港華燃氣有限公司
Towngas China Company Limited

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

2009 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Profit after taxation attributable to shareholders rose by approximately 31.0% to HK$265 million.
- Turnover of piped gas business increased by approximately 22.2% to HK$2,025 million.
- A final dividend of two HK cents per share is proposed, representing 100% increase 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 2009.

The audited consolidated results of the Group for the year ended 31 December 2009 together with the comparative figures of 2008 are as follows:

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
	2	**2,905,953**	4,409,198
Continuing operations			
Operating profit before returns on investments		**245,200**	166,820
Other income		**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	*3*	**(126,963)**	(142,181)
Profit before taxation	*4*	**393,944**	271,739
Taxation	*5*	**(91,625)**	(72,718)
Profit for the year from continuing operations		**302,319**	199,021
Discontinued operation			
Profit for the year from discontinued operation		**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	*6*	**39,167**	19,576
		HK cents	*HK cents*
Earnings per share	*7*		
From continuing and discontinued operations			
- Basic		**13.54**	10.33
- Diluted		**13.52**	10.32
Earnings per share	*7*		
From continuing operations			
- Basic		**13.57**	8.30
- Diluted		**13.55**	8.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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").

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 2). 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.

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).

2. 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 is principally engaged in the sales and distribution of natural gas and liquefied petroleum gas in the People’s Republic of China (“the PRC”). It 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.

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	**Gas pipeline construction**	**Total - continuing operations**	**Discontinued operation - LPG operations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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**

	Sales and distribution of piped gas and related products	Gas pipeline construction	Total - continuing operations	Discontinued operation - LPG operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 1.

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 or 2008.

3. 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

4. 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:						
Staff costs	**251,229**	212,147	**63,846**	127,128	**315,075**	339,275
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
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

5. 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						
- 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.

6. 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 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:

	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

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	2008
	HK$'000	*HK$'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	2008
	HK cents	*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	2008
	HK$'000	*HK$'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.

8. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

	2009	2008
	HK$'000	*HK$'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.

9. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2009	2008
	HK$'000	*HK$'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	2008
	HK$'000	*HK$'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

FINANCIAL REVIEW

For the year ended 31 December 2009, the Group's piped gas business booked a turnover of HK$2,025 million, an increase of 22.2% when compared to 2008. Earnings before interest, taxation, depreciation and amortisation ("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, an increase 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 decrease was due to the disposal of 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 remaining 64.3% being the organic growth of the existing subsidiaries. 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 during the year, with 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 contributed to HK$103 million of the 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 new subsidiaries contributed to 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 operating subsidiaries.

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 worth of 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 the decline in profits of an associate's non-gas business due to the market conditions.

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, representing an increase of 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 allowance was provided during the year.

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 the needs of daily operations 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 representing loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 2 to 5 years, HK$1,110 million relating to the guaranteed senior notes due in 2011 and HK$507 million and HK$538 million representing bank loans due between 1 to 5 years and within 1 year respectively. Other than the guaranteed senior notes and HK$331 million of bank loans and other borrowings which bear interest at fixed rates, other Group's borrowings are mainly arranged on a floating rate basis. The relevant 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.

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 strong liquidity position and adequate financial resources to meet its contractual obligations and operational 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 and the outlook on the Company is stable. Meanwhile, Standard & Poor’s, another rating agency, maintained a “BBB-” rating for the Company’s long term corporate credit rating and the issue ratings of the US$200 million notes. The outlook on the Company is stable, reflecting a solid financial position and promising operational 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 denominated in Renminbi, Hong Kong dollars and United States dollars, hence, the Group does not expect to be exposed to any material foreign exchange risks.

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 2009 of two HK cents per share (2008: One HK cent per share), representing 100% increase over last year.

BUSINESS REVIEW

Originating in 2008, the global financial tsunami dealt an unprecedented blow to China's economy last year. However, the country’s implementation of economic measures has since facilitated recovery of its economy ahead of other regions in the world. Under such environment, the Group achieved satisfactory results through consistent hard work in 2009 to increase revenue and contain costs. Meanwhile, the Group has strictly adhered to its mission of prioritizing safety and putting customers first, in providing quality services on a sustainable basis.

Business Performance

Owing to the Group's efforts and the ongoing benefits from synergy effects on the merger of our operations with HKCG, the Group's result has recorded favorable growth in 2009. The Group’s total turnover of piped gas operation increased by 22.2% when compared with 2008 to HK$2,025 million. 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 was 13.54 HK cents.

Becoming a Subsidiary of HKCG

On 31 December 2009, HKCG gained defacto control over the Company following the change in directorships of the Board. Since then, the Company becomes a subsidiary of HKCG. In future, the Company will receive stronger support from HKCG in respect of its development, and hence marches toward a new era of business operations.

Acquisitions

In 2009, the Group acquired a number of new projects in Sichuan, Shandong, Anhui, Jiangxi and Guangdong Provinces respectively, while engaging in proactive and careful market expansion by signing an agreement in February 2010 for investment and establishment of a piped gas project in the New Industrial District of Anshan City, Liaoning Province.

Piped Gas Project in Xinjin, Sichuan Province

The piped gas project in Xinjin County was signed in December 2008 and established in May 2009. The Group acquired 60% equity interest in the project with a consideration of RMB60 million. Focally developed as the southern gateway to Chengdu City and privileged with the earliest development of private economy in Sichuan Province, Xinjin County boasts a thriving private sector and effective industrialization. The Xinjin Industrial Park is receiving large scale transfer of operations from industrial enterprises in Chengdu City and manufacturers in the Jiangzhe area, enabling rapid development and formation of a specialized industrial and production chain in the park, as well as creating vast potential for the industrial gas market in the future. It is expected that yearly gas consumption will be as high as 70 million cubic metres in five years and will exceed 100 million cubic metres in the long term.

Piped Gas Project in Xindu, Sichuan Province

The Group acquired a 100% equity interest in the 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, its major industries include machinery (aviation), electronics, food, pharmaceuticals and furniture. Its yearly gas consumption is expected to reach a volume exceeding 100 million cubic metres in five years.

Piped Gas Project in Chiping, Shandong Province

The Group acquired an 85% equity interest in the 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, it is home to several enterprises involved in aluminum and copper metal production and processing, vehicle components production, textile and pharmaceutical businesses. Chiping County is one of the regions in Shandong Province with the fastest economic growth. Its yearly gas consumption is expected to reach a volume of 49 million cubic metres in five years.

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

The Group holds a 100% equity interest in the project company, which has a registered capital of USD2.1 million. As an industrial hub in Huangshan City, Huizhou District has a pillar industry dominated by the fine petrochemical business, offering huge potential for the development of a gas consumption market. This newly-constructed project is scheduled for operation in 2010. Yearly gas consumption is expected to reach 6 million cubic metres in five years and 30 million cubic metres in the long term.

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

The Group holds a 100% equity interest in the project company, which has a registered capital of USD3.5 million. With tourism as its key industry, the Huangshan District has well developed catering and hotel industries. The government also put emphasis on urban environment by proactive implementation of environmental policies, which has created room for development of the natural gas market. The project is newly constructed and is expected to commence operation in 2010. It is expected that yearly gas consumption will be approximately 19 million cubic metres in five years and will be as high as 40 million cubic metres in the long term.

Piped Gas Project in Changjiu, Jiangxi Province

The Group 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, covering 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 supply. Its yearly gas sales are expected to reach 200 million cubic metres in five years and 400 million cubic metres in the long term.

Piped Gas Project in Yangdong, Guangdong Province

Towngas China holds a 100% equity interest in the project company, which has a registered capital of RMB50 million. Located in the southwestern coastal region of Guangdong Province and western fringe of the Pearl River Delta, Yangdong County is a robust industrial base for the metal and cutlery business. With its relatively large numbers of gas-consuming enterprises, the County provides a gas market with huge potential. The project company is expected to achieve yearly gas sales of approximately 30 million cubic metres in five years and 80 million cubic metres in the long term. Investing in the Yangdong piped gas project holds significant implications for the Group in furthering its project developments to the rest of Western Guangdong and Guangxi Province.

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 a 42.41% defacto equity stake in the project. Experiencing rapid industrial developments, Linqu County is equipped with a number of pillar industries including aluminum and stainless steel processing, chemical metallurgy and building materials processing, to provide a gas-consumption market with vast potential. It is forecasted that the project company will achieve yearly gas sales of 56 million cubic metres in five years and 132 million cubic metres in the long 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, which has a registered capital of USD15 million. The Group holds a 100% equity interest in this project company. The project company has been authorized to operate its piped gas business in the three industrial zones of 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 gas. Their yearly gas consumption is expected to reach 57 million cubic metres in five years and 100 million cubic metres in the long term.

Disposal of LPG Operations

As disclosed in the Company's announcement on 2 April 2009 (as supplemented by subsequent announcement dated 1 June 2009), the Group had disposed of its LPG operations at a total consideration of HK$419 million. This transaction was approved at the extraordinary general meeting held on 11 May 2009. The disposal, which was completed on 4 June 2009, has facilitated 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. As before, the Group continued to attach a strong emphasis to grooming its workforce, in order to mitigate the impact of the financial crisis and provide momentum for driving its future developments.

The Group collaborated with the School of Economics and Management, Tsinghua University, to hold a "Senior Management Programme" for its senior management executives, in the face of stress and challenges. With leadership development as its core objective, the programme is specially designed to broaden the horizons of its participants, helping them to cultivate a fresh mindset for overcoming problems and challenges. Through active involvement in this programme, the participants looked into the current and future challenges facing the Group as well as advanced new solutions and innovative ideas to the Group management.

In its commitment to groom management talents, the Group has extended its Management Training Scheme and Succession Planning Scheme for its senior management executives to conduct fostering and development programme on every aspect of management, necessary for grooming top-notch talents to spearhead the Group's future expansion.

In addition to enhancing key performance indicators related to safety and engineering, the Group has devoted equal concern to grooming its professional and technical talents. In 2009, the Professional Talents Development Scheme was made as a key management focus. Senior executives from the Group and its companies participated in the research of the project. Their mission was to create a mechanism for grooming professional and technical talents within the Group, ensure adequate funding for the initiative and develop a platform for their sustained training. These measures are essential to reinforce the Group's professional and technical standards for its continual leadership in the industry. In 2009, the Group joined efforts with several organizations, including the Department of Construction of Sichuan Province, Sichuan Bureau of Quality and Technical Supervision, Southwest Petroleum University and the Gas Association of Sichuan to establish a training centre for the gas industry in Ziyang City, Sichuan Province. Under this pursuit, the Group has been able to deepen its collaborations with government organizations, industry associations and academic institutions in a concerted effort for grooming the requisite technical talents for the industry.

Through staff exposure to its corporate culture, quality service scheme and 5S onsite management, the Group has provided its substantial workforce with opportunities for training in corporate philosophy and management techniques, thereby laying a strong foundation for their career development.

Corporate Social Responsibility

It is a longstanding tradition for the Group and its workforce to team up actively in community activities to demonstrate their caring concern for the underprivileged. In 2009, the Group and its subsidiary companies launched a "Towngas Loving Heart Library" with HKCG for the school children in the disaster-stricken regions of Sichuan Province, so as to provide them with more learning opportunities.

In light of the outstanding achievement in assuming social responsibility, the Group was awarded the prestigious "The China Best Corporate Citizenship Award" title and the "2009 National 'Harmony • Responsibility' Loving Care Brand Award" this year. In environmental protection, at the beginning of 2010, the Group also secured the "2009 Nationwide Eco-friendly Corporate Brand" Award. Those awards testify to the Group's endeavor to shoulder corporate social responsibilities by participating community and charity activities in paying back to society whilst providing safe gas supply and quality service.

Outlook

In 2010, China will embrace the Sichuan-to-East gas transmission and imports of natural gas from the Second West-to-East Gas Pipeline, which provides the city gas industry with sufficient natural gas sources to develop the downstream gas consumption markets, and create a more extensive platform for the Group in developing new markets. All these factors will contribute to far-reaching healthy development in the operating environment for China's city gas industry from 2010 onwards.

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

Through upgrading its corporate efficiency by performance management and business strategy implementation, the Group will brace itself for the new market opportunities arising from a new era of dual gas supplies on imported and domestically-produced gas.

In developing new investments, the Group will leverage on the relative advantage it enjoys, from the large number of its subsidiaries and their diverse distribution across regions close to the West-to-East Pipeline and the Sichuan-to-East Pipeline, and the coastal liquefied natural gas receiving terminals. Based on this competitive edge, it will maximize potential of its existing investment projects, in an endeavor to explore new markets.

In order to strengthen the competitiveness of its existing projects, the Group will draw on the robust strengths of HKCG. It will implement an investment strategy to achieve economic efficiency. With the adoption of a corporate culture approach, continual efforts will be made to upgrade the caliber of the Group's employees, in the areas of service quality, gas supply safety and market developments. Collectively, these initiatives will not only boost the Group's profitability but also establish a sustainable competitive edge for its employees and the Group, and secure a leading industry position for the Group, amid the rapid future developments propelled by diversified natural gas sources in China's city gas sector.

OTHER INFORMATION

Purchase, Sale or Redemption of 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.

Corporate Governance

During the year ended 31 December 2009, 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 have confirmed, following specific enquiries by the Company that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2009.

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 26 February 2010 to review the Group's audited consolidated financial statements for the year ended 31 December 2009, 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 two HK cents per share (2008: One HK cent per share) to shareholders whose name are on the register of members on 29 April 2010, which is subject to approval by shareholders at the Annual General Meeting to be held on 29 April 2010 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 1 June 2010 and the register of members of the Company will be closed from 26 April 2010 to 29 April 2010, 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 Registrars, 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 Friday, 23 April 2010.

Annual General Meeting

The Annual General Meeting will be held on Thursday, 29 April 2010. 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 Friday, 26 March 2010.

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, 15 March 2010

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