港華燃氣有限公司
Towngas China Company Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

Annual Report 2009

Mission

To provide our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.

Contents

Corporate Information

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

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

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David *(Chairman)*
Chow Yei Ching
Cheng Mo Chi, Moses

Remuneration Committee

Chow Yei Ching *(Chairman)*
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chan Wing Kin, Alfred

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

23rd Floor, 363 Java Road
North Point, Hong Kong
Telephone : (852) 2963 3298
Fascimile : (852) 2561 6618
Stock Code : 1083
Website : www.towngaschina.com

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Advisers

(As to Hong Kong Law)
Woo, Kwan, Lee & Lo

(As to Cayman Islands Law)
Maples and Calder

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China, Shenzhen Branch
Hang Seng Bank Limited

Geographical Coverage

Heilongjiang	• Qiqihar
Jilin	• Changchun, Gongzhuling
Liaoning	• Anshan, Benxi, Chaoyang, Fuxin, Shenyang, Tieling
Shandong	• Chiping, Jimo, Jinan Changqing, Jinan West, Laoshan, Linqu, Longkou, Taian, Weifang, Weihai, Zibo, Zibo Lubo
Jiangsu	• Nanjing Gaochun

Anhui	• Anqing, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi
Jiangxi	• Changjiu
Sichuan	• Cangxi, Chengdu, Dayi, Jianyang, Lezhi, Mianyang, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
Chongqing	• Qijiang
Guangdong	• Foshan, Qingyuan, Shaoguan, Yangdong

• Piped Gas Projects: 49

Five Year Financial Summary

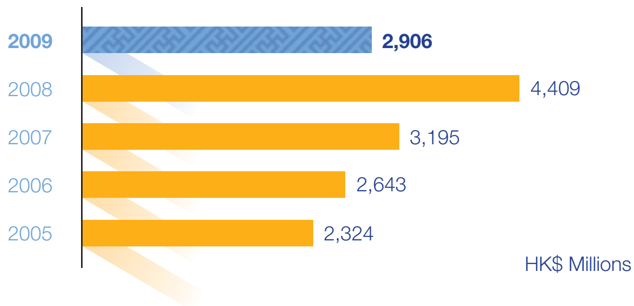
	For the year ended 31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
RESULTS					
Turnover	2,324,100	2,642,916	3,195,434	4,409,198	**2,905,953**
Profit (loss) before taxation	240,997	(229,566)	241,391	361,126	**414,214**
Taxation	(35,064)	(17,073)	(37,013)	(89,939)	**(102,071)**
Profit (loss) for the year	205,933	(246,639)	204,378	271,187	**312,143**
Attributable to:					
Shareholders of the Company*	155,777	(256,334)	144,504	202,282	**265,090**
Minority interests	50,156	9,695	59,874	68,905	**47,053**
Profit (loss) for the year	205,933	(246,639)	204,378	271,187	**312,143**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings (loss) per share					
Basic	16.53	(27.13)	8.36	10.33	**13.54**
Diluted	N/A	N/A	8.30	10.32	**13.52**

	As at 31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	4,921,745	4,776,596	9,115,192	10,386,545	**11,330,417**
Total liabilities	(2,889,401)	(2,737,591)	(2,780,469)	(3,473,711)	**(4,442,294)**
	2,032,344	2,039,005	6,334,723	6,912,834	**6,888,123**
Equity attributable to shareholders of the Company	1,642,726	1,536,638	5,730,203	6,177,801	**6,433,588**
Minority interests	389,618	502,367	604,520	735,033	**454,535**
Shareholders' funds	2,032,344	2,039,005	6,334,723	6,912,834	**6,888,123**

* the Company: Towngas China Company Limited

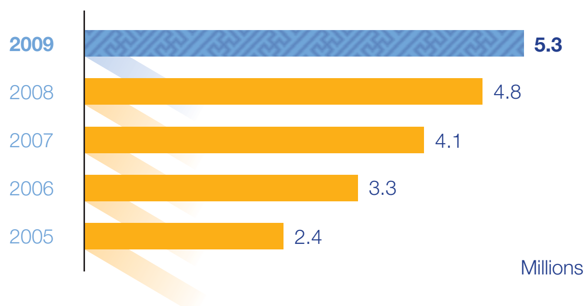
Financial Highlights

Turnover

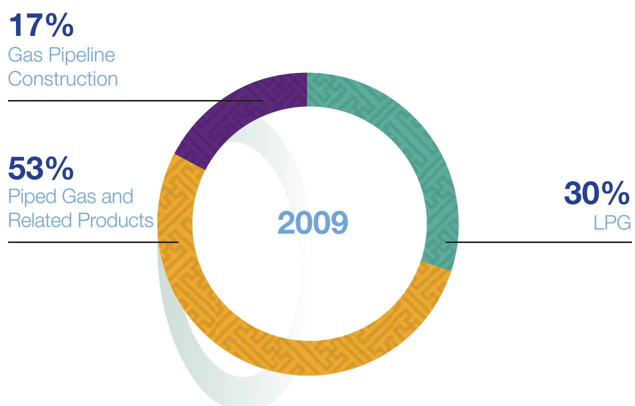


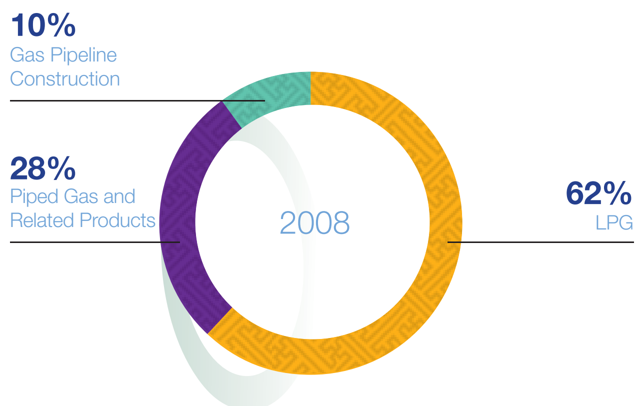
Profit (Loss) Attributable to Shareholders of the Company

Number of Customers – Piped Gas (All Entities)

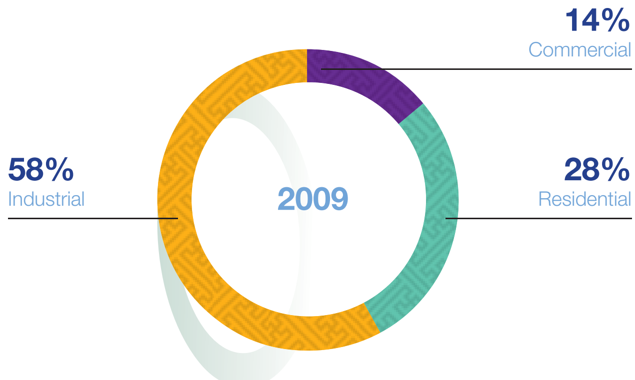


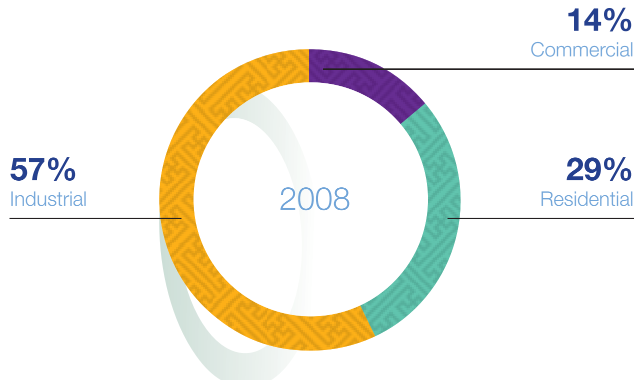
Analysis of Turnover





Percentage of Piped Gas Volume by Customer Mix (All Entities)





Chairman's Statement

Business Performance

Owing to the Group's efforts and the ongoing benefits from synergies due to the merger of its operations with The Hong Kong and China Gas Company Limited ("HKCG"), the Group recorded favorable growth in 2009. Total turnover of the Group's piped gas business was HK$2,025 million, an increase of 22.2% compared with 2008. Earnings before interest, taxation, depreciation and amortisation ("EBITDA") amounted to HK$725 million, an increase of 7.1% when compared to last year. Profit after taxation attributable to shareholders of the Company amounted to HK$265 million, an increase of approximately 31.0% over 2008, while basic earnings per share were 13.54 HK cents. In light of the improving business performance, the board of directors of the Company ("the Board") has recommended a final dividend of two HK cents per share, representing a 100% increase over last year.

The achievements of Towngas China Group have been fully recognised by international rating agencies. Both Standard & Poor's and Moody's Investors Service maintained the Group's investment grade credit ratings, reflecting their confidence in Towngas China's operating management and business outlook.

Becoming a Subsidiary of HKCG

On 31 December 2009, HKCG gained effective control over the Company following a change in directorship of the Board. Since then, the Company has become a subsidiary of HKCG. In future, the Company will receive stronger support from HKCG in respect of its future development, and hence march towards a new era of business operations.

China’s Economy, Environmental Policies and Gas Business Development

China has been one of the countries around the world to recover fastest from the financial tsunami. Through measures such as stimulating domestic demand, improving economic structure and boosting domestic investment, the country has succeeded in both attaining its GDP growth target of 8% and reinvigorating its property and stock markets. Following gradual economic recovery of countries around the globe, China’s import, export and industrial enterprises will resume rapid growth. Looking ahead, China is well positioned to maintain stable and relatively rapid economic growth and accelerate its urbanization, industrialization and modernization processes, thus ushering in a new optimistic outlook for the country’s city gas industry.

On 26 November 2009, China officially announced a target for limiting greenhouse gas emissions, i.e. to cut carbon dioxide emissions per unit of GDP by 40-45% by 2020 from the 2005 level. This target will be incorporated into the country’s 12th Five Year Plan and form a mid-to-long-term planning for the country’s domestic economy and social development. Natural gas is a clean, highly efficient energy well suited to become a prime energy source for densely-populated cities. At the same time, it can also substitute for more polluting coal and fuel oil usage, thus serving as a clean energy source for the industrial sector. According to forecasts for China’s development plans, the country’s demand for natural gas will reach nearly 100 billion cubic metres by 2010 and 200 billion cubic metres by 2020. In the next 15 years, domestic demand for natural gas will grow at an average rate of 11%-13%.

In summary, China’s rapid economic development, the continually improving living standards of its people and incessantly rising pace of urbanization is driving up a sustained demand for city piped gas. In 2007, China announced natural gas utilization policies (NDRC Energy [2007] 2155), under which “gas consumption by urban and township residents for cooking and water heating” was to be given foremost priority. In the past few years, many developed cities across the country have been moving towards supplying gas via pipeline networks with comprehensive coverage. Purchase agreements have also been signed with foreign natural gas suppliers through large state-owned enterprises such as China National Petroleum Corporation. The direction of such developments, whether in policies, infrastructure construction or natural gas resources, will be favorable to China’s city gas businesses.

A CNG refilling station at Yuechi, Sichuan, which provides clean energy and contributes to the cause of environmental protection at the county.

China's Natural Gas Price Policy and Seasonal Natural Gas Shortage Incident

The West-to-East pipeline project in 2004 heralded the entry of China's city gas businesses into an era of rapid development. As city gas prices affect social livelihoods, local authorities from various regions have been exercising extraordinary prudence when adjusting city gas prices, with hearing procedures mandated on every such occasion. And with several natural gas purchase agreements signed between China and other countries about to be successively implemented, China is even more resolved to undertake natural gas pricing reforms. Furthermore, as natural gas becomes an increasingly market-oriented commodity, the country is considering establishing an interactive price mechanism for natural gas, designated for industrial and commercial use, as well as abolishing the requirement for hearing committees to be held every time adjustments to gas prices are proposed by city gas enterprises. In the long term, natural gas pricing reforms will portend a positive change for China's city gas enterprises. In the wake of these developments, Towngas China Group will maintain close liaison with its industry peers and trade associations, so that reform packages on natural gas prices will sufficiently take into account the interests of the city gas industry.

During the winter of 2009, China was hit by a large-scale gas shortage which aroused a high level of concern from the country and its people alike. In the aftermath of this gas shortage, which occurred despite prevailing positive conditions underscored by a 15% increase in annual gas sales in the country, a common belief has arisen in relevant departments and amongst industry specialists that the incident was a manifestation of imbalanced market developments. Hence, apart from a greater intensity of effort made to exploit more natural gas sources in the country, imports of natural gas and installations of gas storage amenities to facilitate seasonal supply adjustments have also been accelerated following the incident. China has also started to emphasize the need to implement nation-wide city gas consumption plans to avoid repercussions of imbalanced developments. Hence, downstream market competition by resources capitalization in the past few years is now gradually being replaced by superior business solutions, high-calibre management and service satisfaction. These changes will have very positive implications for Towngas China Group.

With natural gas, commercial customers gain the access to an energy source which is safe, efficient and clean, thereby empowering their profitability.

A CNG transmission facility at Huangshan, Anhui demonstrates a strong architectural style in the local region.

Business Development and Strategic Planning of the Group

During the year, the Group realigned its investment policy so as to develop new projects through existing projects in their peripheral cities. In 2009, the Group established projects in Xinjin and Xindu of Sichuan province, Chiping of Shandong province, Huizhou District and Huangshan District in Huangshan City of Anhui province, Changjiu of Jiangxi province, and Yangdong of Guangdong province, and signed an agreement for a project in Linqu of Shandong province. In February 2010, an agreement was also signed to establish a project at the New Industrial District in Anshan City of Liaoning province. These successful exploration and acquisition initiatives have considerably consolidated the Group's market status and strengthened momentum for subsequent developments. Concurrently, the Group also made considerable headway with many of its projects in Southern, Central and Southwestern China. It is expected that the Group will eventually set up joint ventures in these regions.

Corporate Social Responsibility

It is a longstanding tradition for the Group and its workforce to actively join community activities to demonstrate the Group's concern for the underprivileged. In 2009, the Group and its subsidiaries launched a "Book Donation with Love and Care Programme" with HKCG for school children in the disaster-stricken regions of Sichuan province, so as to provide them with more learning opportunities.

In light of this outstanding corporate social responsibility achievement, the Group was awarded both the prestigious "The China Best Corporate Citizenship Award" and the "2009 China 'Harmony • Responsibility' A Brand with Love" Award this year. For environmental protection, at the beginning of 2010, the Group also secured the "2009 National Enterprise Environmental Excellence Award". All these awards are a testament to the Group's corporate social responsibility endeavors in participating in charity and community activities while providing safe gas supply and quality services.

Outlook

In 2010, China will embrace imports of natural gas, which will be transmitted by the Second West-to-East gas pipeline and the Sichuan-to-East gas pipeline. The city gas industry will be provided with sufficient natural gas sources to develop the downstream gas consumption market, thus creating, at the same time, a more extensive platform for the Group to develop its new markets. All these factors will contribute to far-reaching healthy developments in the operating environment for China's city gas industry in 2010.

In 2010, the Group will focus its work on the following areas:

Elevating corporate efficiency and business strategy implementation through improved performance management so as to brace itself for market opportunities arising from a new era of dual gas supply from imported and domestically-produced gas.

In developing new projects, the Group will leverage the relative advantage it enjoys from its large number of project companies and their extensive network close to the West-to-East pipeline and the Sichuan-to-East pipeline and to coastal liquefied natural gas receiving terminals. Based on this competitive edge, the Group will endeavor to explore new market opportunities.

In order to strengthen competitiveness of existing projects, the Group will draw on the robust strengths of HKCG and implement an investment strategy focusing on economic efficiency. With the Group's corporate culture, continuing effort will be made to raise the standard of its employees in areas of service quality, gas supply safety and market developments. Collectively, these initiatives will boost profitability, establish a sustainable competitive edge for the Group and its employees. They also enable the Group to secure a leading industry position in the rapid developing city gas industry propelled by diversified natural gas sources in China.

Appreciation

On behalf of the Board, I would like to thank all staff for their dedication and hard work, and to thank all shareholders and investors for their long-standing support.

CHAN Wing Kin, Alfred
Chairman

Hong Kong, 15 March 2010

Financial Review

For the year ended 31 December 2009, the Group's piped gas business booked a turnover of HK$2,025 million, a growth of 22.2% when compared to 2008. EBITDA was HK$725 million, an increase of approximately 7.1% from 2008. Profit after taxation attributable to shareholders of the Company amounted to HK$265 million, a surge of 31.0% when compared to last year.

Turnover

For the year ended 31 December 2009, the Group booked a turnover of HK$2,906 million, representing a decrease of 34.1% when compared to 2008. Such a decrease was due to the disposal of liquefied petroleum gas ("LPG") operations. The turnover is mainly attributable to the following businesses:

Sales of Piped Gas and Related Products

Turnover from sales of piped gas and related products increased by 26.8% from HK$1,210 million to HK$1,534 million in 2009. The increase is mainly contributed by a 30.6% increase in the total gas volume sold. The total gas volume sold during the year amounted to 760 million cubic metres, an increase of 178 million cubic metres from 2008, of which new subsidiaries contributed 35.7% of the increase while the organic growth of the existing subsidiaries accounted for the remaining 64.3%. The total number of piped gas connected customers as at 31 December 2009 was approximately 1,896,000 households, representing an increase of approximately 193,000 households from 2008, of which around 51,000 households were existing customers of newly acquired subsidiaries.

Gas Pipeline Construction

For the gas pipeline construction business, construction fees income amounted to HK$492 million for the year, being an increase of 9.7% when compared to 2008. This is contributed by an increase of approximately 142,000 new household connections in 2009.

Sales of LPG

Turnover from sales of LPG decreased by HK$1,871 million when compared to 2008 and amounted to HK$880 million in 2009, primarily attributable to the disposal of the LPG operations by the Group in June 2009.

Operating Expenses

Operating expenses decreased by 36.7%, from HK$4,181 million in 2008 to HK$2,645 million in 2009, mainly due to the disposal of the LPG operations by the Group in June 2009. Operating expenses of piped gas business increased from HK$1,491 million in 2008 to HK$1,780 million in 2009, representing an increase of 19.4%. The increase is mainly due to increases in stores and materials used, staff costs, depreciation and amortization expenses of 27.8%, 18.4% and 16.0% respectively, while other expenses decreased by 14.4%. The addition of new subsidiaries also resulted in a HK$103 million increase.

Stores and Materials Used

Stores and materials used in piped gas business increased from HK$920 million in 2008 to HK$1,176 million in 2009. The increase in expenses is mainly attributed to the growth of the Group's piped gas business during the year. The addition of new subsidiaries contributed 32.8% of the increase.

Staff Costs

Staff costs of piped gas business increased from HK$212 million in 2008 to HK$251 million in 2009. The rise in staff costs is mainly in response to the business development. Acquisition of new subsidiaries during the year also accounted for approximately HK$9 million of the increase.

Other Expenses

The decrease in other expenses of piped gas business is mainly attributable to the enhanced cost control of existing subsidiaries under operation.

Finance Costs

Finance costs of piped gas business decreased from HK$142 million in 2008 to HK$127 million in 2009, mainly attributed to the purchase of US$8 million of guaranteed senior notes from the market by the Company during 2008, the full redemption of US$26.7 million convertible bonds, and the decrease of loan interest rates in 2009 when compared to those of last year.

Share of Results of Associates

Share of results of associates decreased from HK$146 million in 2008 to HK$137 million in 2009, representing a decrease of approximately 6.2%. The decrease is mainly attributed to a decline in profits of an associate's non-gas business as a result of market impact.

Share of Results of Jointly Controlled Entities ("JCEs")

Share of results of JCEs in piped gas business increased from approximately HK$57 million in 2008 to approximately HK$74 million in 2009, rising by approximately 29.8%. The increase is mainly attributed to the increase of 13.9% in the gas volume sold and the increase in the total number of JCEs customers of approximately 42,000 households, or 6.3%.

Available-for-sale Investments

Available-for-sale investments are mainly comprised of investments in Chengdu City Gas Co., Ltd. ("Chengdu Gas"). Chengdu Gas was stated at cost and no impairment provision was necessary during the year.

We are committed to provide comprehensive services to our customers in a sincere and caring manner.

Financial Resources and Position

The Group has adopted a prudent approach in managing its financial resources by maintaining an appropriate level of cash and cash equivalents and adequate facilities for daily operating needs and business development, and by controlling borrowings to a healthy level.

As at 31 December 2009, the Group's total borrowings, which were mainly denominated in Renminbi, Hong Kong dollars and United States dollars, amounted to HK$2,765 million, an increase of HK$501 million, or 22.1% when compared to that of last year. The total borrowings are mainly comprised of HK$471 million loans from HKCG due between 2 to 5 years, HK$1,110 million guaranteed senior notes due in 2011, and HK$507 million and HK$538 million bank loans due between 1 to 5 years and within 1 year respectively. Other than the guaranteed senior notes and HK$331 million bank loans and other borrowings which bear interest at fixed rates, other Group's borrowings are mainly arranged on a floating rate basis. The arrangements on terms and interest rates of the borrowings provide robust financial resources and stable interest costs for the Group.

Other than pledging shares in certain subsidiaries to secure the guaranteed senior notes, the Group did not have any pledge of assets.

As at 31 December 2009, the Group had committed but not yet utilized facilities amounting to HK$262 million. As of the date of this announcement, the Group had obtained additional facilities from two banks in Hong Kong and two banks in Shenzhen of HK$450 million and RMB200 million respectively.

Families and friends spend time enjoying freshly cooked food swiftly served by natural gas-empowering restaurant.

Cash and cash equivalents of the Group, which were mainly denominated in Renminbi, Hong Kong dollars and United States dollars, totalled HK$964 million as at 31 December 2009.

The Group ended the year with a current ratio of 0.7 times, an EBITDA-to-interest coverage ratio of 5.7 times and a gearing ratio (net debt excluding HKCG loans ("ND") to equity attributable to shareholders plus ND) of 17.1%.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity, and financing agreements with banks and its shareholder. The Group has cash and cash equivalents, together with unutilised banking facilities, which allow the Group to continuously maintain a strong liquidity position and adequate financial resources to meet its contractual obligations and operating needs.

Credit Ratings

In 2009, Moody's Investors Service, a rating agency, maintained a "Baa3" rating for the Company's senior unsecured bonds and continued to assign a "Baa3" issuer rating to the Company. The outlook on the Company was rated as stable. Meanwhile, Standard & Poor's, another rating agency, maintained a "BBB-" rating for the Company's long term corporate credit rating and the issue rating of the US$200 million notes. The outlook on the Company is stable, reflecting a solid financial position and promising operating prospect of the Company.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2009.

Currency Profile

The Group's activities are predominantly operated and conducted in Hong Kong and the PRC. As such, its cash, cash equivalents or borrowings are mainly denominated in Renminbi, Hong Kong dollars and United States dollars, hence, the Group does not expect any material foreign exchange risk exposure.

Final Dividend

In view of the continuous growth in the Group's results, the Board recommended a final dividend for the year ended 31 December 2009 of two HK cents per share (2008: one HK cent per share), representing a 100% increase over last year.


港华燃气
Towngas

Business Review

Having originated in 2008, the global financial tsunami dealt an unprecedented blow to China's economy last year. However, with implementation of economic control measures, the country's economy has recovered ahead of other regions in the world. Under these circumstances, the Group achieved satisfactory results in 2009 through consistent hard work to increase revenue and contain costs. Meanwhile, the Group has strictly adhered to its mission to prioritize safety, to put customers first and to provide quality services on a sustainable basis. On top of this, the Group's brand reputation was augmented by a number of top honours won during the year, including the "The China Best Corporate Citizenship Award", "2009 National Enterprise Environmental Excellence Award" and "2009 China 'Harmony • Responsibility' A Brand with Love" Award.

Families using our Bauhinia brand appliances enjoy safety, convenience and relaxation in their homes.

Customer Services

In 2009, the Group adhered to its principle of "customers first" by establishing additional one-stop-shop customer service centres, in accordance with their needs and market developments. The Group has also set up customer services hotlines in various enterprises which serve to satisfy customers' needs in all fronts through enthusiastic and professional services.

To ensure the safe use of gas appliances by customers, the Group has been promoting its Bauhinia gas appliance brand since 2007. As at the end of 2009, sales of Bauhinia products remained strong with accumulated sales reaching 85,000 units. Installation and routine maintenance work increases as sales of Bauhinia products expand. Therefore, in order to uplift standards, the Group further optimized the structure of after-sales services in 2009 and issued relevant guidelines to assist this process.

Our technicians carry out regular safety inspections for domestic and commercial customers to ensure safety in their uses of gas.

Safety and Risk Management

In 2009, the Group convened a “Safety Management Conference for General Managers” in both Changchun and Chongqing, where action plans were formulated to raise safety and risk management standards. A number of taskforce teams, inaugurated by Group companies, were formed to review safety and risk management standards. With the relevant research results, it laid the foundation for the Group companies to elevate their safety and risk management level.

In 2009, Group companies implemented monthly safety and management plans by their respective general managers, in a bid to strengthen safety and risk management and performance and ensure all Group companies have sufficient preventive measures in place.

Over the years, the Group has established a comprehensive safety and risk management rating and auditing system across all its companies so as to elevate safety performance to international standards. In addition, the Group won a merit award at the “National Occupational Safety and Health Knowledge Contest” in 2009.

Technicians carry out regular safety inspections against gas leakage for pipelines and facilities.

Engineering and Procurement

For several years, the Group's incessant efforts in building and improving gas facilities have resulted in a clean and safe gas supply for customers. Even under the spectre of a global financial crisis, the Group still continued to invest in a timely manner with an aim to improve capacity of gas transmission and reliability of supply. Standard engineering guidelines adopted by the Group's companies ensure that project safety, quality and cost control benchmarks are unified.

In 2009, a proactive approach was taken towards new gas supply transmissions through the Second West-to-East pipeline, Sichuan-to-East pipeline and regional pipelines. Gate stations and related pipelines were constructed to facilitate prompt delivery of this additional gas supply to urban and township markets. Because of this, Group companies are now assured of a more reliable supply of natural gas. Bottleneck limitations from an expanding customer base have been further eased to provide greater room for the Group's developments.

Perfecting its supply network further in 2009, the Group extended the scope of joint purchasing to include all frequently-used engineering materials. The Group also undertook gradual moves to upgrade the technological level of its supply-chain management, promoted the use of software in its materials management system and instituted workflow optimization, efficiency enhancements and cost reductions. An online joint purchasing platform was implemented in 2009 to realize real-time sharing of order and delivery information between headquarters, vendors and various companies. All these initiatives are expected to elevate the Group's supply chain management standards.

The Group's continued effort in gas facilities establishment and enhancement demonstrates our commitment to provide safe and clean gas to customers.

On the occasion of the opening ceremony to the natural gas supply facilities under Huangshan Hong Kong and China Gas Co., Ltd.

Acquisitions

In 2009, the Group acquired a number of new projects in Sichuan, Shandong, Anhui, Jiangxi and Guangdong provinces. While the Group is engaging in proactive and careful market expansion, it signed an agreement in February 2010 for investment in, and establishment of, a piped gas project in the New Industrial District of Anshan City, Liaoning province.

Piped Gas Project in Xinjin, Sichuan Province

A piped gas project in Xinjin County was signed in December 2008 and established in May 2009. The Group acquired a 60% equity interest in the project for a consideration of RMB60 million. Xinjin County in Sichuan province acts as the southern gateway to Chengdu City and boasts a thriving industrial and private sector. Xinjin Industrial Park receives large scale operational transfers from industrial enterprises in Chengdu City and manufacturers in the Jiangzhe area that have enabled rapid development and formation of a specialized industrial and production chain, as well as the creation of vast future potential for the industrial gas market. It is expected that annual gas consumption will be as high as 70 million cubic metres in five years time and will exceed 100 million cubic metres in the longer term.

Piped Gas Project in Xindu, Sichuan Province

The Group acquired a 100% equity interest in a city piped gas project in Xindu District, Chengdu City, for RMB253 million. Xindu is an integral part of Chengdu City's urban sub-centre and 16 km away from downtown Chengdu. As a major industrial district of Chengdu City, Xindu's major industries include machinery (aviation), electronics, food, pharmaceuticals and furniture. Its annual gas consumption is expected to exceed 100 million cubic metres within five years.

Piped Gas Project in Chiping, Shandong Province

The Group acquired an 85% equity interest in this project, which has a registered capital of RMB40 million. Located in the northwestern region of Shandong province, Chiping County is 100 km away from the provincial capital Jinan City. As a key national industrial base for the production and processing of aluminum products, Chiping County is home to several enterprises involved in aluminum and copper metal production and processing, vehicle component production, textiles and pharmaceuticals. Chiping County is one of the regions in Shandong province with fast economic growth and annual gas consumption is expected to reach 49 million cubic metres within five years.

Piped Gas Project in Huizhou District, Huangshan City, Anhui Province

The Group holds a 100% equity interest in this project, which has a registered capital of USD2.1 million. As an industrial hub of Huangshan City, Huizhou District is dominated by fine petrochemical businesses offering huge potential for the development of a gas consumption market. Huizhou District is a newly-established project, scheduled to start operation in 2010. Annual gas consumption is expected to reach 6 million cubic metres within five years and 30 million cubic metres in the longer term.

Piped Gas Project in Huangshan District, Huangshan City, Anhui Province

The Group holds a 100% equity interest in this project, which has a registered capital of USD3.5 million. With tourism as its key industry, Huangshan District has well developed catering and hotel industries. The government has also emphasized the need for proactive implementation of urban environmental policies, which has created room for development of the natural gas market. Huangshan District is a newly-established project and is expected to commence operation in 2010. Annual gas consumption is projected to be approximately 19 million cubic metres within five years and as high as 40 million cubic metres in the longer term.

Piped Gas Project in Changjiu, Jiangxi Province

The Group has acquired a 60% equity interest in Jiangxi Jihua Energy Development Co., Ltd, which has a registered capital of RMB20 million. The project company is located in the core region of the Changjiu Industrial Corridor and Poyang Lake Ecological and Economic Zone, which covers Yongxiu County, Gongqing County, De’an County and Xingzi County, within the precinct between Nanchang City and Jiujiang City of Jiangxi province. As a newly constructed piped gas transmission line, the Changjiu project is expected to account for over 90% of the region’s overall industrial gas volume. Annual gas sales from the project are expected to reach 200 million cubic metres within five years and 400 million cubic metres in the longer term.

Piped Gas Project in Yangdong, Guangdong Province

The Group holds a 100% equity interest in this project, which has a registered capital of RMB50 million. Located in the southwestern coastal region of Guangdong province on the western fringe of the Pearl River Delta, Yangdong County is a robust industrial base for metal and cutlery businesses. With a relatively large number of gas-consuming enterprises, the County has a huge potential gas market. The project company is expected to achieve annual gas sales of approximately 30 million cubic metres within five years and 80 million cubic metres in the longer term. Investing in the Yangdong piped gas project has significant implications for the Group in furthering its project developments to the rest of western Guangdong and Guangxi provinces.

Piped Gas Project in Linqu, Shandong Province

In November 2009, the Group acquired a 25% equity interest in Shandong Weifang Linqu Gas Company Limited, which has a registered capital of USD2.06 million. Weifang Hong Kong and China Gas Company Limited, a joint venture in which the Group holds a 50% equity interest, has also acquired a 34.82% interest in this project. Therefore, the Group holds an effective 42.41% equity stake in the Linqu project. Linqu County is undergoing rapid industrial development, and has a number of key industries including aluminum and stainless steel processing, chemical metallurgy and building materials processing which offer a gas-consumption market with vast potential. It is forecast that the project company will achieve annual gas sales of 56 million cubic metres within five years and 132 million cubic metres in the longer term.

Piped Gas Project in the New Industrial District of Anshan City, Liaoning Province

In February 2010, the Group signed an agreement to invest in a piped gas project in the New Industrial District of Anshan City, Liaoning province. This project has a registered capital of USD15 million in which the Group holds a 100% equity interest. The project company has been authorized to operate a piped gas business in three industrial zones – Dadao Wan, Lingshan and Ningyuan in Anshan City. These three industrial zones feature a robust industrial base engaged in the equipment manufacturing business with a massive demand for natural gas. Their annual gas consumption is expected to reach 57 million cubic metres within five years and 100 million cubic metres in the longer term.

Disposal of LPG Operations

As disclosed in a Company announcement on 2 April 2009 (supplemented by a subsequent announcement dated 1 June 2009), the Group disposed of its LPG operations for a total consideration of HK$419 million. This transaction was approved at an extraordinary general meeting ("EGM") held on 11 May 2009. The disposal, which was completed on 4 June 2009, has subsequently enabled the Group to focus its resources on developing its city piped gas business, thereby enhancing the profitability of the Group.

Staff Training and Development

As of 31 December 2009, the Group had 14,251 employees, 99% of whom work in mainland China.The Group continued to strongly emphasize the importance of grooming its workforce to mitigate the impact of the financial crisis and to provide momentum for driving future developments.

The Group collaborated with the School of Economics and Management, Tsinghua University, to hold a "Senior Management Programme" for its senior executives. With Towngas Leadership Competency as its core objective, the programme was specially designed to broaden participants' horizons and help cultivate a fresh mindset to overcome current and future challenges facing the Group as well as advance new solutions and innovative ideas to management.

The Group has also extended its Management Training and Succession Planning Schemes to senior executives to groom top-notch talent to spearhead the Group's future expansion.

In addition to enhancing key performance indicators related to safety and engineering, the Group is also equally concerned to develop professional and technical talent. In 2009, the Professional Talents Development Scheme became a key management focus. Senior executives from the Group and its companies participated in research for the project with a mission to develop a mechanism and platform for sustained training and ensure adequate resources are located for this initiative. These measures are considered essential to reinforce professional and technical standards to facilitate the Group's continuing leadership within the industry. In 2009, the Group joined several other organizations, including the Department of Construction of Sichuan Province, Quality and Technical Supervision Bureau of Sichuan Province, Southwest Petroleum University and the Gas Association of Sichuan in establishing a training centre for the gas industry in Ziyang City, Sichuan province. This has enabled the Group to deepen its collaboration with government organizations, industry associations and academic institutions in a concerted effort to groom technical talent for the industry.

Through staff exposure to its corporate culture, Superior Quality Service Programme and 5S onsite management, the Group is providing its substantial workforce with opportunities for training in corporate philosophy and management techniques, thereby laying a strong foundation for staff's future career development.

Corporate Culture and Social Responsibilities

It is a longstanding tradition for the Group and its workforce to participate in community services, sponsorship and sharing events and other activities to demonstrate their concern for the underprivileged. The Group's volunteers assisted the elderly and disabled, cared for children, provided relief to the poor and the destitute, as well as carried out publicity campaigns to promote gas safety within the community.

In 2009, the Group and its subsidiary companies also launched a "Book Donation with Love and Care Programme" with HKCG, collecting close to 30,000 books in less than a month, donating these to 10 schools in the disaster-stricken regions of Sichuan for use by about 20,000 school children. The Group's volunteers also visited these schools, working alongside students to build bookshelves and libraries.

The Group also donated RMB150,000 to the "Song Chingling Shanghai Foundation – Bank of East Asia Charity Fund" which embraces libraries, e-learning facilities and Internet access for village schools and their students, thus making an invaluable contribution to the cultural education of young people in poor areas.

In 2009, the Group was awarded the prestigious "The China Best Corporate Citizenship Award" from among 1,000 enterprises that participated in the event. The Group also won the "2009 China 'Harmony • Responsibility' A Brand with Love" Award, being an annual award organized by "New Century Magazine" for the fourth year. The above awards have demonstrated the Group's commitments in serving the community, returning to the community and devoting to the communities over the years.

In building its corporate culture, the Group adheres to a people-oriented management model and adopts the guiding principle of "cultural diversification". The Group's internal magazine "Ming Qi" serves as a standard in the industry, publishing comprehensive insights, objective and timely reports regarding group companies and detailed descriptions of the work and life of employees with a human touch. "Ming Qi" won the "Best Internal Publication Award" in the "2009 Gasshow Performance Ranking" in recognition for its distinguishness among internal publication of gas corporations.

As regards environmental protection, the Group secured the "2009 National Enterprise Environmental Excellence Award". Overall, the Group seeks to be an outstanding corporate citizen by not only fulfilling its obligations in gas safety and customer service, but also through major corporate social responsibility activities and events in paying back to the society with our utmost efforts.

Voluntary workers from Towngas China paid visit to Shenzhen Min Ai Disabled Children's Welfare Center（深圳市民愛特殊兒童福利院）with donated daily articles and played games with children who were receiving treatments there.

Biographical Details of Directors

Mr. Chan Wing Kin, Alfred, *B.B.S., B.Sc. (Eng), M. Sc. (Eng), C. Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I.*, aged 59, has been the Chairman and an Executive Director of the Company since 1 March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorship in various subsidiaries of HKCG. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited. He is a Member of the Eleventh Wuhan Committee of the Chinese People's Political Consultative Conference and a Standing Director of China Gas Association. Mr. Chan is also a General Committee Member of The Chamber of Hong Kong Listed Companies for the year 2009-2010. Mr. Chan received the Executive Award under the DHL/ SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer and Fellow of The Institution of Mechanical Engineers, Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute.

Chan Wing Kin, Alfred | Kwan Yuk Choi, James | Wong Wai Yee, Peter | Ho Hon Ming, John | Law Wai Fun, Margaret

Mr. Wong Wai Yee, Peter, *M.B.A., C.M.A., A.C.S., A.C.I.S.*, aged 58, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Mr. Wong is the Head – China Business of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorship in various subsidiaries of HKCG. Mr. Wong is a professional accountant and a chartered company secretary. Mr. Wong was formerly a director of Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 33 years of experience in corporate finance, management and international working experience.

Mr. Kwan Yuk Choi, James, *J.P., B.Sc. (Eng), M.B.A., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E.*, aged 58, has been an Executive Director of the Company since 1 March 2007. Mr. Kwan is an executive director and the chief operating officer of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorship in various subsidiaries of HKCG. He is currently a member of Construction Industry Council and a member of Transport Advisory Committee of the Hong Kong Special Administrative Region and a Member of the Twelfth Nanjing Committee of the Chinese People's Political Consultative Conference. He was President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan is a Chartered Engineer and Fellow of The Institution of Mechanical Engineers, Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers.

Ou Yaping   Chow Yei Ching   Cheng Mo Chi, Moses   Li Man Bun, Brian David

Biographical Details of Directors

Mr. Ho Hon Ming, John, *F.C.A., F.C.P.A., B.A. (Hons.)*, aged 53, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorship in various subsidiaries of HKCG. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 31 years of experience in accounting, corporate finance and investments.

Ms. Law Wai Fun, Margaret, *MHKIHRM, MBA, DipEd, BA (Hons)*, aged 59, was appointed as an Executive Director of the Company on 31 December 2009. Ms. Law has been the Head – Corporate Human Resources of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) since 2006. Ms. Law has been in the field of human resources for more than 30 years. She is a Council Member of the Hong Kong Institute of Human Resource Management, and chairs the Committee on Management and Supervisory Training of the Vocational Training Council.

Mr. Ou Yaping, aged 48, has been an Executive Director of the Company since 16 November 2000 and is an indirect shareholder of the Company. He is also the chairman and the executive director of Sinolink Worldwide Holdings Limited ("Sinolink") and Enerchina Holdings Limited ("Enerchina"). Sinolink and Enerchina are public listed companies in Hong Kong and Enerchina is a substantial shareholder of the Company. Mr. Ou holds a Bachelor's degree in Engineering Management from Beijing Institute of Technology in China and is also the vice chairman of the board and a part-time professor of Beijing Institute of Technology. He was previously employed by a number of trading companies and investment companies, both in Hong Kong and China. Mr. Ou has over 24 years of experience in investing, trading and corporate management.

Dr. Chow Yei Ching, *GBS*, aged 74, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Dr. Chow is the founder and chairman of Chevalier Group which consists of two public listed companies in Hong Kong, namely Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is currently a non-executive director of Television Broadcasts Limited, also a public listed company in Hong Kong. His other directorships in public listed companies in the last 3 years include Van Shung Chong Holdings Limited and Shaw Brothers (Hong Kong) Limited which was delisted on 19 March 2009. Dr. Chow resigned from Shaw Brothers (Hong Kong) Limited and Van Shung Chong Holdings Limited on 16 April 2009 and 1 January 2010 respectively. Dr. Chow is currently the Honorary Consul of the Kingdom of Bahrain in Hong Kong.

Dr. Cheng Mo Chi, Moses, *GBS, OBE, JP*, aged 60, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the member of both the Audit Committee and the Remuneration Committee of the Company. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. His other directorships in public listed companies in the last 3 years include Beijing Capital International Airport Company Limited, Galaxy Entertainment Group Limited and Shui On Construction and Materials Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange, and an independent director of ARA Asset Management (Singapore) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on the Singapore Stock Exchange.

Mr. Li Man Bun, Brian David, *MA (Cantab), MBA, ACA,* aged 35, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Li is the Deputy Chief Executive of The Bank of East Asia, Limited ("BEA"), responsible for BEA's China and international businesses. Mr. Li serves as a member of the National Committee and the Beijing Municipal Committee of the Chinese People's Political Consultative Conference. He is an Associate of The Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as an MA and BA from the University of Cambridge.

Mr. Tang Yui Man, Francis, aged 47, has been the alternate Director to Mr. Ou Yaping, an Executive Director of the Company since 1 March 2007. He is also the chief executive officer and an executive director of Sinolink and an executive director of Enerchina. Sinolink and Enerchina are public listed companies in Hong Kong and Enerchina is a substantial shareholder of the Company. Mr. Tang holds a Bachelor's degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang has numerous years of experience in management, accounting and finance.

Notes:

1. The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2009 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.

2. Save as disclosed in the Directors' respective biographical details under "Biographical Details of Directors" section, the Directors (a) have not held any directorships in other public listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

3. The current amounts of Directors' fees have been determined by the remuneration committee and the Board with reference to market rates, Directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 12 to the consolidated financial statements.

4. Except for Mr. Ou Yaping, Mr. Chen Wei (who had resigned on 31 December 2009) and Mr. Shen Lian Jin (who had resigned on 19 March 2009) who had respectively entered into director's service contracts with the Company which contacts have expired on 1 January 2010 (in the case of Mr. Ou Yaping) or the respective dates of resignation of Mr. Chen Wei and Mr. Shen Lian Jin, none of the Directors have signed director's service contracts with the Company. The Independent Non-Executive Directors, i.e. Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, have specific term of office for three years expiring on 22 May 2010 and it is proposed that their term of office will be renewed for a term commencing from 23 May 2010 to 22 May 2013 or the conclusion of the Company's annual general meeting ("AGM") in 2013, whichever is earlier. All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the Company's AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM of the Company.

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 2009.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of natural gas and liquefied petroleum gas ("LPG") in the People's Republic of China (the "PRC") including the provision of piped natural gas and LPG, construction of gas pipelines, the operation of city gas pipeline network, the operation of natural gas automobile refilling stations, and the sale of natural gas household appliances. Particulars of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

The Group was also engaged in the sale of LPG in bulk and in cylinders ("LPG operations"). During the year, the Group had disposed of its LPG operations at a total consideration of HK$419 million. This transaction was approved at the EGM held on 11 May 2009 and was completed on 4 June 2009. Details of the transaction were set out in the section headed "Connected Transactions and Continuing Connected Transactions – Disposal of LPG operations" on pages 50 to 51 as well as the Company's announcement dated 2 April 2009 (as supplemented by subsequent announcement dated 1 June 2009) and the Company's circular dated 22 April 2009. From then onwards, the Group had focused on the segment of city piped gas business.

Results and Final Dividend

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 62.

The Directors have recommended the payment of a final dividend out of share premium account of two HK cents per share (2008: one HK cent per share) to shareholders whose names are on the register of members of the Company on 29 April 2010. Subject to approval by shareholders at the AGM to be held on 29 April 2010 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 1 June 2010 and the register of members of the Company will be closed from Monday, 26 April 2010 to Thursday, 29 April 2010 (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 66.

The Company's reserves available for distribution to shareholders at 31 December 2009 amounted to HK$3,324 million. (2008: HK$3,342 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 2009 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 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 *(appointed on 31 December 2009)*
Mr. Ou Yaping
Mr. Chen Wei *(resigned on 31 December 2009)*
Mr. Shen Lian Jin *(resigned on 19 March 2009)*
Mr. Tang Yui Man, Francis *(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 95 of the Articles of Association, Ms. Law Wai Fun, Margaret shall retire from the office at the forthcoming AGM and, being eligible, will offer herself for re-election.

In accordance with Article 112 of the Articles of Association, Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, 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 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 32 to 36 of this Annual Report.

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

As at 31 December 2009, the interests or short positions of the Directors and chief executives 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: Personal interest	Interest in Shares: Family interest	Interest in Shares: Corporate interest	Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's or its associated corporation's issued share capital as at 31.12.2009
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	–	–	–	–	3,618,000	3,618,000	0.18%
	Wong Wai Yee, Peter	Beneficial owner	–	–	–	–	3,015,000	3,015,000	0.15%
	Kwan Yuk Choi, James	Beneficial owner	–	–	–	–	3,015,000	3,015,000	0.15%
	Ho Hon Ming, John	Beneficial owner	–	–	–	–	3,015,000	3,015,000	0.15%
	Ou Yaping	Beneficial owner and interest in controlled corporations	3,618,000	–	530,487,245 *(Note)*	534,105,245	–	534,105,245	27.27%
	Chow Yei Ching	Beneficial owner	1,600,000	–	–	1,600,000	–	1,600,000	0.08%
	Tang Yui Man, Francis (alternate Director to Ou Yaping)	Beneficial owner	–	–	–	–	3,015,000	3,015,000	0.15%
The Hong Kong and China Gas Company Limited	Chan Wing Kin, Alfred	Interest held jointly with spouse	124,417	–	–	124,417	–	124,417	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	43,923	49,765	–	93,688	–	93,688	0.00%
	Ho Hon Ming, John	Beneficial owner	19,486	–	–	19,486	–	19,486	0.00%
	Law Wai Fun, Margaret	Beneficial owner	11,880	–	–	11,880	–	11,880	0.00%

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

Note: The 530,487,245 Shares represent the aggregate of (i) 344,046,568 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. 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 530,487,245 Shares.

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 2009 were as follows:

				as at 31.12.2009		
Name of Directors	**Date of grant**	**Exercisable period**	**Number of Shares subject to outstanding options as at 01.01.2009**	**Exercise price** HK$	**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	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.06%
Tang Yui Man, Francis	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
(Alternate Director to	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
Ou Yaping)	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%

Directors' Rights to Acquire Shares *(Continued)*

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 option was granted to or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.

3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2009, there were no other interests or short positions of the Directors and chief executives 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 members 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, the outstanding number of Shares in respect of which options had been granted under the Pre-GEM Scheme was 3,618,000 (2008: 3,618,000), representing 0.18% (2008: 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.

Share Option Schemes of the Company *(Continued)*

(b) 2001 GEM Share Option Scheme *(Continued)*

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 12,763,500 (2008: 15,265,950), representing 0.65% (2008: 0.78%) 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.

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 be 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.

Share Option Schemes of the Company *(Continued)*

(c) 2005 GEM Share Option Scheme *(Continued)*

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.

(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an EGM 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 16,843,800 (2008: 18,853,800), representing 0.86% (2008: 0.96%) 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

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	Outstanding at 01.01.2009	Exercised during the year	Lapsed during the year	Resigned as Director during the year	Transfer to Employee during the year *(Note 4)*	Outstanding at 31.12.2009	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	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	–	–	–	–	1,085,400	–
	Options	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	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	–	–	904,500	–
	Options	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	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	–	–	904,500	–
	Options	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	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	–	–	–	904,500	–
	Options	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	–
Chen Wei *(Note 4)*	Pre-GEM	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	–	–	(1,809,000)	–	–	–
	Options	04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	–	–	(1,809,000)	–	–	–
	2004	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	(904,500)	–	–	–
	GEM	19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	(904,500)	–	–	–
	Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	(1,206,000)	–	–	–
Shen Lian Jin *(Note 4)*	2004	19.11.2004	31.12.2005 – 30.03.2011	3.483	603,000	–	–	(603,000)	–	–	–
	GEM	19.11.2004	31.12.2006 – 30.03.2011	3.483	603,000	–	–	(603,000)	–	–	–
	Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	804,000	–	–	(804,000)	–	–	–
	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	301,500	–	–	(301,500)	–	–	–
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	301,500	–	–	(301,500)	–	–	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	402,000	–	–	(402,000)	–	–	–
Tang Yui Man, Francis	2004	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	–	–	904,500	–
	GEM	19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	–	–	904,500	–
	Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	–	–	1,206,000	–
Total for Directors					25,326,000	–	–	(9,648,000)	–	15,678,000	–

Share Option Schemes of the Company *(Continued)*

	Option types	Date of Grant	Exercise Period	Exercise Price	Outstanding at 01.01.2009	Exercised during the year	Lapsed during the year	Resigned as Director during the year	Transfer to Employee during the year *(Note 4)*	Outstanding at 31.12.2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Category 2:	Pre- GEM	04.04.2001	01.01.2003 – 03.04.2011	0.473	–	–	–	–	1,809,000	1,809,000	–
Employees	Options	04.04.2001	01.01.2004 – 03.04.2011	0.473	–	–	–	–	1,809,000	1,809,000	–
	2004 GEM	19.11.2004	31.12.2005 – 30.03.2011	3.483	1,597,950	–	(180,900)	–	1,507,500	2,924,550	–
	Options	19.11.2004	31.12.2006 – 30.03.2011	3.483	2,412,000	–	(994,950)	–	1,507,500	2,924,550	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,216,000	–	(1,326,600)	–	2,010,000	3,899,400	–
	2006	03.10.2006	04.10.2007 – 27.11.2015	2.796	1,085,400	(241,200)	(361,800)	–	–	482,400	3.47
	Options	03.10.2006	04.04.2008 – 27.11.2015	2.796	1,326,600	(241,200)	(361,800)	–	–	723,600	3.47
		03.10.2006	04.10.2008 – 27.11.2015	2.796	1,768,800	(321,600)	(482,400)	–	–	964,800	3.47
	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	301,500	–	–	–	301,500	603,000	–
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	301,500	–	–	–	301,500	603,000	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	402,000	–	–	–	402,000	804,000	–
Total for Employees					12,411,750	(804,000)	(3,708,450)	–	9,648,000	17,547,300	
All categories					37,737,750	(804,000)	(3,708,450)	(9,648,000)	9,648,000	33,225,300	

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.

4. Mr. Shen Lian Jin and Mr. Chen Wei resigned as Executive Directors with effect from 19 March 2009 and 31 December 2009 respectively but remain as employees of the Group. As at 31 December 2009, Mr. Shen and Mr. Chen had 3,015,000 and 6,633,000 share options being outstanding respectively.

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.

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 HKCG and Mr Kwan Yuk Choi, James, an Executive Director of the Company, is an executive director of HKCG.

HKCG and its subsidiaries ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and China. 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 2009, 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 executives 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 31.12.2009
Lee Shau Kee	Interest of controlled corporations	893,172,901 *(Note 1)*	45.61%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	893,172,901 *(Note 2)*	45.61%
Riddick (Cayman) Limited ("Riddick")	Trustee	893,172,901 *(Note 2)*	45.61%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.61%
Henderson Development Limited ("HD")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.61%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.61%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.61%
HKCG	Interest of controlled corporations	893,172,901 *(Notes 3)*	45.61%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	850,202,901 *(Note 3)*	43.41%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	850,202,901 *(Note 3)*	43.41%
Asia Pacific	Interest of controlled corporations	530,487,245 *(Note 4)*	27.09%
Enerchina	Interest of controlled corporations	530,487,245 *(Note 4)*	27.09%
Kenson	Beneficial owner	344,046,568 *(Note 4)*	17.57%
Supreme All	Beneficial owner	186,440,677 *(Note 4)*	9.52%

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 893,172,901 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 893,172,901 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 850,202,901 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 344,046,568 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 2009, 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 2009, 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 2009, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives 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 entered into during the year ended 31 December 2009 that are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

Disposal of LPG Operations

On 2 April 2009, the Company and Top Diligent Limited (the "Purchaser", which is ultimately owned as to 40% by Mr. Shen Lian Jin (who was resigned as Executive Director of the Company on 19 March 2009), 30% by Mr. Li Zi Hong 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 operations 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 is 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 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 Panariver 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.

Since Panva Investments and Panva LPG have become connected persons of the Company after Completion by virtue of their being associates of Mr Shen Lian Jian and Mr Li Zi Hong, both of whom being directors of certain subsidiaries of the Company, the outstanding LPG Consideration and 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") will all constitute continuing connected transactions for the Company and are subject to the reporting and disclosure requirements pursuant to Rule 14A.41 of the Listing Rules. As Mr. Shen Lian Jian and Mr. Li Zi Hong terminated their directorship with the Group with effect from 19 March 2009 and 4 June 2009 respectively, Panva Investments and Panva LPG will no longer be connected persons of the Company as defined under Chapter 14A of the Listing Rules 12 months after the date of termination of their respective directorship. Accordingly, the Supplemental Agreement Transactions will cease to be continuing connected transactions for the Company from 5 June 2010 onwards.

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

Disposal of LPG Operations *(Continued)*

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 of the date of this report, the balance of the Outstanding LPG Consideration remains to be RMB83.3 million and US$3.6 million.

The Board including the Independent Non-executive Directors have reviewed and confirmed that the Supplemental Agreement Transactions during the year ended 31 December 2009 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.

The auditor of the Company have also confirmed that (a) the Supplemental Agreement Transactions have been approved by the Board; (b) the Supplemental Agreement Transactions have been entered into in accordance with the Supplemental Agreement; and (c) the amounts of the Supplemental Transactions for the relevant year have not exceeded the amount as disclosed in the Company's announcement dated 1 June 2009 relating to the Supplemental Agreement.

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 ("LCBM Transactions"). As HKCG is a substantial 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 are subject to the annual cap amounts of RMB53,000,000 (approximately HK$60,227,273) and RMB43,000,000 (approximately HK$48,863,636) for the year ended 31 December 2009 and for the six months ending 30 June 2010 respectively.

The total amount of the LCBM Transactions for the year ended 31 December 2009 was HK$4,572,000, which has not exceeded the annual cap as stated above.

Particulars of the LCBM Agreement and the LCBM Transactions were disclosed in the announcement of the Company dated 16 January 2009.

The Board including the Independent Non-executive Directors have reviewed and confirmed that the LCBM Transactions during the year ended 31 December 2009 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 in the interests of the shareholders of the Company as a whole.

The auditor of the Company have also confirmed that (a) the LCBM Transactions have been approved by the Board; (b) the LCBM Transactions have been entered into in accordance with the agreement governing the transactions; and (c) the amounts of the LCBM Transactions for the relevant year have not exceed the aforesaid cap.

Related Party Transactions

Details of the related party transactions undertaken in normal course of business are set out in note 37 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have compiled 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 2009 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$250,000.

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 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 percentage of the sales or turnover attributable to the Group's five largest suppliers or 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 2009.

Emolument Policy

As at 31 December 2009, the Group had 14,251 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 associates, and executive, is involved in dealing his 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 40 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 2009. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on page 54 to 60 in this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2009 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, 15 March 2010

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

Code on Corporate Governance Practices

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices since 2005.

The Company complied with the code provisions as set out in the Code throughout the year ended 31 December 2009. The application of the Code is stated in the following paragraphs.

Board of Directors

Composition

As at the date of this Annual Report, the Board comprises ten members (including one alternate Director) as detailed below:

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
Mr. Tang Yui Man, Francis *(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

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity.

Board of Directors *(Continued)*

Each Independent Non-Executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) between any members of the Board.

Pursuant to the Articles of Association, at least one third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2009, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise.

The term of office for Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, being the Independent Non-Executive Directors, shall expire on 22 May 2010 and it is proposed that their terms of office will be renewed for a term commencing from 23 May 2010 to 22 May 2013 or the conclusion of the Company's annual general meeting in 2013, whichever is earlier. They are also subject to retirement by rotation in accordance with the Articles of Association.

Function

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The Executive Directors are responsible for day-to-day management of the Company's operations. and conduct meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Matters specifically decided by the Board and those reserved for management are reviewed by the Board.

In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association sets out the responsibilities and proceedings of the Board. The Board meets regularly at least four times a year to consider operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

Board of Directors *(Continued)*

The Board held four regular Board meetings (within the meanings of the Code) during the year ended 31 December 2009 at approximately quarterly intervals. Due notices and Board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/Number of Meeting
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	4/4
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	4/4
Mr. Kwan Yuk Choi, James	4/4
Mr. Ho Hon Ming, John *(Company Secretary)*	4/4
Ms. Law Wai Fun, Margaret *(Note 1)*	0/0
Mr. Ou Yaping	2/4
Mr. Chen Wei	3/4
Mr. Shen Lian Jin *(Note 2)*	1/1
Mr. Tang Yui Man, Francis *(alternate Director to Mr. Ou Yaping)*	1/4
Independent Non-Executive Directors	
Dr. Chow Yei Ching	4/4
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4

Notes:

(1) Ms. Law Wai Fun, Margaret was appointed on 31 December 2009 and no board meetings were held during her term of office in 2009.

(2) Mr. Shen Lian Jin resigned as an Executive Director of the Company on 19 March 2009 and only one Board meeting was held during his term of office.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Wing Kin, Alfred and the Chief Executive Officer is Mr. Wong Wai Yee, Peter. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Chief Executive Officer, who is assisted by other Executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

Board of Directors *(Continued)*

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

The Company has set up a number of committees of the Board, including the Remuneration Committee and the Audit Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, Mr. Alfred Chan Wing Kin, and three Independent Non-Executive Directors, Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David and is chaired by Dr. Chow Yei Ching.

Written terms of reference of the Remuneration Committee have been adopted by the Board. The Remuneration Committee's responsibilities include the review and consideration of the Company's remuneration policy for Directors and senior management, the determination of remuneration packages for executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remuneration of Non-Executive Directors.

During the year ended 31 December 2009, the Remuneration Committee:

- reviewed the performance bonus for the year 2008 to senior management;
- reviewed the remuneration of the senior management; and
- reviewed the Directors' fees for the year ended 31 December 2009.

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee held two meetings during the year ended 31 December 2009 with individual attendance as follow:

Members of Remuneration Committee	Attendance/Number of Meeting
Dr. Chow Yei Ching	2/2
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chan Wing Kin, Alfred	2/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also 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 to maximize their potential and also contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David (being the Chairman of the Audit Committee), Dr. Chow Yei Ching and Dr. Cheng Mo Chi, Moses, all of whom are Independent Non-Executive Directors.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and reviews the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee have been adopted and are regularly reviewed and updated by the Board.

During the year ended 31 December 2009, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2008 and for the six months ended 30 June 2009;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed and approved remuneration of auditor for the year ended 31 December 2009.

The Audit Committee held two meetings during the year ended 31 December 2009 with individual attendance as follows:

Members of Audit Committee	Attendance/Number of Meeting
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching	2/2
Dr. Cheng Mo Chi, Moses	2/2

Nomination of Directors

The Company has not established a nomination committee and the selection and appointment of a Director are determined by the full Board directly. The Directors will select those proposed new Directors based on their skills, experience and who, in the opinion of the Directors, are able to make a positive contribution to the performance of the Board. The Board also reviews its composition to ensure that the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Company.

Model Code for Securities Transactions by Directors

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2009, following specific enquiry made by the Company, confirm that they have complied with the required standard set out in the Model Code throughout the year of 2009.

The Company has further adopted a formal model code for securities transactions by its relevant employees ("Code for Relevant Employees") in 2008, who may have access to the Company's price-sensitive information during the course of their employment, on terms no less exacting than the required standard set out in the Model Code.

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2009. Deloitte also reviewed the 2009 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2009 amounted to HK$5.38 million.

Non-audit service fees charged by Deloitte during 2009 were as follows:

Description of services performed		HK$
(1)	Acting as tax representative	25,000
(2)	Liquidity Review for Disposal of LPG Operations	220,000
(3)	Interim review of the financial statements of the Company for the six months ended 30 June 2009	500,000
(4)	Annual review on continuing connected transactions for the year ended 31 December 2009	25,000
Total		770,000

Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge that their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards. The statement of the Auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Auditor's Report on page 61 of this Annual Report.

Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Effectiveness of Internal Control System

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Group's Internal Audit Department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the Internal Audit Department and the senior management in their meetings held twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2009, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct any non-compliances.

Shareholders Communication

The Directors are aware of the importance of maintaining good relations and communications with shareholders.

The Company uses a range of communication tools, such as the AGM, the annual report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of key business imperatives.

The Company has maintained a website at "www.towngaschina.com" which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and can be archived (for documents published in the previous 5 years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2009 AGM held on 11 May 2009, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Remuneration Committee and members of senior management attended the 2009 AGM to answer the shareholders' questions.

An EGM was also held on 11 May 2009 to approve the disposal of the LPG operations of the Group. Members of the independent board committee were available at the EGM to answer questions.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED
港華燃氣有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 136, which comprise the consolidated statement of financial position as at 31 December 2009, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover			
– Continuing operations		**2,025,482**	1,658,142
– Discontinued operation		**880,471**	2,751,056
	7	**2,905,953**	4,409,198
Continuing operations			
Operating profit before returns on investments	8	**245,200**	166,820
Other income	9	**64,873**	44,281
Share of results of associates		**136,901**	146,160
Share of results of jointly controlled entities		**73,933**	56,659
Finance costs	10	**(126,963)**	(142,181)
Profit before taxation	11	**393,944**	271,739
Taxation	13	**(91,625)**	(72,718)
Profit for the year from continuing operations		**302,319**	199,021
Discontinued operation			
Profit for the year from discontinued operation	14	**9,824**	72,166
Profit for the year		**312,143**	271,187
Profit for the year attributable to:			
Shareholders of the Company		**265,090**	202,282
Minority interests		**47,053**	68,905
		312,143	271,187
Proposed final dividend of two HK cents (2008: one HK cent) per ordinary share	15	**39,167**	19,576
		HK cents	HK cents
Earnings per share	16		
From continuing and discontinued operations			
– Basic		**13.54**	10.33
– Diluted		**13.52**	10.32
Earnings per share	16		
From continuing operations			
– Basic		**13.57**	8.30
– Diluted		**13.55**	8.28

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**312,143**	271,187
Other comprehensive income		
Exchange differences arising on translation to presentation currency	**16,636**	279,646
Exchange difference released on disposal of subsidiaries	**(11,541)**	–
Other comprehensive income for the year	**5,095**	279,646
Total comprehensive income for the year	**317,238**	550,833
Total comprehensive income attributable to:		
Shareholders of the Company	**269,400**	436,448
Minority interests	**47,838**	114,385
Total comprehensive income for the year	**317,238**	550,833

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**4,077,210**	3,811,432
Leasehold land	18	**216,759**	221,004
Intangible assets	19	**182,210**	195,276
Goodwill	20	**2,752,733**	2,491,871
Interests in associates	21	**1,186,538**	1,083,075
Interests in jointly controlled entities	22	**779,328**	701,689
Loans to jointly controlled entities	22	**108,060**	101,618
Available-for-sale investments	23	**168,853**	169,968
Deferred consideration receivable	24	**283,325**	–
		9,755,016	8,775,933
Current assets			
Inventories	25	**101,856**	192,510
Leasehold land	18	**6,082**	7,016
Loans to a jointly controlled entity	22	**5,682**	84,781
Trade and other receivables, deposits and prepayments	26	**483,817**	452,283
Amounts due from minority shareholders	27	**14,103**	10,140
Bank balances and cash	26	**963,861**	863,882
		1,575,401	1,610,612
Current liabilities			
Trade and other payables and accrued charges	28	**1,318,905**	946,929
Amounts due to minority shareholders	27	**82,617**	27,704
Taxation		**189,475**	174,900
Borrowings – amount due within one year	29	**562,035**	222,950
		2,153,032	1,372,483
Net current (liabilities) assets		**(577,631)**	238,129
Total assets less current liabilities		**9,177,385**	9,014,062
Non-current liabilities			
Loans from a shareholder	30	**471,365**	440,364
Borrowings – amount due after one year	29	**1,731,337**	1,600,397
Deferred taxation	31	**86,560**	60,467
		2,289,262	2,101,228
Net assets		**6,888,123**	6,912,834

	Note	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	32	**195,836**	195,756
Reserves		**6,237,752**	5,982,045
Equity attributable to shareholders of the Company		**6,433,588**	6,177,801
Minority interests		**454,535**	735,033
Total equity		**6,888,123**	6,912,834

The consolidated financial statements on pages 62 to 136 were approved and authorised for issue by the Board of Directors ("the Board") on 15 March 2010 and are signed on its behalf by:

Chan Wing Kin, Alfred
DIRECTOR

Li Man Bun, Brian David
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to shareholders of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Exchange reserve** HK$'000	**Share option reserve** HK$'000	**Capital reserve** HK$'000 (note 33)	**General reserves** HK$'000 (note 33)	**Convertible bonds reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2008	195,635	4,430,637	439,790	37,018	1,101	40,427	25,047	560,548	5,730,203	604,520	6,334,723
Exchange differences arising on translation to presentation currency	–	–	234,166	–	–	–	–	–	234,166	45,480	279,646
Profit for the year	–	–	–	–	–	–	–	202,282	202,282	68,905	271,187
Total comprehensive income for the year	–	–	234,166	–	–	–	–	202,282	436,448	114,385	550,833
Issue of shares	121	3,332	–	(947)	–	–	–	–	2,506	–	2,506
Recognition of equity-settled share based payments	–	–	–	8,644	–	–	–	–	8,644	–	8,644
Transfer of convertible bonds reserve to retained earnings upon redemption	–	–	–	–	–	–	(25,047)	25,047	–	–	–
Transfer	–	–	–	–	–	10,450	–	(10,450)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	4,544	4,544
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	44,505	44,505
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(10,013)	(10,013)
Reduction in minority interests on deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(22,908)	(22,908)
	121	3,332	–	7,697	–	10,450	(25,047)	14,597	11,150	16,128	27,278
At 31 December 2008 and 1 January 2009	195,756	4,433,969	673,956	44,715	1,101	50,877	–	777,427	6,177,801	735,033	6,912,834
Exchange differences arising on translation to presentation currency	–	–	15,851	–	–	–	–	–	15,851	785	16,636
Reserve released on disposal of subsidiaries	–	–	(11,541)	–	–	–	–	–	(11,541)	–	(11,541)
Profit for the year	–	–	–	–	–	–	–	265,090	265,090	47,053	312,143
Total comprehensive income for the year	–	–	4,310	–	–	–	–	265,090	269,400	47,838	317,238
Issue of shares	80	2,923	–	(755)	–	–	–	–	2,248	–	2,248
Recognition of equity-settled share based payments	–	–	–	3,715	–	–	–	–	3,715	–	3,715
Disposal of subsidiaries	–	–	–	–	(1,101)	(14,321)	–	15,422	–	(356,160)	(356,160)
Share options forfeited	–	–	–	(4,816)	–	–	–	4,816	–	–	–
Transfer	–	–	–	–	–	17,286	–	(17,286)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	31,682	31,682
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	13,729	13,729
Dividend paid	–	(19,576)	–	–	–	–	–	–	(19,576)	–	(19,576)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(17,587)	(17,587)
	80	(16,653)	–	(1,856)	(1,101)	2,965	–	2,952	(13,613)	(328,336)	(341,949)
At 31 December 2009	195,836	4,417,316	678,266	42,859	–	53,842	–	1,045,469	6,433,588	454,535	6,888,123

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Profit before taxation	11	**414,214**	361,126
Adjustments for:			
Interest income		**(11,695)**	(11,420)
Discount on acquisition of a subsidiary		**(1,153)**	–
Imputed interest on loans to jointly controlled entities and deferred consideration receivable		**(12,506)**	(5,534)
Interest expenses		**125,930**	139,268
Share of results of associates		**(136,901)**	(146,160)
Share of results of jointly controlled entities		**(74,492)**	(61,730)
Dividends from available-for-sale investments		**(27,871)**	(7,375)
Amortisation of leasehold land		**7,421**	7,983
Amortisation of intangible assets		**8,438**	9,765
Share-based payment expenses		**3,715**	8,644
Depreciation of property, plant and equipment		**169,150**	159,051
Gain on disposal of property, plant and equipment		**(666)**	(1,387)
Gain on disposal of subsidiaries		**(458)**	–
Discount on repurchase of guaranteed senior notes		**–**	(3,240)
Allowance for doubtful debts		**5,000**	3,039
Operating cash flows before movements in working capital		**468,126**	452,030
Increase in inventories		**(52,516)**	(39,798)
Increase in trade receivables		**(18,816)**	(9,304)
Increase in other receivables, deposits and prepayments		**(129,977)**	(4,568)
Increase in trade payables		**13,149**	41,327
Increase in other payables and accrued charges		**356,968**	172,778
Increase (decrease) in amounts due to minority shareholders		**10,336**	(6,051)
Cash generated from operations		**647,270**	606,414
Interest paid		**(122,158)**	(129,862)
Taxation paid		**(64,060)**	(50,760)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**461,052**	425,792

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(516,116)**	(572,167)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	**(206,474)**	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	**(224,678)**	(4,251)
Acquisition of a jointly controlled entity		**(53,436)**	(68,027)
Purchase of leasehold land		**(11,610)**	(37,705)
Loan to a jointly controlled entity		**(5,682)**	(39,000)
Repayment of loan from a jointly controlled entity		**84,902**	14,739
Dividend received from associates		**31,998**	14,936
Dividends received from jointly controlled entities		**17,809**	–
Dividends from available-for-sale investments		**27,871**	7,375
Interest received		**11,695**	11,420
Proceeds from disposal of property, plant and equipment		**7,706**	7,861
Deemed disposal of a subsidiary (net of cash and cash equivalents disposed)	36	**–**	(23,311)
Acquisition of an intangible asset		**–**	(9,435)
NET CASH USED IN INVESTING ACTIVITIES		**(836,015)**	(697,565)
FINANCING ACTIVITIES			
Redemption of convertible bonds		**–**	(208,362)
Repurchase of guaranteed senior notes		**–**	(58,571)
Repayments of bank and other loans		**(43,865)**	(38,549)
Dividend paid		**(19,576)**	–
Dividends paid to minority shareholders of subsidiaries		**(17,587)**	(10,013)
New bank and other loans raised		**504,505**	348,231
New loans from shareholder raised		**31,001**	246,614
Capital contribution from minority shareholders of subsidiaries		**13,729**	44,505
Issue of shares as a result of the exercise of share options		**2,248**	2,506
NET CASH GENERATED FROM FINANCING ACTIVITIES		**470,455**	326,361
NET INCREASE IN CASH AND CASH EQUIVALENTS		**95,492**	54,588
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**863,882**	786,961
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**4,487**	22,333
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**963,861**	863,882

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, the Group's parent and ultimate holding company is Hong Kong and China Gas Company Limited, a company incorporated in Hong Kong with its shares listed on the Stock Exchange. The address of the registered office and principal place of business of the Company is 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 ("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 natural gas and liquefied petroleum gas ("LPG") in the People's Republic of China (the "PRC") including the provision of piped natural gas and LPG, construction of gas pipelines, the operation of city gas pipeline network, the operation of natural gas automobile refilling stations, and the sale of gas household appliances. The Group was also engaged in the sale of LPG in bulk and in cylinders, which was disposed in the current year (see note 14).

In preparing the consolidated financial statements, the directors of the Company 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$578 million. The Group's liabilities as at 31 December 2009 included borrowings of HK$562 million that are repayable within twelve months from the end of the reporting period. As at the date of this report, the Group has un-drawn but committed unsecured facilities amounted to HK$572 million and RMB224 million (approximately HK$255 million). Taking into account of the internally generated funds and the available facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. 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 Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs have no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 7). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

No borrowing costs were capitalised in the current year as a result of the adoption of HKAS 23 (Revised 2007).

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[5]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[5]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations may have impact on the results or financial position of the Group but the directors are still assessing the impact.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by 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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When 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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent years.

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on acquisition of subsidiaries represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities attributable to the Group over the cost of the business combination. Discount on acquisition is recognised, after reassessment, immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the investor 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 decision of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the 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 net assets of the associate, 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. 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 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. The goodwill is included within the carrying amount of the investment is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Where a group entity transacts with an associate of the Group, profit and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 the net assets 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.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 pipelines construction, which relate 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.

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset 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.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated 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	30 – 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.

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 other 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 and contracted customer base

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

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 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 on 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

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, deposits, amounts due from minority shareholders, loans to jointly controlled entities and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period 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 loss on 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.

For 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 each 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 loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 impacted.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently 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, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 and deferred consideration receivable, 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying value on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Bank and other borrowings and guaranteed senior notes

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 a shareholder are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in consolidated income statement.

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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted before 7 November 2002

The financial impact of share options granted is not recorded in the Company's statement of financial position until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted after 7 November 2002 and vested after 1 January 2005

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 each 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 estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 and 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 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 arising on 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.

The carrying amount of deferred tax assets is reviewed at the end of each 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. 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 deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at 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 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 the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

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 for which the commencement date for capitalisation is on or after 1 January 2009 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 cost

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged 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. At 31 December 2009, the carrying amount of goodwill is HK$2,752,733,000 (2008: HK$2,491,871,000). Details of the recoverable amount calculation are disclosed in note 20.

Income taxes

As at 31 December 2009, no deferred tax asset is recognised in the Group's statement of financial position in relation to the estimated unused tax losses of HK$29,385,000 (2008: HK$60,306,000) 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.

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 2009, the carrying amount of trade receivables is HK$98,101,000 (2008: HK$101,694,000).

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 a shareholder disclosed in notes 29 and 30, 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 shareholders loan to equity.

5. CAPITAL RISK MANAGEMENT *(Continued)*

The gearing ratio at the reporting date was as follows:

	2009 HK$'000	2008 HK$'000
Debt (i)	**2,764,737**	2,263,711
Cash and cash equivalents	**(963,861)**	(863,882)
Net debt	**1,800,876**	1,399,829
Equity (ii)	**6,433,588**	6,177,801
Net debt to equity ratio	**28.0%**	22.7%
Net debt excluding the loan from a shareholder to equity ratio	**20.7%**	15.5%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 29 and 30.

(ii) Equity includes all capital and reserves of the Group excluding minority interest.

6. FINANCIAL INSTRUMENTS

Category of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,639,831**	1,162,115
Available-for-sale instruments	**168,853**	169,968
Financial liabilities		
Amortised cost	**3,461,423**	2,581,553

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, trade and other receivables, amounts due from minority shareholders, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables and loans from a shareholder. 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 risks to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk

Certain bank balances, loans from a shareholder, and guaranteed senior notes are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances, guaranteed senior notes and loans from a shareholder, denominated in United States Dollar ("USD") and HKD at the end of the reporting period are set out in notes 26, 29 and 30.

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.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 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 2% change in foreign currency rates.

The sensitivity analysis includes bank balances, loan from a shareholder, and guaranteed senior notes where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A positive number below indicates an increase in profit for the year where RMB strengthen 2% against USD and HKD. For a 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.

	2009 **HK$'000**	2008 HK$'000
Profit for the year	**43,153**	25,154

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 guaranteed senior notes. The cash flow interest rate risk relates primarily to floating-rate bank loans and the loan from a shareholder. The Group currently does not have an interest rate hedging policy. However, 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'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 a shareholder 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 analyses below have 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 a shareholder, 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 (2008: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2008: 50 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease/increase by HK$3,179,000 (2008: HK$3,031,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

At 31 December 2009, 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 is concentrated in four jointly controlled entities. 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 to 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.

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 loan from a shareholder, bank and other borrowings as a significant source of liquidity. As at date of this report, the Group had available unutilised bank loan facilities of HK$550 million and RMB224 million (approximately HK$255 million) (at 31 December 2008: HK$150 million) and unutilised loan facility from a shareholder of HK$22 million (at 31 December 2008: HK$53 million).

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

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	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 31.12.2009 HK$'000
2009								
Trade payables	–	70,045	88,879	55,745	–	–	214,669	214,669
Other payables	–	399,400	–	–	–	–	399,400	399,400
Amounts due to minority shareholders	–	82,617	–	–	–	–	82,617	82,617
Loans from a shareholder	3.26%	–	–	14,806	528,251	–	543,057	471,365
Bank loans	2.18%	–	130,114	416,903	540,168	–	1,087,185	1,044,886
Other loans	2.23%	22,521	–	4,963	55,284	68,578	151,346	138,831
Guaranteed senior notes	8.69%	–	45,076	45,076	1,182,902	–	1,273,054	1,109,655
		574,583	264,069	537,493	2,306,605	68,578	3,751,328	3,461,423

	Weighted average effective interest rate	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 31.12.2008 HK$'000
2008								
Trade payables	–	30,087	91,368	34,286	39,068	4,477	199,286	199,286
Other payables	–	90,852	–	–	–	–	90,852	90,852
Amounts due to minority shareholders	–	27,704	–	–	–	–	27,704	27,704
Loans from a shareholder	4.25%	–	–	19,376	504,614	–	523,990	440,364
Bank loans	6.69%	148,810	6,236	–	480,226	–	635,272	560,714
Other loans	2.28%	15,612	–	–	31,341	121,184	168,137	156,750
Guaranteed senior notes	8.69%	–	45,076	45,076	1,273,054	–	1,363,206	1,105,883
		313,065	142,680	98,738	2,328,303	125,661	3,008,447	2,581,553

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.

Except for the guaranteed senior notes as detailed in note 29, 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

Business segments

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The chief operating decision makers of the Group have 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 reportable operating segments, namely sales and distribution of piped gas and related products and gas pipeline construction. The principal activities of the reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas and gas related household appliances
Gas pipeline construction	–	Construction of gas pipeline networks under gas connection contracts

During the year, the Group disposed of its business in the sales of LPG in bulk and in cylinders ("LPG operations"). Segments results represent the profit before taxation earned by each segment, excluding share of results of associates, share of results of jointly controlled entities, interest income, finance costs, unallocated other income and unallocated corporate expenses such as central administration costs and directors' salaries. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Information regarding these segments is presented below. The segment results reported for the prior period have been restated to conform with the requirements of HKFRS 8.

	Sales and distribution of piped gas and related products HK$'000	Gas pipeline construction HK$'000	Total – continuing operations HK$'000	Discontinued operation – LPG operations HK$'000	Consolidated HK$'000
For the year ended 31 December 2009					
TURNOVER					
External	1,533,749	491,733	2,025,482	880,471	2,905,953
Segment results	111,382	201,702	313,084	16,121	329,205
Unallocated other income			64,873	3,608	68,481
Gain on disposal of LPG operations			–	458	458
Unallocated corporate expenses			(67,884)	–	(67,884)
Share of results of associates			136,901	–	136,901
Share of results of jointly controlled entities			73,933	559	74,492
Finance costs			(126,963)	(476)	(127,439)
Profit before taxation			393,944	20,270	414,214
Taxation			(91,625)	(10,446)	(102,071)
Profit for the year			302,319	9,824	312,143

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Sales and distribution of piped gas and related products HK$'000	Gas pipeline construction HK$'000	Total – continuing operations HK$'000	Discontinued operation – LPG operations HK$'000	Consolidated HK$'000
For the year ended 31 December 2008					
TURNOVER					
External	1,210,036	448,106	1,658,142	2,751,056	4,409,198
Segment results	80,759	177,409	258,168	61,312	319,480
Unallocated other income			44,281	25,344	69,625
Unallocated corporate expenses			(91,348)	–	(91,348)
Share of results of associates			146,160	–	146,160
Share of results of jointly controlled entities			56,659	5,071	61,730
Finance costs			(142,181)	(2,340)	(144,521)
Profit before taxation			271,739	89,387	361,126
Taxation			(72,718)	(17,221)	(89,939)
Profit for the year			199,021	72,166	271,187

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 has contributed sales of over 10% of the total revenue of the Group for each of the years ended 31 December 2009 and 2008.

8. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	2009 HK$'000	2008 HK$'000
Continuing operations		
Revenue	**2,025,482**	1,658,142
Less expenses:		
Gas fuel, stores and materials used	**1,176,376**	920,239
Staff costs	**251,229**	212,147
Depreciation and amortisation	**173,016**	149,143
Other expenses	**179,661**	209,793
	245,200	166,820

9. OTHER INCOME

Other income mainly comprised of:

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Dividend income from available-for-sale investments	**27,871**	7,375	**–**	–	**27,871**	7,375
Interest income	**10,731**	8,158	**964**	3,262	**11,695**	11,420
Discount on acquisition of a subsidiary	**1,153**	–	**–**	–	**1,153**	–
Gain on disposal of property, plant and equipment	**664**	–	**2**	1,387	**666**	1,387
Discount on repurchase of guaranteed senior notes	**–**	3,240	**–**	–	**–**	3,240
Imputed interest on deferred consideration receivable	**5,548**	–	**–**	–	**5,548**	–
Imputed interest on loans to jointly controlled entities	**6,958**	5,534	**–**	–	**6,958**	5,534

10. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on:						
– bank and other borrowings wholly repayable within five years	**30,712**	27,764	**421**	2,155	**31,133**	29,919
– bank and other borrowings not wholly repayable within five years	**874**	2,778	**–**	–	**874**	2,778
– convertible bonds	**–**	4,115	**–**	–	**–**	4,115
– guaranteed senior notes	**93,923**	102,456	**–**	–	**93,923**	102,456
	125,509	137,113	**421**	2,155	**125,930**	139,268
Bank charges	**1,454**	5,068	**55**	185	**1,509**	5,253
	126,963	142,181	**476**	2,340	**127,439**	144,521

11. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit before taxation	**393,944**	271,739	**20,270**	89,387	**414,214**	361,126
Profit before taxation has been arrived at after charging:						
Directors' remuneration (note 12)	**11,394**	13,932	**–**	–	**11,394**	13,932
Share-based payments for other staff	**446**	1,377	**–**	–	**446**	1,377
Other staff costs	**215,715**	176,028	**58,988**	115,644	**274,703**	291,672
Retirement benefit scheme contributions (excluding directors)	**23,674**	20,810	**4,858**	11,484	**28,532**	32,294
Total staff costs	**251,229**	212,147	**63,846**	127,128	**315,075**	339,275
Allowance for doubtful debts	**5,000**	3,039	**–**	–	**5,000**	3,039
Amortisation of intangible assets	**6,879**	6,127	**1,559**	3,638	**8,438**	9,765
Amortisation of leasehold land	**6,481**	6,003	**940**	1,980	**7,421**	7,983
Auditors' remuneration	**6,290**	7,237	**762**	1,288	**7,052**	8,525
Cost of inventories sold	**1,343,050**	1,043,719	**762,421**	2,497,201	**2,105,471**	3,540,920
Depreciation of property, plant and equipment	**159,656**	135,507	**9,494**	23,544	**169,150**	159,051
Operating lease rentals in respect of land and buildings	**6,754**	6,700	**8,377**	14,495	**15,131**	21,195
Share of tax of associates (included in share of results of associates)	**20,429**	23,229	**–**	–	**20,429**	23,229
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**12,097**	13,705	**–**	–	**12,097**	13,705

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2008: 10) directors were as follows:

	Year ended 31 December 2009										
	Chen Wei HK$'000 (Note b)	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi, Moses HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000 (Note d)	Li Man Bun Brian David HK$'000	Ou Yaping HK$'000 (Note b)	Shen Lian Jin HK$'000 (Note b)	Wong Wai Yee, Peter HK$'000 (Note e)	Total HK$'000
Fees	–	200	400	400	200	200	400	–	–	200	2,000
Other emoluments											
Salaries and other benefits	643	–	–	–	–	845	–	200	128	845	2,661
Retirement benefit scheme contributions	37	–	–	–	–	84	–	10	7	84	222
Performance and discretionary bonus (Note a)	–	–	–	–	–	1,386	–	–	–	1,866	3,252
Share-based payments	–	916	–	–	763	763	–	–	54	763	3,259
Total emoluments	680	1,116	400	400	963	3,278	400	210	189	3,758	11,394

	Year ended 31 December 2008										
	Chen Wei HK$'000 (Note b)	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi, Moses HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000	Li Man Bun Brian David HK$'000	Ou Yaping HK$'000 (Note b)	Shen Lian Jin HK$'000 (Note b)	Wong Wai Yee, Peter HK$'000	Total HK$'000
Fees	–	200	400	400	200	200	400	–	–	200	2,000
Other emoluments											
Salaries and other benefits	997	–	–	–	–	422	–	200	1,123	422	3,164
Retirement benefit scheme contributions	51	–	–	–	–	42	–	10	–	42	145
Performance and discretionary bonus (Note a)	–	–	–	–	–	578	–	–	–	778	1,356
Share-based payments	–	1,924	–	–	1,603	1,603	–	–	534	1,603	7,267
Total emoluments	1,048	2,124	400	400	1,803	2,845	400	210	1,657	3,045	13,932

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Notes:

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

(b) The emoluments of the directors are covered by their service contracts entered into with the Company. The service contract of Mr. Ou Yaping expired on 31 December 2009 and his director's emoluments thereafter are not covered by any service contract with the Company. The respective service contract of Mr. Chen Wei and Mr. Shen Lian Jin were expired on their respective dates of resignation on 31 December 2009 and 19 March 2009.

(c) No service contracts were entered by the directors other than those mentioned in note b above.

(d) The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK$74,000 with effect from 1 January 2010.

(e) The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK$74,000 with effect from 1 January 2010.

Employees' emoluments:

For the year ended 31 December 2009, the five highest paid individuals of the Group included three (2008: five) directors of the Company, details of their emoluments are included above. The emoluments of the remaining two (2008: nil) highest paid individuals are as follows:

	2009 HK$'000
Salaries and other benefit	1,867
Performance related incentive payments	827
Contribution to retirement benefit scheme	113
Share based payment	254
	3,061

The emoluments were within the following bands:

	Number of employees 2009
HK$1,000,000 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	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 2009.

13. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The charge comprises:						
PRC Enterprise Income Tax						
– current year	**90,062**	65,227	**5,639**	17,221	**95,701**	82,448
Deferred taxation (note 31)						
– taxation charge for the year	**1,563**	7,491	**4,807**	–	**6,370**	7,491
	91,625	72,718	**10,446**	17,221	**102,071**	89,939

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 tax rates applicable for the Group's PRC subsidiaries ranges from 15% to 25% (2008: 15% to 25%).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain of the Group's PRC subsidiaries has changed to 25% from 1 January 2008 onwards. The relevant deferred tax balance had been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax 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 PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period ranges from 7.5% to 12.5%. PRC Enterprise Income Tax 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:

	2009 HK$'000	2008 HK$'000
Profit before taxation (from continuing operations)	**393,944**	271,139
Tax at the applicable rate of 25% (2008: 25%) (Note)	**98,486**	67,785
Tax effect of expenses that are not deductible for tax purposes	**64,178**	83,145
Tax effect of income that are not taxable for tax purposes	**(7,934)**	(568)
Tax effect of income that is exempted from PRC Enterprise Income Tax in determining taxable profit	**(3,923)**	(16,520)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	**(5,783)**	(8,360)
Effect of different tax rates of subsidiaries operating in different regions	**(9,258)**	(9,677)
Tax effect of share of results of associates	**(34,225)**	(36,540)
Tax effect of share of results of jointly controlled entities	**(18,483)**	(14,165)
Tax effect of utilisation of tax losses not previously recognised	**(1,155)**	(3,681)
Tax effect of tax losses not recognised	**1,503**	1,364
Withholding tax	**8,219**	9,935
Tax charge for the year (relating to continuing operations)	**91,625**	72,718

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 2009 (2008: 25%).

At the end of the reporting period, the Group has unused tax losses of HK$29,385,000 (2008: HK$60,306,000) 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 2014.

14. DISCONTINUED OPERATION

On 2 April 2009, the Group entered into a sale agreement to dispose of its LPG operations. The disposal was effected in order to focus resources for the expansion of the Group's other businesses. The disposal was completed on 4 June 2009, on which date control of LPG operations passed to the acquirer.

The profit for the year from the discontinued operation is analysed as follows:

	2009 HK$'000	2008 HK$'000
Profit of LPG operations for the year	**9,366**	72,166
Gain on disposal of LPG operations	**458**	–
	9,824	72,166
(Loss) profit for the year attributable to:		
Shareholders of the Company	**(515)**	39,866
Minority interests	**10,339**	32,300
	9,824	72,166

The results of the LPG operations, which have been included in the consolidated income statement, were as follows:

	Notes	2009 HK$'000	2008 HK$'000
Turnover	7	**880,471**	2,751,056
Operating profit before returns on investments		**16,121**	61,312
Other income	9	**3,608**	25,344
Share of results of jointly controlled entities		**559**	5,071
Finance costs	10	**(476)**	(2,340)
		19,812	89,387
Gain on disposal of LPG operations		**458**	–
Profit before taxation	11	**20,270**	89,387
Taxation	13	**(10,446)**	(17,221)
Profit for the year		**9,824**	72,166

No tax charge or credit arose on gain on discontinuance of the operations.

14. DISCONTINUED OPERATION *(Continued)*

During the period, the LPG operations contributed HK$45,891,000 (2008: contributed HK$137,079,000) to the Group's net operating cash flows, contributed HK$762,000 (2008: paid HK$61,664,000) in respect of investing activities and paid HK$11,898,000 (2008: contributed HK$6,236,000) in respect of financing activities.

As a result of the discontinuance of the LPG operations, certain comparative figures were restated so as to reflect the results for the discontinued operation.

15. DIVIDENDS

During the year, final dividend of HK$19,576,000 (2008: Nil) was recognised as distribution being one HK cent per ordinary share in respect of year ended 31 December 2008.

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2009 of two HK cents (2008: one HK cent) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. 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:

	2009	2008
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**265,090**	202,282

	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of basic earnings per share	**1,957,714**	1,957,494
Effects of dilutive potential ordinary shares:		
Share options	**2,896**	3,254
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,960,610**	1,960,748

16. EARNINGS PER SHARE *(Continued)*

From continuing operations

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

	2009 HK$'000	2008 HK$'000
Profit for the year attributable to shareholders of the Company for calculating basic and diluted earnings per share	**265,605**	162,416

The denominators used are the same as those detailed above for basic and diluted earnings per share.

From discontinued operation

The (loss) earnings per share for the discontinued operation is as follows:

	2009 HK cents	2008 HK cents
Basic	**(0.03)**	2.03
Diluted	**(0.03)**	2.04

The calculation of the (loss) earnings per share for the discontinued operation is based on the following data:

	2009 HK$'000	2008 HK$'000
(Loss) profit from discontinued operation attributable to shareholders of the Company	**(515)**	39,866

The denominators used are the same as those detailed above for basic and diluted (loss) earnings per share.

17. 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 2008	331,030	2,631,140	489,892	66,347	3,518,409
Currency realignment	30,812	170,917	38,202	4,273	244,204
Additions	29,981	115,867	201,168	225,151	572,167
Additions from acquisition of subsidiaries	22,275	55,504	14,462	3,428	95,669
Deemed disposal of a subsidiary	–	–	(16,045)	–	(16,045)
Disposals	(4,074)	–	(15,173)	–	(19,247)
Transfer	272	91,349	174	(91,795)	–
At 31 December 2008	410,296	3,064,777	712,680	207,404	4,395,157
Currency realignment	948	6,068	1,590	450	9,056
Additions	19,848	84,576	37,731	373,961	516,116
Additions from acquisition of subsidiaries	16,223	124,004	4,877	24,698	169,802
Disposal of subsidiaries	(74,555)	(38,151)	(288,784)	(3,512)	(405,002)
Disposals	(1,685)	(334)	(10,387)	(220)	(12,626)
Transfer	31,365	261,928	34,600	(327,893)	–
At 31 December 2009	402,440	3,502,868	492,307	274,888	4,672,503
DEPRECIATION					
At 1 January 2008	35,038	233,927	138,969	–	407,934
Currency realignment	1,987	16,031	12,257	–	30,275
Provided for the year	15,342	96,856	46,853	–	159,051
Eliminated on deemed disposal of a subsidiary	–	–	(762)	–	(762)
Eliminated on disposals	(4,074)	–	(8,699)	–	(12,773)
At 31 December 2008	48,293	346,814	188,618	–	583,725
Currency realignment	142	881	309	–	1,332
Provided for the year	18,045	96,500	54,605	–	169,150
Eliminated on disposal of subsidiaries	(21,136)	(8,599)	(123,593)	–	(153,328)
Eliminated on disposals	(463)	(204)	(4,919)	–	(5,586)
At 31 December 2009	44,881	435,392	115,020	–	595,293
CARRYING VALUES					
At 31 December 2009	357,559	3,067,476	377,287	274,888	4,077,210
At 31 December 2008	362,003	2,717,963	524,062	207,404	3,811,432

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

As at 31 December 2008, the Group has pledged certain of its buildings and gas pipelines with an aggregate carrying value of HK$10,645,000 (2009: nil) to secure banking facilities granted to the Group.

18. LEASEHOLD LAND

	2009 HK$'000	2008 HK$'000
Balance at the beginning of the year	**228,020**	176,490
Currency realignment	**2,061**	10,339
Additions	**11,610**	37,705
Acquired on acquisition of subsidiaries	**48,949**	11,469
Disposal of subsidiaries	**(60,378)**	–
Charge for the year	**(7,421)**	(7,983)
Balance at the end of the year	**222,841**	228,020
Analysis for reporting purpose:		
Non-current portion	**216,759**	221,004
Current portion	**6,082**	7,016
	222,841	228,020

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

19. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2008	195,228
Currency realignment	12,530
Additions	9,435
At 31 December 2008	217,193
Currency realignment	482
Disposal of subsidiaries	(10,024)
At 31 December 2009	207,651
AMORTISATION	
At 1 January 2008	11,336
Currency realignment	816
Provided for the year	9,765
At 31 December 2008	21,917
Currency realignment	30
Provided for the year	8,438
Disposal of subsidiaries	(4,944)
At 31 December 2009	25,441
CARRYING VALUES	
At 31 December 2009	182,210
At 31 December 2008	195,276

19. INTANGIBLE ASSETS *(Continued)*

At 31 December 2009, the intangible assets mainly represent the Group's exclusive operating rights for city pipeline network and contracted customer base of HK$182,210,000 (2008: HK$188,658,000) and HK$nil (2008: HK$6,618,000), respectively.

Note:

The intangible assets are amortised on a straight-line basis over the following period:

Exclusive operating rights	20 to 30 years
Contracted customer base	3 years

20. GOODWILL

	HK$'000
At 1 January 2008	2,180,291
Currency realignment	952
Acquired on acquisition of subsidiaries	312,032
Transfer of goodwill to interest in a jointly controlled entity	(1,404)
At 31 December 2008	2,491,871
Currency realignment	88
Acquired on acquisition of subsidiaries	260,774
At 31 December 2009	2,752,733

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 subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of subsidiaries as follows:

	2009 HK$'000	2008 HK$'000
Hong Kong & China Gas (Qingdao) Limited	**325,260**	325,260
Hong Kong & China Gas (Zibo) Limited	**349,826**	349,826
Hong Kong & China Gas (Yantai) Limited	**236,263**	236,263
Hong Kong & China Gas (Weifang) Limited	**135,945**	135,945
Hong Kong & China Gas (Weihai) Limited	**270,646**	270,646
Hong Kong & China Gas (Taian) Limited	**239,452**	239,452
Hong Kong & China Gas (Maanshan) Limited	**284,218**	284,218
Hong Kong & China Gas (Anqing) Limited	**269,390**	269,390
Mianyang Hong Kong and China Gas Co., Ltd. ("Mianyang")	**289,595**	289,595
Gongzhuling Towngas Limited	**22,437**	22,437
Xin Du Hong Kong and China Gas Company Limited, Cheng Du ("Xindu")	**220,096**	–
Xinjin Diyuan Natural Gas Co., Ltd. and Xinjin Nanfang Natural Gas Co., Ltd. ("Xinjin")	**27,151**	–
Others	**82,454**	68,839
	2,752,733	2,491,871

20. 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% (2008: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates of 4% to 6% (2008: 4% to 6%) are based on industry growth forecasts. 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% (2008: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 31 December 2009.

21. INTEREST IN ASSOCIATES

	2009 HK$'000	2008 HK$'000
Cost of investments in associates	**756,715**	632,702
Arising on acquisition of subsidiaries during the year	**–**	2,094
Share of post-acquisition profits, and other reserves net of dividends received	**326,667**	345,357
Goodwill on acquisition of associates	**103,156**	102,922
	1,186,538	1,083,075

Details of the Group's principal associates as at 31 December 2009 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** 2009	2008	**Principal activities**
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
Changchun Gas Holdings Limited 長春燃氣控股有限公司	PRC – Sino-foreign equity joint venture	**48%**	48%	Production and distribution of natural gas, coal gas, LPG, metallurgical coke and coke oil

21. INTEREST IN ASSOCIATES *(Continued)*

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group 2009	2008	Principal activities
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司 (formerly known as Shandong Panva Gas Co., Ltd. 山東百江燃氣有限公司)	PRC – Sino-foreign equity joint venture	**48%**	48%	Provision of LPG, 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.

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

	2009 HK$'000	2008 HK$'000
Total assets	**5,214,816**	4,770,577
Total liabilities	**(2,894,735)**	(2,615,656)
Net assets	**2,320,081**	2,154,921
Revenue	**4,274,899**	4,291,890
Profit for the year	**366,933**	372,088

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES

	2009 HK$'000	2008 HK$'000
Cost of investments in jointly controlled entities	572,147	552,765
Share of post-acquisition profits, net of dividends received	169,775	113,065
Currency realignment	37,406	35,859
Share of net assets	779,328	701,689
Loans to jointly controlled entities		
– Current portion	5,682	84,781
– Non-current portion	108,060	101,618
	113,742	186,399

At 31 December 2009, 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 2009	2008	Principal activities
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
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
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
Taian Tai Shan 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
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

22. 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 2009	2008	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 coal gas and petroleum gas and related service and gas pipeline construction
Hangzhou Panva LPG Co., Ltd. ("Hangzhou Panva") 杭州百江液化氣有限公司	PRC – Limited liability company	**–**	50%	Wholesaling and retailing of LPG
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
Jiangxi Jihua Energy Development Company Limited 江西計華能源發展有限公司	PRC – Limited liability company	**60%***	–	Provision of natural gas and related services and gas pipeline construction

* The entity is accounted for as a jointly controlled entity as the Group is only able to appoint 3 out of 5 directors of the Company and according to the shareholders agreement of the Company, in order for any resolutions to be passed at board meetings, it requires at least four directors voting in favour of the resolution.

At 31 December 2009, the aggregate amount of assets and liabilities recognised in the consolidated financial statements in relation to the Group's interests in jointly controlled entities are as follows:

	2009 HK$'000	2008 HK$'000
Current assets	**278,411**	213,273
Non-current assets	**1,147,304**	1,013,463
Current liabilities	**402,917**	230,272
Non-current liabilities	**243,470**	294,775
Income	**741,950**	592,121
Expenses	**667,458**	530,391

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES *(Continued)*

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

Principal amount 2009	Principal amount 2008	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2009 HK$'000	Carrying amount 2008 HK$'000
RMB37,650,000	RMB37,650,000	December 2014	Nil	6.12%	**31,534**	29,668
RMB35,000,000	RMB35,000,000	July 2014	Nil	6.12%	**30,023**	28,227
RMB42,530,000	RMB42,530,000	July 2013	Nil	6.12%	**38,344**	36,051
–	RMB40,000,000	April 2009	4.86%	4.86%	**–**	45,781
RMB10,550,000	RMB10,550,000	February 2016	Nil	6.12%	**8,159**	7,672
RMB5,000,000	–	June 2010	5.31%	5.31%	**5,682**	–
–	USD5,000,000	March 2009	Half year lending interest rate published by People's Bank of China + 10 basis points	3.3%	**–**	39,000
					113,742	186,399

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

At the end of the reporting period, there was goodwill of carrying amount HK$102,118,000 arising from acquisition of jointly controlled entities (2008: HK$58,183,000).

23. AVAILABLE-FOR-SALE INVESTMENTS

	2009 HK$'000	2008 HK$'000
Unlisted shares in the PRC, at cost	**168,853**	169,968

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.

24. DEFERRED CONSIDERATION RECEIVABLE

As part of the consideration for the disposal of certain subsidiaries during the year (see note 35), 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 June 15, 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 LPG 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:

	2009 HK$'000	2008 HK$'000
Non-current assets	283,325	–
Current assets (included in trade and other receivables, deposits and prepayments)	39,321	–
	322,646	–

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$5,548,000.

25. INVENTORIES

	2009 HK$'000	2008 HK$'000
Finished goods	38,300	82,379
Consumables	63,556	110,131
	101,856	192,510

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS/OTHER FINANCIAL ASSETS

	2009 HK$'000	2008 HK$'000
Trade receivables	**98,101**	101,694
Deferred consideration receivable	**39,321**	–
Prepayments	**128,459**	267,131
Other receivables and deposits	**90,558**	83,458
Amount due from a related company*	**127,378**	–
	483,817	452,283

* The amount is unsecured, interest-free and repayable on demand. The amount was due from a company in which a former director has beneficial interest. The maximum amount outstanding during the year was HK$127,378,000.

Trade receivables

Included in trade and other receivables, deposits and prepayments are trade receivables of HK$98,101,000 (2008: HK$101,694,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
0 to 90 days	**90,784**	90,550
91 to 180 days	**1,504**	2,742
181 to 360 days	**5,813**	8,402
	98,101	101,694

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$819,000 (2008: HK$2,249,000) 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.

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

	2009 HK$'000	2008 HK$'000
0 to 90 days	**294**	1,802
91 to 180 days	**59**	290
181 to 360 days	**466**	157
Total	**819**	2,249

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS/OTHER FINANCIAL ASSETS *(Continued)*

Trade receivables *(Continued)*

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

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	3,039	–
Impairment losses recognised on receivables	5,000	3,039
Balance at end of the year	8,039	3,039

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.

Other financial assets

The bank balances carry interest at prevailing market rates range from 0.1% to 5.5% (2008: 3.0% to 5.5%) per annum.

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

	2009 HK$'000	2008 HK$'000
United States Dollar	186,992	91,458

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

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

28. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2009 HK$'000	2008 HK$'000
Trade payables	**214,669**	199,286
Receipt in advance	**560,695**	438,928
Consideration payable	**198,479**	65,769
Amount due to a related company (note a)	**127,378**	–
Other payables and accruals	**217,099**	231,041
Amount due to a shareholder (note b)	**585**	11,905
	1,318,905	946,929

Notes:

(a) The amount is unsecured, interest-free and repayable on demand. The amount is due to a company in which a former director has beneficial interest.

(b) 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:

	2009 HK$'000	2008 HK$'000
0 to 90 days	**117,864**	147,761
91 to 180 days	**33,394**	14,431
181 to 360 days	**35,830**	7,689
Over 360 days	**27,581**	29,405
	214,669	199,286

29. BORROWINGS

	2009 HK$'000	2008 HK$'000
Bank loans – secured	–	567
Bank loans – unsecured	1,044,886	560,147
Other loans – unsecured	138,831	156,750
Guaranteed senior notes (note a)	1,109,655	1,105,883
	2,293,372	1,823,347
Carrying amount repayable:		
On demand or within one year	562,035	222,950
More than one year but not exceeding two years	1,435,843	12,516
More than two years but not exceeding five years	233,784	1,544,709
More than five years	61,710	43,172
	2,293,372	1,823,347
Less: Amount due within one year shown under current liabilities	(562,035)	(222,950)
Amount due after one year	1,731,337	1,600,397

Notes

(a) 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 are listed on the Singapore Exchange Securities Trading Limited and are secured by a pledge of shares of certain subsidiaries of the Group. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%.

During the year ended 31 December 2008, the Company purchased the Guaranteed Senior Notes with a principal amount of US$8,000,000 at prices ranging from US$94 to US$95.25 in the open market. At 31 December 2009, Guaranteed Senior Notes with a principal amount of US$141,000,000 (2008: US$141,000,000) are still outstanding in the market. At 31 December 2009, the market value of the Guaranteed Senior Notes amounted to US$153,338,000 (equivalent to approximately HK$1,188,370,000) (2008: US$135,360,000).

29. BORROWINGS *(Continued)*

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

	Maturity date	Effective interest rate	Carrying amount 2009 HK$'000	2008 HK$'000
Floating-rate bank loans:				
Unsecured HKD bank loan of HKD200,000,000 at Hong Kong Interbank Offered Rate +0.55%	6 December 2010	0.70%	**200,000**	200,772
Unsecured RMB bank loan of RMB46,500,000 at 90% of basic borrowing rate announced by People's Bank of China	Revolving credit to settle within 6 months from date of drawdown	4.37%	**52,841**	52,721
Unsecured HKD bank loan of HKD200,000,000 at Hong Kong Interbank Offered Rate +1.05%	22 October 2013	1.2%	**200,000**	200,000
Unsecured HKD bank loan of HKD100,000,000 at Hong Kong Interbank Offered Rate +0.4%	23 March 2010	0.55%	**100,000**	100,000
Unsecured HKD bank loan of HKD50,000,000 at Hong Kong Interbank Offered Rate +1.65%	11 June 2011	1.74%	**50,000**	–
Unsecured HKD bank loan of HKD50,000,000 at Hong Kong Interbank Offered Rate +1.65%	26 August 2011	1.74%	**50,000**	–
Unsecured HKD bank loan of HKD150,000,000 at Hong Kong Interbank Offered Rate +1.65%	30 November 2011	1.71%	**150,000**	–
Unsecured HKD bank loan of HKD50,000,000 at Hong Kong Interbank Offered Rate +1.9%	30 October 2010	2.05%	**50,000**	–
Fixed rate loans:				
Unsecured RMB bank loans of RMB100,000,000 at 4.78%	5 May 2010	4.78%	**113,636**	–
Other unsecured RMB bank loans of RMB69,000,000	4 June 2010 to 6 July 2011	4.86% to 8.64%	**78,409**	–
Unsecured RMB other loans of RMB47,000,000 (2008: RMB76,323,000)	Partial repayment matured and instalment repayment until 2018	2.55% to 6%	**53,409**	78,209
Other secured bank loans and other unsecured loans	Partial repayment matured and instalment repayment until 2030	1.15% to 6.00%	**85,422**	85,762
Total bank loans and other loans			**1,183,717**	717,464

30. LOANS FROM A SHAREHOLDER

The amount represents an unsecured loan denominated in USD and HKD, bears interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and is repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount 2009 HK$'000	2008 HK$'000
HK$277,615,000 (2008: HK$246,614,000)	April 2013 – May 2014 (2008: April – December 2013) (according to date of draw down)	3.26% (2008: 4.25%)	**277,615**	246,614
US$25,000,000 (2008: US$25,000,000)	December 2012	3.26% (2008: 4.25%)	**193,750**	193,750
			471,365	440,364

31. 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/ an associate HK$'000	Total HK$'000
At 1 January 2008	–	49,973	–	49,973
Currency realignment	–	2,879	124	3,003
(Credit) charge for the year	–	(2,444)	9,935	7,491
At 31 December 2008	–	50,408	10,059	60,467
Acquired on acquisition of subsidiaries	24,487	–	–	24,487
Disposal of subsidiaries	–	–	(4,807)	(4,807)
Currency realignment	–	31	12	43
(Credit) charge for the year	–	(1,849)	8,219	6,370
At 31 December 2009	24,487	48,590	13,483	86,560

At the end of the reporting period, deferred tax liability not recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries were HK$3,135,000 (2008: HK$1,207,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

32. SHARE CAPITAL

	Number of shares	HK$'000
Authorised:		
Shares of HK$0.10 each	3,000,000,000	300,000
Issued and fully paid:		
Shares of HK$0.10 each	1,958,360,330	195,836

A summary of the movements in the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2008, 31 December 2008 and 31 December 2009	3,000,000,000	300,000

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 2008	1,956,350,330	195,635
Issue of shares on exercise of share options (note a)	1,206,000	121
At 31 December 2008 and 1 January 2009	1,957,556,330	195,756
Issue of shares on exercise of share options (note b)	804,000	80
At 31 December 2009	1,958,360,330	195,836

Notes:

(a) During the year ended 31 December 2008, the Company allotted and issued 643,200 and 562,800 shares of HK$0.10 each for cash at the exercise price of HK$3.483 and HK$0.473 per share respectively as a result of the exercise of share options.

(b) During the year ended 31 December 2009, the Company allotted and issued 804,000 shares of HK$0.10 each for cash at the exercise price of HK$2.796 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.

Capital reserve represents the deemed contribution arising from waiver of loans from the minority shareholders of the subsidiaries.

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES

Acquisitions in 2009

In April 2009, the Group completed the acquisition of 100% equity interest in Xindu, which is engaged in the operation of piped gas assets and related business in Xindu area of Chengdu of the PRC at an aggregate consideration of HK$286,848,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK$'000	Fair value adjustments HK$'000	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:			
Property, plant and equipment	21,292	38,268	59,560
Leasehold land	559	8,758	9,317
Trade receivables	7,942	–	7,942
Other receivables, deposits and prepayments	2,610	–	2,610
Bank balances and cash	26,466	–	26,466
Taxation recoverable	2,106	–	2,106
Trade payables	(3,822)	–	(3,822)
Other payables and accrued charges	(25,715)	–	(25,715)
Deferred taxation	–	(11,712)	(11,712)
Net assets acquired	31,438	35,314	66,752
Goodwill arising on acquisition			220,096
Total consideration			286,848
Satisfied by:			
Cash consideration			171,848
Other payables			115,000
			286,848
Net cash outflow arising on acquisition:			
Cash consideration			171,848
Bank balances and cash acquired			(26,466)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			145,382

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

Xindu contributed HK$87,216,000 to the Group's turnover and HK$13,743,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(Continued)*

Acquisitions in 2009 *(Continued)*

In May 2009, the Group completed the acquisition of 60% equity interest in Xinjin, which is engaged in the operation of piped gas assets and related business in Xinjin area of Chengdu of the PRC at an aggregate consideration of HK$68,026,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK$'000	Fair value adjustments HK$'000	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:			
Property, plant and equipment	27,905	27,458	55,363
Leasehold land	2,514	17,807	20,321
Inventories	4,455	–	4,455
Other receivables, deposits and prepayments	40,364	–	40,364
Bank balances and cash	3,670	–	3,670
Trade payables	(7,343)	–	(7,343)
Other payables and accrued charges	(30,737)	–	(30,737)
Taxation payable	(977)	–	(977)
Borrowings	(5,672)	–	(5,672)
Deferred taxation	–	(11,319)	(11,319)
Net assets acquired	34,179	33,946	68,125
Minority interests			(27,250)
Goodwill arising on acquisition			27,151
Total consideration			68,026
Satisfied by:			
Cash consideration			40,815
Amounts due to minority shareholders			27,211
			68,026
Net cash outflow arising on acquisition:			
Cash consideration			40,815
Bank balances and cash acquired			(3,670)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			37,145

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

Xinjin contributed HK$27,576,000 to the Group's turnover and HK$8,470,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(Continued)*

Acquisitions in 2009 *(Continued)*

During the year ended 31 December 2009, the Group paid a consideration of HK$38,647,000 to an independent vendor to acquire a gas pipeline business, including related assets located in Chiping of Shandong Province of the PRC ("Chiping Towngas"). The acquisition enabled the Group to continue the operation of the existing natural gas business which the vendor previously engaged. This transaction has been accounted for using the purchase method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK$'000	Fair value adjustments HK$'000	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:			
Property, plant and equipment	18,298	2,649	20,947
Leasehold land	7,125	3,173	10,298
Inventories	814	–	814
Trade receivables	984	–	984
Other receivables, deposits and prepayments	340	–	340
Bank balances and cash	1,785	–	1,785
Other payables and accrued charges	(4,160)	–	(4,160)
Deferred taxation	–	(1,456)	(1,456)
Net assets acquired	25,186	4,366	29,552
Minority interests			(4,432)
Goodwill arising on acquisition			13,527
Total consideration			38,647
Satisfied by:			
Cash consideration			9,670
Amounts due to minority shareholders			28,977
			38,647
Net cash outflow arising on acquisition:			
Cash consideration			9,670
Bank balances and cash acquired			(1,785)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			7,885

The goodwill on acquisition of the above business represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired business.

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(Continued)*

Acquisitions in 2009 *(Continued)*

Chiping contributed HK$9,756,000 to the Group's turnover and HK$1,053,000 to the Group's profit before taxation for the period between the date of acquisition and the end of the reporting period.

During the year, the Group completed the acquisition of 100% equity interest in a business, which is engaged in the operation of piped gas assets and related business in Qiqihar of the PRC at an aggregate consideration of HK$35,735,000 from an independent vendor. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount at acquisition date HK$'000	Fair value adjustments HK$'000	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:			
Property, plant and equipment	23,774	10,158	33,932
Leasehold land	9,013	–	9,013
Inventories	1,187	–	1,187
Trade receivables	730	–	730
Other receivables, deposits and prepayments	136	–	136
Bank balances and cash	1,469	–	1,469
Trade payables	(496)	–	(496)
Other payables and accrued charges	(5,508)	–	(5,508)
Borrowings	(3,575)	–	(3,575)
Net assets acquired	26,730	10,158	36,888
Discount on acquisition			(1,153)
Total consideration			35,735
Satisfied by:			
Cash consideration			35,735
Net cash outflow arising on acquisition:			
Cash consideration			35,735
Bank balances and cash acquired			(1,469)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			34,266

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(Continued)*

Acquisitions in 2009 *(Continued)*

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiary.

If the acquisitions had been completed on 1 January 2009, total group revenue for the year would have been HK$2,950,000,000 and profit for the year would have been HK$322,649,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Acquisitions in 2008

In January 2008, the Group completed the acquisition of 100% equity interest in Mianyang, which is engaged in the operation of piped gas assets and related business in PRC at an aggregate consideration of HK$381,481,000. This transaction has been accounted for by the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	69,894
Leasehold land	7,508
Interest in an associate	2,094
Inventories	2,751
Trade receivables	1,701
Other receivables, deposits and prepayments	1,198
Bank balances and cash	27,187
Trade payables	(4,368)
Other payables and accrued charges	(7,618)
Taxation payable	(3,917)
Net assets acquired	96,430
Minority interests	(4,544)
Goodwill arising on acquisition	289,595
Total consideration	381,481
Satisfied by:	
Other payables	37,393
Deposit paid for acquisition of a subsidiary	344,088
	381,481
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	27,187

34. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(Continued)*

Acquisitions in 2008 *(Continued)*

Also, in 2008, the Group paid a consideration of HK$60,296,000 to a vendor to acquire a gas pipeline business, including related assets located in Gongzhuling of Jilin Province of the PRC. The acquisition on 8 January 2008 enable the Group to operate the existing natural gas business which the vendor previously engaged. This transaction has been accounted for using the purchase method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	25,775
Leasehold land	3,961
Interest in jointly controlled entities	2,777
Inventories	734
Trade receivables	3,754
Other receivables, deposits and prepayments	376
Bank balances and cash	482
Net assets acquired	37,859
Goodwill arising on acquisition	22,437
Total consideration	60,296
Satisfied by:	
Cash consideration	31,920
Other payables	28,376
	60,296
Net cash outflow arising on acquisition:	
Cash consideration	31,920
Bank balances and cash acquired	(482)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	31,438

The goodwill on acquisitions of the above businesses represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired business.

35. DISPOSAL OF SUBSIDIARIES

On 4 June 2009, the Group discontinued its LPG operations at the time of disposal of its subsidiary, Panva LPG Investment Holdings Limited to a purchaser, which is related to the Group as it is an associate of a former executive director of the Company. The net assets of Panva LPG Investment Holdings Limited at the date of disposal were as follows:

	4.6.2009
	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	251,674
Leasehold land	60,378
Intangible assets	5,080
Interests in a jointly controlled entity	34,027
Available-for-sale investments	1,135
Inventories	149,701
Trade receivables	32,247
Other receivables and prepayments	172,969
Bank balances and cash	246,474
Trade payables	(9,530)
Other creditors and accruals	(184,631)
Taxation	(16,612)
Bank loan	(8,765)
Deferred taxation	(4,807)
	729,340
Minority interests	(356,160)
Exchange gain realised	(11,541)
	361,639
Gain on disposal	458
Total consideration	362,097
Satisfied by:	
Cash	40,000
Deferred consideration	322,097
	362,097
Net cash outflow arising on disposal:	
Cash consideration	40,000
Bank balances and cash disposed of	(246,474)
	(206,474)

The deferred consideration will be settled in cash by the purchaser on or before 3 June 2015.

36. DEEMED DISPOSAL OF A SUBSIDIARY

Hangzhou Panva was a subsidiary of the Company as at 31 December 2007 as the Group had 50% equity interest and controlled the majority of the board of directors of Hangzhou Panva. Pursuant to a shareholder's resolution on 28 September 2008 of Hangzhou Panva, the Group agreed with the other shareholder of Hangzhou Panva that the Group no longer control majority of the board of directors of Hangzhou Panva and accordingly the Group lost control over Hangzhou Panva. Since 28 September 2008, Hangzhou became a jointly controlled entity of the Group. The net assets of Hangzhou at the date of disposal were as follows:

	Net assets value at date of disposal HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	15,283
Inventories	12,942
Trade receivables	8,616
Other receivables	7,376
Bank balances and cash	23,311
Trade payables	(6,303)
Other payables	(15,717)
Taxation	308
	45,816
Minority interests	(22,908)
Attributable goodwill	1,404
Transferred to interests in jointly controlled entities	24,312
Bank balances and cash disposed of	23,311

37. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2009 HK$'000	2008 HK$'000
Hong Kong & China Gas Company Limited (note a)	Loan facility (See note 30)	471,365	440,364
	Interest expense	15,095	14,294
	Management fee	1,685	–
GH – Fusion Corporation Limited (note b)	Purchase of construction materials	3,943	877
	Sales of parts and components of gas pipelines	1,181	1,776
Shanxi Hong Kong & China Coalbed Gas Company Limited (note b)	Purchase of coalbed methane	4,572	–
Hong Kong and China Technology (Wuhan) Limited (note b)	Purchase of computerised customer relations management system	1,432	1,375
ECO Environmental Investments Limited (note b)	Office licence income	313	143
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	229	–
Yingkou Hong Kong and China Gas Company Limited (note b)	Vehicle leasing expense	284	341

Notes:

(a) The ultimate holding company of the Company.

(b) The ultimate holding company of the Company has a beneficial interest in these companies.

The key management personnel are the executive directors of the Company. The details of the remuneration paid to them are set out in note 12.

38. 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:

	2009 **HK$'000**	2008 HK$'000
Within one year	**6,950**	14,409
In the second to fifth year inclusive	**7,119**	26,078
Over five years	**684**	13,566
	14,753	54,053

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

39. COMMITMENTS

	2009 **HK$'000**	2008 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**29,083**	40,252
Capital injection contracted for but not provided in the consolidated financial statements in respect of		
– investment in an associate	**22,211**	–
– investment in a subsidiary	**–**	68,027

40. 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, will expire 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.

40. SHARE OPTIONS *(Continued)*

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 24 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.

40. 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	Granted during the year	Adjustment during the year (note c)	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 2008							
Pre-GEM Listing options	4,180,800	–	–	(562,800)	–	3,618,000	3,618,000
The Scheme							
2004 options (note a)	15,909,150	–	–	(643,200)	–	15,265,950	15,265,950
New Scheme							
2006 options (note b)	4,160,000	–	20,800	–	–	4,180,800	4,180,800
2007 options (note b)	14,600,000	–	73,000	–	–	14,673,000	4,401,900
	38,849,950	–	93,800	(1,206,000)	–	37,737,750	27,466,650
Weighted average exercise price	3.217	–	3.604	2.078	–	3.246	3.035
For the year ended 31 December 2009							
Pre-GEM Listing options	**3,618,000**	**–**	**–**	**–**	**–**	**3,618,000**	**3,618,000**
The Scheme							
2004 options (note a)	**15,265,950**	**–**	**–**	**–**	**(2,502,450)**	**12,763,500**	**12,763,500**
New Scheme							
2006 options (note b)	**4,180,800**	**–**	**–**	**(804,000)**	**(1,206,000)**	**2,170,800**	**2,170,800**
2007 options (note b)	**14,673,000**	**–**	**–**	**–**	**–**	**14,673,000**	**8,803,800**
	37,737,750	**–**	**–**	**(804,000)**	**(3,708,450)**	**33,225,300**	**27,356,100**
Weighted average exercise price	**3.246**	**–**	**–**	**2.796**	**3.260**	**3.255**	**3.165**

The weighted average price of the Company's shares at the date of exercise of 804,000 options on 22 October 2009 was HK$3.40.

40. SHARE OPTIONS *(Continued)*

Had all the outstanding vested share options been fully exercised on 31 December 2009, the Company would have received cash proceeds of HK$85,787,000 (2008: HK$83,347,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK$	
Pre-GEM Listing options	04.04.2001	50%	01.01.2003 – 03.04.2011	0.473	(note c)
		50%	01.01.2004 – 03.04.2011	0.473	(note c)
2004 options (note a)	19.11.2004	30%	31.12.2005 – 30.03.2011	3.483	(note c)
		30%	31.12.2006 – 30.03.2011	3.483	(note c)
		40%	31.12.2007 – 30.03.2011	3.483	(note c)
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%	16.03.2009 – 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 recognised total expenses of HK$3,715,000 (2008: HK$8,644,000) for the year ended 31 December 2009 in relation to share options granted by the Company.

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.

c. The exercise price and number of share options has been adjusted as the result of open offer of ordinary shares during the year ended 31 December 2007.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

41. 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 2009 amounted to approximately HK$28,247,000 (2008: HK$31,882,000).

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 2009, the Group made retirement benefit scheme contributions amounting to HK$507,000 (2008: HK$557,000).

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2009 and 2008 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 2009	2008	Principal activities
Directly-owned subsidiaries					
Towngas China Group Limited (former known as China Pan River Group Ltd.)	BVI – Limited liability company	US$12,821	100%	100%	Investment holding
Panva LPG Investment Holdings Limited	BVI – Limited liability company	US$10,000,000	–	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding

42. 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 2009	2008	Principal activities
Directly-owned subsidiaries (Continued)					
Hong Kong & China Gas (Weifang) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Hong Kong & China Gas (Anqing) Limited	BVI- Limited liability company	US$1	100%	100%	Investment holding
Indirectly-owned subsidiaries					
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Limited liability company	RMB97,824,900	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 – Limited liability company	RMB10,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Changsha Pan River Enterprises Co., Ltd. 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	–	60%	Wholesaling and retailing of LPG
Chaoyang Hong Kong and China Gas Company Limited 朝陽港華燃氣有限公司	PRC – Limited liability company	RMB89,248,000	90%	90%	Provision of natural gas and related services and gas pipeline construction

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	–	60%	Wholesaling and retailing of LPG
China Overlink Holdings Co., Limited	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	Issued and fully paid: RMB20,400,000 Registered capital: RMB40,000,000	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 gaspipeline construction
Dayi Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000 (2008: RMB3,300,000)	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 – Limited liability company	RMB77,200,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
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$1,010,000	100%	100%	Provision of LPG and related services and gas pipeline construction

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
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
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%**	–	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%**	–	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 (formerly known as Jinan Panva Gas Co., Ltd. 前稱濟南百江燃氣有限公司)	PRC – Sino-foreign equity joint venture	RMB100,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
Jinan Panva LPG Co., Ltd. 濟南百江液化氣有限公司	PRC – Limited liability company	RMB20,000,000	–	70%	Wholesaling and retailing of LPG
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	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC – Limited liability company	RMB90,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	US$6,000,000	–	55%	Wholesaling and retailing of LPG
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	–	85%	Wholesaling and retailing of LPG
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	–	84%	Wholesaling and retailing of LPG
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	–	55%	Wholesaling and retailing of LPG

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
Pan River Gas (China Southwest) Co., Ltd. ("Southwest Panva") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	–	50.1%	Wholesaling and retailing of LPG
Pan River Gas (Zunyi) Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	–	50.1%	Wholesaling and retailing of LPG
Panriver Investments Company Limited	Hong Kong – Limited liability company	HK$1	–	100%	Investment holding
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,840,000	–	28.53% (note a)	Wholesaling and retailing of LPG
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 (2008: RMB9,000,000)	**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	**90%**	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	RMB4,900,000	**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	RMB 30,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
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	RMB 30,000,000	**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%**	90%	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 – Limited liability company	RMB80,000,000	**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
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	Issued and fully paid: USD6,500,000 Registered capital: 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 – Limited liability company	USD12,480,000 (2008: RMB49,210,000)	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Limited liability company	US$200,000,000	**100%**	100%	Investment holding

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC – Limited liability company	RMB5,000,000	**99.5%**	99.5%	Provision of natural gas and related services and gas pipeline construction
Wuhan Wumei Panva Gas Co., Ltd. 武漢武煤百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	**–**	50%	Wholesaling and retailing of LPG
Xiang Tan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**–**	60%	Wholesaling and retailing of LPG
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%**	–	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 – Limited liability company	RMB12,000,000	**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 – Limited liability company	RMB11,500,000	**60%**	–	Provision of natural gas and related services and gas pipeline construction
Yangzhou YPC & Panva Gas Co., Ltd. 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	**–**	27.5% (note b)	Wholesaling and retailing of LPG
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%**	–	Provision of natural gas and related services and gas pipeline construction

42. 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 2009	2008	Principal activities
Indirectly-owned subsidiaries (Continued)					
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	–	60%	Wholesaling and retailing of LPG
YPC & Panva Energy Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US$7,230,000	–	50% (note c)	Wholesaling and retailing of LPG
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	90%	90%	Provision of natural gas and related services and gas
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB8,000,000	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 end of the year.

Notes:

a. Southwest Panva holds a 56.94% equity interest.

b. Yangzi Panva holds a 55% equity interest.

c. Yangzi Panva is a subsidiary of the Company as the Group has the power to appoint or remove the majority of the number of directors of its board of directors.

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.

Design & Production: iOne Financial Press Limited www.ione.com.hk

This Annual Report is printed on environmentally friendly paper.

www.towngaschina.com

Towngas China Company Limited
23rd Floor, 363 Java Road, North Point, Hong Kong