholly-owned subsidiary holding the LPG business of the Company) to the Purchaser (the “Disposal”) at the total consideration of HK\$419 million. On 1 June 2009, the Company and the Purchaser entered into a supplemental agreement (“Supplemental Agreement”) pursuant to which certain obligations of the parties under the LPG Disposal Agreement which would have been fulfilled before completion became post-completion obligations, and the LPG Disposal Agreement would be completed as scheduled.

As the Purchaser was then an associate of a former Executive Director as well as an associate of the then directors of certain subsidiaries of the Company, the Disposal constituted a connected transaction of the Company and was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Under the LPG Disposal Agreement, the Company was to advance a loan to Panva LPG (the “Panva Loan”) prior to completion of the LPG Disposal Agreement (the “Completion”) to enable Panva LPG to on lend the same to Panriver Investments Company Limited (“Panriver Investments”, a wholly-owned subsidiary of Panva LPG) to settle the consideration payable by Panriver Investments to Towngas Investments Limited (“Towngas Investments”, a wholly-owned subsidiary of the Company) (the “LPG Consideration”) for the acquisition of the then subsidiaries and associated companies of Panriver Investments. It was intended that the entire Panva Loan would be capitalized into shares of Panva LPG prior to Completion and form part of the Panva LPG shares to be transferred to the Purchaser at Completion.

Settlement of the LPG Consideration is subject to the foreign exchange control procedures in the PRC (the “Foreign Exchange Approvals”) but as at 1 June 2009, Foreign Exchange Approvals had not yet been obtained in respect of part of the LPG Consideration in the sums of RMB83.3 million and US\$3.6 million) (the “Outstanding LPG Consideration”). In order to complete the Disposal as scheduled, the Supplemental Agreement was entered into such that as post completion obligations and to the extent upon relevant Foreign Exchange Approvals are obtained from time to time (a) the Company would advance the portion of the Panva Loan required to settle the Outstanding LPG Consideration (the “Outstanding Panva Loan”) which will be on lent by Panva LPG to Panriver Investments; (b) the Outstanding LPG Consideration would be settled by Panriver Investments; and (c) the Outstanding Loan to be made by the Company would be capitalized into shares of Panva LPG and transferred to the Purchaser for no consideration as and when they are issued to the Company.

Disposal of LPG Business (Continued)

Since Panva Investments and Panva LPG became connected persons of the Company after Completion by virtue of their being associates of Mr. Shen Lian Jin and Mr. Li Zi Hong, both of whom being directors of certain subsidiaries of the Company, the payment of the Outstanding LPG Consideration, the provision of the Outstanding Panva Loan and the capitalization of the Outstanding Panva Loan into shares in Panva LPG for transfer to the Purchaser (the “Supplemental Agreement Transactions”) all constituted continuing connected transactions for the Company and were subject to the reporting and disclosure requirements pursuant to Rule 14A.41 of the Listing Rules. It was recently known to the Board that there was a change in the shareholding structure of the Purchaser. So far as the Directors are aware, the Purchaser is currently owned as to 32.8% by a company wholly-owned by Mr. Ou Yaping, an Executive Director during the year ended 31 December 2010, 20% by 2 former Directors who have resigned for more than 12 months, and 47.2% by a company owned by 7 individuals comprising an alternate Director during the year ended 31 December 2010, 2 existing directors of subsidiaries of the Company, 3 former Directors who have resigned for more than 12 months and a former director of subsidiaries of the Company who have resigned in December 2010. Accordingly, Panva Investments and Panva LPG continued to be connected persons of the Company by virtue of their being associates of Mr. Ou Yaping, a Director during the year ended 31 December 2010, and the Supplemental Agreement Transactions remained continuing connected transactions for the Company subject to the reporting and disclosure requirements pursuant to Rule 14A.41 of the Listing Rules.

The Disposal was approved at the extraordinary general meeting of the Company held on 11 May 2009 and Completion took place on 4 June 2009.

Particulars of the Disposal and the LPG Disposal Agreement were disclosed in the announcement of the Company dated 2 April 2009 and the circular of the Company dated 23 April 2009 and particulars of the Supplemental Agreement were disclosed in the announcement of the Company dated 1 June 2009. As at 31 December 2010, the balance of the Outstanding LPG Consideration was nil.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Supplemental Agreement Transactions during the year ended 31 December 2010 were entered into on normal commercial terms; and in accordance with the Supplemental Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions

On 12 May 2010, the Company and HKCG entered into three master agreements respectively, namely

- (1) an agreement (the “Gas Purchase Master Agreement”) relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the “Gas Purchase Transactions”);
- (2) an agreement (the “Pipeline Materials Purchase Master Agreement”) relating to the purchase of pipeline construction materials and tools by members of the Group from members of the HKCG Group (the “Pipeline Materials Purchase Transactions”); and

Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions (*Continued*)

- (3) an agreement (the “Gas Sales Master Agreement”) relating to the sales of various types of fuel gas (including but not limited to piped natural gas, compressed natural gas and liquefied natural gas) by members of the Group to HKCG Group (the “Gas Sales Transactions”, and together with the Gas Purchase Master Agreement and the Pipeline Materials Purchase Master Agreement collectively referred to as the “CCT Master Agreements”)

each for a term commencing from 12 May 2010 to 30 April 2013.

Pursuant to the Gas Purchase Master Agreement, the LCBM Agreement was terminated with effect from 12 May 2010.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. Thus, the transactions contemplated under the CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting and announcement requirements but were exempted from the independent shareholder’s approval requirements under Chapter 14A of the Listing Rules. The Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions are subject to annual cap amounts of RMB31,000,000 (approximately HK\$35,591,000), RMB10,000,000 (approximately HK\$11,481,000) and RMB14,000,000 (approximately HK\$16,073,000) respectively for the period from 12 May 2010 to 31 December 2010.

The respective amounts of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the period from 12 May 2010 to 31 December 2010 was RMB2,874,000 (approximately HK\$3,300,000), RMB4,395,000 (approximately HK\$5,046,000) and nil, which have not exceeded the annual caps as stated above.

Particulars of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions were disclosed in the announcement of the Company dated 12 May 2010.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the period from 12 May 2010 to 31 December 2010 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

Acquisition of the Entire Issued Share Capital of Towngas (BVI) Holdings Limited (the “Acquisition”)

On 17 March 2010, the Company entered into a sale and purchase agreement with HK&CG (China) (the “Acquisition Agreement”) pursuant to which the Company has conditionally agreed to purchase from HK&CG (China) the entire issued share capital of Towngas (BVI) Holdings Limited (“Towngas (BVI)”) and take assignment of all outstanding loans and indebtedness due from Towngas (BVI) to HK&CG (China) as at the date of completion of the Acquisition subject to the terms and conditions of the Acquisition Agreement in consideration of the allotment and issue of 485,000,000 new Shares to HK&CG(China) credited as fully paid at HK\$3.55 per share.

As HK&CG (China) was a substantial shareholder of the Company, the Acquisition constituted a connected transaction of the Company and was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Acquisition was approved at the extraordinary general meeting of the Company held on 29 April 2010 and completion of the Acquisition took place on 15 July 2010.

Particulars of the Acquisition and the Acquisition Agreement were disclosed in the announcements of the Company dated 17 March 2010 and 15 July 2010 and the circular of the Company dated 7 April 2010.

Related Party Transactions

Details of the related party transactions undertaken in normal course of business are set out in note 36 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have complied with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Borrowings

Particulars of borrowings of the Group as at 31 December 2010 are set out in Note 29 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$576,000.

Report of the Directors

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, there is sufficient public float of not less than 25% of the Company's issued shares during the year as required under the Listing Rules.

Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 39.83% of its operating cost for the year. Purchases from the largest supplier accounted for about 15.56% of its operating costs. None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had an interest in the Group's five largest suppliers. The percentage of the turnover attributable of the Group's five largest customers is less than 30% during the year.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of The Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

Emolument Policy

As at 31 December 2010, the Group had 15,744 employees. Approximately 99% of the Group's employees are located in China. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his/her associates, and executive, is involved in dealing his/her own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, and details of the schemes are set out in note 39 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this Annual Report.

Corporate Governance

The Company had complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2010. Details of the corporate governance of the Group are set out in the section headed “Corporate Governance Report” on page 54 to 61 in this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2010 have been audited by Messrs. Deloitte Touche Tohmatsu (“Deloitte”). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

Ho Hon Ming, John

Executive Director and Company Secretary

Hong Kong, 14 March 2011