中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)
(Stock Code 股份代號: 3633)

Annual Report 年報 2012

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CORPORATE INFORMATION

Executive Directors

Mr. Wang Wenliang *(Chairman and Joint Managing Director)*
Mr. Lui Siu Keung *(Joint Managing Director and Chief Financial Officer)*
Mr. Lu Zhaoheng

Non-executive Directors

Mr. Xu Yongxuan *(Vice Chairman)*

Independent Non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

Remuneration Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

Nomination Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

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Grand Cayman KY1-1111
Cayman Islands

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Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1 1106
Cayman Islands

Auditor

Deloitte Touche Tohmatsu

Principal Banker

Standard Chartered Bank
The Hong Kong & Shanghai Banking Corporation Limited
China Minsheng Banking Corporation Limited
Bank of Communications
Industrial and Commercial Bank of China
Guangdong Development Bank
Bank of China

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Secretaries Limited
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Hong Kong

Stock Code

3633

Corporate Website

www.zygas.com.cn

Wang Wenliang
Chairman

Chairman's statement

On behalf of the Board of Directors of Zhongyu Gas Holdings Limited, I am pleased to announce that the Group recorded overall encouraging annual results for the year ended 31st December, 2012 (the "Year"). The Group's natural gas operations continued to develop steadily during the Year. Turnover amounted to approximately HK$2,754,084,000 in 2012, representing a significant growth of 53.5% as compared to HK$1,794,319,000 in 2011. The outstanding revenue growth was mainly attributable to the continuous expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of piped gas, connection revenue from gas pipeline construction and operation of compressed natural gas ("CNG") filling stations.

Business Review

The past year was a challenging but fruitful period for the Group. The Company has successfully transferred its listing from the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited to the Main Board of the Stock Exchange under the new stock code "3633" on 11th July, 2012 (the "Transfer of Listing"). The Transfer of Listing not only enhances our corporate image and improves the trading liquidity of our shares, but also benefits the financing flexibility of the Company in order to prepare for its future growth and business development.

CHAIRMAN'S STATEMENT

As China's economy continues its steady pace of development in 2012 and the commencement of large scale gas supply from the second pipeline network of the West-East natural gas transmission project in mid-2011, the growth of domestic consumption and household disposable income have correspondingly boosted the sales of piped gas. Besides, due to continued urbanization and relatively robust economic performance in the Henan and Shandong Provinces of the PRC, demand for natural gas from residential households as well as commercial customers also realized steady growth during the Year. Against this backdrop, the Group achieved record penetration rates and its downstream gas sales volume reached 841,054,000 m^3 in 2012, significantly increased by 46.4% over 574,468,000 m^3 in 2011.

The Chinese automobile market has been the world's largest since 2009. The growth of disposable income and the rate of urbanization continued to boost automobile consumption in the PRC and generate demand for natural gas and compressed natural gas ("CNG") filling stations. During the Year, three new CNG filling stations of the Group have come into operation, bringing the total number of the Group's CNG refilling stations to twelve. The Group believes that the construction of CNG filling stations will provide a solid foundation for further development of its vertically integrated value chain, and expects additional investment in this area in the coming years. As at 31st December, 2012, the Group still has seven CNG refilling stations under construction among which, the Group has planned to commence operation of six CNG refilling stations in the PRC in 2013 in order to increase the Group's market share and further enhance our revenue base and profit growth. The remaining new CNG refilling stations are expected to commence operation in 2014.

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province (關於河南省管道天然氣價格有關問題的通知) (the "Notice") issued by Henan Province Development and Reform Commission (the "Henan DRC") on 9th December, 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. The Directors are of the view that the Price Link Mechanism could benefit the Group to pass the upward gas procurement cost to residential users and increase its profit margins.

During the Year, the Group progressively expanded its market share to boost future growth. On 12th December, 2012, Zhengzhou Taipu Shangmao Company Limited ("Zhengzhou Taipu") and Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly owned subsidiary of the Company, entered into the equity transfer agreement pursuant to which Zhongyu Henan will acquire 100% equity interests in Shanghai Xuanmin Energy Investment Management Company Limited ("Shanghai Xuanmin"). Shanghai Xuanmin currently owns 100% equity interests in Shaowu City Xuanran Natural Gas Company Limited, which obtained the concession right from local authorities to operate the sales and distribution of natural gas in Shaowu City, the PRC. The concession right is exclusive for a period of 30 years for operations since 1st January, 2009.

On 8th October, 2012, Zhengzhou Dongxin Aluminum Company Limited ("Zhengzhou Dongxin") and Zhongyu Henan, entered into the equity transfer agreement pursuant to which Zhengzhou Dongxin agreed to transfer to Zhongyu Henan 100% of the equity interest in Nanjing Jingqiao Energy Investment Management Company Limited ("Nanjing Jingqiao") held by it. Nanjing Jingqiao is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects in Jingqiao Town, Nanjing, the PRC. Nanjing Jingqiao obtained the concession right from local authorities to prepare the sales and distribution of natural gas and CNG filling stations in Jingqiao Town, Nanjing, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 21st June, 2010.

In addition, Zhongyu Henan entered into the Capital Injection Agreement on 4th November, 2011 with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) ("Zhengzhou Datian"), 葉建斌 ("Ye Jianbin") and 卓雲震 ("Zhuo Yunzhen"), in respect of the proposed injection in registered capital of 武夷山市中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limited) ("Wuyishan Zhong Min") by Zhongyu Henan. Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min became an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min bid to obtain an exclusive right granted by the Peoples' Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City. Wuyishan Zhong Min has been

CHAIRMAN'S STATEMENT

approved by the local government as an eligible candidate. As at the date of this report, the local government is carrying out overall urban and city gas planning. After such planning is finished, Wuyishan Zhong Min plans to submit a bid to the local government for that project in 2013.

On 26th October, 2012, the Company was awarded "The Excellent Enterprise Awards 2012" presented by "Capital Weekly", which gives recognition to Zhongyu Gas endeavor in a number of aspects including corporate governance, investor relations, shareholder returns, corporate strategy and social responsibility, as well as the Company's outstanding business performance in recent years.

Prospects

The Group is confident in its future prospects as the steady growth of the natural gas market in the PRC is expected to be maintained. The favorable domestic business environment and the growing demand for piped gas consumption arising from progressing urbanization and increasing consumption of automobiles will also serve to drive growth. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and gas refueling stations, with the goal of increasing its penetration rate in the areas it is currently operating in.

The stable supply of piped natural gas to Yanshi City, Henan Province, the PRC from the second West-East Gas Pipeline commenced in late October 2012. As a result, piped gas supply for the Group's project located in the Yanshi City will increase greatly, which will facilitate the Group to connect with more end users, increase the Group's turnover and in turn, enhance its earning base in the near future.

Under the 12th Five-year Plan (2011-2015) of the PRC, it is expected that the annual domestic gas consumption will reach 260 billion cubic meters (cu m), representing an 8.3 percent share in the primary energy mix in 2015. Currently, gas demand in the PRC reaches approximately 100 billion cubic metres a year. The implementation of beneficial policies by the State and progressing urbanization in China will continuously boost the domestic gas demand and support the steady expansion of the Group's overall business.

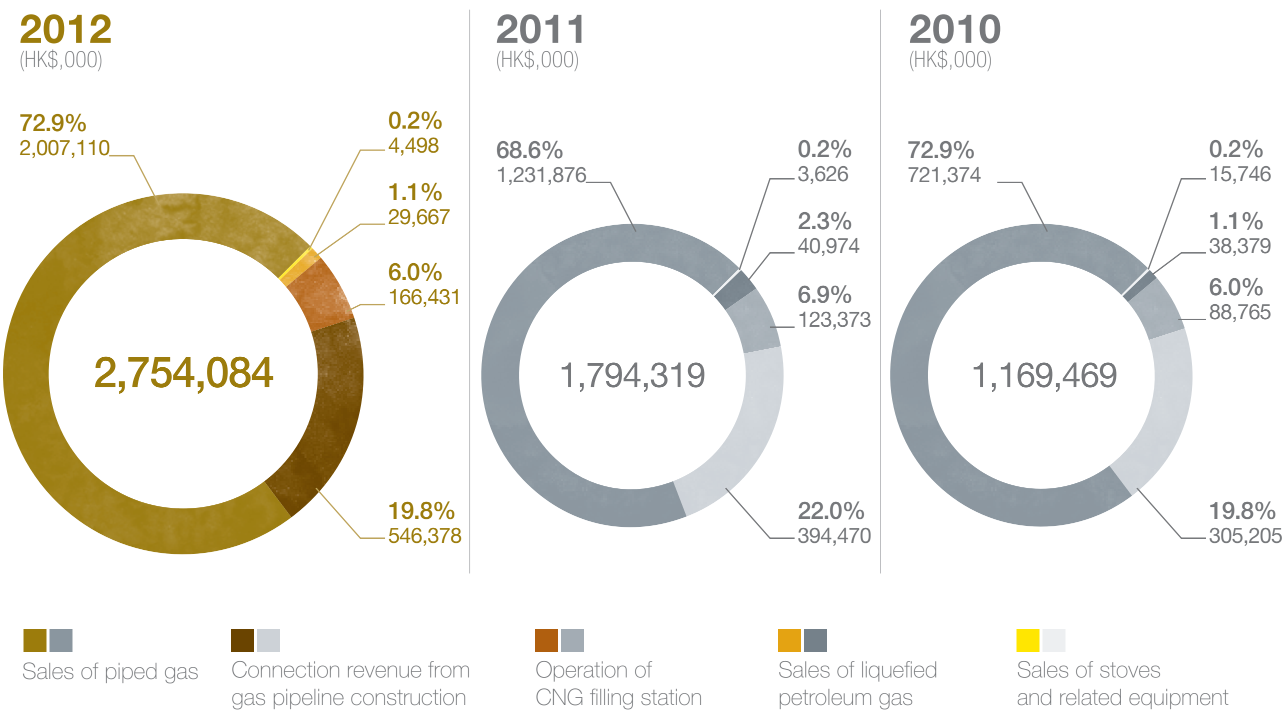
In addition to its vertical integration strategies, the Group is cautiously seeking suitable investment opportunities. With our healthy financial position, together with the constant cash inflow generated by our downstream projects, we believe that we would be able to strategically increase our market penetration. We believe that Zhongyu Gas is well-positioned to capture the opportunities arising from the economic development in the PRC and maximize our shareholders' returns.

Finally, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

Wang Wenliang
Chairman
Hong Kong
8th March, 2013

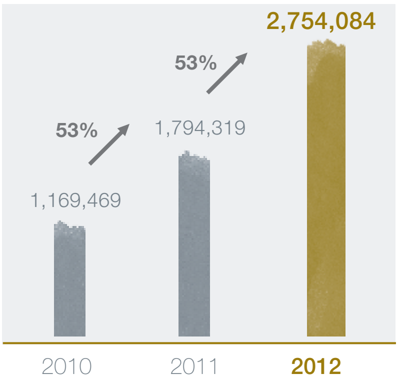
FINANCIAL HIGHLIGHTS

	Year ended 31st December,		
	2012 HK$'000	2011 HK$'000	% of changes
Turnover	**2,754,084**	1,794,319	53.5%
Sales of piped gas	**2,007,110**	1,231,876	62.9%
Connection revenue from gas pipline construction	**546,378**	394,470	38.5%
Operation of CNG filling stations	**166,431**	123,373	34.9%
Gross Profit	**648,612**	428,595	51.3%
Profit attributable to owners of the Company	**226,021**	86,114	162.5%
Earning per share – Basic	**HK9.05 cents**	HK3.82 cents	136.9%
Earning per share – Diluted	**HK9.01 cents**	HK3.77 cents	139.0%
EBITDA	**523,821**	274,541	90.8%

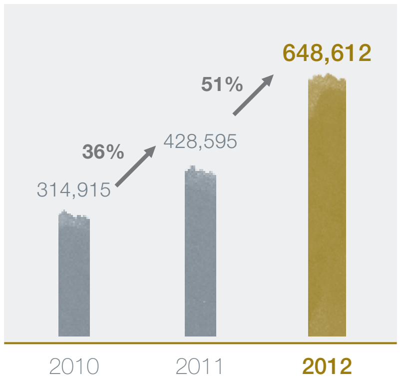


Financial Highlights

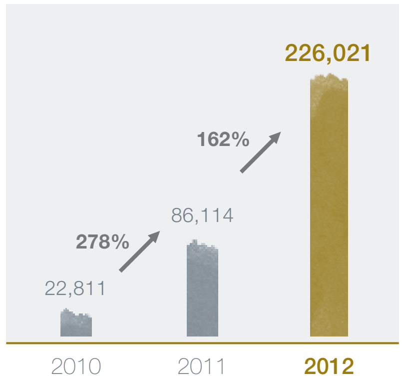
Turnover
(HK$,000)



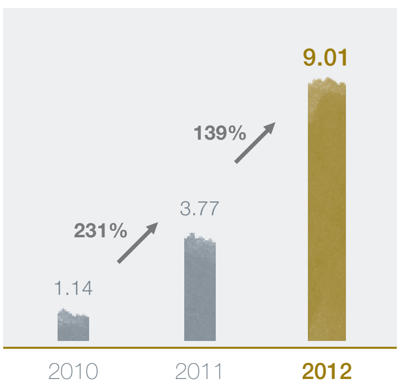
Gross Profit
(HK$'000)



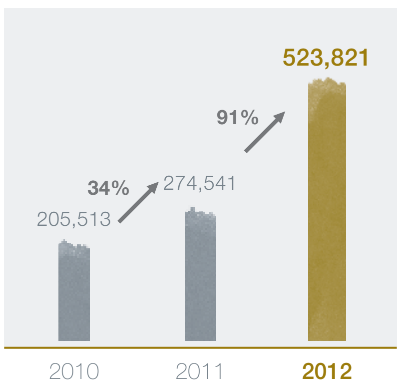
Profit attributable to owners of the Company
(HK$'000)



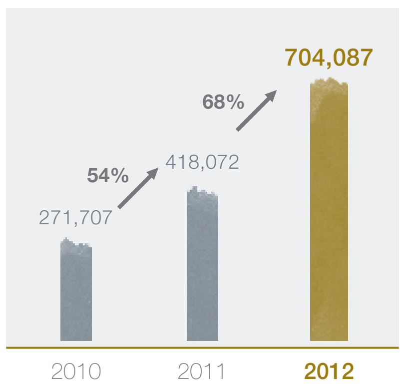
Earning per share - Diluted
(HK cents)



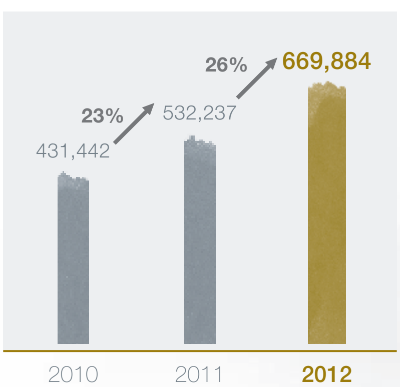
EBITDA
(HK$'000)



Unit of piped natural gas sold
('000 m^3)



Accumulated number of connected piped gas residential households



MANAGEMENT
DISCUSSION & ANALYSIS

BUSINESS REVIEW

“DEVELOP GREEN ENERGY ACHIEVE GOOD LIFE”

During the year, we were principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of CNG filling stations for vehicle; and (iii) the exploration, exploitation and development of coalbed methane gas (“CBM”) in the PRC.

Downstream Piped Gas Distribution

Nanjing Jingqiao Project

On 8th October, 2012, 鄭州東信鋁業有限公司 Zhengzhou Dongxin Aluminum Company Limited (“Zhengzhou Dongxin”) as transferor, and Zhongyu (Henan) Energy Holdings Limited (“Zhongyu Henan”), a wholly owned subsidiary of the Company, as transferee, entered into the equity transfer agreement pursuant to which Zhengzhou Dongxin agreed to transfer to Zhongyu Henan 100% of the equity interest in 南京晶橋能源投資管理有限公司 Nanjing Jingqiao Energy Investment Management Company Limited (“Nanjing Jingqiao”) held by it.

The transactions contemplated under the equity transfer agreement have completed and Zhongyu Henan now owns the entire equity interest in Nanjing Jingqiao.

Nanjing Jingqiao was established in 2010 in Nanjing, the PRC with limited liability. It is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects in Jingqiao Town, Nanjing, the PRC. Nanjing Jingqiao obtained the concession right from local authorities of Nanjing, the PRC, to operate the sales and distribution of natural gas and compressed natural gas filling stations in Jingqiao Town, Nanjing, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 21st June, 2010.

Jingqiao Town is a major industrial town in Nanjing, Jiangsu Province, the PRC. The total area and population of the town is 150 square kilometers and 44,000 respectively. The industry sector in Jingqiao Town has developed rapidly and its comprehensive economic strength keeps growing. There are 170 industrial enterprises in town with industrial output value of 2.52 billion yuan.

MANAGEMENT DISCUSSION & ANALYSIS

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Zhengzhou Dongxin and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The consideration of RMB130 million (equivalent to approximately HK$160 million) was determined after arm's length negotiation between the parties to the equity transfer agreement with reference to the potential economic benefit which Nanjing Jingqiao could bring into the Group and its business prospects.

RMB10 million (equivalent to approximately HK$12 million) was paid by Zhongyu Henan to Zhengzhou Dongxin on the date of the equity transfer agreement. The balance of RMB120 million (equivalent to approximately HK$148 million) had been paid within 60 days from the date of completion of the transaction. The consideration paid under the equity transfer agreement was funded by internal resources and bank borrowings.

As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

Shaowu City Project

On 12th December, 2012, 鄭州泰浦商貿有限公司 Zhengzhou Taipu Shangmao Company Limited ("Zhengzhou Taipu") as transferor, and Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly owned subsidiary of the Company, as transferee, entered into the equity transfer agreement pursuant to which Zhengzhou Taipu agreed to transfer to Zhongyu Henan 100% of the equity interest in 上海宣閩能源投資管理有限公司 Shanghai Xuanmin Energy Investment Management Company Limited ("Shanghai Xuanmin") held by it.

MANAGEMENT DISCUSSION & ANALYSIS

Shanghai Xuanmin, which is wholly owned by Zhengzhou Taipu, was established on 12th November, 2012 in the PRC. It is an investment holding company and has no other business save for the holding of 100% equity interests in 邵武市宣燃天然氣有限公司 Shaowu City Xuanran Natural Gas Company Limited ("Shaowu City Xuanran"). Shaowu City Xuanran was established on 5th September, 2011 and obtained the concession right to operate the sales and distribution of natural gas in Shaowu City, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 1st January, 2009.

The transactions contemplated under the equity transfer agreement have completed and Zhongyu Henan now owns the entire equity interest in Shanghai Xuanmin and Shaowu City Xuanran.

Shaowu City is a major industrial town in Minbei region, Fujian Province, the PRC. The total area and population of the town is 2,852 square kilometers and 300,000 respectively. The industry sector in Shaowu City has developed rapidly and its comprehensive economic strength keeps growing. There are over 170 sizeable industrial enterprises in city and the total output value in Shaowu City is 14.6 billion yuan.

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Zhengzhou Taipu and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The consideration of RMB145 million (equivalent to approximately HK$180 million) was determined after arm's length negotiation between the parties to the equity transfer agreement with reference to the potential economic benefit which Shaowu City Xuanran could bring into the Group and its business prospects.

RMB10 million (equivalent to approximately HK$12 million) was paid by Zhongyu Henan to Zhengzhou Taipu on the date of the equity transfer agreement. The balance of RMB135 million (equivalent to approximately HK$168 million) had been paid within 30 days from the date of completion of the transaction. The consideration paid under the equity transfer agreement was funded by internal resources and bank borrowings.

As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

Wuyishan Project

Reference is made to the Annual Report 2011 of the Company dated 21st March, 2012 in which the Company mentioned that Zhongyu Henan, a wholly-owned subsidiary of the Company, entered into an agreement (the "Capital Injection Agreement") on 4th November, 2011 with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) ("Zhengzhou Datian"), 葉建斌 ("Ye Jianbin") and 卓雲震 ("Zhuo Yunzhen"), in respect of the proposed injection of registered capital into 武夷山市中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limited) ("Wuyishan Zhong Min") by Zhongyu Henan. Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min became an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min bid to obtain an exclusive right granted by the Peoples' Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City. Wuyishan Zhong Min has been approved by the local government as an eligible candidate. As at the date of this report, the local government is carrying out overall urban and city gas planning. After such planning is finished, Wuyishan Zhong Min plans to submit a bid to the local government for that project in 2013. The Group will continue to update investors on the latest progress.

MANAGEMENT DISCUSSION & ANALYSIS

Second West-East Gas Pipeline Project

The main pipeline of second West-East Gas Pipeline has been completed and commenced gas supply in July 2011. As a result, piped gas supply for the Group's project located in the following cities described below has increased significantly, enabling the Group to connect with more end users, increasing the Group's turnover and in turn, enhancing its earning base.

The supply of piped natural gas to Sanmenxia City from the second West-East Gas Pipeline commenced in July 2011 respectively. This has greatly increased the sales of piped gas to Sanmenxia City.

The connection and supply of gas to Yanshi City from the sub-pipeline of second West-East Gas Pipeline was completed and commenced supply in late October 2012. Moreover, in order to match the upstream connection, we expect the connection and supply of piped natural gas to Xinmi City from the sub-pipeline of second West-East Gas Pipeline will be completed and commence in the second half of 2013. After supply commences, the Directors believe that the sales of piped gas to Yanshi City and Xinmi City will increase greatly.

Price Link Mechanism

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province (關於河南省管道天然氣價格有關問題的通知) (the "Notice") issued by Henan Province Development and Reform Commission on 9th December, 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. As a result, the selling price of natural gas for residential users of the Group's subsidiaries in Jiaozuo City, Luohe City and Jiyuan City increased during the year.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG filling stations for vehicles.

The major operational data of the Group for the year together with the comparative figures for the corresponding period last year are as follows:

	2012	2011	Increase/ (Decrease)
Number of Exclusive Gas Projects (Note a)	**17**	15	2
– Henan Province	**12**	12	–
– Shandong Province	**3**	3	–
– Jiangsu Province	**1**	0	1
– Fujian Province	**1**	0	1
Connectable urban population ('000) (Note b)	**4,308**	3,525	22.2%
Connectable residential households ('000)	**1,231**	992	24.1%
New piped gas connections made during the year			
– Residential households	**137,647**	100,795	36.6%
– Industrial customers	**77**	68	13.2%
– Commercial customers	**450**	368	22.3%

MANAGEMENT DISCUSSION & ANALYSIS

	2012	2011	Increase/ (Decrease)
Accumulated number of connected piped gas customers			
– Residential households	**669,884**	532,237	25.9%
– Industrial customers	**422**	345	22.3%
– Commercial customers	**2,234**	1,784	25.2%
Penetration rate of residential pipeline connection (Note c)	**54.4%**	53.0%	1.4%
Unit of piped natural gas sold ('000 m^3)	**704,087**	418,072	68.4%
– Residential households	**80,711**	52,568	53.5%
– Industrial customers	**551,519**	311,552	77.0%
– Commercial customers	**55,086**	40,924	34.6%
– Wholesale customers	**16,771**	13,028	28.7%
The piped natural gas usage per customer (m^3)			
– Residential household	**134**	109	22.9%
– Industrial customer	**1,438,121**	1,001,777	43.6%
– Commercial customer	**27,420**	25,578	7.2%
Unit of piped mixed gas sold ('000 m^3)	**37,008**	40,026	(7.5%)
Unit of piped coal gas sold ('000 m^3)	**60,473**	86,313	(29.9%)
Number of CNG Filling Stations			
– Accumulated	**12**	9	3
– Under construction	**8**	6	2
Unit of natural gas sold to vehicles ('000 m^3)	**39,486**	30,057	31.4%
The natural gas usage per station ('000 m^3)	**4,387**	1,861	135.7%
Unit of bottle LPG sold (ton)	**3,840**	5,503	(30.2%)
Total length of existing intermediate and main pipelines (km)	**2,509**	2,052	22.3%

Note a: The number of Exclusive Gas Projects represents the contracts which grant the Group an exclusive right for sales and distribution of piped gas by relevant local authorities.

Note b: The information is quoted from the website of PRC government. The increase in connectable urban population is due to the increase in urban area and jurisdictional region of the cities.

Note c: The penetration rates of residential pipeline connection represented by the percentage of accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in operation regions.

Upstream CBM Exploration

With the aim to ensuring sufficient and cost-effective gas supply for the Group's downstream gas projects located in Henan Province, the PRC and enhancing the Group's profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 31st December, 2012, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM. The Group will continue to update investors on the latest exploration progress.

MANAGEMENT
DISCUSSION & ANALYSIS
FINANCIAL REVIEW

Overall

The Group's results for the year ended 31st December, 2012 were mainly driven by organic growth of the businesses. Benefitting from the gas supply ramp-up since the second half of 2011, the Group's turnover for the year increased substantially to HK$2,754,084,000 (2011: HK$1,794,319,000). The Group's profit attributable to owners of the Company reached HK$226,021,000 (2011: HK$86,114,000).

MANAGEMENT DISCUSSION & ANALYSIS

Turnover

An analysis of the Group's turnover for the year, together with the comparative figures for the corresponding period last year are as follows:

	Year ended 31st December,				
	2012 (HK$'000)	**% of total**	2011 (HK$'000)	% of total	Increase/ (Decrease)
Turnover					
– Sales of piped gas	**2,007,110**	**72.9%**	1,231,876	68.6%	62.9%
– Connection revenue from gas pipeline construction	**546,378**	**19.8%**	394,470	22.0%	38.5%
– Operation of CNG filling station	**166,431**	**6.0%**	123,373	6.9%	34.9%
– Sales of liquefied petroleum gas	**29,667**	**1.1%**	40,974	2.3%	(27.6%)
– Sales of stoves and related equipment	**4,498**	**0.2%**	3,626	0.2%	24.0%
	2,754,084	**100%**	1,794,319	100%	53.5%

The turnover for the year increased by 53.5% to approximately HK$2,754,084,000 from approximately HK$1,794,319,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction as well as the operation of CNG filling stations.

Sales of Piped Gas

Sales of piped gas for the year ended 31st December, 2012 amounted to approximately HK$2,007,110,000, representing an increase of approximately 62.9% over the corresponding period last year.

Nearly 94% of the total sales of piped gas was derived from the provision of natural gas. The rapid growth in sales of piped gas was mainly attributable to the increase in gas sales volume by 68.4% to 704,087,000 m^3 from 418,072,000 m^3. The construction of natural gas pipeline connecting the second West-East Gas Pipeline and Sanmenxia City, Henan Province, the PRC, was completed and the supply of piped natural gas to Sanmenxia City from the second West-East Gas Pipeline commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City increased greatly, which enables the Group to connect more industrial users in order to increase the Group's turnover and in turn, enhance its earning base. The increase in gas consumption of industrial users drove the gas sales increment.

During the year, the piped natural gas usage per customer provided by the Group to residential households was approximately 134 m^3 (2011: 109 m^3); to its industrial customers was approximately 1,438,121 m^3 (2011: 1,001,777 m^3); to its commercial customers was approximately 27,420 m^3 (2011: 25,578 m^3).

Moreover, the rapid growth in sales of piped gas was mainly attributable to the increase in the gas consumption in industrial users which was mainly resulted from the organic growth of the Group's downstream gas distribution business in Linyi City, Jiaozuo City and Jiyuan City, Shandong and Henan Province, PRC.

MANAGEMENT DISCUSSION & ANALYSIS

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the year ended 31st December, 2012 amounted to approximately HK$546,378,000, representing an increase of approximately 38.5% over the corresponding period last year. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in completion of construction work for gas pipeline connection for residential households to 137,647 from 100,795, which mainly resulted from the growth of new piped gas connections for residential households made during the year in Linyi City, Sanmenxia City, Yongcheng City and Luohe City, Shandong and Henan provinces of the PRC. As the second West-East Gas Pipeline commenced operations in July 2011, the piped gas supply for the Group's project located in the Sanmenxia City increased significantly, which enables the Group to connect with more end users. The average connection fee for industrial customers was determined on a case-by-case basis, which increased by 43.7% and therefore increased the sales during the year.

For the year, the average connection fee for residential households was RMB2,700 (2011: RMB2,680) which was a slight increase when compared to that during the corresponding period last year. The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis.

The selling price of natural gas for residential users increased by 13.4% when compared to the corresponding period last year, which pushed up the sales during the year.

Sales of piped gas for the year contributed approximately 72.9% of the total turnover of the Group. As compared with the percentage of approximately 68.6% during the corresponding period last year, sales of piped gas continued to become the major source of turnover of the Group.

MANAGEMENT DISCUSSION & ANALYSIS

During the year, the connection revenue from gas pipeline construction contributed approximately 19.8% to the total turnover of the Group. As compared with the percentage of approximately 22.0% during the corresponding period last year, the connection revenue from gas pipeline construction continued to be one of major sources of turnover for the Group.

As at 31st December, 2012, the Group's penetration rates of residential pipeline connection reached 54.4% (2011: 53.0%) (represented by the percentage of accumulated number of the Group's residential households to the estimated aggregate number of connectable residential households).

Operation of CNG Filling Station

Revenue from operating the CNG filling stations for the year ended 31st December, 2012 amounted to approximately HK$166,431,000, representing an increase of approximately 34.9% over the corresponding period last year. The increase was mainly due to a CNG filling stations in Luohe City which commenced operations in May 2011, which also resulted in an increase in turnover of approximately 32.4% in Luohe City over the corresponding period last year. The natural gas usage per station increased by 135.7% to approximately 4,387,000 m^3 for the year ended 31st December, 2012 from approximately 1,861,000 m^3 for the corresponding period last year.

During the year, the turnover derived from operating the CNG filling station accounted for approximately 6.0% of the total turnover of the Group. The number of the Group's CNG filling stations is increased to twelve in 2012 from nine in 2011.

In addition, the Group commenced building an additional eight CNG refilling stations in the PRC. It is expected that six new CNG refilling stations will commence operation in 2013. The remaining new CNG refilling stations are expected to commence operation in 2014.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2012 was approximately 23.6% (2011: 23.9%). The Price Link Mechanism enables the Group to pass the upward gas procurements cost to our residential users and resulted in the profit margins of gas sales to residential customers to increase which, in turn, contributed to the increase in the overall gross profit margin.

The overall gross profit margin remained steady because such increased margins were offset by the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin. The Group's total turnover attributable to sales of piped gas increased to approximately 72.9% for the year (2011: 68.6%).

Other gains and losses

Other gains increased by 162.9% to approximately HK$7,050,000 in 2012 from other losses approximately HK$11,208,000 in 2011. Other gains for the year include: (i) net reversal of allowance for doubtful debts in other receivable of approximately HK$192,000 (2011: net allowance for doubtful debts in other receivable: HK$2,317,000); (ii) increase in fair value of investment properties of approximately HK$935,000 (2011: HK$56,000); (iii) net reversal of impairment loss recognised on amounts due from customers for contract work of approximately HK$3,083,000 (2011: HK$3,173,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be recognised as an impairment if those respective contract works

MANAGEMENT DISCUSSION & ANALYSIS

are not completed within one year; (iv) net gain on disposal/written off of property, plant and equipment of approximately HK$2,898,000 (2011: net loss on disposal/written-off of property, plant and equipment: HK$6,476,000); which set off by other loss for the year includes net allowance for doubtful debt in trade receivables of approximately HK$58,000 (2011: HK$329,000).

In 2011, due to the uncertainty of sufficient natural gas to be supplied to the CNG filling stations and some of the gas stations are not expected to commerce operations in 2012, the Group recorded a net impairment loss on the licences for operating CNG filling stations of approximately HK$5,831,000. In the future, the recognised impairment loss can be subsequently reversed if the carrying amount of the other intangible assets is increased to the revised estimate of its recoverable amount, and the reversal of impairment loss is recorded as income immediately. No such impairment loss is recorded in 2012.

Other income

Other income increased to approximately HK$22,180,000 in 2012 from approximately HK$11,547,000 in 2011. The 2012 balance represented the bank interest income of approximately HK$3,125,000 (2011: HK$2,389,000), government subsidies of approximately HK$9,102,000 (2011: HK$4,104,000) and sundry income of approximately HK$9,953,000 (2011: HK$5,054,000). The increase was mainly attributable to government subsidies increased by 121.8%.

Selling and distribution costs

Selling and distribution costs increased by 34.2% to approximately HK$45,990,000 in 2012 from approximately HK$34,268,000 in 2011. The increase was mainly attributable to the increase in staff costs and related expenses increased by 32.1% to approximately HK$29,547,000 from approximately HK$22,372,000 as a result of the increase in headcount as well as increased salary for PRC subsidiaries.

Administrative expenses

Administrative expenses decreased by 0.4% to approximately HK$187,484,000 in 2012 from approximately HK$188,192,000 in 2011. The decrease was mainly attributable to one-off recognition of equity-settled share option expenses of approximately HK$23,632,000 recorded in 2011 resulting from the issuance of share options by the Company on 11th April, 2011. No such expenses is recorded in 2012; such administrative expenses were set off by (i) director emoluments, staff costs and related expenses increased by 18.8% to approximately HK$87,464,000 in 2012 from approximately HK$73,592,000 in 2011 resulting from the increase in headcount as well as the salary increment; (ii) the amortisation of prepaid lease payment increased by 29.1% to approximately HK$4,780,000 in 2012 from approximately HK$3,703,000 resulting from more lands acquired for constructing new CNG refilling station; (iii) the Group donated HK$1,000,000 to The Community Chest of Hong Kong in 2012. No such expenses were recorded in 2011.

Research and development costs

The research and development costs represented development costs incurred for exploration of CBM in the PRC. It decreased by 18.2% to approximately HK$1,288,000 in 2012 from approximately HK$1,575,000 in 2011. Such development costs mainly include cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

Finance costs

Finance costs increased by 69.4% to approximately HK$32,513,000 in 2012 from approximately HK$19,198,000 in 2011. The increase was mainly attributable to the interest on bank borrowings after interest capitisation increased by 93.4% to approximately HK$32,513,000 in 2012 from approximately HK$16,812,000 in 2011 resulting from the increase in the average bank borrowings.

MANAGEMENT DISCUSSION & ANALYSIS

Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in Hong Kong for the both years.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from the EIT Law for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. Year 2011 was the last year to obtain tax relief under relevant laws and regulations in the PRC. The tax rate of the aforesaid PRC subsidiaries is changed to 25% from 1st January, 2012 onwards.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2012, withholding tax amounted to HK$8,334,000 (2011: HK$5,383,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2012 amounted to approximately HK$129,013,000 (2011: HK$57,397,000).

Adjusted Earnings from continuing operations before interests, taxation, depreciation and amortisation ("Adjusted EBITDA")

Excluding impairment loss recognised on other intangible assets, the Group's Adjusted EBITDA was approximately HK$523,821,000 in 2012, representing an increase of 90.8% as compared with that of approximately HK$274,541,000 in 2011.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK$226,021,000 in 2012, representing an increase of 162.5% as compared with that of approximately HK$86,114,000 in 2011.

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK9.05 cents and HK9.01 cents respectively in 2012, as compared with that of HK3.82 cents and HK3.77 cents respectively in 2011.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$0.6 in 2012, representing an increase of 20% as compared with that of HK$0.5 in 2011.

The net assets value represents total assets minus total liabilities.

Liquidity, Financial Resources and Working Capital

Liquidity

As at 31st December, 2012, the Group's net current liabilities increased by approximately HK$301,903,000 or 78.4% to approximately HK$686,842,000 (2011: HK$384,939,000).

The increase was mainly attributable to (i) increase of the carrying amount of bank borrowings repayable within one year from approximately HK$422,493,000 in 2011 to HK$660,852,000 in 2012; (ii) the current deferred income and advance received increased by 22.4% to approximately HK$242,951,000 in 2012 from approximately HK$198,513,000 in 2011.

As at 31st December, 2012, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.5 (2011: 0.7).

MANAGEMENT DISCUSSION & ANALYSIS

As at 31st December, 2012, the total assets increased by approximately HK$712,036,000 or 25.1% to HK$3,548,701,000 (2011: HK$2,836,665,000).

As at 31st December, 2012, the total bank borrowings increased by approximately HK$310,003,000 or 35.4% to HK$1,186,033,000 were denominated in RMB (2011: HK$876,030,000), which contained fixed-rate borrowings of HK$715,799,000 (2011: HK$511,708,000).

As at 31st December, 2012, the Group's gearing ratio, represented by a ratio of total bank borrowings to total equity, was 0.8 (2011: 0.7).

The particular about the bank balances and cash can be found on note 26 to the consolidated financial statements.

Financial resources

During the year, the Group generally financed its operations with internally generated resources and long term and short term bank borrowings.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements in the foreseeable future.

Exposure to Exchange Rate Fluctuations

During the year, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Renminbi or the Hong Kong dollars and the Group conducted its business transactions principally in Renminbi. The Group expects that the appreciation of Renminbi against the Hong Kong dollars will continue in the foreseeable future. Accordingly, the Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Employee Information

As at 31st December, 2012, the Group had a total of 2,272 employees (2011: 2,160) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK$151,359,000 (2011: HK$143,260,000). The increase was mainly due to the increase in the number of headcount resulting from the Group's business expansion and salary increment for managerial grade of the Group's subsidiaries. More than 99.8% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Company's operating results, their duties and responsibilities within the Group and comparable market statistics.

On 11th April, 2011, the Company granted share options to eligible participants to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company pursuant to the share option scheme adopted by the shareholders of the Company on 24th October, 2003 (the "Share Option Scheme"). The exercise price of share options granted was HK$0.49 per share. The share options granted vested upon the grantees upon grant and are be valid for a period of ten years from the date of grant. No share options were granted in 2012. Further particulars about the Share Option Scheme can be found on page 37 of the Directors Report and note 31 to the consolidated financial statements.

Charge on the Group's Assets

At 31st December, 2012, the Group has pledged certain buildings and pipelines in the PRC having carrying value of approximately HK$29,469,000 (2011: HK$24,707,000) and HK$385,659,000 (2011: nil) respectively, to secure certain bank borrowings granted to the Group.

At 31st December, 2012, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$14,756,000 (2011: HK$11,805,000) to secure certain bank borrowings granted to the Group.

MANAGEMENT DISCUSSION & ANALYSIS

As at 31st December, 2012, pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB15,000,000 (equivalent to HK$18,689,000) with a bank as a condition precedent to a bank borrowing. As at 31st December, 2011, the Group was required to maintain deposits of RMB28,060,000 (equivalent to HK$34,582,000) with a bank as a condition precedent to a bank borrowing and the supply of natural gas from its suppliers. The pledged bank deposits carry interest at average market rate of 3.00% (2011: 2.80%) per annum.

Details of Future Plans for Material Investment or Capital Assets

As at 31st December, 2012, the Board did not have any specific plans for material investment or capital assets.

Capital Commitments

As at 31st December, 2012, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$64,998,000 (2011: HK$62,360,000).

Transfer of listing

The Board is pleased that the Company has successfully transferred its listing from the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange (the "Main Board") under the new stock code "3633" on 11th July, 2012 (the "Transfer of Listing").

The Transfer of Listing had no effect on the existing share certificates in respect of the Shares which continues to be good evidence of legal title and are valid for trading, settlement and registration purposes and did not involve any transfer or exchange of the existing share certificates. As announced by the Company on 18th June, 2012, the board lot size for trading in the Shares was changed from 2,000 Shares to 4,000 Shares with effect from 10th July, 2012. As from 10th July, 2012, being the effective date for new board lots of 4,000 Shares, new share certificates will be issued in new board lot size of 4,000 Shares. Save for the change in board lot size, no change was made to the English and Chinese stock short names of the Company, the existing share certificates, the trading currency of the Shares and the Hong Kong branch share registrar and transfer office of the Company following the Transfer of Listing.

The Board believes that the listing of the Shares on the Main Board will enhance the profile of the Group and improve the trading liquidity of the Shares. The Board is of the view that the Transfer of Listing will be beneficial to the future growth and business development of the Group. As at the date of this report, the Board has no immediate plan to change the nature of business of the Group following the Transfer of Listing. The Transfer of Listing did not involve the issue of any new Shares by the Company.

CONNECTED TRANSACTION

Shareholder loan

The Company obtained a shareholder loan of US$18,507,000 (equivalent to HK$144,355,000) from its then ultimate holding company during the year ended 31st December, 2010 and accrued interest thereon of HK$2,386,000 during the year ended 31st December, 2011 regarding the shareholder loan. The outstanding shareholder loan and all interest accrued thereon were repaid in the year ended 31st December, 2011. Given that China Gas is the controlling shareholder of the Company, the provision of the Loan constitutes a connected transaction of the Company pursuant to Rule 20.13 of the GEM Listing Rules (to which the Company was subject at the time).

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Mr. Wang Wenliang, aged 42, is the Chairman and the Joint Managing Director of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang was an executive director of China Gas between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Lui Siu Keung, aged 41, is the Joint Managing Director, the Chief Financial Officer and Company Secretary of the Company. He was appointed as an Executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the financial, financing and investor relations activities of the Group. Mr. Lui has approximately seventeen years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui is an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707).

Mr. Lu Zhaoheng, aged 48, is the executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu is the National Registered Public Facilities Engineer and the member of China City Gas Council. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in July 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about twenty-eight years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究院 (The City Planning Design Institute of Henan Province) and was mainly responsible for the planning, design and consultation regarding natural gas projects.

Non-executive Directors

Mr. Xu Yongxuan, aged 67, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Independent Non-executive Directors

Mr. Li Chunyan, aged 49, is an independent non-executive Director, Chairman of Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He is currently a registered lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the PRC. Mr. Li acted as legal adviser or independent non-executive director to the Henan Provincial People's Hospital, the Henan Province Television Station and other listed companies listed in the PRC and overseas. He was the independent non-executive director of Henan Pinggao Electric Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600312) from March 2008 to the present. He is a non-executive director of China CBM Group Limited (stock code: 578).

Dr. Luo Yongtai, aged 66, is an independent non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor in management of Tianjin University of Finance and Economics, a counselor of the Tianjin City People's Government Counselors' Office, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Dr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Dr. Luo is also an independent director of Sichuan Datong Gas Development Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000593) from November 2008 to the present and an independent non-executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited, a company listed on the GEM (stock code: 8348) from September 2006 to the present.

Mr. Hung, Randy King Kuen, aged 47, is an independent non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 30 September 2004. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director of China Fiber Optic Network System Group Limited (Stock Code: 3777) from 1 May 2010 to the present and a non-executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877) from 1 June 2011 to the present. Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, and a council member of the Hong Kong Institute of Directors, and Vice Chairman of the Hong Kong Investor Relations Association. Mr. Hung obtained an MBA degree in international management from the University of London, a bachelor's degree of accounting and a certificate in programming and data processing from the University of Southern California, a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Directors") and the management of Zhongyu Gas Holdings Limited (the "Company") are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein: (i) for the period between 1 January 2012 to 31 March 2012, the Company has fully complied with all the requirements of the previous Code on Corporate Governance Practices ("Previous GEM CG Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market Operated by The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"); (ii) for the period between 1 April 2012 to 10 July 2012 (the date immediately preceding completion of the Transfer of Listing), the Company has fully complied with all the requirements of the revised Corporate Governance Code ("Revised GEM CG Code") as set out in Appendix 15 of the GEM Listing Rules; and (iii) for the period from 11 July 2012 (the date of completion of the Transfer of Listing) to 31 December 2012, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code").

A. Board of Directors

The board of Directors (the "Board"), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

A.1 Board composition

As at 31st December, 2012, the Board included seven Directors, of which three are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. Wang Wenliang ("Mr. Wang") *(Chairman and Joint Managing Director)* Mr. Lui Siu Keung *(Joint Managing Director and Chief Financial Officer)* Mr. Lu Zhaoheng
Non-executive Director:	Mr. Xu Yongxuan *(Vice-Chairman)*
Independent Non-executive Directors:	Mr. Li Chunyan Dr. Luo Yongtai Mr. Hung, Randy King Kuen

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules. The Company considered each independent non-executive Director to be independent.

With a balanced Board consisting of three-ninths members of independent non-executive Directors, the Board considered that the Company can effectively exercise independent judgment.

CORPORATE GOVERNANCE REPORT

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 23 and 24 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to delegate day-to-day operations to the management and to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days in advance is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has provided the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management may be invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction would be present at such board meeting.

CORPORATE GOVERNANCE REPORT

For the year ended 31st December, 2012, the Board held fourteen board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman and Joint Managing Director)*	14	100%
Mr. Lui Siu Keung *(Joint Managing Director and Chief Financial Officer)*	14	100%
Mr. Lu Zhaoheng	14	100%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice Chairman)*	14	100%
Independent Non-executive Directors		
Mr. Li Chunyan	14	100%
Dr. Luo Yongtai	14	100%
Mr. Hung, Randy King Kuen	14	100%

A.3 Chairman and chief executive

The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues are discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the "Group") by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the chief executive is responsible for running the Group's business, supervising the implementation of the Group's strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

Provision A.2.1 of the Previous GEM CG Code, Revised GEM CG Code and the CG Code provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

Prior to the Transfer of Listing, Mr. Wang Wenliang was the Chairman and Chief Executive of the Company. Since the Transfer of Listing, the Chairman of the Company is Mr. Wang Wenliang and the Joint Managing Directors (who have similar roles and responsibilities as those of a chief executive) consist of Mr. Wang Wenliang and Mr. Lui Siu Keung. As a result, the dual role that Mr. Wang Wenliang had as Chairman and Chief Executive (prior to the Transfer of Listing) constituted a deviation from the Previous GEM CG Code and the Revised GEM CG Code, and the dual role that Mr. Wang Wenliang currently has as the Chairman and a Joint Managing Director may constitute a deviation from the CG Code.

Mr. Wang Wenliang has been the Chairman and executive director of the Company since its listing on the Stock Exchange. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure which will avoid the decision-making process from being unnecessarily hindered and also ensures that the Group can respond to business opportunities efficiently and promptly.

CORPORATE GOVERNANCE REPORT

Mr. Wang Wenliang is one of the largest shareholder of the Company who is deemed to hold approximately 22.92% of the total issued shares of the Company as at 31 December 2012. He is in charge of the Group's overall strategic decisions and has played a vital role in developing the business of the Group.

Major decisions made by Mr. Wang Wenliang as the Chairman and a Joint Managing Director are reviewed by the Board and the Board believes that Mr. Lui Siu Keung's appointment as the other Joint Managing Director also helps to put in place adequate safeguards to ensure a balance of power and authority, so that no one individual represents a considerable concentration of power.

A.4 Appointments and re-election

According to the Company's articles of association ("Articles of Association"), the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for reelection.

Provision A.4.1 of the Previous GEM CG Code and the Revised GEM CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. Prior to the Transfer of Listing, the independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Articles of Association. The independent non-executive Directors were appointed for a specific term of three years when the Company transferred its listing from GEM to the Main Board in July 2012.

The Company entered into service contracts with each non-executive Director on 11 July 2012. The term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A4. Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

At the 2011 AGM, Mr. Lu Zhaoheng, Mr. Lui Siu Keung and Mr. Hung, Randy King Kuen, three of the seven Directors subject to retirement by rotation, retired and were re-elected to the Board by the shareholders of the Company.

In accordance with CG Code Provision A.4.3, the re-election of Dr. Luo Yongtai, an independent non-executive Director who has served more than 9 years, will be subject to approval by the shareholders of the Company at the upcoming AGM.

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he will receive a formal induction and other materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner according to the written responsibilities guideline, the non-executive Directors participate in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek external independent professional advice, at the Company's expense, on any specific matter. The Company also encourages all Directors to participate in programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules before the Transfer of Listing. Since the Transfer of Listing, the Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they all confirmed having complied with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company.

A.7 Directors and Officers' Liabilities Insurance

The Company maintains appropriate insurance cover in respect of legal action against the Company's directors and officers when they discharge their duties. The insurance coverage is reviewed on an annual basis.

A.8 Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the year ended

CORPORATE GOVERNANCE REPORT

31th December, 2012 according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. Wang Wenliang	✓
Mr. Lui Siu Keung	✓
Mr. Lu Zhaoheng	✓
Non-executive Directors	
Mr. Xu Yongxuan	✓
Independent non-executive Directors	
Mr. Li Chunyan	✓
Dr. Luo Yongtai	✓
Mr. Hung, Randy King Kuen	✓

B. Remuneration Matters

The Board has established a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee meets once a year. It will consult the Chairman about their remuneration proposals for other executive directors and the primary responsibilities of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to determine specific remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to ensure that no Director or any of this associates is involved in deciding his own remuneration.

One remuneration meeting was held on 11th July, 2012 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	1	100%
Dr. Luo Yongtai	1	100%
Mr. Hung, Randy King Kuen	1	100%

C. Accountability and Audit

C.1 Financial reporting

The directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group is in accordance with statutory requirements and applicable accounting standards. The directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report of this Annual Report.

C.2 Internal controls

The internal control system has a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations, and to manage and control risk appropriately rather than to eliminate it.

CORPORATE GOVERNANCE REPORT

Directors are responsible for the Group's internal control systems, and through the Company's Audit Committee, have conducted an annual review of the effectiveness of the systems. Management is accountable to the Board for ongoing monitoring of the system of internal control. By covering financial, operational, and compliance controls and risk management, the Board takes the following procedures to achieve business objectives: A distinct organizational structure exists with defined lines of authority and control responsibilities.

- As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.

- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for publication is reliable. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality city gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

In 2012, after reviewing the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the CG Code.

CORPORATE GOVERNANCE REPORT

C.3 Audit committee

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.23 of the Listing Rules. The primary duties of the Audit Committee are: to independently review and supervise the financial reporting process and internal control systems, to ensure good communication among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2012, the Audit Committee held four meetings to check the effectiveness of the internal control system; to review all draft annual, quarterly and interim financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the Audit Fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	4	100%
Dr. Luo Yongtai	4	100%
Mr. Hung, Randy King Kuen	4	100%

C.4 Auditors' remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditors during the year 2012 amounted to HK$1,804,000.

D. Nomination Committee

The Board has established a Nomination Committee with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, the appointment and reappointment of Directors, Board succession planning and assessing the independence of independent non-executive Directors.

On selection of candidates for directorship of the Company, the Nomination Committee makes reference to criteria such as the skills, experience, professional qualifications, personal integrity and time commitments of such individuals.

For the year ended 31st December, 2012, Mr. Li Chunyan, an Independent Non-executive Director, acted as the Chairman of the Nomination Committee and Dr. Luo Yongtai and Mr. Hung, Randy King Kuen were members, both of whom were also Independent Non-executive Directors.

The Nomination Committee held one meeting during the year ended 31st December, 2012 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	1	100%
Dr. Luo Yongtai	1	100%
Mr. Hung, Randy King Kuen	1	100%

E. Shareholders' Rights

Procedures for Shareholders to convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit 04, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Unit 04, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Joint Managing Directors of the Company.

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2012.

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 38 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated statement of comprehensive income on page 42.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK$935,000.

Details of the movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 16 and 17 to the consolidated financial statements respectively.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2012, the Company's reserves available for distribution amounted to HK$940,880,000 which consisted of share premium of HK$895,054,000 and accumulated profit of HK$45,826,000.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Wang Wenliang *(Chairman and Joint Managing Director)*
Mr. Lui Siu Keung
(Joint Managing Director and Chief Financial Officer)
Mr. Lu Zhaoheng

Non-executive Directors

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

In accordance with the provisions of the Company's Articles of Association, Mr. Wang Wenliang, Mr. Li Chunyan and Dr. Luo Yongtai will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election. The re-election of Dr. Luo Yongtai will also be subject to approval by the shareholers as he has served as an independent non-executive director for over nine years.

Directors Service Contracts

The Company entered into service contracts with each of the Directors of the Company on 11th July, 2012. The term of appointment for the Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts of Significance

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

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2012, the interests and short positions of the Directors and the Joint Managing Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors	**Notes**	**Nature of Shares and/or underlying Shares**	**Type of Interests**	**Approximate percentage of issued share capital** (Note 4)
Mr. Wang Wenliang	1	578,619,542	Beneficial and interest in controlled corporation	22.92%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	2	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	2	1,000,000	Beneficial	0.04%
Mr. Hung, Randy King Kuen	3	1,000,000	Beneficial	0.04%

Notes:

1. *Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 11,166,000 Shares are directly held by Mr. Wang Wenliang.*

2. *These underlying Shares are to be allotted and issued upon exercise of the rights attaching to the share options at an exercise price of HK$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.*

3. *The Shares are directly held by the director.*

4. *As at 31st December, 2012, the total issued share capital of the Company was 2,524,007,684.*

DIRECTORS' REPORT

Save as disclosed above, as at 31st December, 2012, none of the Directors nor the Joint Managing Directors of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2012, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the Shares of the Company

Name of Shareholder	Notes	Type of interests	Number of Shares	Approximate percentage of interests (Note 3)
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.05%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.05%
Hezhong	2	Beneficial	567,453,542	22.48%

Notes:

1. *According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2012, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.*

2. *Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.*

3. *As at 31st December, 2012, the total issued share capital of the Company was 2,524,007,684.*

Save as disclosed above, as at 31st December, 2012, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Options

Particulars of the Company's share option schemes are set out in note 31 to the consolidated financial statements.

Under the share option scheme, the Directors may grant options not exceeding 252,300,768 Shares, representing slightly less than 10% of the issued share capital of the Company as at 16th April, 2012, being the date of the annual general meeting of the Company on which the Scheme Mandate Limit under the Share Option Scheme was last refreshed. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the shares in issue. A remittance in favour of the Company of HK$1.00 by way of consideration for the grant is received by the Company if the eligible participant accepts the options.

The existing share option scheme was adopted on 24th October, 2003, and has a term of 10 years from the adoption date which is due to expire on 23rd October, 2013. The Board has resolved to conditionally terminate the existing share option scheme prior to its expiry subject to the adoption of the new share option scheme by the shareholders at the coming AGM in April 2013.

The following table discloses movements in the Company's share options during the year. There is no vesting period or minimum holding period before an option can be exercised for the share options granted on 11th April, 2011.

				Number of share options				
Name and status of participants	Date of grant	Exercise period	Exercise price HK$	As at 1st January, 2012	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 31th December, 2012
Directors, joint managing director/chief executives and substantial shareholders and their respective connected persons								
Wang Wenliang	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	10,000,000	–	(10,000,000)	–	–
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Lui Siu Keung	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	6,000,000	–	(6,000,000)	–	–
Lu Zhaoheng	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	–	–	–	–	–
Li Chunyan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Hung, Randy King Kuen	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	(1,000,000)	–	–
				20,000,000	–	(17,000,000)	–	3,000,000
Employees	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	108,800,000	–	(108,800,000)	–	–
				128,800,000	–	(125,800,000)	–	3,000,000
Exercisable at the end of the year								3,000,000
Weighted average exercise price				HK$0.49	–	HK$0.49	–	HK$0.49

DIRECTORS' REPORT

The closing price of the Shares on 8th April, 2011 was HK$0.48, which was the date immediately before the date on which the Share Options were granted on 11th April, 2011. The weighted average closing price of the Shares immediately before the date the Share Options were exercised during the period under review was HK$0.71.

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Major Customers and Suppliers

For the year ended 31st December, 2012, our five largest suppliers comprised 80.5% of our total purchase for the year. The Group's largest supplier accounted for 44.3% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 23.7% of total turnover for the year. The Group's largest customer accounted for 11.9% of the total sales for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Appointment of Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors independent. The re-election of Dr. Luo Yongtai will be subject to Shareholders' approval at the coming AGM since he has served as an independent non-executive Director for over nine years.

Emolument Policy

The emoluments of the directors of the Company are decided by the Remuneration Committee with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 31 to the consolidated financial statements.

Competing Business

China Gas Holdings Limited is a substantial shareholder of the Company. For the reasons stated in the Transfer of Listing announcement of the Company dated 29 June 2012, the Board is of the view that in so far as the existing pipeline gas projects of the Group in the PRC are concerned, the Group and China Gas Holdings Limited are not competing with each other due to the nature of the natural gas industry in the PRC. However, there may be competition between the Group and China Gas Holdings Limited in relation to the construction and operation of gas stations in the PRC in the future depending on the direction and expansion of the Group's operations and business in the PRC.

DIRECTORS' REPORT

Save as stated in the Transfer of Listing announcement of the Company dated 29th June, 2012 and as mentioned above, during the year, none of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2012.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
8th March, 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 111, which comprise the consolidated statement of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8th March, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Turnover	6	**2,754,084**	1,794,319
Cost of sales		**(2,105,472)**	(1,365,724)
Gross profit		**648,612**	428,595
Other gains and losses	8	**7,050**	(11,208)
Other income	9	**22,180**	11,547
Selling and distribution costs		**(45,990)**	(34,268)
Administrative expenses			
– General administrative expenses		**(187,484)**	(164,560)
– Equity-settled share option expenses		**–**	(23,632)
Research and development costs		**(1,288)**	(1,575)
Finance costs	10	**(32,513)**	(19,198)
Profit before tax		**410,567**	185,701
Income tax expenses	11	**(129,013)**	(57,397)
Profit for the year	12	**281,554**	128,304
Other comprehensive income			
Exchange differences arising on translation		**14,388**	48,017
Total comprehensive income for the year		**295,942**	176,321
Profit for the year attributable to:			
Owners of the Company		**226,021**	86,114
Non-controlling interests		**55,533**	42,190
		281,554	128,304
Total comprehensive income attributable to:			
Owners of the Company		**240,152**	127,483
Non-controlling interests		**55,790**	48,838
		295,942	176,321
Earnings per share	15		
Basic		**HK9.05 cents**	HK3.82 cents
Diluted		**HK9.01 cents**	HK3.77 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Investment properties	16	**7,589**	6,570
Property, plant and equipment	17	**1,955,577**	1,514,801
Goodwill	18	**110,261**	109,066
Other intangible assets	19	**478,521**	146,672
Deposits paid for acquisition of property, plant and equipment	20	**84,080**	180,891
Prepaid lease payments	21	**178,072**	146,476
Available-for-sale investment	22	**3,738**	3,697
		2,817,838	2,108,173
Current assets			
Inventories	23	**74,409**	65,867
Trade and bills receivables	24	**155,990**	141,381
Deposits, prepayments and other receivables	24	**114,170**	130,939
Prepaid lease payments	21	**5,473**	4,448
Amounts due from customers for contract work	25	**13,562**	–
Pledged bank deposits	26	**18,689**	34,582
Bank balances and cash	26	**348,570**	351,275
		730,863	728,492
Current liabilities			
Deferred income and advance received	27	**242,951**	198,513
Trade and bills payables	27	**248,517**	275,711
Other payables and accrued charges	27	**203,369**	169,378
Amounts due to customers for contract work	25	**10,369**	13,861
Bank borrowings	28	**660,852**	422,493
Tax payables		**51,647**	33,475
		1,417,705	1,113,431
Net current liabilities		**(686,842)**	(384,939)
Total assets less current liabilities		**2,130,996**	1,723,234

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	29	**25,240**	23,982
Reserves		**1,364,995**	1,064,459
Equity attributable to owners of the Company		**1,390,235**	1,088,441
Non-controlling interests		**171,227**	140,699
Total equity		**1,561,462**	1,229,140
Non-current liabilities			
Deferred income and advance received	27	**25,372**	25,549
Bank borrowings	28	**525,181**	453,537
Deferred taxation	30	**18,981**	15,008
		569,534	494,094
		2,130,996	1,723,234

The consolidated financial statements on pages 42 to 111 were approved and authorised for issue by the Board of Directors on 8th March, 2013 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December, 2012

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note a)	Statutory surplus reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2011	19,740	639,463	–	1,128	9,371	32,417	141,606	(74,414)	769,311	133,096	902,407
Profit for the year	–	–	–	–	–	–	–	86,114	86,114	42,190	128,304
Other comprehensive income for the year	–	–	–	–	–	–	41,369	–	41,369	6,648	48,017
Total comprehensive income for the year	–	–	–	–	–	–	41,369	86,114	127,483	48,838	176,321
Transfer to statutory surplus reserve	–	–	–	–	–	10,045	–	(10,045)	–	–	–
Recognition of equity-settled share-based payments	–	–	23,632	–	–	–	–	–	23,632	–	23,632
Issue of shares under placement (note 29)	3,940	159,619	–	–	–	–	–	–	163,559	–	163,559
Transaction costs attributable to issue of shares	–	(2,019)	–	–	–	–	–	–	(2,019)	–	(2,019)
Exercise of share options	302	18,984	(4,489)	–	–	–	–	–	14,797	–	14,797
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(30,542)	(30,542)
Acquisition of additional interest of a subsidiary (note 32)	–	–	–	–	(8,322)	–	–	–	(8,322)	(11,926)	(20,248)
Additional capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	1,233	1,233
At 31st December, 2011	23,982	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,088,441	140,699	1,229,140
Profit for the year	–	–	–	–	–	–	–	226,021	226,021	55,533	281,554
Other comprehensive income for the year	–	–	–	–	–	–	14,131	–	14,131	257	14,388
Total comprehensive income for the year	–	–	–	–	–	–	14,131	226,021	240,152	55,790	295,942
Transfer to statutory surplus reserve	–	–	–	–	–	13,284	–	(13,284)	–	–	–
Exercise of share options	1,258	79,007	(18,623)	–	–	–	–	–	61,642	–	61,642
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(25,262)	(25,262)
At 31st December, 2012	25,240	895,054	520	1,128	1,049	55,746	197,106	214,392	1,390,235	171,227	1,561,462

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December, 2012

Notes:

(a) Prior to 1st January, 2011, other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from Hezhong Investment Holding Company Limited, the then ultimate holding company which has been accounted for by the Group as a deemed contribution and credited to other reserve. Other reserve also contains an increase in Group's share of net assets resulted from deemed acquisition of interest of Luohe Zhongyu Gas Co., Ltd. ("Luohe Zhongyu").

During the year ended 31st December, 2011, the difference between the consideration paid and the carrying amount of the additional interest effectively held by the Group of HK$8,322,000 resulted from the acquisition of additional interest in Linyi Shanlin Gas Company Limited ("Linyi Shanlin") was debited to other reserve. Details of the acquisition are set out in note 32.

(b) The article of association of the Company's subsidiaries incorporated in the People's Republic of China (the "PRC") states that it may make an appropriation of 10% of its profit for the year (prepared under generally accepted accounting principles in the PRC) each year to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making good losses, capitalisation into paid-in capital and expansion of its production and operation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before tax	**410,567**	185,701
Adjustments for:		
Depreciation of property, plant and equipment	**65,774**	54,287
Equity-settled share option expenses	**–**	23,632
Amortisation of other intangible assets	**10,187**	5,821
Amortisation of prepaid lease payments	**4,780**	3,703
Net (gain) loss on disposal/written-off of property, plant and equipment	**(2,898)**	6,476
Net allowance (reversal of allowance) for doubtful debts		
– trade receivables	**58**	329
– other receivables	**(192)**	2,317
Net reversal of impairment loss recognised on amounts due from customers for contract work	**(3,083)**	(3,173)
Net impairment loss recognised on other intangible assets	**–**	5,831
Interest income	**(3,125)**	(2,389)
Finance costs	**32,513**	19,198
Change in fair value of investment properties	**(935)**	(56)
Operating cash flows before movements in working capital	**513,646**	301,677
Increase in inventories	**(8,542)**	(20,563)
Increase in trade and bills receivables	**(14,667)**	(88,370)
Decrease (increase) in deposits, prepayments and other receivables	**95**	(51,428)
(Increase) decrease in amounts due from customers for contract work	**(10,479)**	5,507
Increase in deferred income and advance received	**43,981**	63,514
(Decrease) increase in trade and bills payables	**(27,194)**	101,836
Increase in other payables and accrued charges	**30,785**	60,648
Decrease in amounts due to customers for contract work	**(3,492)**	(205)
Cash generated from operations	**524,133**	372,616
Interest received	**3,125**	2,389
Income taxes paid	**(102,952)**	(42,865)
Withholding tax paid	**(8,334)**	(5,383)
Net cash from operating activities	**415,972**	326,757

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Investing activities			
Purchases of property, plant and equipment		(188,325)	(134,471)
Proceeds from disposal of property, plant and equipment		3,621	2,107
Proceed from disposal of prepaid lease payment		3,119	–
Withdrawal of pledged bank deposits		15,893	8,000
Placement of pledged bank deposits		–	(28,604)
Addition of prepaid lease payments		(38,477)	(30,084)
Acquisition of assets and liabilities through acquisition of subsidiaries	33	(331,144)	–
Deposit paid for acquisition of property, plant and equipment		(158,598)	(180,891)
Purchase of intangible assets		(9,282)	(1,810)
Increase in available-for-sale investment		–	(616)
Decrease (increase) in loan receivables		19,888	(14,482)
Net cash used in investing activities		(683,305)	(380,851)
Financing activities			
Acquisition of additional interest in a subsidiary	32	–	(19,334)
Interest paid		(72,479)	(35,747)
Repayment of shareholder loan		–	(150,564)
New borrowings raised		776,601	272,615
Repayments of borrowings		(476,203)	(161,980)
Proceeds from issue of shares under placement		–	163,559
Transaction costs paid on issue of shares under placement		–	(2,019)
Proceeds from issue of shares upon exercise of share options		61,642	14,797
Dividend paid by subsidiaries to its non-controlling interests		(25,262)	(30,542)
Capital contribution from non-controlling interest of a subsidiary		–	1,233
Net cash from financing activities		264,299	52,018
Net decrease in cash and cash equivalents		(3,034)	(2,076)
Cash and cash equivalents at 1st January		351,275	351,963
Effect of foreign exchange rate changes		329	1,388
Cash and cash equivalents at 31st December, represented by bank balances and cash		348,570	351,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 11th July, 2012, the Company has successfully transferred its listing from the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to annual report.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries.

The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas and coalbed gas projects in the PRC.

The functional currency of the Company is Renminbi ("RMB") and the presentation currency of the consolidated financial statements is Hong Kong dollars ("HKD"). The directors of the Company consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets; and
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets.

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to HKAS 12 have to be applied retrospectively.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company reviewed the Group's investment property portfolios and concluded that the Group has a business model for its investment properties whose objective is to hold all investment properties so as to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred taxation in relation to the Group's investment properties has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

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

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets *(Continued)*

As the Group has previously recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use, the directors of the Company considered that the application of the above amendments has had no material impact on these consolidated financial statements.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

[1] Effective for annual periods beginning on or after 1st January, 2013.
[2] Effective for annual periods beginning on or after 1st January, 2014.
[3] Effective for annual periods beginning on or after 1st January, 2015.
[4] Effective for annual periods beginning on or after 1st July, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

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

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will have impact on the classification and measurement in respect of the Group's available-for-sale investments but not on the Group's other financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

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

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted. The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1st July, 2012 and will be applied by the Group for annual periods beginning on or after 1st January, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and titles have passed.

Deposits received by the Group prior to meeting the above for revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Connection revenue from gas pipeline construction is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of contract cost incurred for work performed to date bear to the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from a 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment of financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, refundable deposits, other receivables, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and bills payables, other payables, accrued charges and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

If the share options are cancelled during the vesting period, the cancellation is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remaining vesting period will be recognised as an expense immediately. Any payment made to the employees or consultants on the cancellation of the grant shall be accounted for as the repurchase of an equity interest, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of each reporting period. Income and expenses item are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1st January, 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENT

The key assumptions concerning the future, and other key sources of estimation uncertainty and judgement at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, are discussed below.

Estimated impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments

Determining whether an impairment loss is required requires an estimate of the future cash flows of the relevant cash generating unit to which the assets belong expected to arise. The recoverable amount is determined based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. Details of the recoverable amount calculation for the cash generating units in respect of connection of pipeline construction are set out in note 18, whereas cash generating units in respect of sales of piped gas, sales of CNG filling stations as well as sales of coalbed methane gas are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENT *(Continued)*

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2012, the carrying value of property, plant and equipment is HK$1,955,577,000 (2011: HK$1,514,801,000).

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Accordingly, deferred taxation in relation to the Group's investment properties has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 28 and equity attributable to owners of the Company, comprising issued capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

The Group's overall strategy remains unchanged from prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Available-for-sale investment	3,738	3,697
Loans and receivables (including cash and cash equivalents)	545,573	560,863
Financial liabilities		
Amortised cost	1,615,896	1,304,469

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, refundable deposits, other receivables, pledged bank deposits and bank balances, trade and bills payables, other payables and accrued charges and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group has not used any derivative contracts to hedge these exposure to interest rate risk.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings. The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of all variable bank borrowings are based on interest rate fixed by People's Bank of China plus a premium.

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2011: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$1,242,000 (2011: decrease/increase HK$839,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks (Continued)

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The directors of the Company consider that the Group's exposure to foreign currency exchange risk is insignificant, except for bank balances denominated in United States Dollar ("USD") or HKD, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HKD are set out below:

	2012	2011
	HK$'000	HK$'000
USD	**752**	783
HKD	**18,290**	44,546
	19,042	45,329

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Group is mainly exposed to the foreign currency risk in HKD and USD.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB against USD and 5% (2011: 5%) increase and decrease in RMB against HKD. 5% (2011: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respectively USD and HKD bank balances, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates decrease in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in the USD and HKD, there would be an equal and opposite impact on the profit or loss.

	2012	2011
	HK$'000	HK$'000
USD	**31**	33
HKD	**764**	1,860

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution. The directors of the Company consider that the Group does not have any other significant concentration of credit risk.

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Liquidity risk

As at 31st December, 2012 the Group had net current liabilities of HK$686,842,000 (2011: HK$384,939,000). Subsequent to 31st December, 2012, the Group has renewed bank borrowings of HK$124,595,000 which were originally required to be repaid within 3 months after the end of reporting period and have been extended to 2014. Besides, the directors of the Company expect bank borrowings of HK$379,142,000, which are due within one year after the end of the reporting period, could also be renewed to 2014, based on their experience. In addition, included in the Group's current liabilities at 31st December, 2012 are deferred income and advance received amounting to HK$242,951,000 (2011: HK$198,513,000), which the directors do not expect to have a cash outflow impact, other than the related costs associated with the fulfilment of respective construction contracts, which in the opinion of the directors, the Group should have sufficient financial resources including expected cash inflows from operations to settle such costs. The directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account these factors and future cash inflows from operations and accordingly, have prepared the consolidated financial statements on a going concern basis.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as significant sources of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity based on the agreed repayment terms for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (estimated based on interest rate at the end of the reporting period) and principal cash flows.

Liquidity tables

	Weighted average effective interest rate	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2012 HK$'000
2012							
Non-derivative financial liabilities							
Trade and bills payables	–	225,642	22,875	–	–	248,517	248,517
Other payables and accrued charges	–	181,346	–	–	–	181,346	181,346
Bank borrowings							
– fixed rate	6.95%	190,445	259,310	276,334	99,769	825,858	715,799
– variable rate	7.42%	101,571	142,000	279,726	27,706	551,003	470,234
		699,004	424,185	556,060	127,475	1,806,724	1,615,896

	Weighted average effective interest rate	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2011 HK$'000
2011							
Non-derivative financial liabilities							
Trade and bills payables	–	93,977	181,734	–	–	275,711	275,711
Other payables and accrued charges	–	152,728	–	–	–	152,728	152,728
Bank borrowings							
– fixed rate	6.77%	167,375	136,364	142,179	156,097	602,015	511,708
– variable rate	7.01%	65,420	43,782	140,275	202,708	452,185	364,322
		479,500	361,880	282,454	358,805	1,482,639	1,304,469

Note: The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Bank loans with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2011, the aggregate principal amounts of these bank loans amounted to HK$36,973,000. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid under category on demand or less than 3 months in the liquidity table after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows would amount to HK$39,183,000.

Fair value

The fair value of financial assets and financial liabilities are determined by in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the year is as follows:

	2012	2011
	HK$'000	HK$'000
Sales of piped gas	**2,007,110**	1,231,876
Connection revenue from gas pipeline construction	**546,378**	394,470
Operation of compressed natural gas ("CNG") filling stations	**166,431**	123,373
Sales of liquefied petroleum gas	**29,667**	40,974
Sales of stoves and related equipment	**4,498**	3,626
	2,754,084	1,794,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; the construction and operation of CNG filing stations for vehicles and the exploration, exploitation and development of coalbed methane gas in the PRC. Nearly all identifiable assets of the Group are located in the PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

(e) sales of coalbed methane gas ("CBM")

(f) sales of stoves and related equipment

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31st December, 2012

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	**2,007,110**	**546,378**	**166,431**	**29,667**	**–**	**4,498**	**2,754,084**
Segment profit (loss)	**177,442**	**297,648**	**19,282**	**(62)**	**(9,568)**	**(270)**	**484,472**
Interest income and other gains							**6,681**
Central corporate expenses							**(48,073)**
Finance costs							**(32,513)**
Profit before tax							**410,567**

For the year ended 31st December, 2011

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	1,231,876	394,470	123,373	40,974	–	3,626	1,794,319
Segment profit (loss)	52,273	205,880	9,843	(47)	(18,175)	(113)	249,661
Interest income and other gains							3,741
Central corporate expenses							(48,503)
Finance costs							(19,198)
Profit before tax							185,701

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income and increase in fair value of investment properties, finance costs and income tax expenses. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

As at 31st December, 2012

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	2,887,262	78,223	114,385	25,254	2,419	6,212	3,113,755
Investment properties							7,589
Available-for-sale investment							3,738
Buildings for corporate use							39,123
Prepaid lease payments for corporate use							3,588
Pledged bank deposits							18,689
Bank balances and cash							348,570
Other assets							13,649
Consolidated assets							3,548,701
LIABILITIES							
Segment liabilities	514,566	175,907	9,425	19,883	–	5,208	724,989
Tax payables							51,647
Bank borrowings							1,186,033
Deferred tax liabilities							18,981
Other liabilities							5,589
Consolidated liabilities							1,987,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31st December, 2011

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	2,187,957	60,356	110,082	27,041	2,154	1,944	2,389,534
Investment properties							6,570
Available-for-sale investment							3,697
Buildings for corporate use							39,441
Prepaid lease payments for corporate use							3,549
Pledged bank deposits							34,582
Bank balances and cash							351,275
Other assets							8,017
Consolidated assets							2,836,665
LIABILITIES							
Segment liabilities	483,945	166,261	8,317	12,138	–	4,949	675,610
Tax payables							33,475
Bank borrowings							876,030
Deferred tax liabilities							15,008
Other liabilities							7,402
Consolidated liabilities							1,607,525

For the purpose of monitoring segment performance and allocating resources between reportable segments:

- all assets are allocated to operating segments, other than investment properties, available-for-sale investment, buildings and prepaid lease payments for corporate use, certain deposits, prepayments and other receivables, pledged bank deposits and bank balances and cash.

- all liabilities are allocated to operating segments, other than tax payables, certain other payables and accrued charges, bank borrowings and deferred tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Other segment information

2012

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	520,501	–	8,250	68	321	–	529,140	2,319	531,459
(Gain) loss on disposal/written-off of property, plant and equipment	(2,902)	4	–	–	–	–	(2,898)	–	(2,898)
Amortisation of prepaid lease payments	3,712	–	1,068	–	–	–	4,780	–	4,780
Depreciation of property, plant and equipment	55,349	–	3,210	2,686	1,486	–	62,731	3,043	65,774
Amortisation of other intangible assets	7,829	–	2,358	–	–	–	10,187	–	10,187
Net reversal of impairment loss recognised on amounts due from customers for contract work	–	(3,083)	–	–	–	–	(3,083)	–	(3,083)
Net allowance (reversal of allowance) for doubtful debts	58	–	–	–	–	–	58	(192)	(134)
Research and development costs	–	–	–	–	1,288	–	1,288	–	1,288
Amounts regularly provided to the chief operating decision makers but not included in the measure of segment profits or loss:									
Income tax expenses	–	–	–	–	–	–	–	129,013	129,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2011

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	404,492	–	4,168	5,641	2,934	–	417,235	2,654	419,889
Loss on disposal/written-off of property, plant and equipment	55	–	–	–	6,421	–	6,476	–	6,476
Amortisation of prepaid lease payments	3,375	–	328	–	–	–	3,703	–	3,703
Depreciation of property, plant and equipment	43,839	–	2,392	2,601	2,024	–	50,856	3,431	54,287
Amortisation of other intangible assets	3,915	–	1,906	–	–	–	5,821	–	5,821
Net reversal of impairment loss recognised on amounts due from customers for contract work	–	(3,173)	–	–	–	–	(3,173)	–	(3,173)
Net allowance for doubtful debts	329	–	–	–	–	–	329	2,317	2,646
Research and development costs	–	–	–	–	1,575	–	1,575	–	1,575
Net impairment loss recognised on other intangible assets	–	–	5,831	–	–	–	5,831	–	5,831
Amounts regularly provided to the chief operating decision makers but not included in the measure of segment profits or loss:									
Income tax expenses	–	–	–	–	–	–	–	57,397	57,397

Geographical information

All the turnover of the Group for both years are derived from the PRC.

All the non-current assets of the Group located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

7. SEGMENT INFORMATION *(Continued)*

Information about major customer

Revenue from a customer of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2012	2011
	HK$'000	HK$'000
Customer A[1]	**326,895**	N/A[2]

[1] Revenue from sales of piped gas.

[2] The corresponding revenue did not contribute over 10% of the total sales of the Group.

8. OTHER GAINS AND LOSSES

	2012	2011
	HK$'000	HK$'000
Net (allowance) reversal of allowance for doubtful debts		
– trade receivables	**(58)**	(329)
– other receivables	**192**	(2,317)
Exchange gain	**–**	516
Increase in fair value of investment properties	**935**	56
Net impairment loss recognised on other intangible assets	**–**	(5,831)
Net reversal of impairment loss recognised on amounts due from customers for contract work (note)	**3,083**	3,173
Net gain (loss) on disposal/written-off of property, plant and equipment	**2,898**	(6,476)
	7,050	(11,208)

Note: Impairment loss recognised on amounts due from customers for contract work were reversed when the relevant amounts were settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

9. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Bank interest income	3,125	2,389
Government subsidies (note)	9,102	4,104
Sundry income	9,953	5,054
	22,180	11,547

Note: During the year ended 31st December, 2012, the Group has received subsidies of HK$9,102,000 (2011: HK$4,104,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings:		
– wholly repayable within five years	62,880	27,049
– over five years	9,599	6,312
Interest on shareholder loan (note 36)	–	2,386
Total borrowing costs	72,479	35,747
Less: Amounts capitalised in construction in progress	(39,966)	(16,549)
	32,513	19,198

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.77% (2011: 8.49%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

11. INCOME TAX EXPENSES

	2012	2011
	HK$'000	HK$'000
PRC Enterprise Income Tax:		
Current tax	**115,320**	53,657
Underprovision in prior years	**1,552**	227
Withholding tax levied on dividends paid previously not recognised	**4,252**	1,092
	121,124	54,976
Deferred tax (note 30):		
Current year	**7,889**	2,421
	129,013	57,397

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from the EIT Law for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. Year 2011 was the last year to obtain tax relief under relevant laws and regulations in the PRC. The tax rate of the aforesaid PRC subsidiaries is changed to 25% from 1st January, 2012 onwards.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2012, withholding tax amounted to HK$8,334,000 (2011: HK$5,383,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

11. INCOME TAX EXPENSES *(Continued)*

The tax charge for the year can be reconciled to the (loss) profit before tax per the consolidated statement of comprehensive income as follows:

	Hong Kong		PRC		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit before tax	**(22,204)**	(44,910)	**432,771**	230,611	**410,567**	185,701
Domestic income tax rate	**16.5%**	16.5%	**25%**	25%		
Taxation at the domestic income tax rate	**(3,664)**	(7,410)	**108,193**	57,652	**104,529**	50,242
Tax effect of expenses not deductible for tax purpose	**443**	4,545	**3,938**	3,577	**4,381**	8,122
Tax effect of income not taxable for tax purpose	**–**	–	**(1,804)**	(681)	**(1,804)**	(681)
Underprovision in prior years	**–**	–	**1,552**	227	**1,552**	227
Tax effect of estimated tax losses not recognised	**3,221**	2,865	**4,801**	7,498	**8,022**	10,363
Utilisation of estimated tax losses previously not recognised	**–**	–	**(417)**	(1,345)	**(417)**	(1,345)
Income tax on concessionary rate	**–**	–	**–**	(14,519)	**–**	(14,519)
Withholding tax levied on dividends paid previously not recognised	**–**	–	**4,252**	1,092	**4,252**	1,092
Deferred tax on undistributed earnings of subsidiaries (note 30)	**–**	–	**8,498**	3,896	**8,498**	3,896
Tax charge for the year	**–**	–	**129,013**	57,397	**129,013**	57,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

12. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,804**	1,650
Amortisation of other intangible assets (included in cost of sales)	**10,187**	5,821
Amortisation of prepaid lease payments	**4,780**	3,703
Depreciation of property, plant and equipment	**65,774**	54,287
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$25,683,000 (2011: HK$19,331,000))	**151,359**	143,260
Operating lease rentals in respect of rented premises	**3,598**	3,299
Cost of inventories recognised as expenses in respect of:		
Contract cost for gas pipeline construction	**171,568**	134,003
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**1,634,658**	1,008,982
	1,806,226	1,142,985
Gross rental income from investment properties with minimal outgoings	**(610)**	(378)
Gross rental income from equipment with minimal outgoings	**(444)**	(511)

13. DIRECTORS', JOINT MANAGING DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and joint managing directors'/chief executive's emoluments

The emoluments paid or payable to the directors and the joint managing directors/chief executive of the Company are as follows:

	2012 HK$'000	2011 HK$'000
Fees	**780**	3,657
Other emoluments:		
– Salaries and other benefits	**7,532**	3,844
– Contributions to retirement benefits scheme	**53**	12
– Employee share option benefits	**–**	4,644
Total emoluments	**8,365**	12,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

13. DIRECTORS', JOINT MANAGING DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' and joint managing directors'/chief executive's emoluments *(Continued)*

The emoluments of directors and the joint managing directors/chief executive of the Company are analysed as follows:

	2012					2011				
	Employee share option benefits HK$'000	Salaries and other benefits HK$'000	Fees HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000	Employee share option benefits HK$'000	Salaries and other benefits HK$'000	Fees HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Wang Wenliang (note i)	–	3,688	–	–	3,688	2,019	–	2,920	–	4,939
Lui Siu Keung (note ii)	–	2,684	–	14	2,698	1,211	2,466	–	12	3,689
Lu Zhaoheng	–	1,160	–	39	1,199	606	1,378	–	–	1,984
Xu Yongxuan	–	–	240	–	240	202	–	240	–	442
Li Chun Yan	–	–	180	–	180	202	–	167	–	369
Luo Yongtai	–	–	180	–	180	202	–	167	–	369
Hung, Randy King Kuen	–	–	180	–	180	202	–	163	–	365
Huang Yong (note iii)	–	–	–	–	–	–	–	–	–	–
Xu Chao Ping (note iii)	–	–	–	–	–	–	–	–	–	–
	–	7,532	780	53	8,365	4,644	3,844	3,657	12	12,157

Notes:

(i) Mr Wang Wenliang is also the Joint Managing Director (Chief Executive of the Company until 11th July, 2012) of the Company and his emoluments disclosed above include those for services rendered by him as the Joint Managing Director/Chief Executive.

(ii) Mr Lui Siu Keung has been also the Joint Managing Director of the Company since 11th July, 2012 and his emoluments disclosed above include those for services rendered by him as Joint Managing Director.

(iii) Not re-elected on 14th March, 2011 and on 28th April, 2011 respectively.

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

Neither the joint managing directors/chief executive nor any of the directors waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

13. DIRECTORS', JOINT MANAGING DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors and the joint managing director/chief executive of the Company whose emoluments are disclosed above. The emolument of the remaining two (2011: two) individuals was as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	**1,136**	1,268
Contributions to retirement benefits scheme	**53**	24
	1,189	1,292

Their emoluments were within the band of Nil to HK$1,000,000.

14. DIVIDENDS

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

15. EARNINGS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**226,021**	86,114

	2012 '000	2011 '000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,498,246**	2,255,650
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (note)	**9,380**	30,571
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,507,626**	2,286,221

Note: Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2011	6,245
Exchange adjustments	269
Increase in fair value recognised in profit or loss	56
At 31st December, 2011	6,570
Exchange adjustments	84
Increase in fair value recognised in profit or loss	935
At 31st December, 2012	7,589

The fair value of the Group's investment properties at 31st December, 2012 and 2011 have been arrived at on the basis of a valuation carried out on that date by 河南九鼎資產評估有限公司, which is an independent qualified valuer not connected with the Group. The valuation was arrived at by reference to recent market evidence of transaction price for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The above investment properties are located in the PRC, held under medium-term leases.

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1st January, 2011	112,586	264,160	15,239	670,518	125,676	5,968	52,134	1,246,281
Exchange adjustments	5,320	9,580	609	41,696	7,240	315	2,567	67,327
Additions	48	348,734	–	4,282	22,498	1,070	11,363	387,995
Disposals/written-off	–	(6,421)	–	–	(1,579)	(144)	(956)	(9,100)
Transfer	7,099	(426,768)	–	383,616	36,053	–	–	–
At 31st December, 2011	125,053	189,285	15,848	1,100,112	189,888	7,209	65,108	1,692,503
Exchange adjustments	2,325	4,701	165	13,809	2,942	101	816	24,859
Acquisition of assets through acquisition of subsidiaries (note 33)	–	1,650	–	–	105	–	202	1,957
Additions	2,874	444,450	259	5,705	19,563	910	9,939	483,700
Disposals/written-off	–	–	–	(84)	–	(6)	(3,352)	(3,442)
Transfer	65,610	(232,809)	–	129,705	37,494	–	–	–
At 31st December, 2012	195,862	407,277	16,272	1,249,247	249,992	8,214	72,713	2,199,577
DEPRECIATION								
At 1st January, 2011	13,877	–	2,276	52,977	27,574	2,507	16,241	115,452
Exchange adjustments	1,047	–	70	3,592	1,874	182	2,727	9,492
Provided for the year	5,958	–	344	26,261	12,519	921	8,284	54,287
Eliminated on disposals	–	–	–	–	(766)	(76)	(687)	(1,529)
At 31st December, 2011	20,882	–	2,690	82,830	41,201	3,534	26,565	177,702
Exchange adjustments	417	–	19	1,587	770	60	390	3,243
Provided for the year	8,295	–	138	34,438	13,972	890	8,041	65,774
Eliminated on disposals	–	–	–	(7)	–	(3)	(2,709)	(2,719)
At 31st December, 2012	29,594	–	2,847	118,848	55,943	4,481	32,287	244,000
CARRYING VALUES								
At 31st December, 2012	166,268	407,277	13,425	1,130,399	194,049	3,733	40,426	1,955,577
At 31st December, 2011	104,171	189,285	13,158	1,017,282	148,687	3,675	38,543	1,514,801

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The buildings of the Group are situated in the PRC under medium-term leases.

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of 30 years or the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of therelevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

At 31st December, 2012, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$20,201,688. In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC. At 31st December, 2011, the Group was in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$25,756,000 which was obtained in 2012.

At 31st December, 2012, the Group has pledged certain buildings and pipelines in the PRC having carrying value of approximately HK$29,469,000 (2011: HK$24,707,000) and HK$385,659,000 (2011: nil) respectively, to secure certain bank borrowings granted to the Group.

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For the Year ended 31st December, 2012

18. GOODWILL

	2012	2011
	HK$'000	HK$'000
Cost and carrying amount		
At 1st January	109,066	104,568
Exchange adjustments	1,195	4,498
At 31st December	110,261	109,066

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to individual cash generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$54,349,000 in aggregate (2011: HK$53,760,000) and connection of pipeline constructions ("Unit B") amounting to HK$55,912,000 in aggregate (2011: HK$55,306,000).

Impairment assessment of Unit A is set out in note 19.

The basis of the recoverable amounts and its major underlying assumptions of the CGUs engaged in Unit B are summarised below:

Unit B consisted of several CGUs which represent individual operation of certain subsidiaries engaging in the connection of pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of respective CGU. The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 5-year period (2011: 5-year period) at a discount rate of 13% (2011: 13%) was used. The cash flows of each CGU engaged in Unit B beyond the 5-year period (2011: 5-year period) of the financial budgets are extrapolated using a steady 2% (2011: 2%) growth rate for a number of years based on the useful life of the majority assets of each CGU. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGUs engaged in Unit B and management's expectations for the market development. At the end of the reporting period, the recoverable amounts of each CGU engaged in Unit B exceeded its carrying amount, therefore, no impairment loss is considered necessary.

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For the Year ended 31st December, 2012

19. OTHER INTANGIBLE ASSETS

	Development costs HK$'000	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Total HK$'000
COST				
At 1st January, 2011	43,732	104,218	170,426	318,376
Exchange adjustments	2,238	3,283	7,683	13,204
Additions	–	1,810	–	1,810
At 31st December, 2011	45,970	109,311	178,109	333,390
Exchange adjustments	504	2,400	2,087	4,991
Additions	–	9,282	–	9,282
Acquisition of assets through acquisition of subsidiaries (note 33)	–	329,371	–	329,371
At 31st December, 2012	46,474	450,364	180,196	677,034
AMORTISATION AND IMPAIRMENT				
At 1st January, 2011	43,732	14,546	109,500	167,778
Exchange adjustments	2,238	673	4,377	7,288
Charge for the year	–	3,915	1,906	5,821
Impairment loss recognised, net	–	–	5,831	5,831
At 31st December, 2011	45,970	19,134	121,614	186,718
Exchange adjustments	504	236	868	1,608
Charge for the year	–	7,829	2,358	10,187
At 31st December, 2012	46,474	27,199	124,840	198,513
CARRYING VALUES				
At 31st December, 2012	–	423,165	55,356	478,521
At 31st December, 2011	–	90,177	56,495	146,672

Development costs represent costs incurred for extraction of CBM in the PRC, and the costs were fully impaired in prior years.

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For the Year ended 31st December, 2012

19. OTHER INTANGIBLE ASSETS *(Continued)*

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian and Jiangsu provinces and are amortised on a straight-line method over the period of a range of 28 to 30 years, which is the period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by the Group's subsidiaries, Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") and Nanjing Yulian Compressed Gas Co. Ltd. ("NYCS") to operate sixteen CNG filling stations in Jiyuan City, Luohe City, Sanmenxia City and Nanjing City and are amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG filling stations.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

For the purposes of impairment testing, the carrying amounts of intangible assets have been allocated to the respective cash-generating units as follows:

	2012 **HK$'000**	2011 HK$'000
Subsidiaries engaged in sales of piped gas ("Unit A")	**423,165**	90,177
Operation of CNG filling stations ("Unit C")	**55,356**	56,495
Sales of CBM ("Unit D")	**Nil**	Nil

Impairment testing on Unit A

Unit A consisted of several CGUs which represent operations of different subsidiaries engaging in sales of piped gas. For impairment assessment purposes, management reviews each CGU's recoverable amount for comparison with the carrying amount of respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprising intangible assets of HK$423,165,000 (2011: HK$90,177,000), goodwill of HK$54,349,000 (2011: HK$53,760,000), property, plant and equipment of HK$1,169,571,000 (2011: HK$839,800,000) and prepaid lease payments of HK$99,761,000 (2011: HK$90,777,000). The recoverable amount of each CGU has been determined based on value in use calculation of each CGU using the following assumptions for 2012 and 2011:

Period of cash flow projections	5 years (2011: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	0.17% – 2.28% (2011: 2%)
Discount rates	13% – 13.60% (2011: 13%)

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. At the end of reporting period, the recoverable amount of each CGU of Unit A exceeded its carrying amount, no impairment is considered necessary.

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19. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment testing on Unit C

Unit C consisted of several CGUs which represent operation of different subsidiaries engaging in the operation of CNG filling stations. For impairment assessment purposes, management reviews each CGU's recoverable amount for comparison with the carrying amount of respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprising intangible assets of HK$55,356,000 (2011: HK$56,495,000) and property, plant and equipment of HK$39,284,000 (2011: HK$39,566,000) and prepaid lease payments of HK$11,421,000 (2011: HK$11,632,000). The recoverable amount of each CGU has been determined based on value in use calculation of each CGU using the following assumptions for 2012 and 2011:

Period of cash flow projections	5 years (2011: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0% (2011: 0%)
Discount rate	16% (2011: 16%)

There is no growth rate expected based on historical data. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, one of the gas stations of Unit C ("CGU1") that was originally expected to commence operation in 2011 was suspended and is not expected to commence operations in the near future and hence the expected future cash flows for this gas station could not be realised. Accordingly, an impairment of HK$16,871,000 was recognised in the year ended 31st December, 2011.

Another CNG filling station of Unit C ("CGU2") commenced operation in 2011 after delay in operation since 2009, a credit of HK$11,040,000 was recognised during the year ended 31st December, 2011, which represented a partial reversal of previously recognised impairment loss of CGU2.

At the end of reporting period, the recoverable amount of each CGU of Unit C approximates its carrying amount, no impairment loss or reversal of impairment loss is considered necessary.

Impairment testing on Unit D

Due to the anticipated delay in de-watering and releasing process of the commercial production of CBM, it is not probable that any future economic benefits associated with Unit D will flow to the Group. Accordingly, the management recognised full impairment on the carrying amount of the development costs in prior years.

During the year ended 31st December 2012, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$1,288,000 (2011: HK$1,575,000) was charged to profit or loss as research and development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

20. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31st December, 2012, deposit of RMB32,460,000 (2011: RMB124,099,000) (equivalent to HK$40,443,000 (2011: HK$152,944,000)) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines in Henan and Shandong provinces.

21. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC with medium-term lease and amortised over the terms of relevant leases ranging from 30 to 50 years.

At 31st December, 2012, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK$122,818,000 (2011: HK$73,058,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

The Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$14,756,000 (2011: HK$11,805,000) to secure certain bank borrowings granted to the Group.

22. AVAILABLE-FOR-SALE INVESTMENT

	2012	2011
	HK$'000	HK$'000
Available-for-sale investment comprises of unlisted equity security at cost less impairment		
Balance at beginning of year	**3,697**	2,954
Addition	**–**	616
Exchange adjustments	**41**	127
Balance at the end of the year	**3,738**	3,697

The above unlisted investment represents 10% (2011: 10%) in equity interest of Linyi Gas Pipeline Transport Company Limited (臨沂管道燃氣輸配有限公司). It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

23. INVENTORIES

	2012 HK$'000	2011 HK$'000
Construction materials	68,849	60,355
Finished goods	5,560	5,512
	74,409	65,867

24. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days (2011: 30 days) to its trade customers. The bills receivables are matured within the range of 60 days to 180 days (2011: 60 days to 180 days) for the year ended 31st December, 2012. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of piped gas and the billing dates for work performed for construction contracts:

	2012 HK$'000	2011 HK$'000
0 – 30 days	136,360	93,036
31 – 90 days	186	155
91 – 180 days	1	52
181 – 360 days	547	46
Trade receivables	137,094	93,289
0 – 90 days	18,585	30,466
91 – 180 days	311	17,626
Bills receivables	18,896	48,092
Trade and bills receivables	155,990	141,381

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials for customer's gas pipeline construction amounting to HK$56,383,000 (2011: HK$69,945,000). At 31st December, 2011, there were loan receivables of HK$19,888,000 due from independent third parties, bearing interest at market rate and were fully repaid in 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

The trade receivables of HK$136,360,000 (2011: HK$93,036,000) and bills receivable of HK$18,896,000 (2011: HK$48,092,000) were neither past due nor impaired. These customers are local reputable real estate developers and corporate entities in Henan and Shandong province and no significant counterparty default was noted in the past.

As at 31st December, 2012, trade receivables of HK$734,000 (2011: HK$253,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 210 days (2011: 90 days).

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
31 – 90 days	186	155
91 – 180 days	1	52
181 – 360 days	547	46
	734	253

Movement in the allowance for doubtful debts

Trade receivables

	2012 HK$'000	2011 HK$'000
Balance at beginning of year	2,878	2,549
Increase in allowance recognised in profit or loss	58	329
Balance at the end of year	2,936	2,878

Other receivables

	2012 HK$'000	2011 HK$'000
Balance at beginning of year	6,596	4,279
(Decrease) increase in allowance recognised in profit or loss	(192)	2,317
Balance at the end of year	6,404	6,596

24. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the end of the reporting period. The trade receivables past due but not impaired were either subsequently settled as at the date of these consolidated financial statements were authorised for issuance or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the allowance for doubtful debts.

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2012	2011
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**213,920**	177,565
Less: Progress billings	**(188,543)**	(166,159)
Less: Impairment losses recognised (Note)	**(22,184)**	(25,267)
	3,193	(13,861)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**13,562**	–
Amounts due to customers for contract work	**(10,369)**	(13,861)
	3,193	(13,861)

At 31st December, 2012, advances received from customers before the contract work is performed amounted to HK$138,037,000 (2011: HK$120,452,000) and were included in deferred income and advance received classified as current liabilities.

Note: The directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the directors, for such amounts that the recoverability are uncertain, impairment losses were recognised in full and for those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2012, the Group recognised a net reversal of impairment loss of HK$3,083,000 (2011: HK$3,173,000).

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26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.4% to 3.25% (2011: 0.50% to 3.50%) per annum for the year ended 31st December, 2012. At 31st December, 2012, the bank balances and cash of HK$329,528,000 (2011: HK$305,946,000) were denominated in RMB which are not freely convertible into other currencies in the PRC environment.

As at 31st December, 2012, the bank balances and cash consisted of HK$752,000 and HK$18,290,000 (2011: HK$783,000 and HK$44,546,000) denominated in USD and HKD respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2012, pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB15,000,000 (equivalent to HK$18,689,000) with a bank as a condition precedent to a bank borrowing. As at 31st December, 2011, the Group was required to maintain deposits of RMB28,060,000 (equivalent to HK$34,582,000) with a bank as a condition precedent to a bank borrowing and the supply of natural gas from its suppliers. The pledged bank deposits carry interest at average market rate of 3.00% (2011: 2.80%) per annum.

27. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2012	2011
	HK$'000	HK$'000
0 – 30 days	**194,328**	223,768
31 – 90 days	**31,313**	20,579
91 – 180 days	**4,602**	5,458
Over 180 days	**18,274**	13,582
Trade payables	**248,517**	263,387
Bills payables – 0 – 90 days	**–**	12,324
Trade and bills payables	**248,517**	275,711

The average credit period on purchase of goods is 90 days (2011: 90 days). The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Deferred income and advance received classified as current liabilities represent the amounts received from customers before the contract work is performed and advance payments from customers for natural gas. Deferred income and advance received classified as non-current liabilities are government grants of HK$25,372,000 (2011: HK$25,549,000). Due to redevelopment of Jiaozuo city, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo city.

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For the Year ended 31st December, 2012

27. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES *(Continued)*

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$58,007,000 (2011: HK$45,394,000) and accrued expenses of HK$22,023,000 (2011: HK$17,139,000).

On 5th March, 2010, the Group entered into a sales and purchase agreement with 焦作市建設投資(控股)有限公司 for the acquisition of certain assets and liabilities, mainly gas pipeline network in the area of Jiaozuo City. The acquisition was completed with total consideration HK$54,271,000 offered. As at 31st December, 2012, the unsettled consideration for the acquisition of assets and liabilities of HK$43,527,000 (2011: HK$46,753,000) was included in other payables and accrued charges and would be settled upon the proper transfer of legal title of the assets acquired.

28. BANK BORROWINGS

	2012	2011
	HK$'000	HK$'000
Bank loans		
Secured	**356,965**	450,592
Unsecured	**829,068**	425,438
	1,186,033	876,030
Carrying amount repayable*:		
Within one year	**660,852**	385,520
More than one year, but not exceeding two years	**69,649**	34,508
More than two years but not exceeding five years	**368,752**	123,244
More than five years	**86,780**	295,785
	1,186,033	839,057
Add: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**–**	36,973
	1,186,033	876,030
Less: Amounts due within one year shown under current liabilities	**(660,852)**	(422,493)
	525,181	453,537

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

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28. BANK BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2012	2011
Effective interest rate:		
Fixed-rate borrowings	**6.40% – 8.26%**	6.40% – 9.47%
Variable-rate borrowings	**5.94% – 8.81%**	5.85% – 8.53%

The Group's variable-rate borrowings bear interest at People's Bank of China plus a premium ranging from 10% to 30% per annum for both years.

As at 31st December, 2012, certain bank borrowings were secured by the Group's prepaid lease payments, buildings and pipelines with the aggregate carrying amounts of HK$14,756,000 (2011: HK$11,805,000), HK$29,469,000 (2011: HK$24,707,000) and HK$385,659,000 (2011: nil) respectively.

29. SHARE CAPITAL

	Number of shares		**Amount**	
	2012	2011	**2012**	2011
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid At beginning of year	**2,398,208**	1,974,008	**23,982**	19,740
Exercise of share options (note 31)	**125,800**	30,200	**1,258**	302
Issue of new ordinary shares (note)	**–**	394,000	**–**	3,940
At end of year	**2,524,008**	2,398,208	**25,240**	23,982

Note: On 8th April, 2011, the Company entered into a placing agreement in relation to the placing of a maximum of 394,000,000 new ordinary shares of HK$0.01 each of the Company at the placing price of HK$0.41 per share (the "Placing"). The Completion of the Placing took place on 18th April, 2011.

All the shares issued during the years ended 31st December, 2012 and 2011 rank pari passu with the then existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

30. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years.

	Revaluation of investment properties HK$'000	Other intangible assets HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1st January, 2011	950	10,939	4,291	16,180
Exchange adjustments	40	472	186	698
(Credit) charge to profit or loss (note 11)	(16)	(1,459)	3,896	2,421
Release of previously provided deferred tax upon payment	–	–	(4,291)	(4,291)
At 31st December, 2011	974	9,952	4,082	15,008
Exchange adjustments	11	110	45	166
Charge (credit) to profit or loss (note 11)	238	(847)	8,498	7,889
Release of previously provided deferred tax upon payment	–	–	(4,082)	(4,082)
At 31st December, 2012	1,223	9,215	8,543	18,981

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of certain PRC subsidiaries amounting to HK$336,483,000 (2011: HK$192,862,000) as the Group is able to control the timing of the reversal of the temporary differences for these subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2012, the Group had unused estimated tax losses of HK$265,926,000 (2011: HK$236,737,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$217,792,000 (2011: HK$208,124,000) that will expire in various dates up to 2017. Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme ("Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group.

Under the Share Option Scheme, the directors may offer to any employees or any person who has contributions to the Group share options to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. The exercise price is determined by the directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The following table discloses movements of the Company's share options granted under the Share Option Scheme and movements in such holdings:

				Number of share options			
Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1st January, 2012	Granted during the year	Exercised during the year (Note)	At 31st December, 2012
Directors	0.49	11th April, 2011	11th April, 2011 to 11th April, 2021	20,000,000	–	(17,000,000)	3,000,000
Employees	0.49	11th April, 2011	11th April, 2011 to 11th April, 2021	108,800,000	–	(108,800,000)	–
				128,800,000	–	(125,800,000)	3,000,000
Exercisable at the end of the year							3,000,000
Weighted average exercise price					HK$0.49	HK$0.49	HK$0.49

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

				Number of share options			
Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1st January, 2011	Granted during the year	Exercised during the year (Note)	At 31st December, 2011
Directors	0.49	11th April, 2011	11th April, 2011 to 11th April, 2021	–	23,000,000	(3,000,000)	20,000,000
Employees	0.49	11th April, 2011	11th April, 2011 to 11th April, 2021	–	136,000,000	(27,200,000)	108,800,000
				–	159,000,000	(30,200,000)	128,800,000
Exercisable at the end of the year							128,800,000
Weighted average exercise price					HK$0.49	HK$0.49	HK$0.49

Note: In respect of the share options exercised during the year, the weighted average closing share price immediately before the dates of exercise is HK$0.71 (2011: HK$0.67).

During the year ended 2011, the Group recognised expense of HK$23,632,000 in relation to share options granted by the Company.

The options granted during the year ended 31st December, 2011 were granted to a number of employees of the Group categorised as Batch 1, 2 and 3 as below, which were measured using Black-Scholes Option Pricing Model. The inputs into the model were summarised as follows:

Batch	Batch 1	Batch 2	Batch 3
No. of exercisable options	68,000,000	68,000,000	23,000,000
Expected life of options (*)	2 years	3 years	4 years
Expected volatility (**)	44.451%	49.635%	53.541%
Risk-free interest rate (***)	0.636%	1.190%	1.617%
Expected annual dividend yield (****)	Nil	Nil	Nil
Average Fair value per option (HK$)	0.1171	0.1622	0.2019

* Expected life of options for each class of option holder over the exercisable period of the share options was based on the Company's estimate, for the effects of non-transferability and behavioural considerations.

** Expected volatility was determined by using the weekly historical volatility of the Company in similar duration as of the date of valuation.

*** Risk free rates were based on Hong Kong Exchange Fund Notes yields as of the date of valuation.

**** Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

32. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 22nd June, 2011, Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, and Taian City Xusheng Electronics Technology Company Limited ("Xusheng"), the non-controlling interest of Linyi Shanlin entered into an equity transfer agreement, pursuant to which, Xusheng has agreed to transfer holding of 33% of the equity interest in Linyi Shanlin held by Xusheng to Linyi China Gas for a consideration of RMB16,800,000 (equivalent to HK$20,248,000), of which RMB774,000 (equivalent to HK$914,000) to be settled through the current account between Xusheng and Linyi Shanlin. Thereafter, the Group's effective interest in Linyi Shanlin increased from 66.9% to 99.89%. The transaction was accounted for as an equity transaction. The difference between the consideration paid and the carrying amount of the additional interest effectively held by the Group of HK$8,322,000 was debited to equity as other reserve during the year ended 31st December, 2011.

33. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITIONS OF SUBSIDIARIES

(i) On 8th October, 2012, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly owned subsidiary of the Company, acquired 100% equity interest in 南京晶橋能源投資管理有限公司 Nanjing Jingqiao Energy Investment Management Company Limited ("Nanjing Jingqiao") for RMB130,000,000 (equivalent to HK$160,296,000) from an independent third party. The principal asset of Nanjing Jingqiao is an exclusive right of selling and distributing piped gas in Jingqiao Town, Nanjing City. Nanjing Jingqiao has not commenced business at the date of acquisition.

	HK$'000
Net assets acquired	
Property, plant and equipment	1,289
Other intangible asset – exclusive right	158,012
Prepayments and other receivables	3,022
Bank balances and cash	1,179
Other payables	(3,206)
	160,296
Net cash outflow arising on acquisition	
Cash consideration paid	160,296
Less: Cash and cash equivalents acquired	(1,179)
	159,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

33. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(ii) On 12th December, 2012, Zhongyu Henan acquired 100% equity interest in 上海宣閩能源投資管理有限公司 Shanghai Xuanmin Energy Investment Management Company Limited ("Shanghai Xuanmin") for RMB145,000,000 (equivalent to HK$180,371,000) from an independent third party. The principal asset of Shanghai Xuanmin is an exclusive right of selling and distributing piped gas in Shaowu City. Shanghai Xuanmin has not commenced business at the date of acquisition.

Assets acquired and liabilities recognised at date of acquisition completion are as follows:

	HK$'000
Net assets acquired	
Property, plant and equipment	668
Other intangible asset – exclusive right	171,359
Bank balances and cash	8,344
	180,371
Net cash outflow arising on acquisition	
Cash consideration paid	180,371
Less: Cash and cash equivalents acquired	(8,344)
	172,027

In the opinion of the directors of the Company, both acquisitions did not constitute a business combination in accordance with HKFRS 3 "Business combination" as both Nanjing Jingqiao and Shanghai Xuanmin have not commenced business at the date of acquisition. Both acquisitions have been accounted for as acquisitions of assets and liabilities through acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

34. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**1,282**	3,050
In the second to fifth year inclusive	**1,738**	2,198
Over five years	**1,448**	6,740
	4,468	11,988

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to five years with fixed rental.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**706**	589
In the second to fifth year inclusive	**2,387**	2,260
Over five years	**58**	1,162
	3,151	4,011

Leases are negotiated for an average term of five years.

The Group's investment properties with a carrying amount of HK$7,589,000 (2011: HK$6,570,000) are held for rental purposes. All of the properties held have committed tenants for the next four to nine years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

35. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,000 (2011: HK$1,000) per person, which increased to HK$1,250 effective from 1st June, 2012.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

36. RELATED PARTY TRANSACTIONS

The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 13.

The Company obtained a shareholder loan of US$18,507,000 (equivalent to HK$144,355,000) from its then ultimate holding company during the year ended 31st December, 2010 and accrued interest thereon of HK$2,386,000 during the year ended 31st December, 2011 regarding the shareholder loan. The outstanding shareholder loan and all interest accrued thereon were repaid in year ended 31st December, 2011.

37. CAPITAL COMMITMENTS

As at 31st December, 2012, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$64,998,000 (2011: HK$62,360,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31st December, 2012 and 2011

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2012 %	2011 %	Principal activities
China Gas Construction Expansion Company Limited###	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	99.89##	99.89##	Investment holding
Linyi Zhongyu Energy Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$29,080,000	99.89##	99.89##	Trading of natural gas and gas pipeline construction
Linyi Shanlin	PRC	Limited liability company	Registered capital HK$15,160,000	99.89##	99.89##	Trading of natural gas and gas pipeline construction
Linyi Zhongyu Gas Co. Ltd	PRC	Sino-foreign joint venture	Registered capital HK$42,000,000	51#	51#	Trading of natural gas and gas pipeline construction
Sanmenxia Zhongyu Gas Co Ltd	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	90##	90##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Xinmi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	97##	97##	Trading of natural gas and gas pipeline construction
Yanshi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	95##	95##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Yongcheng China-Gas Heating Explore Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$30,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Jiyuan Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$40,280,000	92.9##	92.9##	Trading of natural gas and gas pipeline construction
Luohe Zhongyu	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	77.3##	77.3##	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2012 and 2011 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2012 %	2011 %	Principal activities
Luohe Zhongyu Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	73.4##	73.4##	Gas pipeline construction
Jiaozuo Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	93.2##	93.2##	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
Jiaozuo China-Gas Project Install Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB25,000,000	88.54##	88.54##	Gas pipeline construction
Xiuwu Zhongyu Gas Development Co., Ltd.	PRC	Other limited liability company	Registered capital RMB8,000,000	55.9##	55.9##	Trading of natural gas and gas pipeline construction
Zhongyu Henan	PRC	Incorporated	Registered capital HK$400,000,000	100#	100#	Investment holding
Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB200,000,000	75##	75##	Exploration, development and production of coalbed methane
Zhongyu Jiaozuo CBM Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB150,000,000	71.25##	71.25##	Exploration, development and production of coalbed methane
JYCG	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	100##	100##	Not yet commenced business
LYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	100##	100##	Operation of CNG filling stations
SYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	100##	100##	Not yet commenced business
NYCS	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Operation of CNG filling stations
Nanjing Yulian Natural Gas Filling Co., Ltd.	PRC	Limited liability company	Registered capital RMB7,000,000	70##	70##	Operation of natural gas filling stations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2012 and 2011 *(Continued)*

The proportion of nominal value of issued share capital/registered capital directly held by the Company.

The proportion of nominal value of issued share capital/registered capital indirectly held by the Company.

The place of operation of China Gas Construction Expansion Company Limited is Hong Kong.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the both years.

39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2012	2011
	HK$'000	HK$'000
Unlisted investments in subsidiaries	**694,025**	608,806
Amounts due from group companies	**298,304**	327,014
Bank balances and cash	**19,042**	15,137
Other receivables	**3,596**	3,343
Total assets	**1,014,967**	954,300
Share capital (note 29)	**25,240**	23,982
Reserves (note)	**988,585**	928,324
Total equity	**1,013,825**	952,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2012

39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

Reserves of the Company

	Share premium HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st January, 2011	639,463	–	22,156	64,605	726,224
Loss for the year	–	–	–	(15,309)	(15,309)
Other comprehensive income for the year	–	–	21,682	–	21,682
Total comprehensive income for the year	–	–	21,682	(15,309)	6,373
Recognition of equity-settled share-based payments	–	23,632	–	–	23,632
Issue of shares under placement (note 29)	159,619	–	–	–	159,619
Transaction costs attributable to issue of shares	(2,019)	–	–	–	(2,019)
Exercise of share options	18,984	(4,489)	–	–	14,495
At 31st December, 2011	816,047	19,143	43,838	49,296	928,324
Loss for the year	–	–	–	(3,470)	(3,470)
Other comprehensive income for the year	–	–	3,347	–	3,347
Total comprehensive income for the year	–	–	3,347	(3,470)	(123)
Exercise of share options	79,007	(18,623)	–	–	60,384
At 31st December, 2012	895,054	520	47,185	45,826	988,585

FINANCIAL SUMMARY

	For the year ended 31st December,				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**2,754,084**	1,794,319	1,169,469	844,150	703,020
Profit (loss) for the year attributable to:					
Owners of the Company	**226,021**	86,114	22,811	20,060	(92,797)
Non-controlling interests	**55,533**	42,190	34,314	25,080	1,232
	281,554	128,304	57,125	45,140	(91,565)

	As at 31st December,				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**3,548,701**	2,836,665	2,275,534	1,630,853	1,521,682
Total liabilities	**(1,987,239)**	(1,607,525)	(1,373,127)	(817,092)	(760,307)
	1,561,462	1,229,140	902,407	813,761	761,375
Equity attributable to the owners of the Company	**1,390,235**	1,088,441	769,311	693,797	655,787
Non-controlling interests	**171,227**	140,699	133,096	119,964	105,588
	1,561,462	1,229,140	902,407	813,761	761,375

中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED