港華燃氣有限公司
Towngas China Company Limited

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

# 2011 ANNUAL RESULTS ANNOUNCEMENT

**Financial Highlights:**

- Profit after taxation attributable to shareholders surged by 62.6% to HK$709 million.
- Turnover jumped to HK$4,321 million, increased by 44.9%.
- A final dividend of five HK cents per share is proposed, representing an increase of 66.7% 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 2011.

The audited consolidated results of the Group for the year ended 31 December 2011 together with the comparative figures of 2010 are as follows:

## CONSOLIDATED INCOME STATEMENT
*FOR THE YEAR ENDED 31 DECEMBER 2011*

| | *NOTES* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| Turnover | *2* | **4,321,344** | 2,981,420 |
| Operating profit before returns on investments | | **586,390** | 330,187 |
| Other gains, net | | **195,421** | 138,410 |
| Share of results of associates | | **194,522** | 183,408 |
| Share of results of jointly controlled entities | | **199,088** | 116,102 |
| Finance costs | *3* | **(141,885)** | (141,859) |
| Profit before taxation | *4* | **1,033,536** | 626,248 |
| Taxation | *5* | **(256,943)** | (136,442) |
| Profit for the year | | **776,593** | 489,806 |
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | **708,754** | 435,797 |
| Non-controlling interests | | **67,839** | 54,009 |
| | | **776,593** | 489,806 |
| Proposed final dividend of five HK cents (2010: three HK cents) per ordinary share | *6* | **123,017** | 73,464 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share | *7* | | |
| – Basic | | **28.84** | 19.93 |
| – Diluted | | **28.82** | 19.93 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*AT 31 DECEMBER 2011*

| | *NOTES* | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **6,127,967** | 5,073,785 |
| Leasehold land | | **296,226** | 264,742 |
| Intangible assets | | **182,910** | 182,107 |
| Goodwill | *8* | **3,848,101** | 3,380,743 |
| Interests in associates | | **2,243,599** | 1,989,156 |
| Interests in jointly controlled entities | | **1,481,514** | 1,247,471 |
| Loans to jointly controlled entities | | **131,532** | 119,160 |
| Available-for-sale investments | | **169,893** | 169,372 |
| Deferred consideration receivable | | **203,682** | 242,481 |
| | | **14,685,424** | 12,669,017 |
| Current assets | | | |
| Inventories | | **387,702** | 147,885 |
| Leasehold land | | **9,786** | 9,016 |
| Loans to an associate | | **30,826** | - |
| Loans to jointly controlled entities | | **140,127** | 84,906 |
| Trade and other receivables, deposits and prepayments | *9* | **852,188** | 531,455 |
| Amounts due from minority shareholders | | **6,267** | 6,579 |
| Time deposits over three months | | **148,583** | 185,127 |
| Bank balances and cash | | **1,922,503** | 1,248,814 |
| | | **3,497,982** | 2,213,782 |
| Current liabilities | | | |
| Trade and other payables and accrued charges | *10* | **2,262,579** | 1,653,981 |
| Amounts due to minority shareholders | | **194,894** | 25,630 |
| Taxation | | **320,622** | 229,192 |
| Borrowings – amount due within one year | | **1,512,629** | 2,792,403 |
| | | **4,290,724** | 4,701,206 |
| Net current liabilities | | **(792,742)** | (2,487,424) |
| Total assets less current liabilities | | **13,892,682** | 10,181,593 |
| Non-current liabilities | | | |
| Loans from the ultimate holding company | | **471,790** | 471,365 |
| Borrowings – amount due after one year | | **2,902,121** | 432,321 |
| Deferred taxation | | **205,900** | 142,780 |
| Other financial liabilities | | **13,616** | - |
| | | **3,593,427** | 1,046,466 |
| Net assets | | **10,299,255** | 9,135,127 |
| Capital and reserves | | | |
| Share capital | | **246,035** | 244,879 |
| Reserves | | **9,369,279** | 8,318,558 |
| Equity attributable to shareholders of the Company | | **9,615,314** | 8,563,437 |
| Non-controlling interests | | **683,941** | 571,690 |
| Total equity | | **10,299,255** | 9,135,127 |

## 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").

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

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

## 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 connection. 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 connection | – Construction of gas pipeline networks under gas connection contracts |

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

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

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 People's Republic of China (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 2011 and 2010.

## 3. FINANCE COSTS

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

## 4. PROFIT BEFORE TAXATION

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation has been arrived at after charging: | | |
| Staff costs | **394,114** | 315,615 |
| Amortisation of intangible assets | **7,147** | 6,782 |
| Amortisation of leasehold land | **9,866** | 8,557 |
| Cost of inventories sold | **3,033,810** | 2,100,380 |
| Depreciation of property, plant and equipment | **229,741** | 182,293 |
| Loss on disposal of property, plant and equipment | **11,853** | 5,811 |
| Operating lease rentals in respect of land and buildings | **12,022** | 9,063 |
| and after crediting: | | |
| Gain on disposal of leasehold land | **-** | 4,553 |

## 5. TAXATION

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

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

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

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

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

## 6. DIVIDENDS

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

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2011 of five HK cents (2010: three HK cents) per 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:

| | **2011** | 2010 |
|---|---|---|
| | ***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 | **708,754** | 435,797 |

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

## 8. GOODWILL

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

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

## 9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

**Trade receivables**

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

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

## 10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

Note:
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:

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

# FINANCIAL REVIEW

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

**Turnover**

*Sales of Piped Gas and Related Products*

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

*Gas Connection*

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

**Gas Fuel, Stores and Materials Used**

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

**Overheads**

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

*Staff Costs*

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

**Finance Costs**

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

**Available-for-sale Investments**

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

**Credit Ratings**

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

**Financial Resources and Position**

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

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

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

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

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

**Contingent Liabilities**

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

**Currency Profile**

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

**Final Dividend**

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

# BUSINESS REVIEW

Starting off China's "12th Five-Year Plan" period, 2011 could have profound implications at such remarkable time. In addition to the ongoing commitment towards urbanisation, the "12th Five-Year Plan" specifically encourages that energy savings and the reduction of greenhouse gas emissions should be integrated with development plans. With this background, the city gas and natural gas industries are ready for the prominent development trend ahead. With its persistent endeavour to capture business opportunities, the Group achieved strong business growth and outstanding results.

Leveraging this stable business growth and corporate competencies, the Group was once again honoured with the "Hong Kong Outstanding Enterprises Award 2011" presented by the Economics Digest, as well as "The Most Valuable Listed Company for Investment during the 12th Five-Year Plan Period" Award under the Golden Bauhinia Awards of China Securities 2011 co-organised by "Takungpao", The Hong Kong Chinese Enterprises Association, Hong Kong Securities Association, Securities Association of China and China Enterprise Confederation. These awards demonstrate the recognition received for the Group's development.

**Sales of Piped Gas**

In 2011, the Group sold a total of approximately 4.67 billion cubic metres of piped gas, representing a substantial increase of 15.9% against 4.03 billion cubic metres sold last year. Industrial gas sales grew by 410 million cubic metres, representing an increase to approximately 59.8% in the total volumes of gas sold by the Group while commercial gas sales maintained their level at approximately 14.5% of the total gas volumes sold during the year. Residential gas sales in turn accounted for approximately 25.7% of total gas sold. The continuing growth of our industrial gas sales demonstrated the success of the Group's project development strategy to strengthen industrial and commercial gas consumption. Benefiting from the stable growth in China's economy, the heavier weight in industrial and commercial gas consumption in our gas sales profile will help to ensure the continuing growth of the Group's future gas sales volumes. Moreover, the Group is able to shift upstream price adjustments to industrial and commercial customers in a timely manner, further reflecting the profitability of the Group's gas sales will continue to increase.

**Project Acquisitions**

In 2011, the Group continued to expand its business profile geographically with the acquisition of five new projects in Jiangxi, Hunan, Anhui and Liaoning Provinces, with projects in Xiushui County of Jiujiang City in Jiangxi Province; Wuning Industrial Park of Jiujiang City in Jiangxi Province; Beipiao City in Liaoning Province; Bowang New District of Maanshan City in Anhui Province, as well as the piped gas project in Miluo City – the Group's first project in Hunan Province. Close to Changsha City and Yueyang City, the project's operations cover the Miluo City Urban Planning District and Cyclic Economy Industrial Park, a provincial-level industrial park, with high potential for industrial gas consumption, paving the way for the Group's further city gas project development in Hunan Province. Total gas consumption for the five projects is expected to reach about 450 million cubic metres in five years.

Additionally, in early 2012, the Group invested in two new projects in Liaoning Province consisting of a city gas project as well as a midstream piped natural gas project, both in Wafangdian City of Dalian, establishing a sound foundation for the Group's business development in 2012. The total gas consumption of the two projects is expected to reach about 150 million cubic metres in five years.

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

| | Project | Shareholding of the Group | Major Industries in the Operating Regions |
|---|---|---|---|
| 1. | Xiushui County, Jiujiang City, Jiangxi Province | 80% | Mine processing, ceramics and quartz processing |
| 2. | Wuning Industrial Park, Jiujiang City, Jiangxi Province | 100% | Energy-saving lights, mine ore processing, pharmaceuticals and chemicals processing |
| 3. | Miluo City, Hunan Province | 70% | Precision processing of secondary copper, aluminum, stainless steel and plastics |
| 4. | Bowang New District, Maanshan City, Anhui Province | 75.1% (*) | Cutting tools, machine tools manufacturing, auto parts and metallurgical pressing |
| 5. | Beipiao City, Liaoning Province | 80% | Powder metallurgy and metallurgical casting |
| 6. | Wafangdian City, Dalian, Liaoning Province | 60% | Bearings, forging and machinery equipment |
| 7. | Midstream project in Wafangdian City, Dalian, Liaoning Province | 30% | This project is a midstream piped natural gas project |

(*) The Group holds a direct 60% equity interest. Maanshan Hong Kong and China Gas Company Limited ("Maanshan HKCG"), a joint venture in which the Group holds a 50% equity interest, has also acquired a 20% equity interest in this project. Dangtu Hong Kong and China Gas Company Limited, a company in which Maanshan HKCG holds a 51% equity interest also owns a 20% equity interest in this project. As a result, the Group owns a 75.1% effective shareholding in this project.

**Staff Training and Development**

As of the end of 2011, the Group had 16,513 employees. With regard to staff training and development, the Group has taken a proactive role, establishing a suitable learning environment and training platform for the professional development of our people, an area in which we have achieved extraordinary results. Building on the Group's and HKCG's outstanding achievements in the cultivation of our corporate culture and talent development in China operations, HKCG was honoured with the "BEST" award from the American Society for Training and Development in October 2011.

The Group's training and development activities cover our people at every level both in Hong Kong and on the mainland. In 2011, the Group continued our senior management programme with Tsinghua University, which sought to implant a deeper understanding on "Towngas Leadership Competency" among our senior management and improve corporate management and operation standards. To further explore and develop the personal competencies of senior and middle-level management, the Group also launched an "Improvement Programme" in conjunction with three universities in Chongqing, Xi'an and Hunan. Under the programme's "win-win" structure, both mentors and students were able to improve their capabilities.

The Group also introduced an elite programme to meet the growing demand for high caliber staff due to ventures' rapid business development. The aim was to train well-experienced young employees with strong leadership potential based on the "Towngas Leadership Competency" model. The first batch of trainees graduated in 2011 and are now serving in different positions, as they make their contribution towards the future development of the Group.

Committed to enhancing the service and personal qualities of general staff, regular training was carried out in training institutions of Shandong, Sichuan and Changchun. "Service with a Smile" training was launched in August, to reinforce, among our frontline staff, our "customer-oriented" services concept as a routine working practice.

Making sure that staff abilities provide the ideal fit for their work responsibilities, the Group adopted professional tests and assessment tools to help our people to determine their career path. Completed by all general managers of Group companies in 2011, indicating the involvement of senior management, the tools and feedbacks from general managers helped them to plan their career paths.

A major corporate culture promotional event has been the Superior Quality Service ("SQS") programme which was first introduced into HKCG ventures in China in 2001. The Group decided to follow in HKCG's footsteps and launched SQS in Group companies afterwards. So far, 54 Group companies have participated in SQS with highly pleasing results. In 2011, four Group companies won the first and second-class awards at the National Competition for Quality Control Units. As the Group celebrated the 10$^{th}$ anniversary of SQS in China in 2011, it had taken part in a number of activities with HKCG, aiming to encourage staff to review SQS development in the last ten years, sharing their views and SQS experiences with others to be well prepared for future challenges.

**Corporate Social Responsibility**

The Group has been participating actively in community welfare activities in the mainland. A number of community activities are organized each year to encourage our employees to promote community welfare together with people from all walks of life, contributing to the sustainable development of the domestic community welfare.

In 2011, through organising various study aids and fund raising projects, the Group demonstrated its care about the education assistance and the physical and mental development of children living in poverty. Also, the Group placed special focus on environmental protection and launched the "Month of Tree Plantation and Carbon Reduction" programme aiming to actively promote and realise the concept of energy conservation and a reduction of carbon emissions.

In recognition of the Group's activities and achievements in terms of corporate social responsibility over the years, the Group was awarded the honor of the "China's Outstanding Corporate Citizenship", "The Best Model Brand of Public Service to Users' Satisfaction among Public Utilities in China" and "The Enterprise with Outstanding Community Service in China" during the year.

**2012 Outlook**

China's commitment to promote the extensive use of natural gas during the "12th Five-Year Plan" period is highly favourable to the development of the city gas industry. The Group will not only strengthen its investment to match the development of China's natural gas market, it will also be focusing on improving the competitive edges, corporate governance, safe operations, environmental protection, management efficiencies as well as the profitability of Group companies, building its reputation as a model enterprise in the city gas industry of China.

Looking forward to 2012, it will be a critical year for the rapid development of natural gas industry in China. Following the "Regulations on Administration of Urban Fuel Gas" which became effective on 1 March 2011, the "Regulations on Administration of Construction and Operation Management of Natural Gas Infrastructure" is currently at drafting stage and expected to see huge progress in 2012. Coupled with the trial reform in the natural gas pricing mechanism as announced on 26 December 2011, the regulatory chain for the entire natural gas industry is gradually being established. Closely monitoring the progress of this reform, the Group is well poised for seizing any opportunities that would immensely facilitate its development.

With the consistent increase in the supply of imported natural gas, accelerated development will be seen in China's natural gas market. Most of the gas projects of the Group are located in the regions where gas supplies are increasing with ever expanding pipeline networks, covering areas such as Northeast, Shandong, Hunan, Anhui, Jiangxi and Guangdong, which will be benefited from the clean energy policy advocated by the "12th Five-Year Plan". Overall, it is anticipated that the Group will achieve favourable and sustainable growth in its 2012 results.

# OTHER INFORMATION

**Purchase, Sale or Redemption of Listed Securities**

The Company repaid all of its outstanding guaranteed senior notes due 2011 (the "Senior Notes") on 23 September 2011, being the maturity date of the Senior Notes. Following their repayment at maturity, all the outstanding Senior Notes were cancelled and delisted from the Singapore Exchange Securities Trading Limited.

Save as disclosed above, 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 2011.

**Corporate Governance**

During the year ended 31 December 2011, 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 2011.

**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 28 February 2012 to review the Group's audited consolidated financial statements for the year ended 31 December 2011 in conjunction with the Group's internal auditors and Deloitte Touche Tohmatsu, the Group's external auditor.

**Annual General Meeting**

The Annual General Meeting (the "AGM") will be held on Monday, 4 June 2012. 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 Tuesday, 17 April 2012.

**Final Dividend**

The Board recommended the payment of a final dividend out of the share premium account of the Company of five HK cents per share (2010: three HK cents per share) to shareholders whose name are on the register of members on 12 June 2012, which is subject to approval by shareholders at the AGM 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 18 June 2012.

**Closure of Register of Members**

The register of members of the Company will be closed for the following periods:-

(1) from 30 May 2012 to 4 June 2012, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

(2) from 8 June 2012 to 12 June 2012, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 29 May 2012 and 7 June 2012 respectively.

## 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, 16 March 2012

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

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