

**港華燃氣有限公司**  
**Towngas China Company Limited**

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

**A n n u a l R e p o r t 2 0 1 2**

## Mission

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





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# Corporate Information

## Board of Directors

### Executive Directors

Chan Wing Kin, Alfred (*Chairman*)  
Wong Wai Yee, Peter (*Chief Executive Officer*)  
Ho Hon Ming, John (*Company Secretary*)

### Non-Executive Director

Kwan Yuk Choi, James

### Independent Non-Executive Directors

Cheng Mo Chi, Moses  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar

## Authorised Representatives

Chan Wing Kin, Alfred  
Ho Hon Ming, John

## Company Secretary

Ho Hon Ming, John

## Audit Committee

Li Man Bun, Brian David (*Chairman*)  
Cheng Mo Chi, Moses  
Chow Vee Tsung, Oscar

## Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar  
Chan Wing Kin, Alfred

## Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)  
Cheng Mo Chi, Moses  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar

## Auditor

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

## Registered Office

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

## Head Office and Principal Place of Business

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

## Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited  
4th Floor, Royal Bank House  
24 Shedden Road, George Town  
Grand Cayman KY1-1110  
Cayman Islands

## Hong Kong Branch Share Registrar

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

## Hong Kong Branch Share Transfer Office

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

## Principal Bankers

Bank of China (Hong Kong) Limited  
China Merchants Bank, Shenzhen Branch

# Geographical Coverage

<b>Heilongjiang</b>	Qiqihar
<b>Jilin</b>	Changchun, Gongzhuling
<b>Liaoning</b>	Anshan, Beipiao, Benxi, Chaoyang, Changxingdao, Dalian Economic and Technical Development Zone, Fuxin, Kazuo, Lvshun, Shenyang, Tieling, Wafangdian, Wafangdian (midstream), Xinqiu, Yingkou
<b>Shandong</b>	Boxing, Chiping, Feicheng, Jimo, Jinan Changqing, Jinan West, Laiyang, Laoshan, Linqu, Longkou, Pingyin, Taian, Weifang, Weihai, Zhaoyuan, Zibo, Zibo Lubo
<b>Jiangsu</b>	Nanjing Gaochun
<b>Anhui</b>	Anqing, Bowang, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi, Zhengpugang
<b>Jiangxi</b>	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui, Yifeng
<b>Sichuan</b>	Cangxi, Chengdu, Dayi, Jianyang, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
<b>Chongqing</b>	Qijiang
<b>Guangdong</b>	Foshan, Qingyuan, Shaoguan, Yangdong
<b>Guangxi</b>	Guilin
<b>Zhejiang</b>	Huzhou, Tongxiang, Yuhang
<b>Hunan</b>	Miluo
<b>Fujian</b>	Changting
<b>Hebei</b>	Qinhuangdao

● Piped Gas Projects: 78



# Five-Year Financial Summary

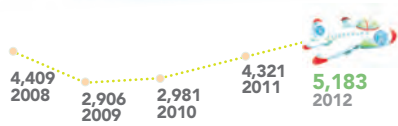
	For the year ended 31 December				
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
<b>RESULTS</b>					
Turnover	4,409,198	2,905,953	2,981,420	4,321,344	5,183,466
Profit before taxation	361,126	414,214	626,248	1,033,536	1,235,548
Taxation	(89,939)	(102,071)	(136,442)	(256,943)	(299,393)
Profit for the year	271,187	312,143	489,806	776,593	936,155
Profit for the year attributable to:					
Shareholders of the Company*	202,282	265,090	435,797	708,754	840,798
Non-controlling interests	68,905	47,053	54,009	67,839	95,357
Profit for the year	271,187	312,143	489,806	776,593	936,155
	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic	10.33	13.54	19.93	28.84	34.17
Diluted	10.32	13.52	19.93	28.82	34.10

	As at 31 December				
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	10,386,545	11,330,417	14,882,799	18,183,406	21,255,284
Total liabilities	(3,473,711)	(4,442,294)	(5,747,672)	(7,884,151)	(9,968,323)
	6,912,834	6,888,123	9,135,127	10,299,255	11,286,961
Equity attributable to shareholders of the Company	6,177,801	6,433,588	8,563,437	9,615,314	10,481,716
Non-controlling interests	735,033	454,535	571,690	683,941	805,245
Total equity	6,912,834	6,888,123	9,135,127	10,299,255	11,286,961

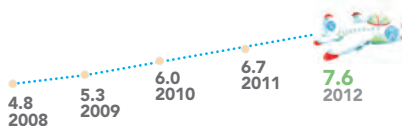
\* the Company: Towngas China Company Limited

# Financial Highlights

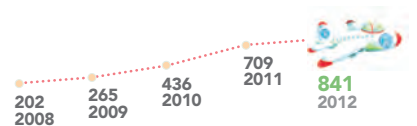
**TURNOVER**  
(HK\$ Millions)



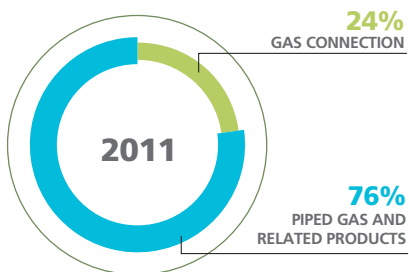
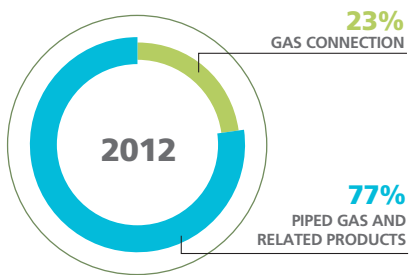
**NUMBER OF CUSTOMERS (ALL ENTITIES)**  
(Millions)



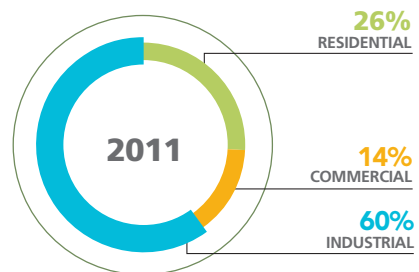
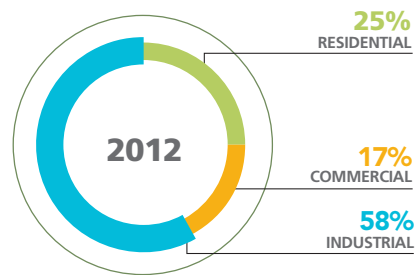
**PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY**  
(HK\$ Millions)



**TURNOVER ANALYSIS**



**PERCENTAGE OF GAS VOLUME BY CUSTOMER MIX (ALL ENTITIES)**



# Chairman's Statement



## Business Performance in 2012

While worldwide financial markets continued to be volatile, economic conditions in China were largely stable, with the Manufacturing Purchasing Managers' Index rebounding in the fourth quarter to above 50 and the nation recording a 7.8% year-on-year growth in Gross Domestic Production. Thanks to the brilliant efforts and dedication of all employees across the Group, the Company reported favourable results for 2012. Turnover increased by 20.0% over 2011 to HK\$5,183 million, while profit after taxation attributable to shareholders amounted to HK\$841 million, an increase of 18.6% as compared to 2011.

## Development of the City Gas Industry

As at the end of 2012, the urbanisation ratio of China reached 52.6%, signifying that its urban population had outnumbered its rural population. It is estimated that the urbanisation ratio will continue to rise at a rate of 1% per annum. China's ongoing economic growth, rapid urbanisation and improving living standards are all favourable to the development of the city gas industry. Regarding the availability of gas sources, with the increasing natural gas supply through upstream domestic exploration and foreign importation, a better balance in supply and demand is gradually achieved. As such, China's city gas industry will enjoy thriving development for many years to come.





## Ample Sources of Natural Gas

China consumed 106 billion cubic metres of natural gas in 2010, while gas demand in 2020 is estimated to reach 350 billion cubic metres. To realise the goal of gas supply all over China, the country is rolling out the construction of a long-distance natural gas transmission pipeline network with extensive coverage. This includes: Phase I of the West-to-East gas pipeline and the Sichuan-to-East gas pipeline which have been completed and operating for a number of years; Phase II of the West-to-East gas pipeline which was completed at the end of 2012; Phase III of the West-to-East gas pipeline of which construction started in October 2012; Phases IV and V of the West-to-East gas pipeline for which preliminary planning has commenced; as well as Phases I, II and III of the Shaanxi-to-Beijing gas pipeline, which have entered into service, among others. In addition, the China-Myanmar natural gas pipeline and a number of large liquefied natural gas receiving terminals located in coastal regions will also be completed gradually. China will thus have an ample supply of natural gas, to the benefit of the long term development of the city gas industry.

# Chairman's Statement

## Business Development Strategy

China is experiencing vigorous development in its natural gas sector during the “12th Five-Year Plan” (2011–2015) period. Apart from the enormous efforts expended in upstream natural gas exploration and importation, the country also made significant investments in long-distance transmission pipelines and liquefied natural gas receiving terminals. To attract private investment in this sector, the government published a document entitled “Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment” in 2010 to encourage private investment in the municipal and energy sectors. Subsequently in May 2012, the encouragement of private investment in the municipal and energy sectors was raised again by the State Council Executive Meeting. This facilitates the ongoing improvements in the business environment so that city gas operators and other private capital would be encouraged to step up their investments, thereby driving fulfillment of the target to multiply natural gas consumption of China during the “12th Five-Year Plan” period. Capitalising on this positive opportunity, the Group will expedite the development of new projects, in addition to supporting investment for market development in project companies. Our targeted regions include: industrial parks along Phases I, II and III of the West-to-East gas pipeline; as well as industrial bases in the Pearl River Delta, the Yangtze River Delta and the Bohai Rim regions. Moreover, in line with the country’s economic development trend and to support the policy of relocation of industries from the developed coastal areas to the central and western regions, the Group will invest in relevant city gas projects, enlarging the coverage of pipeline network and speeding up the utilisation of natural gas. Results have been encouraging as the Group successfully established eight new projects in 2012 and continues to drive efforts according to this development strategy.

## Awards

In line with the escalating concern for sustainable development, businesses in the international community have started to focus on companies with outstanding sustainability performances. In this connection, the Group’s admission as a constituent stock to the “Hang Seng Corporate Sustainability Index Series” in Hong Kong in 2012 highlighted the industry’s recognition of our strenuous efforts to fulfill our corporate social responsibilities and our outstanding performance in sustainable development. Riding on the back of our unique strengths and efficient business development model, we made our way into the “Top 10 Stock Price Gainers” in the “Top 100 Hong Kong Listed Companies” presented by the Finet and Tencent during the year under review. Mr. Wong Wai Yee, Peter, the Executive Director and Chief Executive Officer, was also named in “The Best CEO of Chinese Listed Companies” by Forbes China in 2012. The inclusion of Mr. Wong in this prestigious list not only affirms the Group’s longstanding leadership in the industry but also highly recognises Mr. Wong’s outstanding management calibre and contributions.

## Corporate Social Responsibility

As a responsible corporate citizen, the Group is committed to the advocacy and fulfillment of generally accepted social values and ethics. We vigorously fulfill our corporate social responsibilities with the aim of serving as a leading example among our peers in creating value for the community. In 2012, the Group hosted a "Summit Forum on the Social Responsibility of Chinese Corporate Citizens," in Beijing during which the "Guideline for Compiling Corporate Social Responsibility Report of Towngas China" was also announced. Specialists from both within and outside the industry, journalists and renowned corporates were invited to hold discussions and share their experiences over corporate social responsibility issues. The Group is pleased to report that numerous honours and awards, including "Outstanding Enterprise in Community Service of China 2012" and "China's Outstanding Corporate Citizenship 2012" were received during the year in view of our outstanding performances.

## Share Placement

In January 2013, the Company conducted the placing of 150 million new ordinary shares in the market at a price of HK\$6.31 per share. Net proceeds from the share placement (after deduction of share placement commission and other expenses) amounted to HK\$930 million. Investors showed enthusiastic response to the share placement with an over-subscription of more than 20 times.

## 2013 Outlook

With China's ongoing growth into an affluent society, the Group's competitive edges both in gas supply safety and excellent customer services will become more prominent. Looking forward, we will be leveraging opportunities arising from the "12th Five-Year Plan" to expedite our development and increase efficiencies, while doing our best to enhance the management standards and customer satisfaction levels of the Group and its project companies, in order to sustain our leading position in the market.

Under the "12th Five-Year Plan", the economy of China will develop rapidly and focus will be put on environmental protection as well as pollution reduction. We will be seeking growth underpinned by quality and efficiency. Apart from setting aggressive business targets, project companies of the Group will also ensure that challenging targets are achieved in conjunction with relevant benchmarks in gas safety, customer services and human resources, while we continue to serve as a role model in China's city gas industry.

**CHAN Wing Kin, Alfred**

*Chairman*

Hong Kong, 15 March 2013

# Financial Review





**For the year ended 31 December 2012, the Group recorded a turnover of HK\$5,183 million, a growth of 20.0% compared to 2011. Profit after taxation attributable to shareholders of the Company amounted to HK\$841 million, an increase of 18.6% as compared to the previous year. Basic earnings per share amounted to 34.17 HK cents, representing an increase of 18.5% compared to 2011.**

# Financial Review

## Turnover

Turnover from the sales of piped gas and related products increased 20.8% from HK\$3,288 million to HK\$3,972 million in 2012. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. In the gas connection business, income from connection fees for the year amounted to HK\$1,211 million, a rise of 17.2% when compared to 2011. This was attributable to an increase of approximately 260,000 new household connections by subsidiaries in 2012.

## Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used in 2012 amounted to HK\$3,220 million, compared to HK\$2,755 million in 2011. The increase in expenses was mainly attributable to the increase in the volume of gas sold.

## Overhead Costs

Overhead costs in 2012 amounted to HK\$1,220 million, up 24.5% as compared to HK\$980 million in 2011. The increase was mainly due to the Group's business development together with escalations in wages and inflation. Increases in staff costs, depreciation and amortisation expenses and other expenses rose by 32.3%, 15.8% and 21.7%, respectively. At the same time, an increase of HK\$51 million in overheads was due to the inclusion of new subsidiaries engaged in piped city gas operations in 2012.

## Staff Costs

Staff costs increased from HK\$394 million in 2011 to HK\$521 million in 2012. The increase in staff costs was due to the increase in the number of staff in view of business development needs, new subsidiaries and the rise in average salaries on the mainland.

## Finance Costs

Finance costs in 2012 amounted to HK\$148 million, a slight increase as compared to 2011. This was mainly attributable to the decrease in interest expenses due to the repayment of guaranteed senior notes with an effective interest rate of 8.69% in September 2011 by bank loans with lower interest rates. However, these decreases were offset by the increase in loans due to the acquisition of new projects in 2012, giving rise to the increase in finance costs.

## Available-for-sale Investments

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

## Share Placement

In January 2013, the Company successfully placed 150 million new ordinary shares at a price of HK\$6.31 per share in the market with net proceeds from the placing (after deduction of commission and other expenses of the placing) amounting to HK\$930 million. This share placement was over-subscribed by investors with more than 20 times. Net proceeds from the placement will be used as general working capital and for future investments.

## Financial Resources and Position

As at 31 December 2012, the Group's total borrowings amounted to HK\$6,086 million, of which HK\$994 million represented loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 1 to 5 years, HK\$3,108 million represented bank loans and other loans due between 1 to 5 years, HK\$1,946 million represented bank loans and other loans due within 1 year, and HK\$38 million represented bank loans and other loans due over 5 years. The Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowing of HK\$350 million to the fixed-rate borrowing in 2011. Other than the HK\$735 million in bank loans and other borrowings which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As at 31 December 2012, the Group did not have any pledge on assets. As at the end of the year, the Group had a current ratio of 0.8 times and a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 18.6%.

As at 31 December 2012, the Group held unutilised facilities amounting to HK\$1,252 million.

As at 31 December 2012, the Group's cash and cash equivalents amounted to HK\$2,479 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

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

## Credit Ratings

In 2012, Moody's, a rating agency, maintained a credit rating of "Baa2" for the Company with a stable outlook. Standard & Poor's, another rating agency, also continued to assign the Company a credit rating of "BBB" with a stable outlook which reflects the Company's solid financial position and promising operational prospects. In 2013, Moody's indicated that the completion of the Company's share placement on 16 January 2013 is credit positive.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2012.

## Currency Profile

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

## Final Dividend

In view of the continuous growth in the Group's results, the Board recommended the payment of a final dividend for the year ended 31 December 2012 of six HK cents per share (2011: five HK cents per share), representing an increase of 20.0% over the previous year.

# Business Review

**In 2012, the Group capitalised on opportunities presented by the vigorous development of the natural gas industry in China to embrace ever brighter business prospects in the energy sector. In addition, we also excelled in our environmental protection, community welfare and corporate governance achievements.**







# Business Review

## Sales of Piped Gas

In 2012, the Group sold a total of 5.32 billion cubic metres of piped gas, representing an increase of 13.9% against the 4.67 billion cubic metres sold last year. Industrial gas sales grew by 310 million cubic metres to account for approximately 58.4% of the total volume of gas sold by the Group. Commercial gas sales increased slightly to approximately 16.8% of the total volume of gas sold by the Group. Residential gas sales in turn accounted for approximately 24.8% of total gas volumes sold. The continuing growth of our industrial and commercial gas sales demonstrated the success of the Group's project development strategy to strengthen industrial gas consumption, while also benefiting from China's stable economic growth. A gas sales profile underpinned by industrial and commercial gas consumption will help to ensure ongoing growth of the Group's future gas sales. It also allows the Group to promptly shift upstream price adjustments to industrial and commercial customers, while provides further assurance for the ongoing profit growth of the Group's gas sales.



As a folklore goddess, Mazu has been believed to protect sailors since the Song Dynasty through Yuan, Ming and Qing Dynasties, spanning over a thousand years. The Mazu culture originated from the Meizhou Island in Putian, Fujian. The Group's business first expanded into the Fujian Province, with significant strategic implication, in 2012.

## Project Acquisitions

We continued to expand the geographic extent of our business presence in 2012 with the acquisitions of eight new projects in Liaoning, Shandong, Jiangxi, Fujian and Hebei Provinces. These included a piped city gas and a midstream gas pipeline project in Wafangdian City, Dalian, Liaoning Province and piped gas projects in Xinqiu District in Fuxin City, Liaoning Province; Binhai Science and Technology Industrial Park in Zhaoyuan City, Shandong Province; Pingyin County in Jinan City, Shandong Province; Yifeng County in Yichun City, Jiangxi Province; as well as debut projects in Fujian Province and Hebei Province. These included piped gas projects in Changting County, Longyan City, Fujian Province and Lingang Industrial Park, Shanhaiguan District in Qinhuangdao City, Hebei Province. The operating area of Changting County comprises three large-scale industrial parks, including Changting Rare Earth Industrial Park, a provincial-level industrial park and a key national production base for the rare earth industry, while the Lingang Industrial Park in Shanhaiguan District is a provincial-level industrial cluster for gas consumption-related industries. These two projects hold enormous potential for industrial gas consumption, providing solid foundations for the next phase of our city gas project development in Fujian and Hebei Provinces. Total gas consumption of the eight projects mentioned is expected to reach approximately 600 million cubic metres in five years.

There are four new projects for the Group in early 2013, consisting of city gas projects located at Shiheng Town in Feicheng City and Economic Development Zone in Boxing County in Binzhou City, Shandong Province; the Zhengpugang Xin Qu Modern Industrial Zone in Maanshan City, Anhui Province; and Mianzhu City in Sichuan Province. These projects will provide solid foundation for the development of the Group's business in 2013. Total gas consumption of these four new projects is expected to reach approximately 350 million cubic metres in five years.

Details of the Group's 12 new projects are as follows:

<b>Project</b>	<b>Shareholding of the Group</b>	<b>Major Industries in the Operating Regions</b>
1. Piped city gas project in Wafangdian City, Dalian, Liaoning Province	60%	Bearings, forging, machinery equipment
2. Midstream gas pipeline project in Wafangdian City, Dalian, Liaoning Province	30%	Midstream piped natural gas project
3. Binhai Science and Technology Industrial Park, Zhaoyuan City, Shandong Province	100%	Food, electronics, automobile accessories
4. Yifeng County, Yichun City, Jiangxi Province	100%	Ceramics, building materials
5. Xinqiu District, Fuxin City, Liaoning Province	100%	Construction materials, energy development, foodstuff processing
6. Changting County, Longyan City, Fujian Province	90%	Rare earth industry
7. Pingyin County, Jinan City, Shandong Province	82.5%(*)	Carbon industry
8. Lingang Industrial Park, Shanhaiguan District, Qinhuangdao City, Hebei Province	51%	Auxiliary industries for vessels, railway accessories, wind power equipment, nuclear power equipment, precision processing of food
9. Shiheng Town, Feicheng City, Shandong Province	100%	Metallurgical smelting, food processing, equipment fabrication
10. Economic Development Zone, Boxing County, Binzhou City, Shandong Province	65%	Steel Coating
11. Zhengpugang Xin Qu Modern Industrial Zone, Maanshan City, Anhui Province	100%	High-end equipment fabrication, automobile parts and accessories, iron and steel
12. Mianzhu City, Sichuan Province	80%	Phosphorous chemicals, glass chemicals, building materials

(\*) Towngas Investments Limited, a subsidiary in which the Group holds a 100% equity interest, will ultimately own a 65% equity interest in this project. Taian Taishan Hong Kong and China Gas Company Limited, a joint venture in which the Group holds a 50% equity interest, will also own a 35% equity interest in this project. As a result, the effective shareholding in this project by the Group will be 82.5%.

# Business Review

## Customer Services

In 2012, we continued to provide premium “one-stop” services with greater convenience to our customers in China through our increasing customer service centres in the country, as we persisted in the delivery of “Customer-oriented, Professional and Efficient” services. We also made committed efforts to promote a “Culture of Warmth and Care” with the successful launch of the “Towngas China Group Service with a Smile Ambassador” contest among our project companies across the nation to further promote the culture of “Service from the Heart and Service with a Smile”. The winner of this contest, Miss Zhang Xu (張旭) from Qiqihar Hong Kong and China Gas Company Limited (“Qiqihar HKCG”), subsequently represented HKCG in the Miss Exhibition Pageant of the 47th Hong Kong Brands and Products Expo. In line with her brilliant performance, she came out as 1st runners-up of the pageant, while walking away with three awards as the “Most Eloquent,” “Most Talented” and “Most Charming” contestant.

A “Service with a Smile Guidelines” has also been compiled to provide training for services with a smile and related etiquette for both our frontline customer service staff and junior managers. The philosophy of “Treating Our Customers as Our Family” was also practiced in our day-to-day operations, with a view to continuously improve the overall quality of frontline customer service staff, so that their sincerity and smiling faces will bring warm experiences to our customers.

Project companies also introduced service pledges continuously with the set up of specific service targets with regard to safe and reliable supply of gas, customer appointments, work efficiency, service attitude and the handling of customer opinions. Performance results for these service pledges are published on a regular basis. At the same time, we strive to understand and fulfill customer needs through our customer service teams, service hotlines and customer opinions handling committees, so as to enhance service satisfaction.

Ensuring safety forms an integral part of our service, we continued our on-site safety inspections. We also completed our targets of 100% completion for the inspection to existing customers within a 3-year period and rectification of all indoor Class I hazards. The aim is to enhance indoor gas safety standards, so that customers can be fully assured of the safety of gas usage.

Recognising our rapid growth and development, we received the “Most Competitive Brand 2012 in China City-gas Operation and Services” title jointly awarded by the *Economy Magazine*, *China Trade News*, *China Co-operation Times*, China Industrial and Economic Research Centre and China Economy Innovation-Development League during the year.



Miss Zhang Xu (張旭), a frontline customer service officer from Qiqihar HKCG, represented HKCG in the Miss Exhibition Pageant of the 47th Hong Kong Brands and Products Expo. She came out as 1st runners-up of the pageant for her professional qualities and brilliant performance, while also walking away with three awards as the “Most Eloquent”, “Most Talented” and “Most Charming” contestant.

## Bauhinia

We achieved a record high in the sale of gas appliances under our Bauhinia brand. Jointly promoted by the Group and HKCG, more than half a million items of equipment were sold in 2012, bringing total accumulated sales to over 1.5 million items, based on a business presence in more than 70 markets.

In 2012, we continued to promote Bauhinia as a brand that “Renders a Peaceful Mind at Home” through various marketing activities. Apart from showcasing Bauhinia appliances in our customer centres, we also ran television advertising campaigns in Chengdu, Changchun, Xi’an and others. Promotions for the brand were also conducted through a variety of media, such as magazines, newspapers, vehicle bodies, the Internet, major exhibitions as well as other large-scale marketing activities.

We also hosted a “Smart Chef Show” during the year to facilitate interaction with food-lovers throughout the nation, with show spots being set up in Nanjing, Changchun, Xi’an, Guangzhou and Chengdu. Well-known chefs were also invited to give live demonstrations to highlight the attraction of the flame-cooking culture.

Our Bauhinia condensing gas water heater, which exceeds Class I of the national efficiency standards, received its energy conservation (environmental protection) accreditation in 2012. Its presence was invited in the 2012 press conference on energy-saving water heaters hosted by the Guangdong Gas Appliances Association as a top-tier famous domestic brand name for condensing water heaters in China.






## Safety and Risk Management

Riding on the research achievements of the Northeastern Safety Year 2009, Southwestern Safety Year 2010 and Shandong Safety Year 2011, the Group designated 2012 as the Eastern China Production Safety Year, rolling out the research and promotion of 12 key management projects simultaneously, as well as reporting on improvements in various key performance indicators.

We continued our monthly safety inspections by general managers with ongoing improvements to the inspection requirements. Under this initiative, a team inspection on a monthly basis is led by the general manager of each company. Results of the inspection by general managers are summarised and analysed, which are then discussed in the Group's monthly safety meetings.

In addition, we conduct safety and risk management audits and assessments in project companies on a continuing basis. Additional items such as environmental protection structures, environmental factors assessments and waste management, etc, were added to our environmental protection audits, through which environmental protection management is gradually implemented. Currently, 10 environmental protection audit items are assessed.



We have also strengthened our project supervision management with the introduction of an audit and assessment system which provides specific requirements for project supervision management. The system seeks to enhance project supervision management conducted by project companies and project supervision management companies and improve the quality of project supervision management services, assuring the safety of our employees, contractors, customers and the public-at-large by controlling project quality at its source.

## Engineering and Procurement Management

Supporting the nation's target to increase natural gas consumption to 230 billion cubic metres during the "12th Five-Year Plan" period, as well as the Group's vision for "Expanding New Horizons," our engineering department took part in the due diligence of several new projects during the year in the area of project planning. In the construction planning aspect, we helped project companies formulate scientific and rational construction plans according to pipeline network construction principles laid down in the country's natural gas development planning for the "12th Five-Year Plan". Recognising our high engineering standards and quality, we were invited to take part in the drafting and compilation of 4 national/industrial standards and local conventions. We enhanced implementation of the quality assessment system for polyethylene ("PE") pipeline materials to raise the pipeline construction management standards, leading the industry. In future, we will be placing a dual emphasis on engineering construction and site operation management to lift the project companies' operational safety standards, while also seeking to maximise investment returns for project companies through proper acceleration of pipeline network construction, enhancement of operating efficiencies and strengthening of regional synergies.

In 2012, the Group convened a management conference with major supply partnerships driving joint procurement under the theme "Long-term Cooperation and Dual Emphasis on Quality and Quantity". Our partners engaged in in-depth exchanges and discussions with the Group during the conference, gaining a better understanding of our requirements in quality management, cooperation and trust as well as corporate social responsibility. These activities help to lay solid foundations on which to enhance safety, reduce hazards, facilitate Towngas China's business development and achieve mutual benefits for all parties.

## Staff Training and Development

As at the end of 2012, the Group had 18,724 employees. Adhering to our strong belief in the importance of staff training and development on an ongoing basis, we create and provide platforms for learning and development for our employees. In 2012, we continued to promote this culture of learning vigorously, delineating the training and development of high-calibre staff as a key task in our human resources management. We also continue our focus on the executive development programme (EDP) at Tsinghua University, our regional EDP, interactive mentorship programme, online learning and the Group's learning platform via blog, equipping the Group with high-calibre staff to meet succession requirements at every level.

We established a training partnership with the Chinese Academy of Governance. In March 2012, a seminar on "National Developments for Senior Management" was held at the Academy's training centre for the senior management of the Group.

In line with our emphasis on the nurturing and development of high-calibre personnel, we have established talent development programmes at all levels. Thirty-three colleagues were enrolled in the "Enterprise Management Seminar" held in association with the School of Economics and Management of Tsinghua University. We are now in the 5th year of our joint partnership with Tsinghua University, and our jointly organised enterprise management courses have become a signature programme in the Group's talent development initiatives.

# Business Review

Following successful regional EDPs held in the southwestern, northeastern and eastern regions, we organised advanced management seminars for the South China and Jiangxi regions in association with Sun Yat-sen University for middle and senior management executives nominated by project companies to enhance their general leadership competencies with advanced management knowledge and theories.

We also make strenuous efforts to motivate skills applications, knowledge sharing and self-learning through the launch of interactive mentorship programmes, the Group's blog and online learning activities, fostering a culture of self-initiated learning successfully.

## Corporate Social Responsibility


As a supplier of clean energy, we seek to contribute towards a quality lifestyle in our communities. We attach great importance to the economic, social and environmental demands of our stakeholders, including both our customers and the general public. We strive to strike a balance for these demands. Our best endeavours to corporate social responsibilities include the implementation of measures conducive to health, safety and environmental protection as well as the adoption of the most advanced management models as a means to contribute to the well-being of stakeholders in the social and environmental aspects.

In March 2012, the Group and HKCG in association organised a grand plantation activity at Daifushan Forest Park in Guangzhou under the theme of "Towngas China Forest Invites You to Create a Greener World". 1,500 seedlings were planted over a green area of 2,000 square metres. We also called on our project companies across the country to participate in eco-friendly activities, such as tree plantings and Earth Hour 2012. As a result, the Group, together with HKCG, planted a total of 6,800 trees over a green area of 11,800 square metres in 2012.



Mr. Wong Wai Yee, Peter, the Executive Director and Chief Executive Officer, inaugurates the Towngas China Forest with Ms. Mai Jieping, the deputy district head of Panyu District, Guangzhou City.





On the eve of the Dragon Boat Festival, the Group and HKCG in association with more than 100 project companies under the groups, joined hands to launch our “Towngas Rice Dumplings for the Community” campaign, when Towngas China volunteers visited local welfare institutions to make over 10,000 rice dumplings and distribute them together with other gifts to senior citizens living on their own, orphans and other underprivileged groups.

To drive the development of corporate social responsibility by facilitating discussion and sharing among project companies and our industry peers in relation to corporate social responsibilities issues and experience, we held a “Summit Forum on the Social Responsibility of Chinese Corporate Citizens” in Beijing, during which the “Guidelines for Compiling Corporate Social Responsibility Report of Towngas China” was announced for the first time. Industry specialists, academics and renowned corporates were invited to attend the Forum, which promoted the philosophy of “Fulfilling Corporate Social Responsibility and Corporate Citizenship” under 3 major themes — “focus on people”, “priority of customers” and “community well-being and eco-friendliness”. We believe that the fulfillment of our corporate social responsibilities is an important factor in the enhancement of corporate competitiveness. As such, we are striving to take our competitiveness in corporate social responsibilities to a new level.

During the year, we were honoured to win the “Enterprise with Outstanding Community Services in China 2012” award jointly presented by the Community Development Foundation of the China Social Welfare Foundation, Corporate Citizenship Committee and Beijing Academy of Social Sciences; as well as the “China’s Outstanding Corporate Citizenship 2012” prize jointly bestowed by the Corporate Citizenship Committee of the China Association of Social Workers, the CCTV Financial Channel and the Tencent Charity Foundation. Additionally, the Group’s charity book project was awarded the “Outstanding Case for Corporate Social Responsibility (CSR) Award” by China Philanthropy Times and the “China CSR Ranking — Outstanding Practice Award” by China Business News.

Corporate social responsibility represents an important cornerstone in a company’s development. As such, we will continue to fulfill our responsibilities, to contribute to the community and make strenuous efforts to ensure the sustainable development of our communities and our business.

## Long-term Development Strategy

The Group’s mission is to provide customers with a safe and reliable supply of gas with caring, competent and efficient services, while working to protect and improve our environment. The Group is thus focused on gas-related investment, exploration and operations management, with our principal businesses involving the sales and distribution of piped gas. In view of our professional management of customer services, safe and reliable gas supply, as well as our emphasis on corporate social responsibility, Towngas China has developed into the leading brand in China’s gas industry. The Group’s business footprint has also expanded rapidly and today, our portfolio consists of over 70 piped gas companies across 15 provinces, autonomous regions and municipalities. These include Anhui, Fujian, Guangdong, Guangxi, Heilongjiang, Hebei, Jiangsu, Jiangxi, Jilin, Liaoning, Shandong, Sichuan, Zhejiang, Hunan and Chongqing. Driving our sustainable growth into the future in a stable manner and seeking to add value for shareholders, the Group will continue to identify new projects with high business potential in the natural gas industry while also expanding the scope of our existing projects.

# Awards

**The Group was recognized repeatedly for achieving industry excellence in environmental protection, corporate social responsibility as well as corporate governance during the year.**





1. Admission as a constituent stock to the "Hang Seng Corporate Sustainability Index Series" of Hang Seng Indexes Company Limited
2. "Top 10 Stock Price Gainers of Hong Kong Listed Companies" and "Outstanding Achievement Award" by Finet and Tencent
3. The Most Competitive Brand 2012 in China City-gas Operation and Services
4. "Outstanding Enterprise in Community Service of China 2012" jointly presented by the Community Development Foundation of the China Social Welfare Foundation, Corporate Citizenship Committee and Beijing Academy of Social Sciences
5. "China's Outstanding Corporate Citizenship 2012" jointly bestowed by the Corporate Citizenship Committee of the China Association of Social Workers, the CCTV Financial Channel and the Tencent Charity Foundation
6. The charity book project was nominated for the "Outstanding Case for Corporate Social Responsibility (CSR) Award" by China Philanthropy Times
7. The "China CSR Ranking — Outstanding Practice Award" by China Business News
8. Mr. Wong Wai Yee, Peter was named in "The Best CEO of Chinese Listed Companies" by Forbes China in 2012

# Biographical Details of Directors



**Chan Wing Kin,**  
Alfred

**Wong Wai Yee,**  
Peter

**Ho Hon Ming,**  
John

**Kwan Yuk Choi,**  
James

**Mr. Chan Wing Kin, Alfred**, B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc.(Eng), B.Sc.(Eng), aged 62, has been the Chairman and an Executive Director of the Company since 1 March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited and a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. He is a Vice Chairman of China Gas Association. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards — Listed Companies (SEHK — Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

**Mr. Wong Wai Yee, Peter**, C.M.A., A.C.S., A.C.I.S., M.B.A., aged 61, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer — Utilities Business and the Head — Mainland Utilities of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Wong was named as one of “The Best CEO of Chinese Listed Companies” by Forbes China in June 2012. He is a professional accountant and a chartered company secretary. Mr. Wong was formerly a director of Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 36 years of experience in corporate finance, management and international working experience.



**Cheng Mo Chi,**  
Moses

**Li Man Bun,**  
Brian David

**Chow Vee Tsung,**  
Oscar

**Mr. Ho Hon Ming, John**, F.C.A., F.C.P.A., B.A.(Hons.), aged 56, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 34 years of experience in accounting, corporate finance and investment.

**Mr. Kwan Yuk Choi, James**, J.P., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng), aged 61, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013. Mr. Kwan currently acts as a senior adviser to HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) on a part-time basis from 1 February 2013 to 31 January 2015. He is also a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Kwan was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. He is currently a member of Construction Industry Council, a member of the Governing Council of the Hong Kong Quality Assurance Agency, a member of Transport Advisory Committee and a member of the Vocational Training Council of the Hong Kong Special Administrative Region. He was the President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom. Mr. Kwan was also an executive director and the chief operating officer of HKCG prior to his retirement on 1 February 2013.

# Biographical Details of Directors

**Dr. Cheng Mo Chi, Moses**, GBS, OBE, JP, aged 63, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honourary President and Chairman Emeritus. Dr. Cheng serves as a member of the National Committee of the Chinese People's Political Consultative Conference. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Television Network Limited (formerly known as City Telecom (H.K.) Limited), Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. Dr. Cheng is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange. His other directorships in public listed companies in the last 3 years include China COSCO Holdings Company Limited, Hong Kong Exchanges and Clearing Limited and ARA Asset Management (Fortune) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on both the Singapore Stock Exchange and Hong Kong Stock Exchange.

**Mr. Li Man Bun, Brian David**, JP, FCA, MBA, MA (Cantab), aged 38, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is the Deputy Chief Executive of The Bank of East Asia, Limited ("BEA"), responsible for BEA's China and international businesses. Mr. Li is also an independent non-executive director of Hopewell Highway Infrastructure Limited and China Overseas Land & Investment Limited respectively, both are listed

companies on the Hong Kong Stock Exchange. In June 2011, Mr. Li resigned as an independent director of Xinjiang Goldwind Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. Mr. Li serves as a member of the National Committee of the Chinese People's Political Consultative Conference. He is a Fellow of the Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as an MA and BA from the University of Cambridge.

**Mr. Chow Vee Tsung, Oscar**, aged 38, has been an Independent Non-Executive Director since 4 June 2012 and is the member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chow is an executive director of Chevalier International Holdings Limited, a public company listed in Hong Kong. He was educated in Hong Kong, Canada and the United Kingdom and graduated from the University of Oxford, the United Kingdom with a degree in Master of Engineering. In 1997, he returned to Hong Kong to engage in the finance sector and had worked in the corporate finance division of BNP Prime Peregrine and subsequently worked as an Associate Underwriter of Centre Solutions (Asia) Limited, a subsidiary of Zurich Financial Services, before he joined the Chevalier Group in 2000. Mr. Chow is a General Committee Member of the Hong Kong General Chamber of Commerce and a General Committee Member of the Chinese Manufacturers' Association of Hong Kong. He is also a Committee Member of the Shanghai Chinese People's Political Consultative Conference, a Committee Member of the Advisory Council on the Environment, a Member of the SME Development Fund Vetting Committee and a Court Member of The Hong Kong Polytechnic University and The University of Hong Kong. In addition, he is a Court Member and a member of the Council of the Hong Kong University of Science and Technology. His other directorship in public listed company in the last 3 years includes Dingyi Group Investment Limited (formerly known as Chevalier Pacific Holdings Limited). Mr. Chow resigned from Dingyi Group Investment Limited in October 2011.

Notes:

1. The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2012 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.
2. Save as disclosed in the Directors' respective biographical details under "Biographical Details of Directors" section, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.
3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in note 12 to the consolidated financial statements.
4. The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2013 and the Company has on 2 April 2013 entered into a letter of appointment with them for a term of 3 years commencing on 23 May 2013. The term of office of Mr. Chow Vee Tsung, Oscar, an Independent Non-Executive Director elected at the Company's annual general meeting ("AGM") in 2012, shall expire on 3 June 2015 or the conclusion of the AGM in 2015, whichever is earlier. The current term of office of Non-Executive Director, Mr. James Kwan, shall expire at the conclusion of the 2013 AGM. It is proposed to re-elect Mr. Kwan as a Non-Executive Director for a term of 3 years commencing on the date of 2013 AGM. Their respective term of office are subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the provisions of the Company's memorandum and articles of association (the "Articles") in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM.

# Report of the Directors

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

## Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

## Results and Final Dividend

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 59.

The Directors have recommended the payment of a final dividend out of the share premium account of six HK cents per share (2011: five HK cents per share) to shareholders whose names are on the register of members of the Company on 11 June 2013. Subject to approval by shareholders at the AGM to be held on 3 June 2013 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 17 June 2013 and the register of members of the Company will be closed from Friday, 7 June 2013 to Tuesday, 11 June 2013 (both days inclusive), during which period no transfer of shares of the Company will be registered.

## Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 63.

The Company's reserves available for distribution to shareholders at 31 December 2012 amounted to HK\$4,333 million (2011: HK\$4,514 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

## Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2012 is set out on page 4.



## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

## Directors

The Directors during the year and up to the date of this Annual Report were as follows:

### Executive Directors:

Mr. Chan Wing Kin, Alfred (*Chairman*)  
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)  
Mr. Ho Hon Ming, John (*Company Secretary*)  
Ms. Law Wai Fun, Margaret (*Note 1*)

### Non-Executive Director:

Mr. Kwan Yuk Choi, James (*Note 2*)

### Independent Non-Executive Directors:

Dr. Chow Yei Ching (*Note 3*)  
Dr. Cheng Mo Chi, Moses  
Mr. Li Man Bun, Brian David  
Mr. Chow Vee Tsung, Oscar (*Note 4*)

Notes:

1. Ms. Law Wai Fun, Margaret retired on 1 January 2013.
2. Mr. Kwan Yuk Choi, James was re-designated from an Executive Director to a Non-Executive Director on 1 February 2013.
3. Dr. Chow Yei Ching retired at the 2012 AGM on 4 June 2012.
4. Mr. Chow Vee Tsung, Oscar was appointed as an Independent Non-Executive Director at the 2012 AGM on 4 June 2012.

# Report of the Directors

## Directors (Continued)

In accordance with article 95 of the Articles, Mr. Kwan Yuk Choi, James shall retire from the office at the forthcoming AGM and, being eligible, would offer himself for re-election.

In accordance with article 112 of the Articles, Mr. Ho Hon Ming, John, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the Company's AGM in 2012 with effect from 4 June 2012. Other than such family relationship with Dr. Chow Yei Ching, who himself was able to satisfy the Stock Exchange's independence criteria in Rule 3.13 of the Listing Rules, Mr. Chow Vee Tsung, Oscar is not otherwise connected with any other Director, the chief executive of the Company or substantial Shareholder within the two years immediately prior to the date of his appointment on 4 June 2012 as an Independent Non-Executive Director and is able to satisfy all other independence criteria in Rule 3.13 of the Listing Rules. As such, the Company is of the view that the family relationship between Dr. Chow Yei Ching and Mr. Chow Vee Tsung, Oscar would not affect Mr. Chow Vee Tsung, Oscar's independence when performing his duties as an Independent Non-Executive Director of the Company and accordingly considers that Mr. Chow Vee Tsung, Oscar is independent.

Each of the Independent Non-Executive Directors was appointed for a period commencing from his appointment date and is subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The biographical details of the Directors of the Company are set out on pages 26 to 29 of this Annual Report.

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

As at 31 December 2012, the interests or short positions of the Directors and the chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in Shares and underlying Shares

Name of company	Name of Director	Capacity	Interest in shares			Total interest in shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the Company or its associated corporation as at 31.12.2012
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	-	-	-	-	3,618,000	3,618,000	0.15%
	Wong Wai Yee, Peter	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Kwan Yuk Choi, James	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Ho Hon Ming, John	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	165,597	-	-	165,597	-	165,597	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	58,460	66,235	-	124,695	-	124,695	0.00%
	Ho Hon Ming, John	Beneficial owner	25,934	-	-	25,934	-	25,934	0.00%
	Law Wai Fun, Margaret	Beneficial owner	15,811	-	-	15,811	-	15,811	0.00%

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares".

# Report of the Directors

## Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2012 were as follows:

Name of Director	Date of grant	Exercise period	Number of Shares subject to outstanding options as at 01.01.2012	Exercise price HK\$	as at 31.12.2012	
					Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008–27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2009–27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,447,200	3.811	1,447,200	0.06%
Wong Wai Yee, Peter	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%
Kwan Yuk Choi, James	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%
Ho Hon Ming, John	16.03.2007	16.03.2008–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2009–27.11.2015	904,500	3.811	904,500	0.04%
	16.03.2007	16.03.2010–27.11.2015	1,206,000	3.811	1,206,000	0.05%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no option was granted to the Directors and no option held by the Directors had lapsed or was cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2012, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## Share Option Scheme of the Company

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 ("2005 Main Board Scheme"), options may be granted to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

Options granted under 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options may be granted under the 2005 Main Board Scheme is not permitted to exceed 10% of the Shares in issue on the date of approval of the 2005 Main Board Scheme without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one grantee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the total number of Shares in issue.

As at the date of this report, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 16,240,800 (2011: 16,240,800), representing approximately 0.62% (2011: approximately 0.66%) of the issued share capital of the Company as at the date of this report.

Details of specific categories of options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
<b>2005 Main Board Scheme:</b>			
2006 Options	03.10.2006	04.10.2007–27.11.2015	2.796
	03.10.2006	04.04.2008–27.11.2015	2.796
	03.10.2006	04.10.2008–27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008–27.11.2015	3.811
	16.03.2007	16.03.2009–27.11.2015	3.811
	16.03.2007	16.03.2010–27.11.2015	3.811

# Report of the Directors

## Share Option Scheme of the Company (Continued)

The following table discloses movements in the share options during the year:

	Option types	Date of grant	Exercise period	Exercise price (HK\$)	Outstanding at 01.01.2012	Outstanding at 31.12.2012
<b>Category 1:</b>						
<b>Directors</b>						
Chan Wing Kin, Alfred	2007	16.03.2007	16.03.2008–27.11.2015	3.811	1,085,400	1,085,400
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010–27.11.2015	3.811	1,447,200	1,447,200
Wong Wai Yee, Peter	2007	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	904,500
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	1,206,000
Kwan Yuk Choi, James	2007	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	904,500
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	1,206,000
Ho Hon Ming, John	2007	16.03.2007	16.03.2008–27.11.2015	3.811	904,500	904,500
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010–27.11.2015	3.811	1,206,000	1,206,000
<b>Total for Directors</b>					12,663,000	12,663,000
<b>Category 2:</b>						
<b>Employees</b>						
	2006	03.10.2006	04.10.2007–27.11.2015	2.796	301,500	301,500
	Options	03.10.2006	04.04.2008–27.11.2015	2.796	542,700	542,700
		03.10.2006	04.10.2008–27.11.2015	2.796	723,600	723,600
	2007	16.03.2007	16.03.2008–27.11.2015	3.811	603,000	603,000
	Options	16.03.2007	16.03.2009–27.11.2015	3.811	603,000	603,000
		16.03.2007	16.03.2010–27.11.2015	3.811	804,000	804,000
<b>Total for Employees</b>					3,577,800	3,577,800
<b>All categories</b>					16,240,800	16,240,800

## Share Option Scheme of the Company (Continued)

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no share option was exercised, cancelled or had lapsed.
3. During the year, no new option was granted.

## Arrangements to Purchase Shares or Debentures

Other than the share option scheme disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' Interests in Contracts of Significance

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

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

1. Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG;
2. Mr. Wong Wai Yee, Peter, an Executive Director of the Company, has been appointed as an executive director of HKCG with effect from 1 February 2013; and
3. Mr. Kwan Yuk Choi, James, a Non-Executive Director of the Company, was an executive director of HKCG until his retirement on 1 February 2013.

HKCG and its subsidiaries (excluding the Group) ("HKCG Group") are principally engaged in the production, distribution and marketing of gas, water and energy related activities in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

# Report of the Directors

## Substantial Shareholders

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or the chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

### Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2012
Lee Chau Kee	Interest of controlled corporations	1,628,172,901 (Note 1)	66.18%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 (Note 2)	66.18%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 (Note 2)	66.18%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 (Note 2)	66.18%
HKCG	Interest of controlled corporations	1,628,172,901 (Note 3)	66.18%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 (Note 3)	64.43%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,585,202,901 (Note 3)	64.43%
Ou Yaping	Interest of controlled corporations	195,487,245 (Note 4)	7.95%



## Substantial Shareholders (Continued)

### Long positions in Shares and underlying Shares in the Company (Continued)

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2012
Asia Pacific Promotion Limited ("Asia Pacific")	Interest of controlled corporations	195,487,245 (Note 4)	7.95%
Enerchina Holdings Limited ("Enerchina")	Interest of controlled corporations	195,487,245 (Note 4)	7.95%
Supreme All Investments Limited ("Supreme All")	Beneficial owner	186,440,677 (Note 4)	7.58%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	144,438,900 (Note 5)	5.87%

Notes:

- The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,628,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
- Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,628,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
- As HK&CG (China) was a wholly-owned subsidiary of TIDL, which in turn was a wholly-owned subsidiary of HKCG, each of TIDL and HKCG was therefore taken to be interested in the 1,585,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
- Enerchina is interested in the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All. As Asia Pacific was entitled to exercise or control more than one-third of the voting power at general meetings of Enerchina, the 9,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively, by virtue of Part XV of the SFO, duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by, Kenson, Supreme All, Enerchina and Asia Pacific.
- Commonwealth Bank was taken to be interested in these 144,438,900 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2012, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

# Report of the Directors

## Short Positions in Shares and Underlying Shares in the Company

As at 31 December 2012, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

## Other Persons

As at 31 December 2012, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

## Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2012 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and note 35 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions

On 12 May 2010, the Company and HKCG entered into three master agreements respectively, namely

- (1) an agreement (the "Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the "Gas Purchase Transactions");
- (2) an agreement (the "Pipeline Materials Purchase Master Agreement") relating to the purchase of various pipeline construction materials and tools by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"); and
- (3) an agreement (the "Gas Sales Master Agreement", and together with the Gas Purchase Master Agreement and the Pipeline Materials Purchase Master Agreement collectively referred to as the "2010 CCT Master Agreements") relating to the sale of various types of fuel gas (including but not limited to piped natural gas, compressed natural gas and liquefied natural gas) by members of the Group to the HKCG Group (the "Gas Sales Transactions")

each for a term commencing from 12 May 2010 to 30 April 2013. Particulars of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions were disclosed in the announcement of the Company dated 12 May 2010.

## Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions (Continued)

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2010 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions are subject to annual cap amounts of RMB61,400,000 (approximately HK\$75,523,000), RMB27,000,000 (approximately HK\$33,210,000) and RMB41,000,000 (approximately HK\$50,431,000) respectively for the year ended 31 December 2012. The respective amounts of the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the year ended 31 December 2012 was RMB43,119,000 (approximately HK\$53,037,000), RMB5,259,000 (approximately HK\$6,469,000) and RMB333,000 (approximately HK\$410,000), which have not exceeded the annual cap amounts as stated above.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Gas Purchase Transactions, Pipeline Materials Purchase Transactions and Gas Sales Transactions for the year ended 31 December 2012 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

## Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions

On 19 December 2011, the Company entered into master agreements with three subsidiaries of HKCG respectively, namely

- (1) an agreement (the "Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 (Shenyang Sanquan Project Management Consulting Co., Ltd.), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");
- (2) an agreement (the "Master System Software and Supporting Services Agreement") relating to the user authorization, installation, management and maintenance and the provision of technical supporting services in respect of system software developed by 港華科技(武漢)有限公司 (Hongkong and China Technology (Wuhan) Company Limited) ("HKCG (Wuhan)"), including but not limited to the Towngas Customer Information System, the Towngas Customer Services Centre Hotline System and the Production Operating Management System by HKCG (Wuhan), a non wholly-owned subsidiary of HKCG, to members of the Group (the "System Software and Supporting Services Transactions"); and

# Report of the Directors

## Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions (Continued)

- (3) an agreement (the “Master Cloud Computing System and Supporting Services Agreement”, and together with the Master Project Management Agreement and the Master System Software and Supporting Services Agreement collectively referred to as the “2011 CCT Master Agreements”) relating to the user authorization, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems, including but not limited to, Towngas Customer Information System by 名氣通智能科技(深圳)有限公司 (Towngas Telecommunications (Shenzhen) Limited), a wholly-owned subsidiary of HKCG, to members of the Group (the “Cloud Computing System and Supporting Services Transactions”)

each for a term commencing from 19 December 2011 to 30 September 2014. Particulars of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions were disclosed in the announcement of the Company dated 19 December 2011.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2011 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions are subject to annual cap amounts of RMB8,500,000 (approximately HK\$10,455,000), RMB17,000,000 (approximately HK\$20,910,000) and RMB6,200,000 (approximately HK\$7,626,000) respectively for the year ended 31 December 2012. The respective amounts of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2012 was RMB2,866,000 (approximately HK\$3,525,000), RMB3,080,000 (approximately HK\$3,788,000) and RMB4,177,000 (approximately HK\$5,138,000), which have not exceeded the annual cap amounts as stated above.

The Board including the Independent Non-Executive Directors have reviewed and confirmed that the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2012 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

## Related Party Transactions

Details of the related party transactions undertaken in normal course of business are set out in note 35 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have complied with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

## Borrowings

Particulars of borrowings of the Group as at 31 December 2012 are set out in note 29 to the consolidated financial statements.

## Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$454,000.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report and during the year, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 37.86% of the Group's operating cost for the year. Purchases from the largest supplier accounted for about 13.65% of the Group's operating costs. None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had an interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30% during the year.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

# Report of the Directors

## Emolument Policy

As at 31 December 2012, the Group had 18,724 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company for the Board's approval, having regard to the Group's operating results, individual performance and comparable market statistics. No Director or executive, nor any of his/her associates, is involved in deciding his/her own remuneration.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, and details of the scheme are set out in note 38 to the consolidated financial statements and under the heading "Share Option Scheme of the Company" in this Annual Report.

## Corporate Governance

The Company had complied with the code provisions as set out in the Code on Corporate Governance Practices (prior to 1 April 2012) and the Corporate Governance Code (since 1 April 2012) contained in Appendix 14 to the Listing Rules during the year ended 31 December 2012, except that one of the Independent Non-Executive Directors was unable to attend the AGM held on 4 June 2012 due to other engagement overseas.

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on pages 45 to 56 in this Annual Report.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

**Ho Hon Ming, John**

*Executive Director and Company Secretary*

Hong Kong, 15 March 2013

# Corporate Governance Report

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

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

## Corporate Governance Practices

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Former Code") which was subsequently revised as the Corporate Governance Code (the "New Code", and together with the Former Code referred to as the "Code") on 1 April 2012, each as contained in Appendix 14 to the Listing Rules from time to time, as its own code on corporate governance practices since 2005.

The Company has complied with the code provisions as set out in the Former Code during the period from 1 January 2012 to 31 March 2012 and the New Code from 1 April 2012 to 31 December 2012, except that one of the Independent Non-Executive Directors was unable to attend the AGM held on 4 June 2012 due to other engagement overseas.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

## Board of Directors

### Board Composition

As at the date of this Annual Report, the Board comprises seven members as detailed below:

#### **Executive Directors:**

Mr. Chan Wing Kin, Alfred (*Chairman*)  
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)  
Mr. Ho Hon Ming, John (*Company Secretary*)

#### **Non-Executive Director:**

Mr. Kwan Yuk Choi, James

#### **Independent Non-Executive Directors:**

Dr. Cheng Mo Chi, Moses  
Mr. Li Man Bun, Brian David  
Mr. Chow Vee Tsung, Oscar

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. Directors give sufficient time and attention to the Group's affairs. The Company also requests the Directors to disclose to the Company semi-annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of time involved. The Board believes that the balance of skills and experience are appropriate for safeguarding the interests of shareholders and the Group.

# Corporate Governance Report

## Board of Directors (Continued)

### Board Composition (Continued)

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for Directors and officers of the Company. This insurance coverage is reviewed on an annual basis.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the Company's AGM in 2012 with effect from 4 June 2012. Other than such family relationship with Dr. Chow Yei Ching, who himself was able to satisfy the Stock Exchange's independence criteria in Rule 3.13 of the Listing Rules, Mr. Chow Vee Tsung, Oscar is not otherwise connected with any other Director, the chief executive of the Company or substantial Shareholder within the two years immediately prior to the date of his appointment on 4 June 2012 as an Independent Non-Executive Director and is able to satisfy all other independence criteria in Rule 3.13 of the Listing Rules. As such, the Company is of the view that the family relationship between Dr. Chow Yei Ching and Mr. Chow Vee Tsung, Oscar would not affect Mr. Chow Vee Tsung, Oscar's independence when performing his duties as an Independent Non-Executive Director of the Company and accordingly considers that Mr. Chow Vee Tsung, Oscar is independent.

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between any members of the Board, save that Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the AGM in 2012 on 4 June 2012, and in particular, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Chairman and the Chief Executive Officer.

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

During the year ended 31 December 2012, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of Independent Non-Executive Directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules.

The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2013 and the Company has on 2 April 2013 entered into a letter of appointment with them for a term of 3 years commencing on 23 May 2013. The term of office of Mr. Chow Vee Tsung, Oscar, an Independent Non-Executive Director elected at the AGM in 2012, shall expire on 3 June 2015 or the conclusion of the AGM in 2015, whichever is earlier. The current term of office of Non-Executive Director, Mr. James Kwan, shall expire at the conclusion of the AGM in 2013. It is proposed to re-elect Mr. James Kwan, as a Non-Executive Director for a term of 3 years commencing on the date of Company's AGM in 2013. Their respective term of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.



## Board of Directors (Continued)

### Functions of the Board

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

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

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

Specific matters are decided by the Board and those reserved for management are reviewed by the Board.

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

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

### Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

- (a) developing and reviewing the Company's policies and practices on corporate governance;
- (b) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) reviewing the Company's compliance with Appendix 14 to the Listing Rules.

During the year under review, the Board approved the terms of reference of the Board (with respect to corporate governance duties) and the Nomination Committee, the revised terms of reference of the Audit Committee and the Remuneration Committee and the Shareholders Communication Policy.

# Corporate Governance Report

## Board of Directors (Continued)

### Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company Secretary updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

According to the records maintained by the Company, the Directors received the following training during the period from 1 April 2012 to 31 December 2012:

	<b>Type of Trainings</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	A, B
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	A, B
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	A, B
Ms. Law Wai Fun, Margaret	A, B
<b>Non-Executive Director</b>	
Mr. Kwan Yuk Choi, James	A, B
<b>Independent Non-Executive Directors</b>	
Dr. Chow Yei Ching ( <i>Note 1</i> )	B
Dr. Cheng Mo Chi, Moses	A, B
Mr. Li Man Bun, Brian David	A, B
Mr. Chow Vee Tsung, Oscar ( <i>Note 2</i> )	A, B

A: attending seminars and/or conference and/or forums or giving talks at seminar

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.

Notes:

1. Dr. Chow Yei Ching retired as an Independent Non-Executive Director of the Company with effect from 4 June 2012.
2. Mr. Chow Vee Tsung, Oscar was appointed as an Independent Non-Executive Director of the Company with effect from 4 June 2012.

## Board of Directors (Continued)

### Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2012 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the Code. Details of individual attendance of each of the Directors are set out below:

	<b>Attendance/Number of Meetings</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	4/4
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	4/4
Mr. Kwan Yuk Choi, James ( <i>Note 1</i> )	4/4
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	4/4
Ms. Law Wai Fun, Margaret ( <i>Note 1</i> )	4/4
<b>Independent Non-Executive Directors</b>	
Dr. Chow Yei Ching ( <i>Note 2</i> )	2/2
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4
Mr. Chow Vee Tsung, Oscar ( <i>Note 2</i> )	2/2

#### Notes:

1. Mr. Kwan Yuk Choi, James was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013 while Ms. Law Wai Fun, Margaret retired as an Executive Director with effect from 1 January 2013.
2. Dr. Chow Yei Ching retired as an Independent Non-Executive Director at the AGM held on 4 June 2012 while Mr. Chow Vee Tsung, Oscar was elected as an Independent Non-Executive Director on 4 June 2012. Two Board meetings were held during their terms of office respectively.

### Chairman and Chief Executive Officer

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

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

# Corporate Governance Report

## Board of Directors (Continued)

### Responsibilities of the Directors

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

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

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

## Board Committees

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

### Remuneration Committee

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

Written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Remuneration Committee's responsibilities include but not limited to the review and consideration of the Company's remuneration policy for Directors and senior management, the recommendations to the Board on the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remunerations of Non-Executive Directors.

## Board Committees (Continued)

### Remuneration Committee (Continued)

During the year ended 31 December 2012, the Remuneration Committee:

- reviewed the remunerations of the senior management for 2012;
- reviewed the Executive Directors' remuneration;
- reviewed the Directors' fees for 2012; and
- reviewed the amendments to its Terms of Reference.

The Remuneration Committee held two meetings during the year ended 31 December 2012 with individual attendance as follow:

<b>Members of the Remuneration Committee</b>	<b>Attendance/Number of Meetings</b>
Dr. Chow Yei Ching (retired at the AGM on 4 June 2012)	1/1
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar (elected at the AGM on 4 June 2012)	1/1
Mr. Chan Wing Kin, Alfred	2/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and also contribution to the Group.

### Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Cheng Mo Chi, Moses and Mr. Chow Vee Tsung, Oscar, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Li Man Bun, Brian David.

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

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

# Corporate Governance Report

## Board Committees (Continued)

### Audit Committee (Continued)

During the year ended 31 December 2012, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2011 and for the six months ended 30 June 2012;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings;
- reviewed the amendments to its Terms of Reference;
- recommended amendments to the Policy on the Engagement of External Auditor to Supply Non-audit Services and Relevant Procedures; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2011 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2012 with individual attendance as follow:

Members of the Audit Committee	Attendance/Number of Meetings
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching (retired at the AGM on 4 June 2012)	1/1
Dr. Cheng Mo Chi, Moses	2/2
Mr. Chow Vee Tsung, Oscar (elected at the AGM on 4 June 2012)	1/1

### Nomination Committee

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

The Nomination Committee was established in November 2011 and written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Nomination Committee's responsibilities include but not limited to formulating policy and making recommendation to the Board on nominations and appointments of Directors and Board succession. The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board, assessing independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board.

## Board Committees (Continued)

### Nomination Committee (Continued)

During the year ended 31 December 2012, the Nomination Committee:

- recommended the adoption of its Terms of Reference;
- recommended the nomination of retiring Directors for re-election at the 2012 AGM;
- reviewed the retirement of an Independent Non-Executive Director and the appointment of an Independent Non-Executive Director ;
- reviewed the independence of Independent Non-Executive Directors;
- reviewed the structure, size and composition of the Board; and
- reviewed the retirement of an Executive Director and recommended the appointment of a Non-Executive Director.

The Nomination Committee held two meetings during the year ended 31 December 2012 with individual attendance as follow:

Members of the Nomination Committee	Attendance/Number of Meetings
Mr. Chan Wing Kin, Alfred	2/2
Dr. Chow Yei Ching (retired at the AGM on 4 June 2012)	1/1
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar (elected at the AGM on 4 June 2012)	1/1

## Model Code for Securities Transactions by Directors

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2012, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2012.

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

## External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2012. Deloitte also reviewed the 2012 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

# Corporate Governance Report

## External Auditor (Continued)

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2012 amounted to HK\$5.85 million.

Non-audit service fees charged by Deloitte during 2012 are as follows:

Description of non-audit services performed	HK\$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2012	550,000
(2) Tax review	37,000
(3) Annual review on continuing connected transactions for the year ended 31 December 2012	60,000
Total	647,000

## Directors' and Auditor's Responsibility in Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 57 to 58 of this Annual Report.

## Going Concern Basis in Preparing Financial Statements

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

## Effectiveness of Internal Control System

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

In respect of the year ended 31 December 2012, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct non-compliances, if any.



## Amendment of the Company's Constitutional Documents

The authorised share capital of the Company has been increased from HK\$300,000,000.00 divided into 3,000,000,000 shares of HK\$0.1 each to HK\$500,000,000.00 divided into 5,000,000,000 shares of HK\$0.1 each with the ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 4 June 2012. Save as aforesaid, there have been no changes to the Company's constitutional documents during the year.

## Company Secretary

The Company Secretary of the Company is Mr. Ho Hon Ming, John. For the year under review, the Company Secretary has taken no less than 15 hours of relevant professional training.

## Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communication with the shareholders are timely and accurate.

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

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

At the 2012 AGM held on 4 June 2012, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representative from external auditor attended the 2012 AGM to answer questions from the Company's shareholders.

The notice of the AGM is distributed to all shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

# Corporate Governance Report

## Communication with Shareholders (Continued)

Details of individual attendance of each of the Directors are set out below:

	<b>Attendance/Number of Meetings</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	1/1
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	1/1
Mr. Kwan Yuk Choi, James ( <i>Note 1</i> )	1/1
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	1/1
Ms. Law Wai Fun, Margaret ( <i>Note 1</i> )	1/1
<b>Independent Non-Executive Directors</b>	
Dr. Chow Yei Ching ( <i>Note 2</i> )	1/1
Dr. Cheng Mo Chi, Moses ( <i>Note 3</i> )	0/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar ( <i>Note 2</i> )	0/0

Notes:

1. Mr. Kwan Yuk Choi, James was re-designated as Non-Executive Director of the Company with effect from 1 February 2013 while Ms. Law Wai Fun, Margaret retired as an Executive Director with effect from 1 January 2013.
2. Dr. Chow Yei Ching retired as an Independent Non-Executive Director at the AGM held on 4 June 2012 while Mr. Chow Vee Tsung, Oscar was elected as an Independent Non-Executive Director on 4 June 2012.
3. Dr. Cheng Mo Chi, Moses was unable to attend the AGM held on 4 June 2012 due to other engagement overseas.

## Shareholders' Rights

### Convening a Extraordinary General Meeting by Shareholders and putting forward proposals

Under the Articles, an extraordinary general meetings ("EGM") may be convened by the Board upon requisition by any two or more shareholders, or any one shareholder which is a recognized clearing house (or its nominee), of the Company holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at any general meetings. The shareholders shall make a written requisition to the Board or the Company Secretary of the Company at the head office of the Company, specifying the shareholding information of the shareholders, their contact details and the proposal regarding any specifying transaction/business and its supporting documents.

If within 21 days of receipt of such written requisition, the Board do not proceed to convene such EGM to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board, provided that any meeting so convened shall not be held after the expiration of three months form the date of deposit of the requisition.

### Making Enquiries to the Board

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her contact details, such as postal address or fax, addressing to the head office of the Company at 23rd Floor, 363 Java Road, North Point, Hong Kong or facsimile number (852) 2561 6618.

# Independent Auditor's Report

**Deloitte.**  
**德勤**

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

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

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 156, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 Group's preparation of the 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

# 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 31 December 2012 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

15 March 2013

# Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Turnover	7	<b>5,183,466</b>	4,321,344
Operating profit before returns on investments	8	<b>743,656</b>	586,390
Other gains, net	9	<b>159,872</b>	195,421
Share of results of associates		<b>245,040</b>	194,522
Share of results of jointly controlled entities		<b>235,125</b>	199,088
Finance costs	10	<b>(148,145)</b>	(141,885)
Profit before taxation	11	<b>1,235,548</b>	1,033,536
Taxation	13	<b>(299,393)</b>	(256,943)
Profit for the year		<b>936,155</b>	776,593
Profit for the year attributable to:			
Shareholders of the Company		<b>840,798</b>	708,754
Non-controlling interests		<b>95,357</b>	67,839
		<b>936,155</b>	776,593
Proposed final dividend of six HK cents (2011: five HK cents) per ordinary share	14	<b>156,621</b>	123,017
Earnings per share	15	<b>HK cents</b>	HK cents
— Basic		<b>34.17</b>	28.84
— Diluted		<b>34.10</b>	28.82

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Profit for the year	<b>936,155</b>	776,593
Other comprehensive income		
Exchange differences arising on translation to presentation currency	<b>157,690</b>	405,977
Fair value change on cash flow hedge	<b>(6,299)</b>	(12,693)
	<b>151,391</b>	393,284
Total comprehensive income for the year	<b>1,087,546</b>	1,169,877
Total comprehensive income attributable to:		
Shareholders of the Company	<b>989,419</b>	1,077,949
Non-controlling interests	<b>98,127</b>	91,928
Total comprehensive income for the year	<b>1,087,546</b>	1,169,877

# Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	<b>7,652,265</b>	6,127,967
Leasehold land	17	<b>304,619</b>	296,226
Intangible assets	18	<b>177,089</b>	182,910
Goodwill	19	<b>4,284,965</b>	3,848,101
Interests in associates	20	<b>2,525,529</b>	2,243,599
Interests in jointly controlled entities	21	<b>1,546,131</b>	1,481,514
Loans to jointly controlled entities	21	<b>91,706</b>	131,532
Available-for-sale investments	22	<b>170,016</b>	169,893
Deferred consideration receivable	23	<b>156,724</b>	203,682
		<b>16,909,044</b>	14,685,424
<b>Current assets</b>			
Inventories	24	<b>394,596</b>	387,702
Leasehold land	17	<b>9,961</b>	9,786
Loans to associates	20	<b>33,582</b>	30,826
Loans to jointly controlled entities	21	<b>139,757</b>	140,127
Trade and other receivables, deposits and prepayments	25	<b>1,056,809</b>	852,188
Amounts due from minority shareholders	26	<b>6,358</b>	6,267
Other financial asset	27	<b>6,391</b>	–
Time deposits over three months	25	<b>219,302</b>	148,583
Bank balances and cash	25	<b>2,479,484</b>	1,922,503
		<b>4,346,240</b>	3,497,982
<b>Current liabilities</b>			
Trade and other payables and accrued charges	28	<b>2,998,265</b>	2,262,579
Amounts due to minority shareholders	26	<b>193,504</b>	194,894
Taxation		<b>435,654</b>	320,622
Borrowings — amount due within one year	29	<b>1,946,359</b>	1,512,629
		<b>5,573,782</b>	4,290,724
Net current liabilities		<b>(1,227,542)</b>	(792,742)
Total assets less current liabilities		<b>15,681,502</b>	13,892,682

# Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Non-current liabilities</b>			
Loans from the ultimate holding company	30	<b>993,750</b>	471,790
Borrowings — amount due after one year	29	<b>3,145,493</b>	2,902,121
Deferred taxation	31	<b>236,306</b>	205,900
Other financial liabilities	27	<b>18,992</b>	13,616
		<b>4,394,541</b>	3,593,427
<b>Net assets</b>			
		<b>11,286,961</b>	10,299,255
<b>Capital and reserves</b>			
Share capital	32	<b>246,035</b>	246,035
Reserves		<b>10,235,681</b>	9,369,279
<b>Equity attributable to shareholders of the Company</b>			
		<b>10,481,716</b>	9,615,314
Non-controlling interests		<b>805,245</b>	683,941
<b>Total equity</b>			
		<b>11,286,961</b>	10,299,255

The consolidated financial statements on pages 59 to 156 were approved and authorised for issue by the Board of Directors (“the Board”) on 15 March 2013 and are signed on its behalf by:

**Chan Wing Kin, Alfred**  
DIRECTOR

**Li Man Bun, Brian David**  
DIRECTOR



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note 33)	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011	244,879	5,803,719	938,605	41,126	–	71,709	1,463,399	8,563,437	571,690	9,135,127
Exchange differences arising on translation to presentation currency	–	–	381,888	–	–	–	–	381,888	24,089	405,977
Fair value change on cash flow hedge	–	–	–	–	(12,693)	–	–	(12,693)	–	(12,693)
Profit for the year	–	–	–	–	–	–	708,754	708,754	67,839	776,593
Total comprehensive income for the year	–	–	381,888	–	(12,693)	–	708,754	1,077,949	91,928	1,169,877
Issue of shares upon exercise of share options	1,156	56,204	–	(17,105)	–	–	–	40,255	–	40,255
Transfer	–	–	–	–	–	18,393	(18,393)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	13,916	13,916
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	7,483	7,483	(16,661)	(9,178)
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	46,468	46,468
Dividends paid to shareholders of the Company	–	(73,810)	–	–	–	–	–	(73,810)	–	(73,810)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(23,400)	(23,400)
	1,156	(17,606)	–	(17,105)	–	18,393	(10,910)	(26,072)	20,323	(5,749)
At 31 December 2011 and 1 January 2012	246,035	5,786,113	1,320,493	24,021	(12,693)	90,102	2,161,243	9,615,314	683,941	10,299,255
Exchange differences arising on translation to presentation currency	–	–	154,920	–	–	–	–	154,920	2,770	157,690
Fair value change on cash flow hedge	–	–	–	–	(6,299)	–	–	(6,299)	–	(6,299)
Profit for the year	–	–	–	–	–	–	840,798	840,798	95,357	936,155
Total comprehensive income for the year	–	–	154,920	–	(6,299)	–	840,798	989,419	98,127	1,087,546
Transfer	–	–	–	–	–	4,909	(4,909)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	2,842	2,842
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	44,550	44,550
Dividends paid to shareholders of the Company	–	(123,017)	–	–	–	–	–	(123,017)	–	(123,017)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(24,215)	(24,215)
	–	(123,017)	–	–	–	4,909	(4,909)	(123,017)	23,177	(99,840)
At 31 December 2012	246,035	5,663,096	1,475,413	24,021	(18,992)	95,011	2,997,132	10,481,716	805,245	11,286,961

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	<b>1,235,548</b>	1,033,536
Adjustments for:		
Interest income	<b>(22,804)</b>	(18,486)
Imputed interest on loans to jointly controlled entities and deferred consideration receivable	<b>(15,569)</b>	(15,791)
Interest expenses	<b>145,475</b>	139,748
Share of results of associates	<b>(245,040)</b>	(194,522)
Share of results of jointly controlled entities	<b>(235,125)</b>	(199,088)
Dividends from available-for-sale investments	<b>(43,120)</b>	(34,791)
Amortisation of leasehold land	<b>9,847</b>	9,866
Amortisation of intangible assets	<b>7,291</b>	7,147
Depreciation of property, plant and equipment	<b>268,506</b>	229,741
(Gain) loss on disposal of property, plant and equipment	<b>(993)</b>	11,853
Loss on disposal of leasehold land	<b>128</b>	–
(Gain) loss on fair value change of derivative financial instrument	<b>(7,314)</b>	923
Allowance for doubtful debts	<b>11,979</b>	16,037
Operating cash flows before movements in working capital	<b>1,108,809</b>	986,173
Decrease (increase) in inventories	<b>3,459</b>	(215,936)
Increase in trade receivables	<b>(78,062)</b>	(122,177)
Increase in other receivables, deposits and prepayments	<b>(87,598)</b>	(105,638)
Increase in trade payables	<b>69,649</b>	119,717
Increase in other payables and accrued charges	<b>372,834</b>	239,737
(Decrease) increase in amounts due to minority shareholders	<b>(4,091)</b>	4,552
Cash generated from operations	<b>1,385,000</b>	906,428
Interest paid	<b>(145,475)</b>	(139,748)
Taxation paid	<b>(164,701)</b>	(138,437)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>1,074,824</b>	628,243

	Note	2012 HK\$'000	2011 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(1,610,422)</b>	(894,298)
Acquisition of businesses/subsidiaries (net of cash and cash equivalents acquired)	34	<b>(177,689)</b>	(171,375)
Payment of deferred consideration for acquisition of subsidiaries acquired in prior period		<b>(152,833)</b>	(13,021)
Capital injection to an associate		<b>(73,594)</b>	(29,593)
(Increase) decrease in time deposits over three months		<b>(70,719)</b>	36,544
Purchase of leasehold land		<b>(14,122)</b>	(18,549)
Loans to an associate		<b>(2,487)</b>	(30,826)
Dividends received from jointly controlled entities		<b>183,332</b>	–
Dividends received from an associate		<b>74,047</b>	30,714
Repayment of loans from jointly controlled entities		<b>51,453</b>	17,689
Dividends from available-for-sale investments		<b>43,120</b>	34,791
Deferred consideration received		<b>40,000</b>	40,000
Proceeds from disposal of property, plant and equipment		<b>24,038</b>	18,540
Interest received		<b>22,804</b>	18,486
Proceeds from disposal of leasehold land		<b>12,169</b>	–
Loans to jointly controlled entities		–	(69,843)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(1,650,903)</b>	(1,030,741)
<b>FINANCING ACTIVITIES</b>			
Repayments of bank and other loans		<b>(2,688,693)</b>	(1,991,322)
Dividends paid to shareholders of the Company		<b>(123,017)</b>	(73,810)
Dividends paid to minority shareholders of subsidiaries		<b>(24,215)</b>	(23,400)
New bank and other loans raised		<b>3,358,338</b>	4,155,015
New loans from the ultimate holding company		<b>522,385</b>	–
Capital contribution from minority shareholders of subsidiaries		<b>44,550</b>	46,468
Acquisition of additional interest in subsidiaries		–	(9,178)
Issue of shares upon exercise of share options		–	40,255
Redemption of senior notes		–	(1,119,469)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>1,089,348</b>	1,024,559
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>513,269</b>	622,061
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>1,922,503</b>	1,248,814
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>43,712</b>	51,628
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH</b>		<b>2,479,484</b>	1,922,503

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 1. General and Basis of Preparation

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company ("Directors"), the Group's parent holding company and the ultimate controlling shareholder is The Hong Kong and China Gas Company Limited ("HKCG"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the Annual Report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, and the sale of gas household appliances.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$1,228 million as at 31 December 2012. The Group's liabilities as at 31 December 2012 included borrowings of approximately HK\$1,946 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had un-utilised facilities (the "Facilities") amounting to approximately HK\$1,670 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK\$1,928 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

In addition, on 10 January 2013, the Company entered into an agreement with two placing agents whereby the Company agreed to place, through the placing agents, 150,000,000 new shares of the Company to no less than six placees at a price of HK\$6.31 per placing share ("Placement") with a net proceeds of approximately HK\$930 million. The Placement was completed on 16 January 2013 (see note 41).

Taking into account of the internally generated funds, the available Facilities and the net proceeds from the Placement, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied the following new and revised HKFRSs and Hong Kong Accounting Standards (“HKAS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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. Hence, available-for-sale equity investments which are currently stated at costs less impairment will need to be measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in equity.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability to be 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 liability’s 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 1 January 2015, with earlier application permitted.

The Directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group’s financial assets. Regarding the Group’s financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

### New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and HK(SIC)-INT 12 “Consolidation — Special purpose entities” will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 “Interests in joint ventures”. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-INT 13 “Jointly controlled entities — Non-monetary contributions by venturers” will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The Directors anticipate that these five standards will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards, may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group’s investment in associates or jointly controlled entities may become the Group’s subsidiaries based on the new definition of control and the related guidance in HKFRS 10). While the application of HKFRS 11 may result in the change in classification of the Group’s jointly controlled entities depending on the rights and obligations of the parties to the joint arrangements. The directors are currently assessing the impact on the adoption of these standards and are yet to quantify the impact.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

### 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 additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are 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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at fair value, and 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.

### 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 income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Basis of consolidation (Continued)

##### 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.

##### 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 recognised 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.

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

### 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 relevant cash-generating units (or groups of 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 before 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 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 years.

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.

### 3. Significant Accounting Policies (Continued)

#### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associates, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Investments in associates (Continued)

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### Joint ventures

#### Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### 3. Significant Accounting Policies (Continued)

#### Joint ventures (Continued)

##### Jointly controlled entities (Continued)

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

#### Revenue recognition

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

Revenue from gas connection, which relates to contracts for construction of gas connection facilities, is recognised based on the percentage of completion method, measured by reference to the value of work carried out during the year, when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used by the customers.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Revenue recognition (Continued)

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less accumulated depreciation, and any impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Buildings	15–30 years
Gas pipelines	25–40 years
Plant and equipment and others	5–15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### 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 "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### 3. Significant Accounting Policies (Continued)

#### Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to appropriate categories of property, plant and equipment.

#### Intangible assets

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

##### Exclusive operating rights for city pipeline network

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

The estimated useful life and amortisation method of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probably recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenues, the expected loss is recognised as an expense immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, 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.

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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Financial instruments

Financial assets and financial liabilities are recognised 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### Financial assets

The Group's financial assets are mainly classified into one of the two categories, 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.



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

###### *Effective interest method*

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

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

###### *Loans and receivables*

Loans and receivables (including deferred consideration receivable, trade receivables, other receivables, amounts due from minority shareholders, loans to associates, loans to jointly controlled entities, time deposits over three months and bank balances) 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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

###### *Available-for-sale financial assets*

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (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 the 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 all other 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 or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

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.

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

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

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

#### Financial liabilities and equity

Financial liabilities 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 entered into and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

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.

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial liabilities and equity (Continued)

###### *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.

###### *Bank and other borrowings and guaranteed senior notes*

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

###### *Other financial liabilities*

Other financial liabilities including trade payables, other payables, amounts due to minority shareholders and loan from the ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

###### *Derivative financial instruments and hedging*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

###### *Hedge accounting*

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges) or hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity (Continued)

##### Cash flow hedges

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

##### 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.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

### 3. Significant Accounting Policies (Continued)

#### Share-based payment transactions

##### Equity-settled share-based payment transactions

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

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

#### Taxation

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 3. Significant Accounting Policies (Continued)

### Taxation (Continued)

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When 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.

### Leasing

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

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on 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.

### 3. Significant Accounting Policies (Continued)

#### Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses 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 the exchange reserve (attributed to non-controlling interests as appropriate).

#### 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.

#### Retirement benefits costs

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered service entitling them to the contributions.

### 4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill is HK\$4,284,965,000 (2011: HK\$3,848,101,000). Details of the recoverable amount calculation are disclosed in note 19.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 4. Key Sources of Estimation Uncertainty (Continued)

### Income taxes

As at 31 December 2012, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK\$137,811,000 (2011: HK\$64,180,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2012, the carrying amount of trade receivables is HK\$412,371,000 (2011: HK\$314,965,000).

## 5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes borrowings and loans from the ultimate holding company disclosed in notes 29 and 30, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% determined as the proportion of net debt excluding loans from the ultimate holding company ("ND") to equity plus ND (the "Gearing Ratio").



## 5. Capital Risk Management (Continued)

The Gearing Ratio at the reporting date was as follows:

	2012 HK\$'000	2011 HK\$'000
Debt <sup>(i)</sup>	<b>6,085,602</b>	4,886,540
Time deposits over three months	<b>(219,302)</b>	(148,583)
Bank balances and cash	<b>(2,479,484)</b>	(1,922,503)
Net debt	<b>3,386,816</b>	2,815,454
Equity <sup>(ii)</sup>	<b>10,481,716</b>	9,615,314
Net debt to equity ratio	<b>32.3%</b>	29.3%
Gearing Ratio <sup>(iii)</sup>	<b>18.6%</b>	19.6%

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

(ii) Equity includes all capital and reserves of the Group excluding non-controlling interest.

(iii) Being the proportion of ND of HK\$2,393,066,000 (2011: HK\$2,343,664,000) to equity plus ND of HK\$12,874,782,000 (2011: HK\$11,958,978,000).

## 6. Financial Instruments

### Category of financial instruments

	2012 HK\$'000	2011 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalent)	<b>3,578,605</b>	2,937,806
Derivative financial instruments	<b>6,391</b>	–
Available-for-sale investments	<b>170,016</b>	169,893
<b>Financial liabilities</b>		
Amortised cost	<b>7,208,759</b>	5,693,907
Derivative financial instruments	<b>18,992</b>	13,616

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity investments, deferred consideration receivable, loans to jointly controlled entities, loans to associates, trade and other receivables, amounts due from minority shareholders, other financial asset, time deposits, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables, other financial liabilities and loans from the ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Currency risk

Certain bank balances, loan to jointly controlled entities, bank and other borrowings and loans from the ultimate holding company are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances and loans from the ultimate holding company, denominated in United States Dollar ("USD") and HKD at the end of the reporting period are set out in notes 25, 29 and 30.

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

### Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2011: 3%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 3% (2011: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and loan from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit for the year where RMB strengthen 3% (2011: 3%) against USD and HKD. For a 3% (2011: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2012 HK\$'000	2011 HK\$'000
Profit for the year	143,369	101,594

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to jointly controlled entities and loans to associates. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and the loans from the ultimate holding company and pay-fixed interest rate swap. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The critical terms of the interest rate swap are similar to the hedged borrowing. The interest rate swap is designed as effective hedging instruments and hedge accounting is used (see note 27 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD loan and the loan from the ultimate holding company and the fluctuation of basic borrowing rate announced by People's Bank of China arising from the Group's RMB bank loans.

#### Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loan from the ultimate holding company, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point (2011: 25 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2011: 25 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by HK\$13,377,000 (2011: HK\$12,082,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loan from the ultimate holding company.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to jointly controlled entities and loans to associates are concentrated in six (2011: six) jointly controlled entities and two (2011: one) associates respectively. However, the management, having considered the financial background and good creditability of the associates and jointly controlled entities, believes there is no significant credit risk. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

The credit risk of deferred consideration receivable is concentrated in one (2011: one) counterparty. Management will closely monitor the financial position of the counterparty to ensure overdue debts are timely recovered.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

#### Liquidity risk

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

The Group relies on loans from the ultimate holding company, bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK\$1,670 million (at 31 December 2011: HK\$775 million). As stated in note 1, the directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$1,228 million (at 31 December 2011: HK\$793 million).

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	5 + years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2012 HK\$'000
<b>2012</b>								
Trade payables	-	237,445	242,986	111,917	-	-	592,348	592,348
Other payables	-	337,305	-	-	-	-	337,305	337,305
Amounts due to minority shareholders	-	193,504	-	-	-	-	193,504	193,504
Loans from the ultimate holding company	3.31%	-	-	-	1,059,501	-	1,059,501	993,750
Bank loans	2.86%	-	754,151	1,207,271	3,087,892	16,492	5,065,806	5,029,939
Other loans	1.98%	2,861	-	15,953	22,008	26,306	67,128	61,913
		771,115	997,137	1,335,141	4,169,401	42,798	7,315,592	7,208,759
Derivative-net settlement								
Interest rate swap		-	1,369	2,738	16,427	-	20,534	18,992

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	5 + years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2011 HK\$'000
<b>2011</b>								
Trade payables	-	164,592	249,809	92,690	-	-	507,091	507,091
Other payables	-	105,382	-	-	-	-	105,382	105,382
Amounts due to minority shareholders	-	194,894	-	-	-	-	194,894	194,894
Loans from the ultimate holding company	1.79%	-	-	8,455	488,700	-	497,155	471,790
Bank loans	3.02%	-	709,110	791,679	3,186,941	-	4,687,730	4,320,490
Other loans	1.98%	32,428	-	2,331	18,743	46,709	100,211	94,260
		497,296	958,919	895,155	3,694,384	46,709	6,092,463	5,693,907
Derivative-net settlement								
Interest rate swap		-	723	1,448	11,553	-	13,724	12,693
Foreign exchange forward rate contract		-	-	-	993	-	993	923
		-	723	1,448	12,546	-	14,717	13,616

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 6. Financial Instruments (Continued)

### Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The fair value of interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

## 7. Segment Information

### Operating segments

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

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sale and distribution of piped gas and related products and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	–	Construction of gas pipeline networks under gas connection contracts

\* Sales from gas related household appliances contribute to less than 5% of the Group's total revenue.

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

## 7. Segment Information (Continued)

### Operating segments (Continued)

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
<b>For the year ended 31 December 2012</b>			
TURNOVER			
External	<b>3,972,241</b>	<b>1,211,225</b>	<b>5,183,466</b>
Segment results	<b>307,682</b>	<b>551,760</b>	<b>859,442</b>
Unallocated other gains, net			<b>159,872</b>
Unallocated corporate expenses			<b>(115,786)</b>
Share of results of associates			<b>245,040</b>
Share of results of jointly controlled entities			<b>235,125</b>
Finance costs			<b>(148,145)</b>
Profit before taxation			<b>1,235,548</b>
Taxation			<b>(299,393)</b>
Profit for the year			<b>936,155</b>

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
<b>For the year ended 31 December 2011</b>			
TURNOVER			
External	3,287,779	1,033,565	4,321,344
Segment results	233,096	454,617	687,713
Unallocated other gains, net			195,421
Unallocated corporate expenses			(101,323)
Share of results of associates			194,522
Share of results of jointly controlled entities			199,088
Finance costs			(141,885)
Profit before taxation			1,033,536
Taxation			(256,943)
Profit for the year			776,593

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 7. Segment Information (Continued)

### Operating segments (Continued)

Segment results included depreciation and amortisation of HK\$285,644,000 (2011: HK\$246,754,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2012 and 2011.

## 8. Operating Profit before Returns on Investments

	2012 HK\$'000	2011 HK\$'000
Turnover	5,183,466	4,321,344
Less expenses:		
Gas fuel, stores and materials used	3,219,970	2,754,861
Staff costs	521,417	394,114
Depreciation and amortisation	285,644	246,754
Other expenses	412,779	339,225
	<b>743,656</b>	586,390

## 9. Other Gains, Net

Other gains, net mainly comprised of:

	2012 HK\$'000	2011 HK\$'000
Dividend income from available-for-sale investments	43,120	34,791
Interest income	22,804	18,486
Exchange gain	45,390	117,325
Imputed interest income on deferred consideration receivable	7,272	8,201
Imputed interest on loans to jointly controlled entities	8,297	7,590
Gain (loss) on fair value change of derivative financial instrument	7,314	(923)



## 10. Finance Costs

	2012 HK\$'000	2011 HK\$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	144,007	68,747
— bank and other borrowings not wholly repayable within five years	1,468	1,319
— guaranteed senior notes	–	69,682
Bank charges	145,475 2,670	139,748 2,137
	<b>148,145</b>	141,885

## 11. Profit before Taxation

	2012 HK\$'000	2011 HK\$'000
Profit before taxation has been arrived at after charging and crediting:		
Directors' remuneration (note 12)	9,838	9,082
Other staff costs	464,675	345,476
Retirement benefit scheme contributions (excluding directors)	46,904	39,556
Total staff costs	<b>521,417</b>	394,114
Allowance for doubtful debts	11,979	16,037
Amortisation of intangible assets	7,291	7,147
Amortisation of leasehold land	9,847	9,866
Auditor's remuneration	9,141	7,441
Cost of inventories sold	3,561,889	3,033,810
Depreciation of property, plant and equipment	268,506	229,741
(Gain) loss on disposal of property, plant and equipment	(993)	11,853
Loss on disposal of leasehold land	128	–
Operating lease rentals in respect of land and buildings	17,272	12,022

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 9 (2011: 9) directors were as follows:

	Year ended 31 December 2012									Total HK\$'000
	Chan Wing Kin, Alfred HK\$'000	Cheng Mo Chi HK\$'000	Chow Vee Tsung, Oscar HK\$'000 (Note b)	Chow Yei Ching HK\$'000 (Note c)	Kwan Yuk Choi, James HK\$'000	Ho Hon Ming, John HK\$'000 (Note d)	Law Wai Fun, Margaret HK\$'000	Li Man Bun, Brian David HK\$'000	Wong Wai Yee, Peter HK\$'000 (Note e)	
Fees	200	500	250	250	200	200	200	500	200	2,500
Other emoluments										
Salaries and other benefits	-	-	-	-	-	983	-	-	1,052	2,035
Retirement benefit scheme contributions	-	-	-	-	-	98	-	-	105	203
Performance and discretionary bonus (Note a)	-	-	-	-	-	1,835	-	-	3,265	5,100
<b>Total emoluments</b>	<b>200</b>	<b>500</b>	<b>250</b>	<b>250</b>	<b>200</b>	<b>3,116</b>	<b>200</b>	<b>500</b>	<b>4,622</b>	<b>9,838</b>

	Year ended 31 December 2011									Total HK\$'000
	Chan Wing Kin, Alfred HK\$'000	Cheng Mo Chi HK\$'000	Chow Yei Ching HK\$'000	Kwan Yuk Choi, James HK\$'000	Ho Hon Ming, John HK\$'000 (Note d)	Law Wai Fun, Margaret HK\$'000	Li Man Bun, Brian David HK\$'000	Ou Yaping HK\$'000 (Note f)	Wong Wai Yee, Peter HK\$'000 (Note e)	
Fees	200	400	400	200	200	200	400	50	200	2,250
Other emoluments										
Salaries and other benefits	-	-	-	-	936	-	-	-	1,002	1,938
Retirement benefit scheme contributions	-	-	-	-	94	-	-	-	100	194
Performance and discretionary bonus (Note a)	-	-	-	-	1,695	-	-	-	3,005	4,700
<b>Total emoluments</b>	<b>200</b>	<b>400</b>	<b>400</b>	<b>200</b>	<b>2,925</b>	<b>200</b>	<b>400</b>	<b>50</b>	<b>4,307</b>	<b>9,082</b>

## 12. Directors' and Employees' Emoluments (Continued)

Notes:

- (a) The performance and discretionary bonus are determined by the Board of directors from time to time with reference to directors' duties and responsibilities and the Group's performance and profitability.
- (b) Mr. Chow Vee Tsung, Oscar was appointed as an Independent Non-Executive Director of the Company with effect from 4 June 2012.
- (c) Dr. Chow Yei Ching retired as an Independent Non-Executive Director of the Company with effect from 4 June 2012.
- (d) Mr. Ho Hon Ming, John is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary. The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK\$85,200 per month with effect from 1 January 2013.
- (e) Mr. Wong Wai Yee, Peter is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer. The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK\$91,200 per month with effect from 1 January 2013.
- (f) Mr. Ou Yaping resigned as a director of the Company with effect from 16 March 2011.
- (g) No service contracts were entered into by any directors with the Company.

Employees' emoluments:

For the year ended 31 December 2012, the five highest paid individuals of the Group included two (2011: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2011: three) highest paid individuals are as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and other benefit	3,725	3,074
Performance related incentive payments	1,606	1,427
Contribution to retirement benefit scheme	253	226
	<b>5,584</b>	4,727

The emoluments were within the following bands:

	Number of employees	
	2012	2011
HK\$1,000,000 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	–

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2012.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 13. Taxation

	2012 HK\$'000	2011 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— current year	<b>260,215</b>	206,711
Deferred taxation ( <i>note 31</i> )		
— taxation charge for the year	<b>39,178</b>	50,232
	<b>299,393</b>	256,943

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

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2011: 15% to 25%).

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from EIT for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from EIT for the following three years. The reduced tax rate for the relief period was 12.5% (2011: 12.5%). EIT has been provided for after taking these tax incentives into account. These tax incentives had been expired by the year 2012.

### 13. Taxation (Continued)

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2012 HK\$'000	2011 HK\$'000
Profit before taxation	<b>1,235,548</b>	1,033,536
Tax at the applicable rate of 25% (2011: 25%) (Note)	<b>308,887</b>	258,384
Tax effect of expenses that are not deductible for tax purposes	<b>99,779</b>	89,191
Tax effect of income that are not taxable for tax purposes	<b>(46,782)</b>	(37,869)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in EIT	<b>(5,768)</b>	(12,337)
Effect of different tax rates of subsidiaries operating in different regions	<b>(3,582)</b>	(3,100)
Tax effect of share of results of associates	<b>(61,260)</b>	(48,631)
Tax effect of share of results of jointly controlled entities	<b>(58,781)</b>	(49,772)
Tax effect of utilisation of tax losses not previously recognised	<b>(1,551)</b>	(2,689)
Tax effect of tax losses not recognised	<b>25,325</b>	10,268
Withholding tax on undistributed profits	<b>43,126</b>	53,498
Tax charge for the year	<b>299,393</b>	256,943

Note: The tax rate of 25% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for the year 2012 (2011: 25%).

### 14. Dividends

During the year, final dividend in respect of year ended 31 December 2011 of HK\$123,017,000 (2011: HK\$73,810,000 in respect of year ended 31 December 2010) was recognised as distribution, being five HK cents per ordinary share (2011: three HK cents per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2012 of six HK cents (2011: five HK cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 15. Earnings per Share

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

	2012 HK\$'000	2011 HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	<b>840,798</b>	708,754
	Number of shares	
	2012 '000	2011 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,460,345</b>	2,457,917
Effects of dilutive potential ordinary shares:		
Share options	<b>5,378</b>	1,623
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,465,723</b>	2,459,540

## 16. Property, Plant and Equipment

	Buildings HK\$'000	Gas pipelines HK\$'000	Plant and equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2011	503,063	4,169,141	631,487	556,095	5,859,786
Currency realignment	27,513	208,145	35,756	27,088	298,502
Additions	46,423	182,690	65,934	599,251	894,298
Additions from acquisition of subsidiaries	28,363	99,434	19,592	22,230	169,619
Disposals	(6,879)	(23,030)	(20,046)	–	(49,955)
Transfer	63,353	430,052	68,740	(562,145)	–
At 31 December 2011	661,836	5,066,432	801,463	642,519	7,172,250
Currency realignment	8,381	55,828	9,303	8,816	82,328
Additions	87,288	340,585	148,501	1,034,048	1,610,422
Additions from acquisition of subsidiaries	22,821	102,322	11,273	–	136,416
Disposals	(18,528)	(2,005)	(23,721)	–	(44,254)
Transfer	116,770	594,876	11,923	(723,569)	–
At 31 December 2012	878,568	6,158,038	958,742	961,814	8,957,162
<b>DEPRECIATION</b>					
At 1 January 2011	65,746	561,171	159,084	–	786,001
Currency realignment	5,069	30,222	12,812	–	48,103
Provided for the year	24,741	126,473	78,527	–	229,741
Eliminated on disposals	(432)	(6,174)	(12,956)	–	(19,562)
At 31 December 2011	95,124	711,692	237,467	–	1,044,283
Currency realignment	1,381	8,209	3,727	–	13,317
Provided for the year	27,780	149,421	91,305	–	268,506
Eliminated on disposals	(3,975)	(337)	(16,897)	–	(21,209)
At 31 December 2012	120,310	868,985	315,602	–	1,304,897
<b>CARRYING VALUES</b>					
At 31 December 2012	758,258	5,289,053	643,140	961,814	7,652,265
At 31 December 2011	566,712	4,354,740	563,996	642,519	6,127,967

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 16. Property, Plant and Equipment (Continued)

The buildings situated on land in the PRC are held under medium-term leases.

No property, plant and equipment of the Group was pledged as at 31 December 2012.

As at 31 December 2011, the Group pledged certain of its property, plant and equipment with an aggregate carrying value of HK\$12,620,000 to secure a banking facility granted to the Group. The secured loan was fully repaid and the pledged property, plant and equipment was released in 2012.

## 17. Leasehold Land

	2012 HK\$'000	2011 HK\$'000
Balance at the beginning of the year	<b>306,012</b>	273,758
Currency realignment	<b>4,161</b>	12,673
Additions	<b>14,122</b>	18,549
Acquired on acquisition of subsidiaries	<b>12,429</b>	10,898
Disposals	<b>(12,297)</b>	–
Charge for the year	<b>(9,847)</b>	(9,866)
Balance at the end of the year	<b>314,580</b>	306,012
Analysis for reporting purpose:		
Non-current portion	<b>304,619</b>	296,226
Current portion	<b>9,961</b>	9,786
	<b>314,580</b>	306,012

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



## 18. Intangible Assets

	HK\$'000
<b>COST</b>	
At 1 January 2011	215,487
Currency realignment	9,831
At 31 December 2011	225,318
Currency realignment	1,962
At 31 December 2012	227,280
<b>AMORTISATION</b>	
At 1 January 2011	33,380
Currency realignment	1,881
Provided for the year	7,147
At 31 December 2011	42,408
Currency realignment	492
Provided for the year	7,291
At 31 December 2012	50,191
<b>CARRYING VALUES</b>	
At 31 December 2012	177,089
At 31 December 2011	182,910

The intangible assets represent the Group's exclusive operating rights for city pipeline network.

The exclusive operating rights are amortised on a straight-line basis over a period of 25 to 30 years.

## 19. Goodwill

	HK\$'000
At 1 January 2011	3,380,743
Currency realignment	154,239
Acquired on acquisition of subsidiaries	313,119
At 31 December 2011	3,848,101
Currency realignment	33,842
Acquired on acquisition of subsidiaries	403,022
At 31 December 2012	4,284,965

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 19. Goodwill (Continued)

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each investment holding company operating in specific locations together with its respective subsidiaries (together referred to as the "Sub-group") represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	2012 HK\$'000	2011 HK\$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	<b>356,006</b>	352,933
Hong Kong & China Gas (Zibo) Limited	<b>382,894</b>	379,589
Hong Kong & China Gas (Yantai) Limited	<b>258,596</b>	256,364
Hong Kong & China Gas (Weifang) Limited	<b>148,795</b>	147,511
Hong Kong & China Gas (Weihai) Limited	<b>296,230</b>	293,673
Hong Kong & China Gas (Taian) Limited	<b>262,087</b>	259,825
Hong Kong & China Gas (Maanshan) Limited	<b>311,084</b>	308,399
Hong Kong & China Gas (Anqing) Limited	<b>294,855</b>	292,310
Mianyang Hong Kong and China Gas Co., Ltd.	<b>316,970</b>	314,234
Gongzhuling Towngas Limited	<b>24,558</b>	24,346
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	<b>240,901</b>	238,822
Xin Jin Hong Kong and China Gas Company Limited and Xin Jin Yong Shuang Hong Kong and China Gas Company Limited (Formerly known as Xinjin Diyuan Natural Gas Co. Ltd. and Xinjin Nanfang Natural Gas Co., Ltd., respectively)	<b>29,718</b>	29,461
Towngas (BVI) Holdings Limited ("Towngas BVI")*	<b>441,555</b>	437,744
Jiujiang Hong Kong and China Gas Co., Ltd.	<b>69,668</b>	69,067
Guilin Hong Kong and China Gas Co., Ltd.	<b>41,593</b>	41,234
Wuning Hong Kong & China Gas Co., Ltd. ("Wuning")	<b>77,885</b>	77,213
Xiushui Hong Kong & China Gas Co., Ltd. ("Xiushui")	<b>41,105</b>	40,750
Miluo Red-Horse Natural Gas Development Co., Ltd. ("Miluo")	<b>149,520</b>	148,229
Beipiao Hong Kong & China Gas Co., Ltd. ("Beipiao")	<b>47,336</b>	46,927
Changting Hong Kong & China Gas Co., Ltd. ("Changting")	<b>58,223</b>	–
Fuxin Xinqiu Hong Kong & China Gas Co., Ltd. ("Xinqiu")	<b>140,252</b>	–
Fuxin Dali Gas Company Limited ("Dali")	<b>23,092</b>	–
Qinhuangdao Hong Kong & China Gas Co., Ltd. ("Qinhuangdao")	<b>59,235</b>	–
Jinan Pingyin Hong Kong & China Gas Co., Ltd.	<b>97,503</b>	–
Others	<b>115,304</b>	89,470
	<b>4,284,965</b>	3,848,101

\*Note: The operating entities of Towngas BVI are located in the Liaoning and Zhejiang provinces in the PRC.

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8% (2011: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2011: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2012 (2011: nil).

## 20. Interests in Associates/Loans to Associates

	2012 HK\$'000	2011 HK\$'000
Cost of investments in associates	<b>1,640,683</b>	1,566,715
Share of post-acquisition profits and other comprehensive income, net of dividends received	<b>884,846</b>	676,884
	<b>2,525,529</b>	2,243,599
Loans to associates — Current portion	<b>33,582</b>	30,826

Details of the Group's principal associates as at 31 December 2012 are as follows:

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2012	2011	
Changchun Gas Company Limited 長春燃氣股份有限公司	PRC — Limited liability company	<b>26%</b>	26%	Production and distribution of natural gas, coal gas, liquefied petroleum gas ("LPG"), metallurgical coke and coke oil
Foshan Gas Group Ltd. 佛山市燃氣集團股份有限公司	PRC — Sino-foreign equity joint venture	<b>43%</b>	43%	Provision of LPG, natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>40%</b>	40%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC — Limited liability company	<b>40%</b>	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>42%</b>	42%	Provision of natural gas and related services and gas pipeline construction
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>48%</b>	48%	Provision of natural gas and related services and gas pipeline construction
Zibo Lubo Gas Company Ltd. 淄博綠博燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>27%</b>	27%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2012

## 20. Interests in Associates/Loans to Associates (Continued)

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would in the opinion of the Directors, result in particulars of excessive length.

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

	2012 HK\$'000	2011 HK\$'000
Total assets	<b>10,610,424</b>	9,363,892
Total liabilities	<b>(5,624,975)</b>	(5,079,809)
Net assets	<b>4,985,449</b>	4,284,083
Income	<b>7,032,742</b>	6,234,842
Profit for the year	<b>619,814</b>	511,063

The loans to associates are unsecured and carried at amortised cost with the following details:

Principal amount 2012	2011	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
					2012 HK\$'000	2011 HK\$'000
<b>RMB10,000,000</b>	RMB10,000,000	July 2013 (2011: June 2012)	7.26%	7.26%	<b>12,438</b>	12,330
<b>RMB15,000,000</b>	RMB15,000,000	October 2013 (2011: October 2012)	6.56%	6.56%	<b>18,657</b>	18,496
<b>RMB2,000,000</b>	–	June 2013	6.56%	6.56%	<b>2,487</b>	–
					<b>33,582</b>	30,826

The principal and interest will be received on respective payment due dates set out in the loan agreements.

## 21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities

	2012 HK\$'000	2011 HK\$'000
Cost of investments in jointly controlled entities	<b>1,007,799</b>	994,976
Share of post-acquisition profits and other comprehensive income, net of dividends received	<b>538,332</b>	486,538
	<b>1,546,131</b>	1,481,514
Loans to jointly controlled entities		
— Current portion	<b>139,757</b>	140,127
— Non-current portion	<b>91,706</b>	131,532
	<b>231,463</b>	271,659

At 31 December 2012, the Group had interests in the following significant jointly controlled entities registered in the PRC:

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2012	2011	
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>50%</b>	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC — Limited liability company	<b>50%</b>	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>50%</b>	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>50%</b>	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>50%</b>	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC — Sino-foreign equity joint venture	<b>50%</b>	50%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2012

## 21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities (Continued)

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2012	2011	
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC — Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC — Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction

At 31 December 2012, the aggregate amount of assets and liabilities recognised in the financial statements of the jointly controlled entities in relation to the Group's interests in jointly controlled entities are as follows:

	2012 HK\$'000	2011 HK\$'000
Current assets	692,005	541,522
Non-current assets	2,509,888	2,182,955
Current liabilities	(1,392,385)	(990,180)
Non-current liabilities	(263,377)	(252,783)
Net assets	1,546,131	1,481,514
Income	1,845,542	1,544,931
Expenses	1,610,417	1,345,843

## 21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities (Continued)

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

Principal amount 2012	2011	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
					2012 HK\$'000	2011 HK\$'000
<b>RMB37,650,000</b>	RMB37,650,000	December 2014 (2011: December 2014)	Nil	6.12%	<b>41,493</b>	37,855
<b>RMB35,000,000</b>	RMB35,000,000	July 2014 (2011: July 2014)	Nil	6.12%	<b>39,482</b>	36,817
<b>RMB42,530,000</b>	RMB42,530,000	July 2013 (2011: July 2013)	Nil	6.12%	<b>50,204</b>	46,855
<b>RMB10,550,000</b>	RMB10,550,000	February 2016 (2011: February 2016)	Nil	6.12%	<b>10,731</b>	10,005
<b>RMB52,000,000</b>	RMB52,000,000	August 2013 (2011: February 2012)	5.84%	5.84%	<b>64,677</b>	64,119
–	RMB5,000,000	January 2012	4.25%	4.25%	–	6,165
<b>RMB10,000,000</b>	RMB10,000,000	September 2013 (2011: September 2012)	6.90%	6.90%	<b>12,438</b>	12,330
–	USD5,830,000	October 2012	6.23%	6.23%	–	45,183
<b>RMB10,000,000</b>	RMB10,000,000	December 2013 (2011: December 2012)	6.00%	6.00%	<b>12,438</b>	12,330
					<b>231,463</b>	271,659

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

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For the year ended 31 December 2012

## 22. Available-for-sale Investments

	2012 HK\$'000	2011 HK\$'000
Unlisted shares in the PRC, at cost	<b>170,016</b>	169,893

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

## 23. Deferred Consideration Receivable

As part of the consideration for the disposal of certain subsidiaries during the year ended 31 December 2009, deferred consideration of HK\$379,000,000 is to be settled in cash by the purchaser under five annual instalments of HK\$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK\$179,000,000 in June 2015 (the "Balancing Sum"). The Balancing Sum of the consideration is subject to downward adjustment up to an amount of HK\$65 million, if on or before 15 June 2015, trade and other receivables of the disposed subsidiaries that were outstanding at the date of disposal have become uncollectible. The amount is secured against the entire share capital of the holding company of the operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	2012 HK\$'000	2011 HK\$'000
Non-current assets	<b>156,724</b>	203,682
Current assets (included in trade and other receivables, deposits and prepayments)	<b>39,321</b>	39,321
	<b>196,045</b>	243,003

The amount of deferred consideration receivable is within credit period. The directors of the Company consider the amounts will be recoverable because the purchaser is of good financial position.

During the year, imputed interest income from deferred consideration receivable is HK\$7,272,000 (2011: HK\$8,201,000).



## 24. Inventories

	2012 HK\$'000	2011 HK\$'000
Finished goods	114,100	96,057
Materials and consumables	280,496	291,645
	<b>394,596</b>	387,702

## 25. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash

	2012 HK\$'000	2011 HK\$'000
Trade receivables	412,371	314,965
Deferred consideration receivable	39,321	39,321
Prepayments	387,959	301,182
Other receivables and deposits	217,158	196,720
	<b>1,056,809</b>	852,188

### Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables of HK\$412,371,000 (2011: HK\$314,965,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, at the end of the reporting period:

	2012 HK\$'000	2011 HK\$'000
0 to 90 days	384,737	301,311
91 to 180 days	15,908	4,675
181 to 360 days	11,726	8,979
	<b>412,371</b>	314,965

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK\$10,264,000 (2011: HK\$5,771,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 25. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash (Continued)

### Trade receivables (Continued)

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

	2012 HK\$'000	2011 HK\$'000
0-90 days	5,026	1,308
91-180 days	2,385	136
181-360 days	2,853	4,327
Total	<b>10,264</b>	5,771

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

	2012 HK\$'000	2011 HK\$'000
Balance at the beginning of the year	34,076	18,039
Impairment losses recognised on receivables	11,979	16,037
Balance at the end of the year	<b>46,055</b>	34,076

The allowance for doubtful debts is all individually impaired receivables which represents amounts that have been long overdue and recoverability has been considered remote.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

### Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 0.1% to 2.4% (2011: 0.1% to 4.4%) per annum.

## 25. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash (Continued)

### Trade receivables (Continued)

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

	2012 HK\$'000	2011 HK\$'000
United States Dollar	151,929	338,889
Hong Kong Dollar	48,951	52,244

## 26. Amounts due from/to Minority Shareholders

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

## 27. Other Financial Asset/Liabilities

	2012 HK\$'000	2011 HK\$'000
<b>Other financial asset</b>		
<i>Derivative not under hedge accounting</i>		
RMB forward contract	6,391	–
<b>Other financial liabilities</b>		
<i>Derivative under hedge accounting</i>		
Cash flow hedge — Interest rate swap	18,992	12,693
<i>Derivative not under hedge accounting</i>		
RMB forward contract	–	923
	<b>18,992</b>	<b>13,616</b>

The classification of the measure of the derivative financial instruments at 31 December 2012 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 27. Other Financial Asset/Liabilities (Continued)

### Cash flow hedges

As at 31 December 2012, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which has HK\$350,000,000 principal and will be matured in 2016. The terms of the interest rate swap contract has been negotiated to match the terms of the loan. The interest rate swap contract swaps the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

As at 31 December 2012, fair value loss of HK\$6,299,000 (2011: HK\$12,693,000) has been recognised in other comprehensive income and accumulated in equity and is expected to be released to the income statement at various dates in the coming maturity periods after the reporting period.

### Derivative not under hedge accounting

At the end of the reporting period, the Group had a foreign exchange forward contract to buy RMB200,000,000 for HKD. The contract will mature in 2013. As at 31 December 2012, the change in fair value of the forward contract resulted in a profit of HK\$7,314,000 (2011: a loss of HK\$923,000) and was recognised in profit or loss included in other gains, net. The contract will be settled in HKD at the exchange rate of HK\$1.21:RMB1.

The fair values of foreign currency forward contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

## 28. Trade and Other Payables and Accrued Charges

	2012 HK\$'000	2011 HK\$'000
Trade payables	592,348	507,091
Receipt in advance	1,620,465	1,291,474
Consideration payable for acquisitions of businesses/subsidiaries	297,941	88,137
Other payables and accruals	481,597	375,114
Amount due to ultimate holding company (note)	5,914	763
	<b>2,998,265</b>	2,262,579

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

## 28. Trade and Other Payables and Accrued Charges (Continued)

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

	2012 HK\$'000	2011 HK\$'000
0 to 90 days	440,373	374,361
91 to 180 days	40,066	39,171
181 to 360 days	43,550	39,599
Over 360 days	68,359	53,960
	<b>592,348</b>	507,091

## 29. Borrowings

	2012 HK\$'000	2011 HK\$'000
Bank loans — unsecured	5,029,939	4,247,740
Bank loan — secured	–	72,750
Other loans — unsecured	61,913	94,260
	<b>5,091,852</b>	4,414,750
Carrying amount repayable:		
On demand or within one year	1,946,359	1,512,629
More than one year but not exceeding two years	1,107,375	908,723
More than two years but not exceeding five years	2,000,674	1,948,373
More than five years	37,444	45,025
	<b>5,091,852</b>	4,414,750
Less: Amount due within one year shown under current liabilities	<b>(1,946,359)</b>	(1,512,629)
Amount due after one year	<b>3,145,493</b>	2,902,121

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 29. Borrowings (Continued)

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount	
		2012 HK\$'000	2011 HK\$'000
Floating-rate loans:			
Secured RMB bank loan	–	–	72,750
Unsecured HKD bank loans	1.33%	<b>3,590,068</b>	2,904,239
Unsecured RMB bank loans	7.18%	<b>767,082</b>	754,646
Unsecured other loans	–	–	1,564
Fixed rate loans*:			
Unsecured HKD bank loans**	2.73%	<b>350,000</b>	350,000
Unsecured RMB bank loans	1.94%	<b>322,789</b>	238,855
Unsecured RMB other loans	2.63%	<b>31,055</b>	53,844
Unsecured other loans	1.15%	<b>30,858</b>	38,852
<b>Total bank loans and other loans</b>		<b>5,091,852</b>	4,414,750

\* The majority of the Group's fixed rate loans are repayable after more than two years but not exceeding five years.

\*\* An interest rate swap agreement was entered into by the Group to swap floating interest rate on the loan for a fixed rate. Please see note 27 for details.

### 30. Loans from the Ultimate Holding Company

The amount represents unsecured loans denominated in USD and HKD which bear interest at the Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and are repayable in the fifth year from the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount	
			2012 HK\$'000	2011 HK\$'000
HK\$800,000,000 (2011: HK\$277,615,000)	December 2014 – June 2017 (according to date of draw down) (2011: April 2013 – May 2014) (according to date of draw down)	2.91% (2011: 1.84%)	<b>800,000</b>	277,615
US\$25,000,000 (2011: US\$25,000,000)	December 2016 (2011: December 2016)	3.88% (2011: 2.02%)	<b>193,750</b>	194,175
			<b>993,750</b>	471,790

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 31. Deferred Taxation

The following is the major deferred tax liability recognised and movements thereon during the current year:

	Accelerated tax depreciation HK\$'000	Intangible assets HK\$'000	Undistributed profits of jointly controlled entities/ associates/ subsidiaries HK\$'000	Total HK\$'000
At 1 January 2011	36,816	49,016	56,948	142,780
Acquired on acquisition of subsidiaries	7,967	–	–	7,967
Currency realignment	955	1,244	2,722	4,921
(Credit) charge for the year	(1,596)	(1,670)	53,498	50,232
At 31 December 2011	44,142	48,590	113,168	205,900
Acquired on acquisition of subsidiaries	2,538	–	–	2,538
Currency realignment	277	282	686	1,245
(Credit) charge for the year	(1,837)	(2,111)	43,126	39,178
Withholding tax paid	–	–	(12,555)	(12,555)
At 31 December 2012	45,120	46,761	144,425	236,306

At the end of the reporting period, the Group has unused tax losses of HK\$137,811,000 (2011: HK\$64,180,000) available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until 2017.



## 32. Share Capital

	Number of shares	HK\$'000
At 31 December 2012		
— Authorised: Shares of HK\$0.10 each	5,000,000,000	500,000
— Issued and fully paid: Shares of HK\$0.10 each	2,460,344,830	246,035

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

	Number of shares	HK\$'000
At 1 January 2011 and 31 December 2011	3,000,000,000	300,000
Increase	2,000,000,000	200,000
At 31 December 2012	5,000,000,000	500,000

Pursuant to an ordinary resolution passed at the annual general meeting on 4 June 2012, the authorised share capital of the Company was increased from HK\$300 million to HK\$500 million by creation of additional 2,000 million shares of HK\$0.10 each.

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	HK\$'000
At 1 January 2011	2,448,787,330	244,879
Issue of shares on exercise of share options (note a)	11,557,500	1,156
At 31 December 2011 and 31 December 2012	2,460,344,830	246,035

Note:

- (a) During the year ended 31 December 2011, the Company allotted and issued 11,557,500 shares of HK\$0.10 each for cash at the price of HK\$3.483 per share as a result of the exercise of share options.

All the shares which were issued during the year ended 31 December 2011 rank pari passu with the then existing shares in all respects.

# Notes to the Consolidated Financial Statements

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## 33. Reserves

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

## 34. Acquisition of Subsidiaries/Businesses

### Acquisitions in 2012

#### (a) Acquisition of a business in Benxi ("Benxi business")

In June 2012, the Group completed the acquisition from an independent vendor of the Benxi business, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$73,620,000. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs were insignificant and were recognised as expenses in the current year, within other expenses.

*The net assets acquired in the transaction are as follows:*

	Acquiree's fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	49,671
Inventories	30
Trade and other payables and accrued charges	(798)
Net assets acquired	48,903

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	73,620
Less: Net assets acquired	(48,903)
Goodwill arising on acquisition	24,717

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(a) **Acquisition of Benxi business (Continued)**

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

*Net cash outflow arising on acquisition:*

	HK\$'000
Cash consideration	73,620
Amount unpaid and included in consideration payable for acquisition	(49,080)
Net outflow of cash and cash equivalents in respect of the acquisition of business	24,540

During the year, Benxi business contributed insignificant amount to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

The primary reason for the above acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

(b) **Acquisition of a business in Yifeng ("Yifeng business")**

In July 2012, the Group completed the acquisition from an independent vendor of Yifeng business, which is engaged in the operation of piped gas assets and related business located in Yifeng of Jiangxi Province of the PRC at a consideration of HK\$33,608,000. The transaction has been accounted for using the acquisition method of accounting.

Acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (b) Acquisition of Yifeng business (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	33,553
Leasehold land	2,468
Inventories	710
Trade and other payables and accrued charges	(3,123)
Net assets acquired	33,608

There was no goodwill or discount on acquisition arising from the acquisition of Yifeng business.

#### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	33,608
Amount unpaid and included in consideration payable for acquisition	(7,872)
Net outflow of cash and cash equivalents in respect of the acquisition of business	25,736

During the year, Yifeng business contributed HK\$5,503,000 to the Group's turnover and make a loss of HK\$1,153,000 for the period between the date of acquisition and the end of the reporting period.

#### (c) Acquisition of Xinqiu

In August 2012, the Group completed the acquisition of 100% equity interest in Xinqiu, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$162,922,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(c) Acquisition of Xinqiu (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	18,600
Leasehold land	4,577
Inventories	27
Trade and other receivables, deposits and prepayments (note)	1,586
Bank balances and cash	46
Trade and other payables and accrued charges	(1,899)
Taxation payable	(43)
Deferred taxation	(224)
Net assets acquired	22,670

Note: The trade and other receivables acquired with a fair value of HK\$1,586,000 had gross contractual amounts of HK\$1,586,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	162,922
Less: Net assets acquired	(22,670)
Goodwill arising on acquisition	140,252

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (c) Acquisition of Xinqiu (Continued)

*Net cash outflow arising on acquisition:*

	HK\$'000
Cash consideration	162,922
Amount unpaid and included in consideration payable for acquisition	(80,403)
Bank balances and cash acquired	(46)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	82,473

During the year, Xinqiu contributed HK\$14,350,000 to the Group's turnover and HK\$469,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

#### (d) Acquisition of Dali

In August 2012, the Group completed the acquisition of 100% equity interest in Dali, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$46,638,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(d) Acquisition of Dali (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	20,617
Leasehold land	1,221
Inventories	131
Trade and other receivables, deposits and prepayments (note)	6,123
Bank balances and cash	789
Trade and other payables and accrued charges	(3,806)
Taxation payable	(94)
Deferred taxation	(1,435)
Net assets acquired	23,546

Note: The trade and other receivables acquired with a fair value of HK\$6,123,000 had gross contractual amounts of HK\$6,123,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	46,638
Less: Net assets acquired	(23,546)
Goodwill arising on acquisition	23,092

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (d) Acquisition of Dali (Continued)

*Net cash outflow arising on acquisition:*

	HK\$'000
Cash consideration	46,638
Amount unpaid and included in consideration payable for acquisition	(28,301)
Bank balances and cash acquired	(789)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	17,548

During the year, Dali contributed HK\$12,030,000 to the Group's turnover and made a loss of HK\$719,000 for the period between the date of acquisition and the end of the reporting period.

#### (e) Acquisition of Changting

In October 2012, the Group completed the acquisition of 90% equity interest in Changting, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$64,207,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.



### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(e) Acquisition of Changting (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	3,689
Inventories	2,096
Trade and other receivables, deposits and prepayments (note)	1,383
Bank balances and cash	609
Trade and other payables and accrued charges	(1,127)
Taxation payable	(1)
Net assets acquired	6,649

Note: The trade and other receivables acquired with a fair value of HK\$1,383,000 had gross contractual amounts of HK\$1,383,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Non-controlling interests:

The non-controlling interests in Changting recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK\$665,000.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	64,207
Plus: Non-controlling interests	665
Less: Net assets acquired	(6,649)
Goodwill arising on acquisition	58,223

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (e) Acquisition of Changting (Continued)

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

#### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	64,207
Amount unpaid and included in amounts due to minority shareholders	(57,786)
Bank balances and cash acquired	(609)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	5,812

During the year, Changting contributed HK\$2,220,000 to the Group's turnover and made a loss of HK\$825,000 for the period between the date of acquisition and the end of the reporting period.

#### (f) Acquisition of Qinhuangdao

In October 2012, the Group completed the acquisition of 51% equity interest in Qinhuangdao, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$61,501,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(f) Acquisition of Qinhuangdao (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	1,397
Leasehold land	3,249
Inventories	569
Trade and other receivables, deposits and prepayments (note)	8,270
Bank balances and cash	2,105
Trade and other payables and accrued charges	(11,147)
Net assets acquired	4,443

Note: The trade and other receivables acquired with a fair value of HK\$8,270,000 had gross contractual amounts of HK\$8,270,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Non-controlling interests:

The non-controlling interests in Qinhuangdao recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK\$2,177,000.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	61,501
Plus: Non-controlling interests	2,177
Less: Net assets acquired	(4,443)
Goodwill arising on acquisition	59,235

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (f) Acquisition of Qinhuangdao (Continued)

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

#### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	61,501
Amount unpaid and included in amounts due to minority shareholders	(30,750)
Bank balances and cash acquired	(2,105)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	28,646

During the year, Qinhuangdao contributed HK\$4,305,000 to the Group's turnover and HK\$717,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

#### (g) Acquisition of a business in Pingyin ("Pingyin business")

In December 2012, the Group completed the acquisition of Pingyin business which is engaged in the operation of piped gas assets and related business in Pingyin of Shandong Province of the PRC at a consideration of HK\$119,403,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the current year, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2012 (Continued)

(g) Acquisition of Pingyin business (Continued)

The net assets acquired in the transaction are as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	8,889
Leasehold land	914
Trade and other receivables, deposits and prepayments (note)	8,557
Bank balances and cash	7,066
Trade and other payables and accrued charges	(2,647)
Deferred taxation	(879)
Net assets acquired	21,900

Note: The trade and other receivables acquired with a fair value of HK\$8,557,000 had gross contractual amounts of HK\$8,557,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	119,403
Less: Net assets acquired	(21,900)
Goodwill arising on acquisition	97,503

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2012 (Continued)

#### (g) Acquisition of Pingyin business (Continued)

Net cash inflow arising on acquisition:

	HK\$'000
Cash consideration	119,403
Amount unpaid and included in consideration payable for acquisition	(119,403)
Bank balances and cash acquired	(7,066)
Net inflow of cash and cash equivalents in respect of the acquisition of business	(7,066)

During the year, Pingyin business has no contribution to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Benxi business, Yifeng business, Xinqiu, Dali, Changting, Qinhuangdao and Pingyin business had been completed on 1 January 2012, total consolidated revenue of the Group would have been HK\$5,361,104,000 and consolidated profit for the year would have been HK\$954,666,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

### Acquisitions in 2011

#### (a) Acquisition of Wuning

In January 2011, the Group acquired 100% equity interest in Wuning, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$80,220,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

Acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2011, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2011 (Continued)

(a) Acquisition of Wuning (Continued)

The net assets acquired in the transaction were as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	8,890
Leasehold land	495
Inventories	947
Trade and other receivables (note)	197
Bank balances and cash	778
Trade and other payables and accrued charges	(8,300)
Net assets acquired	3,007

Note: The trade and other receivables acquired with a fair value of HK\$197,000 had gross contractual amounts of HK\$197,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	80,220
Less: Net assets acquired	(3,007)
Goodwill arising on acquisition	77,213

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2011 (Continued)

#### (a) Acquisition of Wuning (Continued)

*Net cash outflow arising on acquisition:*

	HK\$'000
Cash consideration	80,220
Bank balances and cash acquired	(778)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,442

During the year ended 31 December 2011, Wuning contributed HK\$4,770,000 to the Group's turnover and made a loss of HK\$2,607,000 for the period between the date of acquisition and the end of the reporting period.

#### (b) Acquisition of Xiushui

In January 2011, the Group completed the acquisition of 80% equity interest in Xiushui, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$42,503,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs incurred were insignificant and were recognised as expenses in the year ended 31 December 2011, within the other expenses.



### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2011 (Continued)

(b) Acquisition of Xiushui (Continued)

The net assets acquired in the transaction were as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	18,213
Inventories	1,083
Trade and other receivables (note)	686
Bank balances and cash	237
Trade and other payables and accrued charges	(7,740)
Tax payables	(28)
Borrowings	(10,260)
Net assets acquired	2,191

Note: The trade and other receivables acquired with a fair value of HK\$686,000 had gross contractual amounts of HK\$686,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Non-controlling interests:

The non-controlling interests in Xiushui recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK\$438,000.

#### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	42,503
Plus: Non-controlling interests	438
Less: Net assets acquired	(2,191)
Goodwill arising on acquisition	40,750

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2011 (Continued)

#### (b) Acquisition of Xiushui (Continued)

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

#### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	42,503
Amount unpaid and included in consideration payable for acquisition	(30,325)
Bank balances and cash acquired	(237)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	11,941

During the year ended 31 December 2011, Xiushui contributed HK\$7,040,000 to the Group's turnover and made a loss of HK\$3,907,000 for the period between the date of acquisition and the end of the reporting period.

#### (c) Acquisition of Miluo

In July 2011, the Group acquired 70% equity interest in Miluo, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$161,017,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK\$406,000 were recognised as expenses in the year ended 31 December 2011, within the other expenses.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2011 (Continued)

(c) Acquisition of Miluo (Continued)

The net assets acquired in the transaction were as follows:

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	103,765
Leasehold land	8,903
Inventories	2,340
Trade and other receivables (note)	36,756
Bank balances and cash	516
Trade and other payables and accrued charges	(52,718)
Taxation payable	(362)
Borrowings	(72,964)
Deferred taxation	(7,967)
Net assets acquired	18,269

Note: The trade and other receivables acquired with a fair value of HK\$36,756,000 had gross contractual amounts of HK\$36,756,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### **Non-controlling interests:**

The non-controlling interests in Miluo recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK\$5,481,000.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2011 (Continued)

#### (c) Acquisition of Miluo (Continued)

##### Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	161,017
Plus: Non-controlling interests	5,481
Less: Net assets acquired	(18,269)
Goodwill arising on acquisition	148,229

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

##### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	161,017
Amount unpaid and included in amounts due to minority shareholders	(80,509)
Bank balances and cash acquired	(516)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	79,992

During the year ended 31 December 2011, Miluo contributed HK\$9,431,000 to the Group's turnover and made a loss of HK\$5,742,000 for the period between the date of acquisition and the end of the reporting period.

### 34. Acquisition of Subsidiaries/Businesses (Continued)

#### Acquisitions in 2011 (Continued)

(d) Acquisition of Beipiao

In December 2011, the Group completed the acquisition of 80% equity interest in Beipiao, which is engaged in the operation of piped gas assets and related business in the PRC at a consideration of HK\$78,915,000 from an independent vendor. This transaction has been accounted for using the acquisition method of accounting.

The acquisition-related costs amounting to HK\$144,000 were recognised as expenses in the year ended 31 December 2011, within the other expenses.

*The net assets acquired in the transaction were as follows:*

	Acquirees' fair value at acquisition date HK\$'000
Net assets acquired:	
Property, plant and equipment	38,751
Leasehold land	1,500
Inventories	682
Trade and other payables and accrued charges	(948)
Net assets acquired	39,985

**Non-controlling interests:**

The non-controlling interests in Beipiao recognised at the acquisition date was determined with reference to the proportionate share of fair value of the acquiree's net assets at the acquisition date and amounted to HK\$7,997,000.

**Goodwill arising on acquisition:**

	HK\$'000
Consideration transferred	78,915
Plus: Non-controlling interests	7,997
Less: Net assets acquired	(39,985)
Goodwill arising on acquisition	46,927

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 34. Acquisition of Subsidiaries/Businesses (Continued)

### Acquisitions in 2011 (Continued)

#### (d) Acquisition of Beipiao (Continued)

Goodwill arose from the acquisition of the above subsidiary because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

#### Net cash outflow arising on acquisition:

	HK\$'000
Cash consideration	78,915
Amounts unpaid and included in amounts due to minority shareholders	(78,915)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	–

During the year ended 31 December 2011, Beipiao contributed insignificant amount to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions of Wuning, Xiushui, Miluo and Beipiao had been completed on 1 January 2011, total consolidated revenue of the Group would have been HK\$4,343,430,000, and consolidated profit for the year would have been HK\$784,436,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

The primary reason for the above acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

### 35. Related Party Transactions

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

Name of related party	Nature of transactions	2012 HK\$'000	2011 HK\$'000
HKCG	Outstanding loan balances (See note 30)	<b>993,750</b>	471,790
	Interest expense	<b>15,908</b>	9,027
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management	<b>3,525</b>	1,782
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	<b>3,788</b>	1,650
GH - Fusion Corporation Limited (note b)	Purchase of construction materials	<b>6,469</b>	6,917
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	<b>50,563</b>	24,619
ECO Environmental Investments Limited (note a)	Office licence income	<b>599</b>	468
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	<b>66,196</b>	40,401
Jilin Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	<b>2,474</b>	2,294
Tongling Hong Kong and China Gas Company Limited (note c)	Purchase of compressed natural gas	–	61
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	<b>5,138</b>	–
Gongzhuling Gangtian Compressed Natural Gas Company Limited (note b)	Sale of compressed natural gas	<b>410</b>	–

Notes:

- (a) HKCG has controlling interests in these companies.
- (b) HKCG has significant influences in these companies.
- (c) HKCG jointly controlled this company with another party.

Emoluments paid to the key management personnel of the Company which represents the executive directors of the Company are set out in note 12.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 36. Operating Lease Commitments

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

	2012 HK\$'000	2011 HK\$'000
Within one year	13,011	6,497
In the second to fifth year inclusive	7,208	6,909
Over five years	3,348	4,022
	<b>23,567</b>	17,428

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

## 37. Commitments

	2012 HK\$'000	2011 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	92,702	78,084
— acquisition of subsidiaries	610,572	106,042
Capital injection contracted for but not provided in the consolidated financial statements in respect of:		
— investment in an associate	—	51,826



### 38. Share Options

The Company's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and were expired on 3 April 2011. Under the Pre-GEM Share Option Scheme and the Scheme, the Board of the Company may grant options to eligible employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 26 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink Worldwide Holdings Limited ("Sinolink") pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. In addition, pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The 2005 GEM Share Option Scheme has replaced the Scheme, there will be no options granted under the Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the Scheme shall remain in full force and effect.

The 2005 GEM Share Option Scheme and the New Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005 and 28 November 2005 respectively.

The share options under the 2005 GEM Share Option Scheme (the "2005 GEM Options") and the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

The 2005 GEM Options granted or the New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 38. Share Options (Continued)

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options			Exercisable share options at the end of the year
	Outstanding at the beginning of the year	Exercised during the year	Outstanding at the end of the year	
For the year ended 31 December 2011				
The Scheme				
2004 options (note a)	11,557,500	(11,557,500)	–	–
New Scheme				
2006 options (note b)	1,567,800	–	1,567,800	1,567,800
2007 options (note b)	14,673,000	–	14,673,000	14,673,000
	27,798,300	(11,557,500)	16,240,800	16,240,800
Weighted average exercise price (HK\$)	3.617	3.483	3.713	3.713
<b>For the year ended 31 December 2012</b>				
New Scheme				
2006 options (note b)	<b>1,567,800</b>	–	<b>1,567,800</b>	<b>1,567,800</b>
2007 options (note b)	<b>14,673,000</b>	–	<b>14,673,000</b>	<b>14,673,000</b>
	<b>16,240,800</b>	–	<b>16,240,800</b>	<b>16,240,800</b>
Weighted average exercise price (HK\$)	<b>3.713</b>	–	<b>3.713</b>	<b>3.713</b>

The weighted average price of the Company's shares at the dates of exercise of 700,000 options on 20 January 2011, 800,000 options on 16 February 2011, 750,000 options on 3 March 2011, 510,000 options on 10 March 2011, 757,500 options on 22 March 2011, 3,015,000 options on 24 March 2011, 3,015,000 options on 28 March 2011 and 2,010,000 options on 30 March 2011 were HK\$4.06, HK\$3.99, HK\$3.84, HK\$3.97, HK\$3.95, HK\$3.97, HK\$4.08 and HK\$4.04, respectively.

### 38. Share Options (Continued)

Had all the outstanding vested share options been fully exercised on 31 December 2012, the Company would have received cash proceeds of HK\$60,302,000 (2011: HK\$60,302,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK\$
2004 options (note a)	19.11.2004	30%	31.12.2005–30.03.2011	3.483
		30%	31.12.2006–30.03.2011	3.483
		40%	31.12.2007–30.03.2011	3.483
2006 options (note b)	03.10.2006	30%	04.10.2007–27.11.2015	2.796
		30%	04.04.2008–27.11.2015	2.796
		40%	04.10.2008–27.11.2015	2.796
2007 options (note b)	16.03.2007	30%	16.03.2008–27.11.2015	3.811
		30%	16.03.2009–27.11.2015	3.811
		40%	16.03.2010–27.11.2015	3.811

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

The Group did not recognise any expenses for the year ended 31 December 2012 (2011: nil) in relation to share options granted by the Company in previous year.

Notes:

- (a) The 2004 option represented the share option granted under the Scheme.
- (b) The 2006 and 2007 option represented the share options granted under the New Scheme.

### 39. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2012 amounted to approximately HK\$46,646,000 (2011: HK\$39,311,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2012, the Group made retirement benefit scheme contributions amounting to HK\$461,000 (2011: HK\$439,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 40. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Directly-owned subsidiaries</b>					
Hong Kong & China Gas (Anqing) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
TCCL (Finance) Limited	HK — Limited liability company	HK\$1	<b>100%</b>	100%	Financing
Towngas China Group Limited	BVI — Limited liability company	US\$12,821	<b>100%</b>	100%	Investment holding

#### 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries</b>					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$20,000,000 (2011: US\$15,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB56,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB210,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Cangxi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited 長汀港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB22,000,000	<b>90%</b>	–	Provision of natural gas and related services and gas pipeline construction
Chaoyang Hong Kong and China Gas Co., Ltd. 朝陽港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US\$10,791,838	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI — Limited liability company	US\$1	<b>100%</b>	100%	Investment holding

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Chi Ping Hong Kong and China Gas Co., Ltd. 桂平港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>85%</b>	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Limited 池州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB20,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co., Ltd. 大連長興港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$14,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co., Ltd. 大連旅順港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$15,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店金宇港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>60%</b>	–	Provision of natural gas and related services and gas pipeline construction
Dayi Hong Kong and China Gas Co., Ltd. 大邑港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hong Kong and China Gas Company Limited 阜新港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB77,200,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

#### 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Fuxin Dali Gas Company Limited 阜新大力燃氣有限責任公司	PRC — Wholly foreign-owned enterprise	RMB13,900,000	100%	–	Provision of natural gas and related services and gas pipeline construction
Fuxin Xinqiu Hong Kong and China Gas Company Limited 阜新新邱港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB34,000,000	100%	–	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$4,010,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Towngas Limited 公主嶺港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB53,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong and China Gas Co., Ltd 桂林港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000 (2011: RMB14,000,000)	100%	100%	Provision of natural gas and related services and gas pipeline construction
Hong Kong and China Gas (Dalian) Limited	HK — Limited liability company	HK\$100	100%	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI — Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI — Limited liability company/HK	US\$1	100%	100%	Investment holding

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For the year ended 31 December 2012

## 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Hong Kong & China Gas (Tongxiang) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI — Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK — Limited liability company	HK\$100	<b>100%</b>	100%	Investment holding
Huangshan Hong Kong and China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB40,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong and China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$2,100,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Taiping Hong Kong and China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$3,500,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited 湖州港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US\$10,500,000	<b>98.85%</b>	98.85%	Provision of natural gas and related services and gas pipeline construction



#### 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Jiayang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Jihua Gas Co., Ltd. 濟南濟華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB100,000,000	<b>51%</b>	51%	Provision of natural gas and related services and gas pipeline construction
Jinan Pingyin Hong Kong and China Gas Company Limited 濟南平陰港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB65,000,000	<b>100%</b>	—	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong and China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$6,400,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$5,440,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2012

## 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Longkou Hong Kong and China Gas Co., Ltd. 龍口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$7,070,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong and China Gas Co., Ltd. 馬鞍山博望港華燃氣有限公司	PRC — Sino-foreign equity joint venture	US\$10,000,000	<b>75.1%</b>	75.1%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB90,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Miluo Red-Horse Natural Gas Development Company Limited 汨羅市紅馬燃氣開發有限公司	PRC — Sino-foreign equity joint venture	RMB50,000,000	<b>70%</b>	70%	Provision of natural gas and related services and gas pipeline construction
Pengshan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB10,000,000	<b>70%</b>	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC — Limited liability company	RMB3,590,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

#### 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Qingdao Dong Yi Hong Kong and China Gas Co., Ltd. 青島東億港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co., Ltd. 青島中即港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB73,500,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong and China Gas Co., Ltd. 秦皇島港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB15,000,000	<b>51%</b>	—	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB128,561,800	<b>61.67%</b>	61.67%	Provision of natural gas and related services and gas pipeline construction
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC — Limited liability company	RMB20,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong and China Gas Co., Ltd. 瀋陽港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$17,532,400 (2011: US\$8,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

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## 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB232,960,000 (2011: RMB132,960,000)	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC — Sino-foreign equity joint venture	US\$7,000,000	<b>76%</b>	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI — Limited liability company	US\$1	<b>100%</b>	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC — Wholly foreign-owned enterprise	US\$200,000,000	<b>100%</b>	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Company Limited 武寧港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB25,000,000 (2011: RMB5,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC — Limited liability company	RMB22,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

#### 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Xin Jin Hong Kong and China Gas Company Limited 新津港華燃氣有限公司 (Formerly known as Xinjin Diyuan Natural Gas Co., Ltd. 新津縣地源天然氣有限公司)	PRC — Sino-foreign equity joint venture	RMB12,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited 新津永雙港華燃氣有限公司 (Formerly known as Xinjin Nanfang Natural Gas Co., Ltd. 新津南方天然氣有限公司)	PRC — Sino-foreign equity joint venture	RMB11,500,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000 (2011: RMB20,000,000)	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB50,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Yifeng Hong Kong and China Gas Co., Ltd. 宜豐港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB32,000,000	<b>100%</b>	—	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Company Limited 營口港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	US\$9,400,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

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## 40. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2012	2011	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB12,500,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Zhaoyuan Hong Kong and China Gas Company Limited 招遠港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB22,000,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB18,810,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC — Limited liability company	RMB18,890,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 41. Event after the Reporting Period

On 10 January 2013, the Company entered into an agreement with two placing agents whereby the Company agreed to place, through the placing agents, 150,000,000 new shares of the Company to no less than six places at a price of HK\$6.31 per placing share ("Placement"). The Company intends to use the net proceeds of approximately HK\$930 million from the Placement for the Group's general working capital and further investments of the Group. The Placement was completed on 16 January 2013.





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