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港華燃氣有限公司
Towngas China Company Limited

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

2010 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Profit after taxation attributable to shareholders surged by approximately 64.4% to HK$436 million.
- Turnover of piped gas business was HK$2,981 million, increased by approximately 47.2%.
- A final dividend of three HK cents per share is proposed, representing a significant increase of 50.0% over last year.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

The audited consolidated results of the Group for the year ended 31 December 2010 together with the comparative figures of 2009 are as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	**2010** **HK$'000**	2009 *HK$'000*
Turnover			
– Continuing operations		**2,981,420**	2,025,482
– Discontinued operation		**-**	880,471
	2	**2,981,420**	2,905,953
Continuing operations			
Operating profit before returns on investments		**330,187**	245,200
Other income and gains		**138,410**	64,873
Share of results of associates		**183,408**	136,901
Share of results of jointly controlled entities		**116,102**	73,933
Finance costs	3	**(141,859)**	(126,963)
Profit before taxation	4	**626,248**	393,944
Taxation	5	**(136,442)**	(91,625)
Profit for the year from continuing operations		**489,806**	302,319
Discontinued operation			
Profit for the year from discontinued operation		**-**	9,824
Profit for the year		**489,806**	312,143
Profit for the year attributable to:			
Shareholders of the Company		**435,797**	265,090
Non-controlling interests		**54,009**	47,053
		489,806	312,143
Proposed final dividend of three HK cents (2009: two HK cents) per ordinary share	6	**73,464**	39,167
		HK cents	*HK cents*
Earnings per share	7		
From continuing and discontinued operations			
– Basic		**19.93**	13.54
– Diluted		**19.93**	13.52
Earnings per share	7		
From continuing operations			
– Basic		**19.93**	13.57
– Diluted		**19.93**	13.55

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Non-current assets			
Property, plant and equipment		**5,073,785**	4,077,210
Leasehold land		**264,742**	216,759
Intangible assets		**182,107**	182,210
Goodwill		**3,753,293**	2,752,733
Interests in associates		**1,796,800**	1,186,538
Interests in jointly controlled entities		**1,067,277**	779,328
Loans to jointly controlled entities		**119,160**	108,060
Available-for-sale investments		**169,372**	168,853
Deferred consideration receivable		**242,481**	283,325
		12,669,017	9,755,016
Current assets			
Inventories		**147,885**	101,856
Leasehold land		**9,016**	6,082
Loans to jointly controlled entities		**84,906**	5,682
Trade and other receivables, deposits and prepayments	*8*	**531,455**	483,817
Amounts due from minority shareholders		**6,579**	14,103
Bank balances and cash		**1,433,941**	963,861
		2,213,782	1,575,401
Current liabilities			
Trade and other payables and accrued charges	*9*	**1,653,981**	1,318,905
Amounts due to minority shareholders		**25,630**	82,617
Taxation		**229,192**	189,475
Borrowings – amount due within one year		**2,792,403**	562,035
		4,701,206	2,153,032
Net current liabilities		**(2,487,424)**	(577,631)
Total assets less current liabilities		**10,181,593**	9,177,385
Non-current liabilities			
Loans from the ultimate holding company		**471,365**	471,365
Borrowings – amount due after one year		**432,321**	1,731,337
Deferred taxation		**142,780**	86,560
		1,046,466	2,289,262
Net assets		**9,135,127**	6,888,123
Capital and reserves			
Share capital		**244,879**	195,836
Reserves		**8,318,558**	6,237,752
Equity attributable to shareholders of the Company		**8,563,437**	6,433,588
Non-controlling interests		**571,690**	454,535
Total equity		**9,135,127**	6,888,123

1. 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").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC*)-Int 17	Distributions of non-cash assets to owners
HK-INT 5**	Presentation of financial statements - classification by the borrower of a term loan that contains a repayment on demand clause

* IFRIC represents the International Financial Reporting Interpretations Committee.

** HK-INT represents the Hong Kong Interpretation.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

<u>HKFRS 3 (as revised in 2008) Business combinations</u>

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously, they were accounted for as part of the cost of the acquisition.

As a result of the application of HKFRS 3 (as revised in 2008), the Group has recognised HK$4,417,000 of acquisition-related costs included in other expenses in the profit or loss, whereas previously, these costs would have been accounted for as part of the cost of the acquisition. The impact on earnings per share as a result of the application of HKFRS 3 (as revised in 2008) was a decrease in basic and diluted earnings per share of 0.2 HK cents and 0.2 HK cents respectively.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on the information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

HK-INT 5 Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause

HK-INT 5 "Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause" clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK-INT 5 for the first time in the current year. HK-INT 5 requires retrospective application.

After reviewing the terms of the Group's term loans, the directors of the Company concluded that no reclassification was necessary as the Group's bank borrowings did not include such repayment on demand clauses.

2. SEGMENT INFORMATION

Operating segments

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

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

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products and gas pipeline construction. They represent two major lines of business engaged by the Group. 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

In prior year, the Group disposed of its business in the sales of liquefied petroleum gas ("LPG") in bulk and in cylinders ("LPG operations").

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

Information regarding these segments is presented below.

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

For the year ended 31 December 2009	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*
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

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 reportable segments have been prepared on the historical cost basis. The accounting policies of the reportable segments are the same as the Group's accounting policies.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and substantially all of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for each of the years ended 31 December 2010 and 2009.

3. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest on:						
– bank and other borrowings wholly repayable within five years	**42,608**	30,712	**-**	421	**42,608**	31,133
– bank and other borrowings not wholly repayable within five years	**1,645**	874	**-**	-	**1,645**	874
– guaranteed senior notes	**95,039**	93,923	**-**	-	**95,039**	93,923
	139,292	125,509	**-**	421	**139,292**	125,930
Bank charges	**2,567**	1,454	**-**	55	**2,567**	1,509
	141,859	126,963	**-**	476	**141,859**	127,439

4. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit before taxation	**626,248**	393,944	**-**	20,270	**626,248**	414,214
Profit before taxation has been arrived at after charging:						
Staff costs	**315,615**	251,229	**-**	63,846	**315,615**	315,075
Amortisation of intangible assets	**6,782**	6,879	**-**	1,559	**6,782**	8,438
Amortisation of leasehold land	**8,557**	6,481	**-**	940	**8,557**	7,421
Cost of inventories sold	**2,100,380**	1,343,050	**-**	762,421	**2,100,380**	2,105,471
Depreciation of property, plant and equipment	**182,293**	159,656	**-**	9,494	**182,293**	169,150
Operating lease rentals in respect of land and buildings	**9,063**	6,754	**-**	8,377	**9,063**	15,131
Loss on disposal of property, plant and equipment	**5,811**	-	**-**	-	**5,811**	-
and after crediting:						
Gain on disposal of property, plant and equipment	**-**	664	**-**	2	**-**	666
Gain on disposal of leasehold land	**4,553**	-	**-**	-	**4,553**	-

5. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
The charge comprises:						
PRC Enterprise Income Tax ("EIT")						
- current year	**107,273**	90,062	**-**	5,639	**107,273**	95,701
Deferred taxation						
- taxation charge for the year	**29,169**	1,563	**-**	4,807	**29,169**	6,370
	136,442	91,625	**-**	10,446	**136,442**	102,071

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

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2009: 15% to 25%).

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from EIT for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from EIT for the following three years. The reduced tax rate for the relief period was 12.5% (2009: 7.5% to 12.5%). EIT has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

6. DIVIDENDS

During the year, final dividend of HK$39,203,000 (2009: HK$19,576,000) was recognised as distribution being two HK cents per ordinary share in respect of year ended 31 December 2009 (in respect of year ended 31 December 2008: one HK cent per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2010 of three HK cents (2009: two HK cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. 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:

	2010	2009
	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	**435,797**	265,090

	Number of shares 2010 *'000*	2009 *'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,186,260**	1,957,714
Effect of dilutive potential ordinary shares:		
Share options	**284**	2,896
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,186,544**	1,960,610

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:

	2010 ***HK$'000***	2009 *HK$'000*
Profit for the year attributable to shareholders of the Company for calculating basic and diluted earnings per share	**435,797**	265,605

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

From discontinued operation

The loss per share for the discontinued operation attributable to shareholders of the Company for the year ended 31 December 2009 is as follows:

	HK cents
Basic	(0.03)
Diluted	(0.03)

The calculation of the loss per share for the discontinued operation attributable to shareholders of the Company for the year ended 31 December 2009 is based on the following data:

	HK$'000
Loss from discontinued operation attributable to shareholders of the Company	(515)

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

8. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**173,427**	98,101
Deferred consideration receivable	**39,321**	39,321
Prepayments	**225,043**	128,459
Other receivables and deposits	**93,664**	90,558
Amount due from a related company (note)	**-**	127,378
	531,455	483,817

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

Trade receivables

Included in trade and other receivables, deposits and prepayments are trade receivables of HK$173,427,000 (2009: HK$98,101,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**168,772**	90,784
91 to 180 days	**1,362**	1,504
181 to 360 days	**3,293**	5,813
	173,427	98,101

9. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**335,493**	214,669
Receipt in advance	**947,491**	560,695
Consideration payable for acquisitions	**67,319**	198,479
Amount due to a related company (note a)	**-**	127,378
Other payables and accruals	**289,251**	217,099
Amount due to the ultimate holding company (note b)	**14,427**	585
	1,653,981	1,318,905

Notes:

(a) The amount was unsecured, interest-free and repayable on demand.

(b) The amount was 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:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**246,840**	117,864
91 to 180 days	**18,549**	33,394
181 to 360 days	**19,426**	35,830
Over 360 days	**50,678**	27,581
	335,493	214,669

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group's piped gas business booked a turnover of HK$2,981 million, a growth of 47.2% when compared to 2009. Profit after taxation attributable to shareholders of the Company amounted to HK$436 million, a surge of 64.4% as compared to the previous year. Basic earnings per share amounted to 19.93 HK cents, representing an increase of 47.2% compared to 2009.

Turnover

For the year ended 31 December 2010, the Group recorded a turnover of HK$2,981 million, representing an increase of 2.6% compared to 2009. Not taking the LPG operations, of which the Group disposed in June 2009, turnover from the piped gas business experienced a significant growth of 47.2%. The increase was mainly attributable to the following businesses:

Sales of Piped Gas and Related Products

Turnover from sales of piped gas and related products increased 49.0% from HK$1,534 million to HK$2,286 million in 2010. The increase was mainly attributable to a significant increase in the volume of gas sold and the rise in the average gas sales price. New subsidiaries and city piped gas projects acquired from The Hong Kong and China Gas Company Limited ("HKCG") in July 2010 accounted for 22.0% of this increase, while the remaining 78.0% was attributable to the organic growth of the existing subsidiaries.

Gas Pipeline Construction

In the gas pipeline construction business, income from construction fees for the year amounted to HK$695 million, a rise of 41.4% when compared to 2009. This was attributable to an increase of approximately 191,000 new household connections of subsidiaries in 2010.

Operating Expenses

Operating expenses in 2010 amounted to HK$2,651 million, maintaining a similar level as compared with HK$2,645 million in 2009. The increase in operating expenses of piped gas business during the year was largely offset by the decrease due to the disposal of LPG operations in June 2009. Operating expenses for the piped gas business increased from HK$1,780 million in 2009 to HK$2,651 million in 2010, representing an increase of 48.9%. The increase was mainly due to increases in stores and materials used, staff costs, depreciation and amortisation expenses and other expenses of 60.5%, 25.9%, 14.2% and 38.9% respectively. An increase of HK$173 million in operating expenses was a result of having new subsidiaries and city piped gas projects acquired from HKCG in July 2010.

Stores and Materials Used

Stores and materials used in the piped gas business increased from HK$1,176 million in 2009 to HK$1,888 million in 2010. The increase in expenses was mainly attributable to the increase in the volume of gas sold while 20.2% of this increase was attributable to new subsidiaries.

Staff Costs

Staff costs for the piped gas business increased from HK$251 million in 2009 to HK$316 million in 2010. The increase in expenses was a result of business development needs and the raise of average wages in the mainland. The new subsidiaries resulted in an increase of approximately HK$9.5 million in staff costs.

Finance Costs

Finance costs for the piped gas business increased from HK$127 million in 2009 to HK$142 million in 2010. This was mainly attributed to the addition of bank loans for the acquisition of new projects.

Share of Results of Associates

Share of results of associates increased from HK$137 million in 2009 to HK$183 million in 2010, representing an increase of approximately 33.6%. The increase was mainly attributable to the growth of 38.4% in the volume of gas sold and the increase in the number of customers of associates of approximately 196,000 households, or 17.1%.

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

Share of results of JCEs in the piped gas business increased from approximately HK$74 million in 2009 to approximately HK$116 million in 2010, rising by approximately 56.8%. The increase was mainly attributed to the growth of 40.7% in the volume of gas sold and the increase in the number of customers of approximately 144,000 households, or 20.1%.

Available-for-sale Investments

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

Financial Resources and Position

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

As at 31 December 2010, the Group's total borrowings amounted to HK$3,696 million, of which HK$1,119 million was guaranteed senior notes due in 2011 and HK$471 million was loans from HKCG due between 2 to 5 years, HK$356 million and HK$1,641 million bank loans due between 1 to 5 years and within 1 year respectively. Other than guaranteed senior notes and HK$325 million bank loans and other borrowings which bore fixed interest rate, the Group's other borrowings were mainly arranged on floating interest rate basis. The arrangements on terms and interest rates of the borrowings provided robust financial resources and stable interest costs for the Group. The Group ended the year with a current ratio of 0.5 times and a gearing ratio (net debt excluding HKCG loans ("Net Debt") to equity attributable to shareholders plus Net Debt) of 17.3%.

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

As at 31 December 2010, the Group had obtained unutilised facilities amounting to HK$1,203 million. As of the date of this announcement, such facilities have further increased to HK$1,665 million.

Cash and cash equivalents of the Group totaling HK$1,434 million as at 31 December 2010 was mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity, and financing agreements with banks and its 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 2010, Standard & Poor's, a rating agency, upgraded the Company's long term corporate credit rating and the issue rating of the US$200 million notes to "BBB", demonstrating a stable outlook for the Company. Meanwhile, Moody's Investors Service, another 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 improved to be positive, reflecting the continuously enhancing profitability and cash flow of the Company.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2010.

Currency Profile

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

Final Dividend

In view of the continuous growth in the Group's results, the Board recommended the payment of a final dividend for the year ended 31 December 2010 of three HK cents per share (2009: two HK cents per share), representing an increase of 50.0% over last year.

BUSINESS REVIEW

In 2010, the world economy rebounded gradually from the global financial crisis, aided by the quantitative easing monetary policy implemented as the rescue measure in various countries. China's economic growth maintained strong momentum in 2010 benefiting from its relatively robust banking system and the continuously expanding domestic demand. The development of new projects by the Group in the neighbouring cities of its existing projects was in line with the rapid development strategy of the gas industry encouraged by the PRC government. In addition, as the Group's projects in Shandong and Northeastern China are located in the regions targeted for increases in natural gas consumption during the 12th Five-Year Plan period, the Group is well-positioned for sustainable development.

Sales of Piped Gas

With the rapidly increasing demand for clean energy in China and the continuous endeavour of staff within the Group, a splendid performance was achieved by the Group in 2010. In this year, the Group sold a total of approximately 4.03 billion cubic metres of piped gas, representing a substantial increase of 27.5% as compared to the figure of approximately 3.16 billion cubic metres recorded in the same period last year. Industrial gas sales grew by 550 million cubic metres, representing an increase to approximately 59.1% of the total gas volume sold by the Group during the year. Commercial gas sales maintained at approximately 14.0% of the total gas volume sold by the Group over the year. Residential gas sales accounted for approximately 26.9%, being a slight decrease of one percentage point of the total volume of gas sold. The optimisation of the customer mix as illustrated by the increase in weights of industrial and commercial gas consumption in the gas sales profile would be a strong drive to the Group's future gas sales volume growth. Additionally, with greater autonomy in determining the selling prices of industrial and commercial gas, the Group can more easily shift the price adjustments from upstream companies to its industrial and commercial customers. As such, the profitability of the Group's gas sales will remain continuously strong.

Acquisition of Six City Piped Gas Projects from HKCG

On 17 March 2010 and as announced on the same day, the Company entered into a sale and purchase agreement (the "Agreement") with Hong Kong & China Gas (China) Limited ("HK&CG (China)"), a wholly-owned subsidiary of HKCG. Pursuant to the Agreement, the Company agreed to purchase all the issued share capital of Towngas (BVI) Holdings Limited, a target company held by HK&CG (China), and to take assignment of all the outstanding loans and liabilities owed by the target company to HK&CG (China) and its associates. The Agreement and its contemplated transactions, together with the relevant whitewash waiver, were approved at the Extraordinary General Meeting on 29 April 2010. On 15 July 2010 and as announced on the same day, the Company entered into a supplemental agreement with HK&CG (China), pursuant to which part of the reorganisation yet to be fulfilled would become a post-completion obligation. Accordingly, the acquisition was completed on 15 July 2010.

The Company issued 485,000,000 consideration shares credited as fully-paid to HK&CG (China) as the consideration for the acquisition. The consideration shares represent approximately 24.76% of the issued share capital of the Company upon the execution of the Agreement and approximately 19.81% of the enlarged share capital of the Company upon completion of the transaction on 15 July 2010.

Upon completion of the acquisition, the Group held 40% to 100% of the equity interest in six city piped gas project companies in Liaoning and Zhejiang Provinces in the PRC through the target company:

Name of Project Companies	**Shareholding**
Zhejiang Province	
Hangzhou Hong Kong and China Gas Company Limited	50%
Tongxiang Hong Kong and China Gas Company Limited	76%
Huzhou Hong Kong and China Gas Company Limited	98.85%
Liaoning Province	
Yingkou Hong Kong and China Gas Company Limited	100%
Dalian Changxing Hong Kong and China Gas Co. Ltd.	100%
Dalian DETA Hong Kong and China Gas Co., Ltd.	40%

Liaoning and Zhejiang are strategic provinces located on the Northeastern and Eastern coast of China, adjacent to a number of provinces, such as Jilin, Shandong and Anhui, where the Group currently has a significant presence. The Group believes that the acquisition will enhance its financial and cash flow positions. The acquisition also allows the Group to increase its scale by issuing new shares as consideration, without having to raise additional cash to fund the transaction. In addition, HKCG's increased shareholding will bring considerable benefits to the Group in securing new piped gas projects in the PRC as HKCG is widely recognised for its experience and expertise in the piped gas business in the PRC. Furthermore, the Group will have continued support from HKCG's abundant financial resources and continue to benefit from its operational expertise and managerial support at the corporate and regional management levels.

Acquisitions

In 2010, in addition to the six projects acquired from HKCG in Liaoning and Zhejiang Provinces, the Group also secured eight new projects in Jiangxi Province, Liaoning Province, Shandong Province and Guangxi Zhuang Autonomous Region, including Linqu County of Weifang City and Nanhai New District of Laiyang City in Shandong Province, the New Industrial District of Anshan City, Lvshun Economic Development Zone of Dalian City and Kazuo County of Chaoyang City in Liaoning Province, Chengdong Harbour District of Jiujiang City and Fubei Industrial Park of Fuzhou City in Jiangxi Province, and Lingui New District of Guilin City, being the first piped gas investment project of the Group in Guangxi Zhuang Autonomous Region. As a provincial development area, Lingui New District is the focal future development point in Guilin City and is of strategic significance for the Group's city gas project development in Guangxi. The expected total gas consumption of the eight projects above will be approximately 500 million cubic metres in five years.

In addition, the Group acquired two new projects operating in Xiushui County and Wuning Industrial Park of Jiujiang City, Jiangxi Province, in early 2011. The expected total gas consumption of the two projects in five years will be 150 million cubic metres. As such, the Group's investment in five projects in Jiangxi Province has facilitated its further penetration in the province and established solid foundations for its development in 2011.

Details of the Group's ten new projects are as follows:

	Project	Shareholding of the Group	Major Industries of the Operating Region
1.	Linqu County, Weifang City, Shandong Province	42.41% (*)	Processing of aluminium and stainless steel, metallurgical and chemical processing and processing of construction materials
2.	New Industrial District, Anshan City, Liaoning Province	100%	Manufacturing of equipment
3.	Lvshun Economic Development Zone, Dalian City, Liaoning Province	100%	Manufacturing of ships and equipment
4.	Lingui New District, Guilin City, Guangxi Zhuang Autonomous Region	95%	Metals processing and bio-pharmaceuticals
5.	Kazuo County, Chaoyang City, Liaoning Province	100%	Metallurgy, foundries and purple pottery
6.	Chengdong Harbour District, Jiujiang City, Jiangxi Province	60%	Petrochemical, manufacturing of ships, production of construction materials, processing of food and oil
7.	Fubei Industrial Park, Fuzhou City, Jiangxi Province	40%	Smelting and processing of non-ferrous metal, and production of construction materials
8.	Nanhai New District, Laiyang City, Shandong Province	100%	Advanced technology, food processing and manufacturing of machinery
9.	Xiushui County, Jiujiang City, Jiangxi Province	80%	Mine processing, ceramics and quartz processing
10.	Wuning Industrial Park, Jiujiang City, Jiangxi Province	100%	Energy-saving lights, mine ore processing, pharmaceuticals and chemical processing

(*) The Group directly holds a 25% equity interest in this project, and 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% equity interest in this project. As a result, the Group owns a 42.41% effective shareholding in this project.

Staff Training and Development

As of 31 December 2010, the Group had 15,744 employees and 99% of whom worked in the mainland China. The Group has consistently focused on the continuous training of staff and advancement of work skills. Staff ranging from frontline staff to senior management was involved in training in a variety of ways. In August 2010, the Group continued to jointly organise the "Senior Management Programme" with the Tsinghua University to ensure that the grooming of top-notch talent would be sustainable. It was a programme based on Towngas Leadership Competency model flexibly structured in accordance with the characteristics and requirements of the Group. Leadership enhancement work also continued to develop for regional management in 2010. In July, leadership enhancement course for the management in Shandong region commenced in the Peking University. In October, the 4th graduation cum the 5th opening ceremony of the senior management training course for Sichuan region was held at the Southwestern University of Economics and Finance. This course was devised to explore innovative business strategies, human resources management and marketing skills to maintain the competitive edges of the Group. In order to improve the working quality of frontline staff, the Group conducted specifically designed training programme in accordance with the needs of staff in Sichuan last year. This further enhanced the technical skills of staff, resulting in an even greater value creation for customers and the Group.

The Group has strived to comply with the principle of "committing to innovation and creativity to provide quality services for the benefits of the Group, its customers and employees" throughout all its operations. Through the launch of a comprehensive training on Superior Quality Service ("SQS") for its employees, the innovation and quality services of employees have been persistently enhanced. By now, 41 group companies have implemented SQS. Three companies of the Group were awarded the second prizes at the National Competition for Quality Control Units organised by the China Association for Quality in April and July 2010. The Group will further enhance on professionalism, quality and effectiveness in the implementation of SQS.

In addition to providing training to its employees, the Group actively responded to calls from the community on post-"5·12" Sichuan earthquake educational support and subsidised 30 students from the affected areas to study in Jiangsu Changzhou Higher Vocational School of Construction, specializing in gas stream. As of September 2010, students having completed their pre-job training at the Group's training centre in Sichuan were participating in internship programmes in 15 group companies in Sichuan. The Group ensured full employment of students, meanwhile, expanding its gas service teams with professional members.

Corporate Social Responsibility

The Group has been recognising its role in corporate social responsibility. Over the years, the Group has been actively involving in community activities providing support and showing its concerns for the needs of the underprivileged. Upon the earthquake in Yushu County, Qinghai Province, in April 2010, the Group and its employees acted promptly to raise funds, dedicating love and care to the victims. Furthermore, as an energy provider, the Group has been committing to protect and improve the environment as well as promote the development and utilisation of clean energy so as to save energy and reduce emission of greenhouse gas.

As an appreciation from the society and the industry for the Group's socially responsible acts, various honours such as "The Outstanding Corporate Citizenship of China", "Low-carbon Innovative Enterprise" and "The Enterprise with Outstanding Community Service in China" were awarded to the Group in 2010.

2011 Outlook

Following the introduction of the 12th Five-Year Plan of China in 2011, it is estimated that the annual average growth rate of GDP will be at a high level of 7% in the next five years. To facilitate the rapid development of the economy through the use of clean energy, China's natural gas consumption will account for over 8% of non-renewable energy in 2015, representing a significant increase from 3.9% in 2010. The overall demand for natural gas will increase from 110 billion cubic metres in 2010 to more than 260 billion cubic metres in 2015. The growth of city gas consumption will be the fastest among all natural gas applications. To this end, the National Energy Board has begun to formulate "The 12th Five-Year Development Plan for Oil and Natural Gas", "Nation-wide Natural Gas Pipeline Networks and the 12th Five-Year Development Plan", "The 12th Five-Year Plan for Liquefied Natural Gas" and "Construction Plan of Natural Gas Reserve and Adjustment Capability (2010-2020)", which laid down the direction and solid foundations for the rapid development of natural gas industry.

In order to take advantage of the development opportunities for the city gas industry arising from the 12th Five-Year Plan, the Group will focus on improving the competitive advantages, corporate governance, environmental protection efficiency, management efficiency and profitability of its project companies in 2011.

With the increase in supply of upstream gas in 2011, the Group will be able to better utilize its existing market advantages to provide more sufficient gas supply for the industrial, commercial and household customers of its project companies and further penetrate into the neighbouring markets. The rapid construction of nation-wide major natural gas pipelines also provides an extensive platform and long-term development prospects for the development of city gas projects. In addition, the accelerating urbanization and construction of affordable housing will drive the expansion of the Group's customer base. It is expected that the growth in the Group's result in 2011 will remain promising.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

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

Corporate Governance

During the year ended 31 December 2010, the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") .

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

Audit Committee

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

A meeting of the Audit Committee was held on 1 March 2011 to review the Group's audited consolidated financial statements for the year ended 31 December 2010 in conjunction with the Group's internal auditors and Deloitte Touche Tohmatsu, the Group's external auditor.

Final Dividends

The Board recommended the payment of a final dividend out of the share premium account of the Company of three HK cents per share (2009: two HK cent per share) to shareholders whose name are on the register of members on 30 May 2011, which is subject to approval by shareholders at the Annual General Meeting to be held on 30 May 2011 and compliance with the Companies Law of the Cayman Islands.

If the aforesaid proposed final dividend being approved, the final dividend will be payable on or about 20 June 2011 and the register of members of the Company will be closed from 25 May 2011 to 30 May 2011, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by relevant share certificates should be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 24 May 2011.

Annual General Meeting

The Annual General Meeting will be held on Monday, 30 May 2011. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Wednesday, 6 April 2011.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 14 March 2011

At the date of this announcement, the Board comprises:

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 Mr. Ou Yaping)

Independent Non-executive Directors:
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David