中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3633)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2012

FINANCIAL HIGHLIGHTS

	For the year ended 31st December,		
	2012 *HK$'000*	2011 *HK$'000*	**% changes**
Turnover	**2,754,084**	1,794,319	53.5%
Sales of piped gas	**2,007,110**	1,231,876	62.9%
Connection revenue from gas pipeline construction	**546,378**	394,470	38.5%
Operation of CNG filling stations	**166,431**	123,373	34.9%
Gross profit (Gross margin)	**648,612** **(23.6%)**	428,595 (23.9%)	51.3% (0.3%)
Profit attributable to owners of the Company	**226,021**	86,114	162.5%
Earnings per share Basic Diluted	 **HK9.05 cents** **HK9.01 cents**	 HK3.82 cents HK3.77 cents	 136.9% 139.0%
EBITDA	**523,821**	274,541	90.8%

CHAIRMAN'S STATEMENTS

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

Business Review

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

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

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

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

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

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

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

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

Prospects

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

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

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

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

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

The board of directors (the "Board" or the "Directors") of Zhongyu Gas Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2012, together with the comparative figures for the corresponding period in 2011, which are set out as below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of compressed natural gas ("CNG") filling stations for vehicles; and (iii) the exploration, exploitation and development of coalbed methane gas ("CBM") in The People's Republic of China ("PRC").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
Turnover	*3*	**2,754,084**	1,794,319
Cost of sales		**(2,105,472)**	(1,365,724)
Gross profit		**648,612**	428,595
Other gains and losses	*5*	**7,050**	(11,208)
Other income	*6*	**22,180**	11,547
Selling and distribution costs		**(45,990)**	(34,268)
Administrative expenses			
– General administrative expenses		**(187,484)**	(164,560)
– Equity-settled share option expenses		**–**	(23,632)
Research and development costs		**(1,288)**	(1,575)
Finance costs	*7*	**(32,513)**	(19,198)
Profit before tax		**410,567**	185,701
Income tax expenses	*8*	**(129,013)**	(57,397)
Profit for the year	*9*	**281,554**	128,304
Other comprehensive income			
Exchange differences arising on translation		**14,388**	48,017
Total comprehensive income for the year		**295,942**	176,321
Profit for the year attributable to:			
Owners of the Company		**226,021**	86,114
Non-controlling interests		**55,533**	42,190
		281,554	128,304
Total comprehensive income attributable to:			
Owners of the Company		**240,152**	127,483
Non-controlling interests		**55,790**	48,838
		295,942	176,321
Earnings per share	*11*		
Basic		**HK9.05 cents**	HK3.82 cents
Diluted		**HK9.01 cents**	HK3.77 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Investment properties		**7,589**	6,570
Property, plant and equipment	*12*	**1,955,577**	1,514,801
Goodwill		**110,261**	109,066
Other intangible assets	*13*	**478,521**	146,672
Deposits paid for acquisition of property, plant and equipment	*14*	**84,080**	180,891
Prepaid lease payments		**178,072**	146,476
Available-for-sale investment		**3,738**	3,697
		2,817,838	2,108,173
Current assets			
Inventories	*15*	**74,409**	65,867
Trade and bills receivables	*16*	**155,990**	141,381
Deposits, prepayments and other receivables	*16*	**114,170**	130,939
Prepaid lease payments		**5,473**	4,448
Amounts due from customers for contract work	*17*	**13,562**	–
Pledged bank deposits		**18,689**	34,582
Bank balances and cash		**348,570**	351,275
		730,863	728,492
Current liabilities			
Deferred income and advance received	*18*	**242,951**	198,513
Trade and bills payables	*18*	**248,517**	275,711
Other payables and accrued charges	*18*	**203,369**	169,378
Amounts due to customers for contract work	*17*	**10,369**	13,861
Bank borrowings		**660,852**	422,493
Tax payables		**51,647**	33,475
		1,417,705	1,113,431
Net current liabilities		**(686,842)**	(384,939)
Total assets less current liabilities		**2,130,996**	1,723,234

	NOTES	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	19	**25,240**	23,982
Reserves		**1,364,995**	1,064,459
Equity attributable to owners of the Company		**1,390,235**	1,088,441
Non-controlling interests		**171,227**	140,699
Total equity		**1,561,462**	1,229,140
Non-current liabilities			
Deferred income and advance received	18	**25,372**	25,549
Bank borrowings		**525,181**	453,537
Deferred taxation		**18,981**	15,008
		569,534	494,094
		2,130,996	1,723,234

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2012

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

Notes:

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

During the year ended 31st December, 2011, the difference between the consideration paid and the carrying amount of the additional interest effectively held by the Group of HK$8,322,000 resulted from the acquisition of additional interest in Linyi Shanlin Gas Company Limited ("Linyi Shanlin") was debited to other reserve. Details of the acquisition are set out in note 20.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

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

	NOTES	2012 HK$'000	2011 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(188,325)**	(134,471)
Proceeds from disposal of property, plant and equipment		**3,621**	2,107
Proceed from disposal of prepaid lease payment		**3,119**	–
Withdrawal of pledged bank deposits		**15,893**	8,000
Placement of pledged bank deposits		**–**	(28,604)
Addition of prepaid lease payments		**(38,477)**	(30,084)
Acquisition of assets and liabilities through acquisition of subsidiaries	*21*	**(331,144)**	–
Deposit paid for acquisition of property, plant and equipment		**(158,598)**	(180,891)
Purchase of intangible assets		**(9,282)**	(1,810)
Increase in available-for-sale investment		**–**	(616)
Decrease (increase) in loan receivables		**19,888**	(14,482)
Net cash used in investing activities		**(683,305)**	(380,851)
Financing activities			
Acquisition of additional interest in a subsidiary	*20*	**–**	(19,334)
Interest paid		**(72,479)**	(35,747)
Repayment of shareholder loan		**–**	(150,564)
New borrowings raised		**776,601**	272,615
Repayments of borrowings		**(476,203)**	(161,980)
Proceeds from issue of shares under placement		**–**	163,559
Transaction costs paid on issue of shares under placement		**–**	(2,019)
Proceeds from issue of shares upon exercise of share options		**61,642**	14,797
Dividend paid by subsidiaries to its non-controlling interest		**(25,262)**	(30,542)
Capital contribution from non-controlling interest of a subsidiary		**–**	1,233
Net cash from financing activities		**264,299**	52,018
Net decrease in cash and cash equivalents		**(3,034)**	(2,076)
Cash and cash equivalents at 1st January		**351,275**	351,963
Effect of foreign exchange rate changes		**329**	1,388
Cash and cash equivalents at 31st December, represented by bank balances and cash		**348,570**	351,275

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

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

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

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

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

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

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

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

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]

HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

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

HKFRS 9 Financial instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

HKFRS 13 Fair value measurement

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

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

Amendments to HKAS 1 Presentation of items of other comprehensive income

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. TURNOVER

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

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

4. SEGMENT INFORMATION

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) sales of stoves and related equipment

Segment revenue and results

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

For the year ended 31st December, 2012

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

For the year ended 31st December, 2011

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income and increase in fair value of investment properties, finance costs and income tax expenses. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31st December, 2012

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

As at 31st December, 2011

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

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

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

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

Other segment information

2012

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

2011

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

Geographical information

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

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

Information about major customer

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

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

[1] Revenue from sales of piped gas.
[2] The corresponding revenue did not contribute over 10% of the total sales of the Group.

5. OTHER GAINS AND LOSSES

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

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

6. OTHER INCOME

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

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSES

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

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

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

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

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

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

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

9. PROFIT FOR THE YEAR

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

10. DIVIDENDS

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

11. EARNINGS PER SHARE

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

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1st January, 2011	112,586	264,160	15,239	670,518	125,676	5,968	52,134	1,246,281
Exchange adjustments	5,320	9,580	609	41,696	7,240	315	2,567	67,327
Additions	48	348,734	–	4,282	22,498	1,070	11,363	387,995
Disposals/written-off	–	(6,421)	–	–	(1,579)	(144)	(956)	(9,100)
Transfer	7,099	(426,768)	–	383,616	36,053	–	–	–
At 31st December, 2011	125,053	189,285	15,848	1,100,112	189,888	7,209	65,108	1,692,503
Exchange adjustments	2,325	4,701	165	13,809	2,942	101	816	24,859
Acquisition of assets through acquisition of subsidiaries *(note 21)*	–	1,650	–	–	105	–	202	1,957
Additions	2,874	444,450	259	5,705	19,563	910	9,939	483,700
Disposals/written-off	–	–	–	(84)	–	(6)	(3,352)	(3,442)
Transfer	65,610	(232,809)	–	129,705	37,494	–	–	–
At 31st December, 2012	195,862	407,277	16,272	1,249,247	249,992	8,214	72,713	2,199,577
DEPRECIATION								
At 1st January, 2011	13,877	–	2,276	52,977	27,574	2,507	16,241	115,452
Exchange adjustments	1,047	–	70	3,592	1,874	182	2,727	9,492
Provided for the year	5,958	–	344	26,261	12,519	921	8,284	54,287
Eliminated on disposals	–	–	–	–	(766)	(76)	(687)	(1,529)
At 31st December, 2011	20,882	–	2,690	82,830	41,201	3,534	26,565	177,702
Exchange adjustments	417	–	19	1,587	770	60	390	3,243
Provided for the year	8,295	–	138	34,438	13,972	890	8,041	65,774
Eliminated on disposals	–	–	–	(7)	–	(3)	(2,709)	(2,719)
At 31st December, 2012	29,594	–	2,847	118,848	55,943	4,481	32,287	244,000
CARRYING VALUES								
At 31st December, 2012	166,268	407,277	13,425	1,130,399	194,049	3,733	40,426	1,955,577
At 31st December, 2011	104,171	189,285	13,158	1,017,282	148,687	3,675	38,543	1,514,801

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

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

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

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

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

13. OTHER INTANGIBLE ASSETS

	Development costs *HK$'000*	**Exclusive rights of operation** *HK$'000*	**Other operating rights** *HK$'000*	**Total** *HK$'000*
COST				
At 1st January, 2011	43,732	104,218	170,426	318,376
Exchange adjustments	2,238	3,283	7,683	13,204
Additions	–	1,810	–	1,810
At 31st December, 2011	45,970	109,311	178,109	333,390
Exchange adjustments	504	2,400	2,087	4,991
Additions	–	9,282	–	9,282
Acquisition of assets through acquisition of subsidiaries *(note 21)*	–	329,371	–	329,371
At 31st December, 2012	46,474	450,364	180,196	677,034
AMORTISATION AND IMPAIRMENT				
At 1st January, 2011	43,732	14,546	109,500	167,778
Exchange adjustments	2,238	673	4,377	7,288
Charge for the year	–	3,915	1,906	5,821
Impairment loss recognised, net	–	–	5,831	5,831
At 31st December, 2011	45,970	19,134	121,614	186,718
Exchange adjustments	504	236	868	1,608
Charge for the year	–	7,829	2,358	10,187
At 31st December, 2012	46,474	27,199	124,840	198,513
CARRYING VALUES				
At 31st December, 2012	–	423,165	55,356	478,521
At 31st December, 2011	–	90,177	56,495	146,672

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

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

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

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

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

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

Impairment testing on Unit A

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

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

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

Impairment testing on Unit C

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

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

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

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

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

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

Impairment testing on Unit D

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

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

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

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

15. INVENTORIES

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

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

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

Trade receivables

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

Other receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19. SHARE CAPITAL

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

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

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

20. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

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

21. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITIONS OF SUBSIDIARIES

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

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

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

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

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

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

22. CAPITAL COMMITMENTS

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

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

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

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

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

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

As at 31st December, 2012, the total bank borrowings increased by approximately HK$310,003,000 or 35.4% to HK$1,186,033,000 (2011: HK$876,030,000).

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

Financial resources

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

Working capital

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

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

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

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

On 11th April, 2011, the Company granted the share options to the Grantees to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 24th October, 2003 (the "Share Option Scheme"). The exercise price of share options granted was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant.

CHARGE ON THE GROUP'S ASSETS

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

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

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB15,000,000 (equivalent to HK$18,689,000) (2011: RMB28,060,000 (equivalent to HK$34,582,000)) with a bank as a condition precedent to a bank borrowing (2011: bank borrowing and the supply of natural gas from its suppliers).

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

CAPITAL COMMITMENTS

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

TRANSFER OF LISTING

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

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

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

BUSINESS REVIEW

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

Downstream Piped Gas Distribution

Nanjing Jingqiao Project

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

After completion of the transactions contemplated under the equity transfer agreement, Zhongyu Henan will own the entire equity interest in Nanjing Jingqiao.

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

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

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

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

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

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

Shaowu City Project

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

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

After completion of the transactions contemplated under the equity transfer agreement, Zhongyu Henan will own the entire equity interest in Shanghai Xuanmin and Shaowu City Xuanran.

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

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

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

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

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

Wuyishan Project

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

Second West-East Gas Pipeline Project

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

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

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

Price Link Mechanism

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

Major Operational Data

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

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

	2012	2011	Increase/ (Decrease)
Number of Exclusive Gas Projects *(Note a)*	**17**	15	2
– Henan Province	**12**	12	–
– Shandong Province	**3**	3	–
– Jiangsu Province	**1**	0	1
– Fujian Province	**1**	0	1
Connectable urban population ('000) *(Note b)*	**4,308**	3,525	22.2%
Connectable residential households ('000)	**1,231**	992	24.1%
New piped gas connections made during the year			
– Residential households	**137,647**	100,795	36.6%
– Industrial customers	**77**	68	13.2%
– Commercial customers	**450**	368	22.3%
Accumulated number of connected piped gas customers			
– Residential households	**669,884**	532,237	25.9%
– Industrial customers	**422**	345	22.3%
– Commercial customers	**2,234**	1,784	25.2%
Penetration rate of residential pipeline connection *(Note c)*	**54.4%**	53.0%	1.4%
Unit of piped natural gas sold ('000 m^3)	**704,087**	418,072	68.4%
– Residential households	**80,711**	52,568	53.5%
– Industrial customers	**551,519**	311,552	77.0%
– Commercial customers	**55,086**	40,924	34.6%
– Wholesale customers	**16,771**	13,028	28.7%
The piped natural gas usage per customer (m^3)			
– Residential household	**134**	109	22.9%
– Industrial customer	**1,438,121**	1,001,777	43.6%
– Commercial customer	**27,420**	25,578	7.2%
Unit of piped mixed gas sold ('000 m^3)	**37,008**	40,026	(7.5%)
Unit of piped coal gas sold ('000 m^3)	**60,473**	86,313	(29.9%)
Number of CNG Filling Stations			
– Accumulated	**12**	9	3
– Under construction	**8**	6	2
Unit of natural gas sold to vehicles ('000 m^3)	**39,486**	30,057	31.4%
The natural gas usage per station ('000 m^3)	**4,387**	1,861	135.7%
Unit of bottle LPG sold (ton)	**3,840**	5,503	(30.2%)
Total length of existing intermediate and main pipelines (km)	**2,509**	2,052	22.3%

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

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

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

Upstream CBM Exploration

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

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

FINANCIAL REVIEW

Overall

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

Turnover

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

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

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

Sales of Piped Gas

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

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

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

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

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

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

Gas Pipeline Construction

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

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

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

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

Operation of CNG Filling Station

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

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

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

Gross profit margin

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

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

Other gains and losses

Other gains increased by 162.9% to approximately HK$7,050,000 in 2012 from other losses approximately HK$11,208,000 in 2011. Other gains for the year includes: (i) net reversal of allowance for doubtful debts in other receivable of approximately HK$192,000 (2011: net allowance for doubtful debts in other receivable: HK$2,317,000); (ii) increase in fair value of investment properties of approximately HK$935,000 (2011: HK$56,000); (iii) net reversal of impairment loss recognised on amounts due from customers for contract work of approximately HK$3,083,000 (2011: HK$3,173,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year; (iv) net gain on disposal/written off of property, plant and equipment of approximately HK$2,898,000 (2011: net loss on disposal/written-off of property, plant and equipment: HK$6,476,000); which set off by other loss for the year includes net allowance for doubtful debt in trade receivables of approximately HK$58,000 (2011: HK$329,000).

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

Other income

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

Selling and distribution costs

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

Administrative expenses

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

Research and development costs

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

Finance costs

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

Income tax expenses

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

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

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

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

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

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

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

Profit attributable to owners of the Company

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

Earnings per share

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

Net assets value per share

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

The net assets value represents total assets minus total liabilities.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

Long positions in the Shares of the Company

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

Notes:

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

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

3. The Shares are directly held by the director.

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

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

(b) Interests of substantial shareholders of the Company

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

Long positions in the Shares of the Company

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

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange, China Gas Holdings Limited holds as to 100% equity interests of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.

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

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

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

COMPETING INTEREST

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

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

CORPORATE GOVERNANCE CODE

Since the Transfer of Listing, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the year, the Company has complied with all the applicable code provisions under the CG Code (after the Transfer of Listing) and the Corporate Governance Code set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM Board ("GEM Listing Rules") (for the period where the Company was listed on the GEM Board), except for the following deviation:

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

The Chairman of the Company is Mr. Wang Wenliang and the Joint Managing Directors (who have similar roles and responsibilities as those of a chief executive) consist of Mr. Wang Wenliang and Mr. Lui Siu Keung. As a result, the dual role that Mr. Wang Wenliang has as the Chairman and a Joint Managing Director may constitute a deviation from CG Code Provision A.2.1.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Since the Transfer of Listing, the Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, during the year, the Company confirms that the Directors complied with the required standard against which the Company and Directors must measure their conduct regarding transactions in securities of the Company set out in Chapter 5 of the GEM Listing Rules (for the period where the Company was listed on the GEM Board).

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the annual results of the Group for the year ended 31st December, 2012.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the year ended 31st December, 2012.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.zygas.com.cn under "Announcement" respectively. The annual report of the Company for the year ended 31st December, 2012 will be despatched to the shareholders by the end of March 2013 and will be published on the websites of the HKEX and the Company accordingly.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31st December, 2012 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (Chairman and Joint Managing Director), Mr. Lui Siu Keung (Joint Managing Director and Chief Financial Officer) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Directors and Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
ZHONGYU GAS HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 8th March, 2013