ENN 新奥

ENN Energy Holdings Limited

(Stock code: 2688)

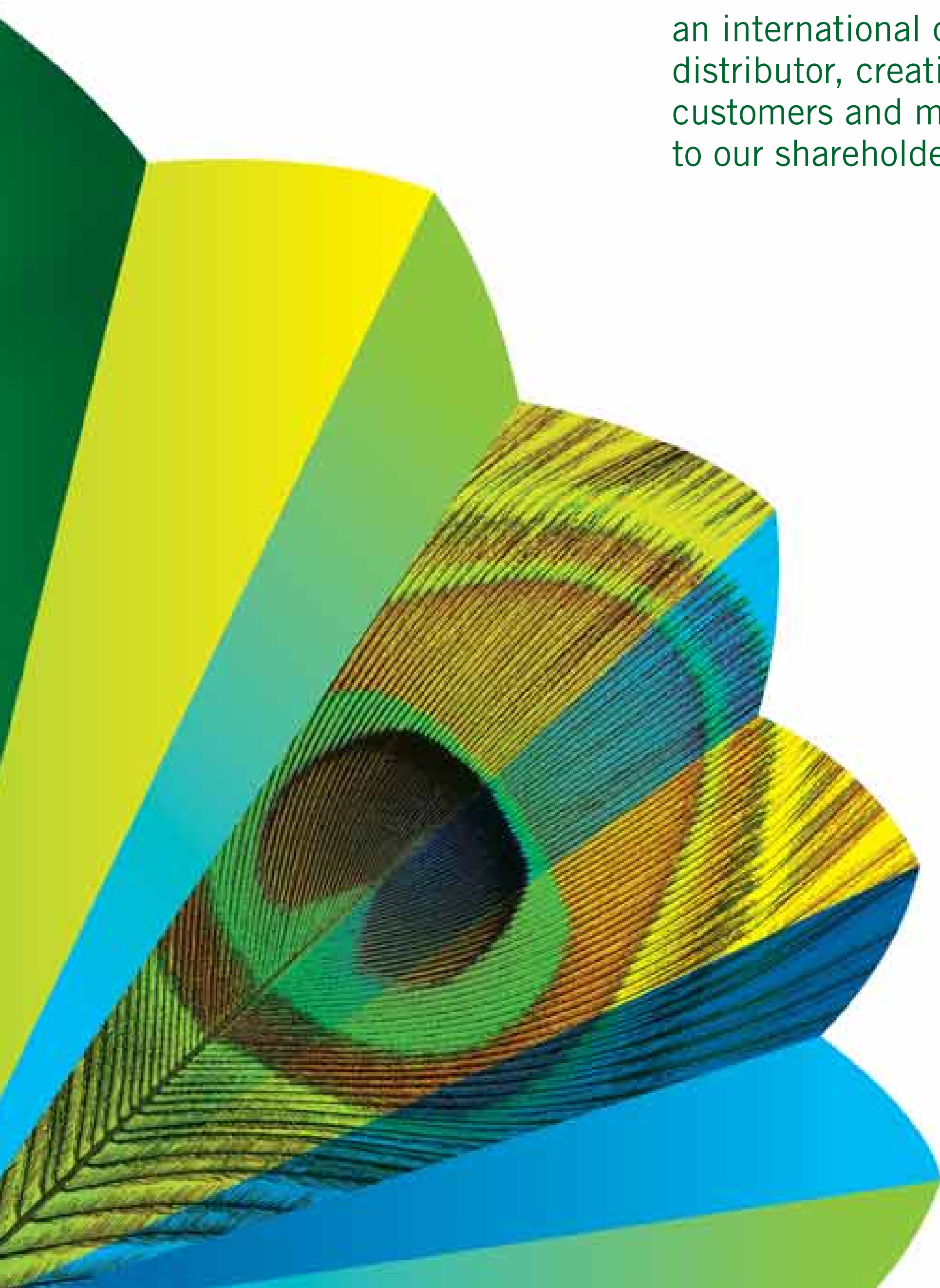
SUSTAINING ATTRACTIVE RETURNS

annual report 2012

ENN Energy & Innovation Ennovation

Leveraging on our solid foundation of energy distribution, we strive to reach new heights through strategic business development, sound execution ability, provision of innovative energy solutions, and prudent acquisition strategy.

We are committed to becoming an international clean energy distributor, creating values to our customers and maximizing returns to our shareholders.



Operational Locations (The PRC)

City	Connectable population
Inner Mongolia (1 project)	
42. Tongliao	768,000
Beijing Municipality (1 project)	
5. Pinggu	116,000
Hebei (15 projects)	
1. Langfang	642,000
27. Shijiazhuang	2,443,000
46. Luquan	91,000
71. Luanxian	82,000
89. Rongcheng	70,000
100. Zhengding New Zone, Shijiazhuang City	50,000
101. Jingxing	330,000
102. Shenze	40,000
103. Gaocheng	180,000
107. Wenan Industrial Park	-
109. Xinji	200,000
110. Lingshou	90,000
111. Wuji	80,000
112. Xingtang Development Zone	-
114. Luquan Green Island Development Zone	-
Henan (7 projects)	
22. Xinxiang	1,019,000
38. Kaifeng	856,000
47. Shangqiu	1,497,000
53. Luoyang	1,641,000
64. Xinan	103,000
70. Yichuan	100,000
106. Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	30,000
Anhui (10 projects)	
12. Bengbu	926,000
19. Chuzhou	393,000
20. Luan	340,000
24. Bozhou	224,000
28. Chaohu	368,000
56. Fengyang	110,000
61. Laian	85,000
63. Quanjiao	114,000
66. Guzhen	91,000
115. Jieshou Industrial Zone	-
Hunan (10 projects)	
34. Xiangtan	891,000
37. Changsha	3,639,000
40. Zhuzhou	1,016,000
77. Huaihua	441,000
85. Changsha County	299,000
86. Zhuzhou County	272,000
88. Yongzhou	604,000
92. Ningxiang	310,000
93. Wangcheng	150,000
113. Liling	220,000
Guangxi (3 projects)	
43. Guilin	851,000
49. Guigang	391,000
96. Guiping Industrial Park, Guigang City	–
Yunnan (2 projects)	
78. Wenshan	253,000
91. Kunming City Hi-tech Zone	40,000
Liaoning (4 projects)	
3. Huludao	477,000
4. Xingcheng	134,000
94. Dayou Linhai Economic Zone, Linghai City	20,000
117. Panjing Chemical Enterprises Zone	-
Shandong (13 projects)	
2. Liaocheng	572,000
6. Huangdao	528,000
7. Zhucheng	471,000
8. Chengyang	645,000
9. Yantai Development Zone	–
10. Yantai	1,802,000
13. Zouping	194,000
15. Laiyang	255,000
21. Rizhao	392,000
39. Jiaozhou	408,000
41. Jiaonan	394,000
98. Changqing Zone, Jinan City	644,000
105. Qingdao Sino-German Ecopark	-
Jiangsu (10 projects)	
11. Gaoyou	150,000
14. Taixing	240,000
16. Yancheng	899,000
17. Huaian	1,180,000
18. Haian	193,000
23. Xinghua	441,000
30. Wujin	980,000
36. Lianyungang	967,000
87. Hongze	381,000
95. Yancheng Environment Protection Industrial Park	–
Zhejiang (15 projects)	
25. Haining	227,000
26. Quzhou	269,000
29. Lanxi	130,000
31. Jinhua	139,000
32. Wenzhou	–
33. Longwan	339,000
44. Huzhou	224,000
50. Huangyan	602,000
51. Yongkang	228,000
55. Xiaoshan	683,000
62. Ningbo (Yinzhou)	483,000
69. Haiyan	101,000
72. Longyou	125,000
75. Nanxun	497,000
108. Wenzhou Wanquan Light Industrial Base	-
Fujian (10 projects)	
54. Quanzhou	1,093,000
57. Nanan	379,000
58. Huian	139,000
59. Shishi	99,000
60. Jinjiang	400,000
65. Dehua	101,000
68. Quangang	316,000
74. Yongchun	154,000
90. Anxi	121,000
104. Longyan Development Zone	170,000
Guangdong (16 projects)	
35. Dongguan	6,993,000
45. Zhanjiang	654,000
48. Shantou	1,478,000
52. Zhaoqing Development Zone	71,000
67. Zhaoqing	514,000
73. Sihui	472,000
76. Huadu	669,000
79. Guangning	81,000
80. Huaiji	125,000
81. Luoding	293,000
82. Xinyi	254,000
83. Fengkai	81,000
84. Lianzhou	155,000
97. Panyu Zone, Guangzhou City	1,764,000
99. Yunan	75,000
116. Jiangmen Hecheng Town Zone	-

Total: 55,521,000

CONTENTS

CORPORATE INFORMATION

OUR MISSION

INNOVATING CLEAN ENERGY, IMPROVING LIVING ENVIRONMENT, ENHANCING LIFE QUALITY.

Board of Directors

Executive Director

Wang Yusuo (Chairman)
Cheung Yip Sang (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Han Jishen
Zhao Shengli
Wang Dongzhi (Chief Financial Officer)

Non-executive Director

Zhao Baoju
Jin Yongsheng

Independent Non-executive Director

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau
Zhang Gang
Lim Haw Kuang

Company Secretary

Wong Chui Lai, CPA

Authorised Representatives

Yu Jianchao
Wang Dongzhi

Members of the Audit Committee

Kong Chung Kau
Wang Guangtian
Yien Yu Yu, Catherine
Zhang Gang
Lim Haw Kuang

Members of the Remuneration Committee

Jin Yongsheng
Yien Yu Yu, Catherine
Wang Guangtian
Kong Chung Kau
Zhang Gang
Lim Haw Kuang

Members of the Nomination Committee

Wang Yusuo
Jin Yongsheng
Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau
Zhang Gang
Lim Haw Kuang

Registered Office

Ugland House
P O Box 309
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal Place of Business in Hong Kong

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89 Queensway
Hong Kong

Head Office in The PRC

Building A, ENN Industrial Park
Xinyuan DongDao Road
Economic and Technological Development Zone
Langfang City
Hebei Province
The PRC

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Limited
Rooms 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

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

Legal Adviser

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China
China Construction Bank
Agricultural Bank of China
Bank of China (Hong Kong)

Website

www.ennenergy.com

E-mail address

enn@ennenergy.com

OPPORTUNITIES STRATEGIES EXPANSION GROWTH

CAPITALISE

ON INDUSTRY OPPORTUNITIES

The national trend to advocate energy saving and emission reduction and the promulgation of the 12th Five-Year Plan for Natural Gas Development has brought broader prospects for the natural gas industry. We will fully capitalise on such golden opportunities and speed up business expansion.





CHAIRMAN'S STATEMENT

WANG Yusuo | *Chairman*

WE ARE GAINING MOMENTUM TO GROW FURTHER.

Results of the Year

The year of 2012 was crucial to the implementation of China's 12th Five-Year Plan. Thanks to the concerted effort of its employees, the Group continued to maintain a substantial growth during the year in face of complicated macroeconomic condition and market environment. The turnover and profit attributable to shareholders for the year reached RMB18,027 million and RMB1,482 million respectively, representing increases of 19.6% and 18.3% over last year, while the earnings per share increased by 16.8% to RMB1.39.

In 2012, the Group secured 7 city-gas projects in the first half of the year and another 9 projects in the second half of the year, including 6 city-gas projects namely Xinji, Lingshou, Wuji, Xingtang Development Zone, Luquan Green Island Development Zone of Hebei Province, Liling of Hunan Province and 3 industrial park projects in Jieshou Industrial Zone, Jiangmen Hecheng Town Zone and Panjin Chemical Enterprises Zone. As a result, the number of projects secured by the Group in China increased to 117, and the total connectable urban population coverage increased by 1.01 million to 55.52 million. On the other hand, the Group continued to develop vehicle natural gas refuelling station business actively. During the year, 25 vehicle compressed natural gas ("CNG") refuelling stations and 67 vehicle liquefied natural gas ("LNG") refuelling stations were built and put into operation. As of the end of 2012, the total number of vehicle gas refuelling stations operated by the Group reached 330 and the volume of gas sold in the vehicle segment over the total volume of gas sold increased further to 14.5%. The growth in vehicle gas sales volume not only reflected the potential for greater development in vehicle gas refuelling station business, but also further secured the Group's future revenue from gas sales.

During the year, the Group completed piped natural gas connections for 1,122,407 residential households and 7,300 commercial/industrial ("C/I") customers (with total installed designed daily capacity of 7,826,433 cubic meters). As of the end of 2012 the accumulated number of connected residential households and C/I customers of natural gas were 7,720,152 and 30,597 (with total installed designed daily capacity of 33,382,200 cubic meters) respectively, while in terms of all piped gas users, the accumulated number of connected residential households and C/I customers reached 7,785,098 and 30,741 (with total installed designed daily capacity of 33,422,696 cubic meters) respectively. The sales volume of natural gas for the year grew by 24.2% to 6,225 million cubic meters as compared with last year. Accordingly, the Group has not only reached but even exceeded its operational and financial performance goals set in early 2012. The Group's ability to maintain satisfactory growth fully demonstrated the robust business development of the Group, our strong execution ability in increasing gas penetration of our existing projects, as well as the immense demand for and growth potential of natural gas in China.

Financial Position

As at 31 December 2012, the Group's cash on hand was equivalent to RMB6,156 million (2011: RMB5,869 million), and the total debts amounted to RMB11,242 million (2011: RMB10,672 million). The net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 47.7% (2011: 54.3%). As the Group deepened the gas penetration of existing projects and expanded the vehicle gas refuelling station business, revenue from gas sales has become the major source of income for the Group, generating long-term and stable cash flow and allowing the Group to enjoy stable financial resources to pursue sustainable development.

Corporate Management

During the year, we continued to foster the construction of information infrastructures and realised the online system for sales operation management, the construction of LNG refuelling stations and implemented the pilot plan of "smart card" throughout the country. Also, we promoted and implemented different modules in various corporations, including the system for allocation platform, enterprise resource planning, customer care and service, personal digital assistant, maintenance

of equipment and customer relationship management. Thus the efficiency and effectiveness of information processing was greatly improved. Meanwhile, the operational efficiency of the system was significantly enhanced through our continual efforts in system optimisation, enhancing the operational efficiency, launching activities of leading enterprises and deepening the application of data analysis. Furthermore, the business risks could be mitigated through strengthening the management of information security and fully investigating and addressing every hidden defect of the system.

In 2012, with the continuous use of innovative management tools like balanced scorecard, the Group formulated a market and strategic performance optimisation solution and implemented it in different planning segments such as the annual strategic conference, annual business goal and financial budget planning, so as to ensure that the Group's strategies were effectively delivered to subsidiaries for implementation and to optimise resource allocation according to the market and strategies.

The Group has always regarded safe operation as the lifeline of corporate development and continued to maintain a good record of safe operation in 2012. During the year, the Group continued to establish the health, safety and environmental management system as well as the "3-No" Campaign (no accidents, no personal injuries and no harmful acts to the environment). Meanwhile, the quality of safe management was fully improved through establishing safe management system; promoting and implementing star rating of corporate safety; the accreditation of staff responsible for safe operation; taking actions against the "3-Breaches" (i.e. breach of supervision regulations, breach of operation regulations and breach of labor discipline) and supervising various hidden dangers very seriously. Moreover, for the purpose of supporting the rapid development of the Group's gas supply facilities and customer base, improving the professional qualifications and expertise of employees and providing better customer services, the Group insisted on carrying out the accreditation of the technical qualifications of relevant employees. As of the end of 2012, the number of recognised employees was added to a total of over 7,000, ensuring the safe operation of the Group.

After three years' endeavor, the establishment of our service system was strengthened significantly. As of the end of 2012, we set up a comprehensive service quality monitoring and evaluation system under which an evaluation model on overall service quality has been effectively applied in the service performance management of all subsidiaries, enabling accurate and timely feedback on the service quality from each of them. The successful implementation of the service improvement through-train project resulted in 30 improvements achieved in the year, including the establishment and commencement of operation of 7 call centers, 4 corporate management centers and 1 recovery centre available for all customers. At the same time, the Group will improve the call centre operation and management system according to the International Customer Operations Performance Centre (COPC) standards, such that the professional management level and service capability of the Group can be enhanced. In February 2013, we passed the accreditation of COPC and thus became the first domestic call centre in the energy industry accredited by the COPC as well as the second domestic call centre which received the international accreditation from COPC simultaneously. In addition, since the launch of our "three-year service campaign" for our customers, there was a steady improvement in the quality of our services, as revealed by the Group's scores of 86.2, 87.7 and 89.2 points in the ENN Energy customer satisfaction evaluation done by a third party company.

International Awards

During the year, the Company has received a number of honours. In the first half of the year, we were honoured to be voted as the "Best CEOs" (Rank No. 1), the "Best CFOs" (Rank No. 1) and the "Best Investor Relations" (Rank No. 2) under the category of power sector in Asia in The 2012 All-Asia Executive Team organised by the Institutional Investor. Also, we received four honourable titles, namely, "China's Best Service Management", "China's Best Sales Office", "China's Outstanding Customer Service Representative" and "China's Best Customer Service Manager" in the Best Customer Service in China Award. In addition, "Transformation in China: Pioneer Enterprise in Promoting Low-Carbon Economy" was awarded to the Company and "Transformation in China: Personal Outstanding Contribution" was awarded to our Chief Executive Officer by the China Enterprises Co-Association and the Organising Committee of the Development of Non-Public Enterprises Forum. Apart from these, we were again voted as one of the "China's Most Promising Companies 2012" by The Asset and "2012 Asia's Fab 50" by Forbes Asia.

Our management team will continue to devote all our efforts to maintain this hard-earned achievement and continue to reach for higher accomplishments and honours.

Human Resources

As of the end of 2012, the Group had 23,771 employees (2011: 21,575 employees). In addition to accommodating the increasing number of energy-saving and emission reduction projects and vehicle gas refuelling station projects, the Group also increased its manpower to meet the demand arising from its other core businesses.

The Group has always adhered to its principle of "people-oriented" and considered talents as the vital source of our competitiveness and an indispensable factor for our future success and sustainable development. We believe that staff could provide satisfactory services to customers only if they are offered the opportunity of healthy development.

In 2012, the Group continued to facilitate the training system for young management and program of masters of engineering. As of the end of 2012, the Group nurtured a group of 44 outstanding young employees to be the future leaders. Fifteen of them have been promoted as leaders after a series of stringent trainings such as knowledge-based and special theoretical modules, on-the-job training and regular comprehensive evaluation. During the year, 57 excellent employees were also shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas under the program of masters of engineering.

To better implement its principles of creating and sharing values jointly and focus on the long-term development, commencing 2012, the Group successfully introduced an incentive mechanism under which Economic Value Added (EVA) became a major value measurement to evaluate the performance target and was directly linked to the year-end bonus. This mechanism was implemented in 11 subsidiaries on a trial basis. Due to positive outcomes, the scope of pilot test will be further expanded and the mechanism will be promoted to more subsidiaries in 2013.

Prospects

Energy, an essence for the human beings' survival and development, is of vital importance to the national economy, the people's livelihood and the national defense. To change the way of producing and using energy, adjust and enhance energy structure and to build a safe, stable, economical and clean energy-driven production system is strategically important to ensure that the economy and society can develop in a sustainable manner.

The year of 2012 was critical to the 12th Five-Year Plan, during which the economy gradually recovered and energy consumption continued to rise. According to the 2012 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2012 amounted to 3.62 billion tons of standard coal, up 3.9% over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 3.6%.

Under current energy consumption structure, carbon dioxide and sulphur dioxide emissions are amongst the highest in the world, severely impacted on China's environment. We are facing the urgency for energy saving and emission reduction. China has a coal-based energy structure and adopts extensive development and utilisation models, which exert immense pressure on the resources and the environment. In addition to an area of 1.2 million square kilometers being affected by acid rain, enormous water resources are consumed or polluted while the land is occupied and defiled due to the huge volume of shale. All these send China to the top rank of the world in terms of major pollutants and greenhouse gas emission. Apparently, our ecological environment can hardly afford such coal-based development anymore. In face of the increasing international pressure as a result of climate change, China has a pressing need for green transformation and development. Second, China continues to adopt the extensive development model and there is a pressing need for enhancement on the efficiency of energy consumption. While the development of China's service industry is far lagging behind, the low end and energy-intensive industry is disproportionately overdeveloped skewing towards energy-intensive industries, namely, steel, non-ferrous metals, construction materials and chemicals which represent approximately half of the total energy consumption and have high consumption level per unit of output. Energy consumption per capita in China has reached the world average, while the GDP per capita however was just half of the global level. In terms of energy consumption per unit of GDP, not only has China outdistanced the developed countries, but also beat other developing countries like Brazil and Mexico. The fact that the efficiency remains low is attributable to China's current development stage and the role she plays in international division of labour. It highlights China's problems such as adopting an extensive development model and unreasonable industry structure. In light of such issues, China is crying out for the implementation of dual control measures on both energy consumption and total consumption which forms a reversal mechanism and in turn strives to gain substantive progress in changing energy usage and adjusting energy structure.

The coal-based energy structure has resulted in escalating tension between energy needs and the pressure on the environment, and energy consumption pattern should be optimised urgently to promote the development and use of natural gas and other kinds of clean energy. Not only will this save energy and reduce emission, it is also the right strategy for China to achieve sustainable economic development. In the 12th Five-Year Plan for Energy Development promulgated by the PRC government on 1 January 2013, it expressly suggests that diversified development shall be an ongoing program. Initiatives should be made to increase the proportion of clean-and-low-carbon fossil fuel and non-fossil fuel while efforts should also be put in promoting cleaner

CHAIRMAN'S STATEMENT

and more efficient use of coal, substituting conventional energy, speeding up the process of modifying energy production and consumption structure. Meanwhile, the PRC government will uphold the ideal of low-carbon development by advocating environmental protection while striving to strike a balance between resources development and environmental protection. By doing so, we may create a win-win situation which allows us to achieve the objectives of environmental protection and development simultaneously, and develop an ecologically friendly energy structure.

Currently, natural gas accounts for 4.6% of China's primary energy consumption, quite a distance between the international average (23.8%). It is believed that the expanding urbanisation rate and the growing urban population size will add fuel to the demand for natural gas. By fostering the development of natural gas and raising the proportion of natural gas in China's primary energy consumption structure, China may effectively reduce the emission of carbon dioxide and fine particulate matter (PM2.5) and succeed in saving energy, reducing emissions and improving environment. The measures above represent a realistic approach for China to optimize and adjust energy structure while at the same time strengthens the citizens' consciousness on the urgency of energy saving and emission reduction.

Over the recent years, with the Chinese energy policies gradually taking place, considerable progress has been made in the areas of natural gas production and infrastructure construction. In 2012, the production volume of natural gas in China reached 107.7 billion cubic meters, an increase of 6.5% year-on-year. It is expected that the domestic natural gas supplies will reach 176.0 billion cubic meters by 2015, among which conventional natural gas accounts to approximately 138.5 billion cubic meters; coal gas ranges from 15.0 to 18.0 billion cubic meters; and gas developed from coal bed accounts to approximately 16.0 billion cubic meters. Particularly, China has an abundant reserve of shale gas. According to the plan of the Chinese government, by 2015, the proven reserves, recoverable reserves and production volume of shale gas will amount to 600 billion cubic meters, 200 billion cubic meters and 6.5 billion cubic meters respectively. By that time, China will have completed the nationwide review and evaluation in respect of the potential shale gas resources and will have acquired the core technology for exploring and developing shale gas. In the meantime, pursuant to the signed contracts, China's imported natural gas per annum will reach approximately 93.5 billion cubic meters by 2015. With respect to infrastructure, the national natural gas pipeline network has fallen into place. The West-East Pipeline II, which has an annual transmission capacity of 30 billion cubic meters, has come into full operation and started supplying gas during the year while the import LNG terminals at Ningbo, Zhejiang, with a capacity of 3.0 million tons has also gone online. This has basically formed a natural gas supply network that extends from west to east, north to south and the coasted areas to mainland. According to the plan of the Chinese government, during the 12th Five-Year period, the newly built natural gas pipelines (including branch lines) will reach 44,000 km and the transmission capacity of the newly built pipelines will reach approximately 150 billion cubic meters per year. The capacity of gas storage facilities will reach more than 20 billion cubic meters and account for 9% of the total natural gas consumption in 2015. The storage capacity for peak shaving and emergency needs will reach 1.5 billion cubic meters. At the end of the 12th Five-Year period, the network of pipelines consisting of West-to-East Pipelines, Sichuan-East Pipeline, Shaanxi-Beijing Pipelines and amid the coastal areas will be initially formed and connecting the nationwide trunk pipeline network of four major strategic import channels, major production areas, consumption areas and gas storage facilities, thus forming a gas supply landscape of multi-gas supply, multi-way peak shaving and seamless supply. By then, the natural gas penetration population will reach approximately 250 million or 18% of the total population. The construction of these facilities will ensure the use of natural gas in future.

To increase the efficiency of integrated energy utilisation, facilitate the development of emerging strategic industries, and promote energy production and usage patterns, the Chinese government plans to put extra efforts in promoting the construction of distributed energy demonstration project of natural gas during the period of the 12th Five-Year Plan. Also, the Chinese government intends to construct a regional distributed energy system and distributed energy system for buildings within the heavy loaded areas such as industrial park, tourist spots, ecological park and large-scale commercial facilities, while constructing integrated energy utilisation projects in the geologically favorable areas with renewable energy like solar energy, wind power and geothermal heat pumps. By 2015, around 1,000 natural gas distributed energy projects and about 10 natural gas distributed energy demonstration projects with different individual features will be constructed. During that period, we will also develop the main equipment of natural gas distributed energy which initially creates a system for the distributed energy equipment industry with our own patent. To realise the long-term rapid development, the Group continues to innovate its business model and becomes a leading player in this sector. During the year, our multi-generation projects cooperated with

Changsha Huanghua Airport have operated steadily and obtained the business license for power generation. Moreover, we commenced the construction of the projects of Zhuzhou Shennong Cultural Park and the Sino-German Ecopark, and executed the contracts of projects including Yancheng Tinghu Hospital, Shijiazhuang Zhengding Airport, Zhaoqing New Zone, Langfang Cloud Computing Data Centre and Zhuzhou Vocational Education Town.

According to the plan of the Chinese government, industrialization, urbanisation and green development will be the main theme during the period of the 12th Five-Year Plan and even in the coming decade for the national economic development. Meanwhile, in view of challenging situations such as constraints of resources, serious environmental pollution and the deterioration of ecosystem, we were dedicated to develop the green, recycling and low-carbon environment so as to build up a better country. In the course of transformation, natural gas is one of the low-carbon, economical, efficient and clean energies through a decade of development, China has built up a relatively comprehensive infrastructure and accumulated extensive experience in natural gas distribution. With its relatively matured development, the natural gas industry has promising prospect in terms of the scope and scale of application. Riding on this great opportunity, the Group will make significant contribution to environmental protection and energy sectors both within and beyond the country, while realizing the best interests of the shareholders, customers, staff, society and the corporate in the long run. Leveraging on the continuous support from our business partners, customers and shareholders as well as the excellent services provided by all staff, we are able to achieve various business targets. On behalf of the board, I would like to express my deepest thanks and gratitude to each of them.

Wang Yusuo

Chairman

26 March 2013

DEEPEN
REGIONAL PENETRATION

We are dedicated to improving the natural gas penetration rate of existing projects, developing more C/I customers in order to bring more stable and sustainable income sources for the Group.


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PROJECT OPERATIONAL DATA

Operational data as at 31 December 2012

	Operational location[1]	Year of establishment	Length of existing pipelines (km)[2]	No. of existing natural gas processing stations	Daily capacity of existing natural gas processing stations ('000m³)
1	Langfang	1993	484.1	4	988
2	Liaocheng	2000	342.6	3	1,000
3	Huludao	2000	344.6	2	300
4	Xingcheng[3]	2002	–	–	–
5	Pinggu	2001	136.5	1	300
6	Huangdao	2001	378.2	1	1,750
7	Zhucheng	2001	249.2	2	543
8	Chengyang	2001	421.0	3	600
9	Yantai Development Zone	2001	–	–	–
10	Yantai	2004	687.1	7	1,296
11	Gaoyou	2001	86.0	1	72
12	Bengbu	2002	375.9	1	960
13	Zouping	2002	176.1	1	600
14	Taixing	2002	190.4	2	396
15	Laiyang	2002	210.2	1	150
16	Yancheng	2002	560.1	4	1,650
17	Huaian	2002	597.0	2	580
18	Haian	2002	188.6	2	216
19	Chuzhou	2002	407.5	2	600
20	Luan	2003	178.4	1	480
21	Rizhao	2002	305.6	1	300
22	Xinxiang	2002	508.8	1	560
23	Xinghua	2002	146.4	1	50
24	Bozhou	2003	221.9	1	113
25	Haining	2002	307.0	2	396
26	Quzhou	2002	169.3	3	280
27	Shijiazhuang	2002	738.7	1	876
28	Chaohu	2003	174.3	2	210
29	Lanxi	2003	59.1	–	–
30	Wujin	2003	1,117.6	2	1,530
31	Jinhua	2003	115.6	2	210
32	Wenzhou	2003	89.5	1	120
33	Longwan[4]	2004	0.9	–	–
34	Xiangtan	2003	346.7	2	720
35	Dongguan	2003	1,283.4	4	3,932
36	Lianyungang	2003	541.9	2	675
37	Changsha	2003	1,434.7	7	2,400
38	Kaifeng	2003	661.2	2	1,040
39	Jiaozhou	2003	377.4	1	420
40	Zhuzhou	2003	425.8	1	1,020
41	Jiaonan	2003	282.0	1	837
42	Tongliao	2004	104.0	1	60
43	Guilin	2004	267.2	2	240
44	Huzhou	2004	372.1	2	648
45	Zhanjiang	2004	297.4	2	380
46	Luquan	2004	53.8	1	1,800
47	Shangqiu	2004	203.9	1	580
48	Shantou	2004	129.4	4	200
49	Guigang	2004	100.7	1	100
50	Huangyan	2005	125.5	–	–
51	Yongkang	2005	161.8	1	160
52	Zhaoqing Development Zone	2005	86.3	1	100
53	Luoyang	2006	1,188.5	3	1,060
54	Quanzhou	2006	284.3	5	620
55	Xiaoshan	1994	340.7	1	200
56	Fengyang	2005	71.8	–	–
57	Nanan	2006	88.6	1	660
58	Huian	2006	57.1	–	–
59	Shishi	2006	94.2	–	–
60	Jinjiang	2006	215.3	1	1,340
61	Laian	2006	69.0	–	–
62	Ningbo	2007	318.0	2	130
63	Quanjiao	2007	83.6	–	–
64	Xinan	2007	88.6	1	200
65	Dehua	2007	96.4	1	2,680
66	Guzhen	2007	1.1	–	–
67	Zhaoqing	2008	140.4	1	2,514

	Accumulated number of piped gas (including natural gas) customers			
	Residential households	Commercial/ industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	Number of vehicle gas refuelling stations
	197,754	1,186	904,762	7
	138,995	656	840,615	5
	192,035	459	297,491	7
	–	–	–	–
	30,685	164	216,448	–
	152,899	379	1,375,077	3
	89,262	186	251,538	2
	181,067	420	533,375	6
	–	–	–	–
	322,521	779	1,157,670	9
	40,323	183	39,362	–
	162,464	385	649,780	9
	37,216	115	522,705	3
	45,918	378	284,078	1
	56,761	235	164,838	3
	183,765	892	413,979	3
	203,181	438	673,227	7
	37,701	246	245,857	1
	108,251	549	487,678	2
	96,779	275	127,659	3
	114,160	227	267,533	2
	223,301	819	669,006	8
	39,815	187	66,400	2
	43,617	192	53,826	5
	45,118	268	455,873	2
	55,013	244	218,286	–
	677,958	990	1,491,286	19
	83,171	295	246,685	4
	12,932	84	117,582	–
	167,469	2,139	1,549,441	6
	43,550	205	118,188	–
	15,792	70	139,105	–
	606	–	–	–
	214,049	1,270	401,100	5
	271,580	2,082	2,596,847	18
	192,880	672	577,963	6
	1,001,120	3,136	2,766,826	18
	198,239	994	320,366	4
	96,246	422	495,241	2
	347,138	1,904	1,511,794	3
	84,804	154	245,474	3
	94,099	126	50,031	2
	111,115	153	72,433	2
	75,102	392	410,857	4
	89,633	373	381,797	4
	28,894	21	31,484	–
	90,371	324	77,646	4
	42,698	158	154,179	–
	32,816	96	34,942	–
	30,598	132	103,017	1
	13,893	198	417,515	–
	2,798	62	216,755	–
	303,963	685	1,284,645	8
	63,223	308	195,350	8
	139,415	359	355,416	3
	7,308	31	164,903	1
	13,672	100	497,913	1
	16,587	86	82,336	–
	12,170	180	236,407	–
	33,600	429	2,633,974	1
	15,535	82	180,819	–
	93,289	470	291,419	2
	27,899	117	69,639	–
	8,981	15	193,072	–
	2,959	252	243,495	–
	–	2	6,000	–
	36,072	138	96,280	2

PROJECT OPERATIONAL DATA

Operational data as at 31 December 2012

	Operational location[1]	Year of establishment	Length of existing pipelines (km)[2]	No. of existing natural gas processing stations	Daily capacity of existing natural gas processing stations ('000m³)
68	Quangang	2008	13.7	–	–
69	Haiyan	2008	27.9	1	240
70	Yichuan	2009	–	1	30
71	Luanxian	2009	5.6	1	1,200
72	Longyou	2009	58.3	2	180
73	Sihui	2009	41.0	1	36
74	Yongchun	2009	5.2	–	–
75	Nanxun[5]	2009	–	–	–
76	Huadu	2010	276.3	1	540
77	Huaihua	2010	48.8	1	120
78	Wenshan	2010	26.0	1	100
79	Guangning	2010	2.0	–	–
80	Huaiji	2010	2.1	–	–
81	Luoding	2010	9.0	–	–
82	Xinyi	2010	2.6	–	–
83	Fengkai	2010	1.5	–	–
84	Lianzhou	2010	–	–	–
85	Changsha County[6]	2010	–	–	–
86	Zhuzhou County[7]	2010	–	–	–
87	Hongze	2011	53.6	–	–
88	Yongzhou	2011	18.0	–	–
89	Rongcheng	2011	6.4	–	–
90	Anxi	2011	16.0	–	–
91	Kunming City Hi-tech Zone	2011	25.5	2	460
92	Ningxiang	2011	80.3	–	–
93	Wangcheng[6]	2011	–	–	–
94	Dayou Linhai Economic Zone, Linghai City	2011	37.0	1	60
95	Yancheng Environment Protection Industrial Park	2011	–	–	–
96	Guiping Industrial Park, Guigang City	2011	–	–	–
97	Panyu Zone, Guangzhou City	2011	183.5	4	1,272
98	Changqing Zone, Jinan City	2011	–	–	–
99	Yunan	2011	–	–	–
100	Zhengding New Zone, Shijiazhuang City[8]	2011	–	–	–
101	Jingxing	2011	6.4	–	–
102	Shenze	2012	3.5	–	–
103	Gaocheng	2012	–	–	–
104	Longyan Development Zone	2012	–	1	96
105	Qingdao Sino-German Ecopark	2012	–	–	–
106	Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	2012	–	–	–
107	Wenan Industrial Park	2012	–	–	–
108	Wenzhou Wanquan Light Industrial Base	2012	–	–	–
109	Xinji	2012	–	–	–
110	Lingshou	2012	0.2	–	–
111	Wuji	2012	0.7	–	–
112	Xingtang Development Zone	2012	–	–	–
113	Liling	2012	–	–	–
114	Luquan Green Island Development Zone	2012	–	–	–
115	Jieshou Industrial Zone	2012	–	–	–
116	Jiangmen Hecheng Town Zone	2012	–	–	–
117	Panjing Chemical Enterprises Zone	2012	–	–	–
Other project					
	Shanghai (CNG)				
	Shanghai (LPG)				
	Shanghai (DME)				
	Other gas refuelling station project				
TOTAL			**21,312.1**	**126**	**46,176**

Notes:

(1) Some operational locations are operated by two companies to separate the pipelines construction business and gas distribution business. The combined data of the companies in each operational location is shown in this table.

(2) Existing pipelines consist of intermediate pipelines and main pipelines.

(3) The project in Xingcheng is operated by Huludao Xinao Gas Company Limited as a branch company. The operational data is included in Huludao.

(4) The project in Longwan is operated by Wenzhou Xinao Gas Company Limited. The operational data is included in Wenzhou.

	Accumulated number of piped gas (including natural gas) customers			
	Residential households	Commercial/ industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m³)	Number of vehicle gas refuelling stations
	–	5	409,500	–
	–	31	81,598	1
	–	3	33,000	–
	792	6	42,914	–
	4,866	35	42,220	–
	5,415	36	104,640	–
	15	30	30,035	–
	–	–	–	–
	67,060	388	273,349	1
	6,295	10	3,560	1
	2,944	6	288	1
	392	–	–	–
	1,166	–	–	–
	310	–	–	–
	–	–	–	–
	370	1	3	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	9,367	46	58,363	–
	400	2	20,080	–
	1,977	8	1,200	–
	2,409	–	–	–
	168	17	67,070	6
	2,766	142	76,133	–
	–	–	–	–
	4,932	22	27,163	–
	–	–	–	–
	–	–	–	–
	77,804	378	148,657	–
	–	–	–	1
	–	–	–	–
	–	–	–	–
	2,384	4	14,500	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	112	2	6,138	–
	329	1	5,000	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
				4
				28
				1
				65
	7,785,098	**30,741**	**33,422,696**	**330**

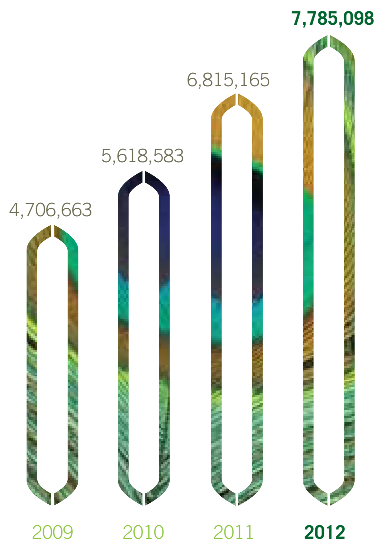
(5) The project in Nanxun is operated by Huzhou Xinao Gas Company Limited. The operational data is included in Huzhou.
(6) The projects in Changsha County and Wangcheng are operated by Changsha Xinao Gas Company Limited. The operational data is included in Changsha.
(7) The project in Zhuzhou County is operated by Zhuzhou Xinao Gas Company Limited. The operational data is included in Zhuzhou.
(8) The project in Zhengding New Zone, Shijiazhuang City is operated by Shijiazhuang Xinao Gas Company Limited. The operational data is included in Shijiazhuang.

OPERATIONAL AND FINANCIAL SUMMARY

Operational

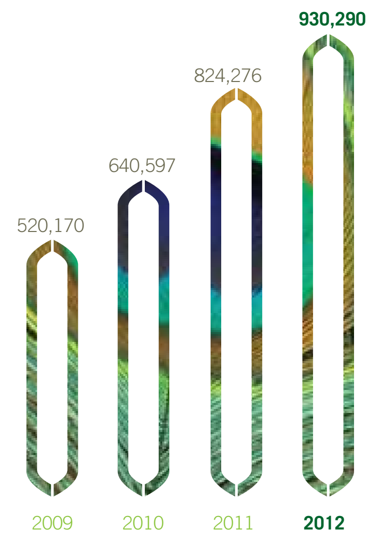
Accumulated Number of Gas Connections Made to Residential Households

Number of households



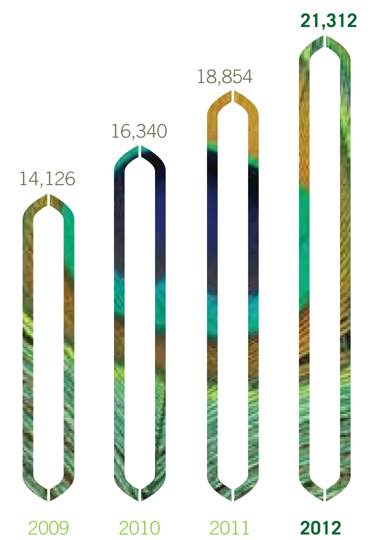
Units of Piped Gas Sold to Residential Households

'000m³



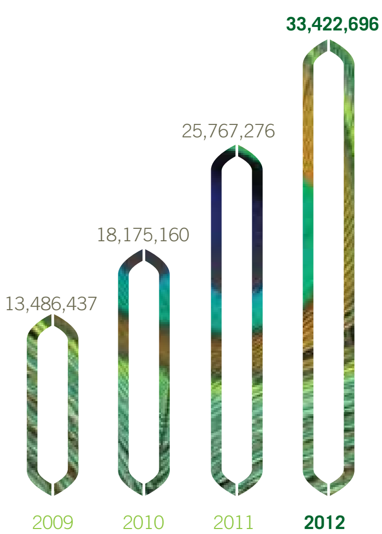
Length of Existing Intermediate Pipelines and Main Pipelines

km



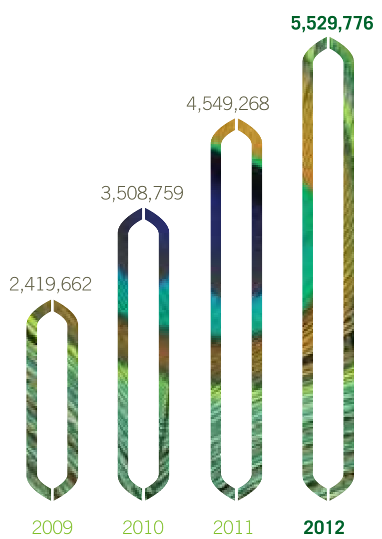
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m³

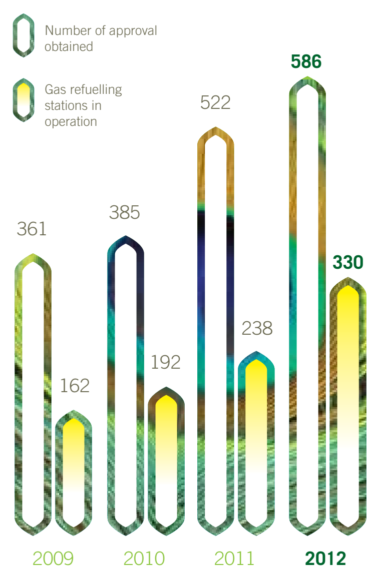


Units of Piped Gas Sold to Commercial/Industrial Customers and Vehicle Gas Refuelling Stations

'000m³

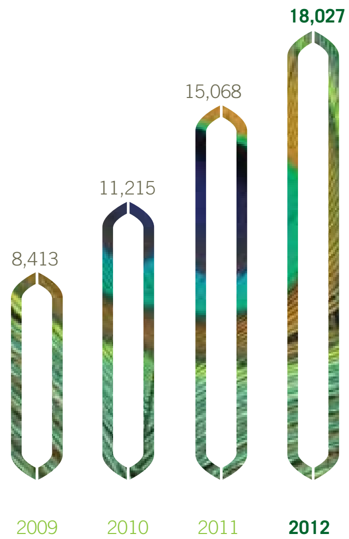


Number of Vehicle Gas Refuelling Stations



Financial

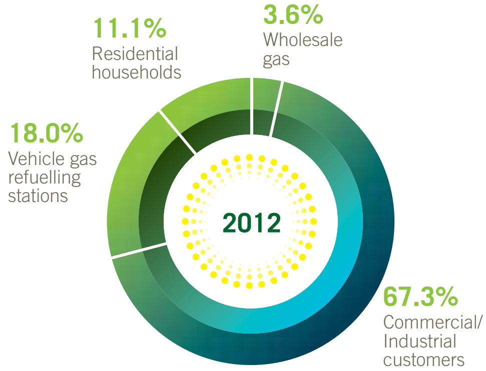
Revenue
RMB million



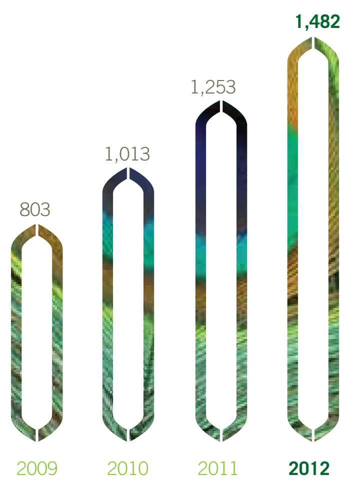
Revenue Breakdown by Customer

Connection Fees

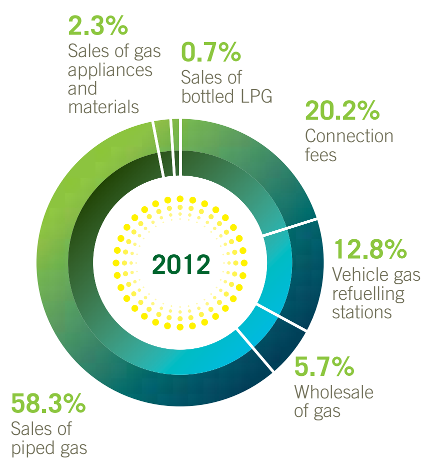
Sales of Gas

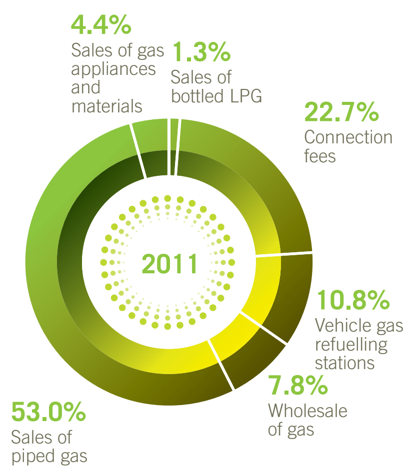


Profit for the Year Attributable to Owner of the Company
RMB million



Revenue Breakdown by Segment





COMPARISON OF TEN-YEAR RESULTS

	2012	2011	2010	2009 (Restated)
Highlights (Group)				
Number of connected households (Piped Gas)	**7,785,098**	6,815,165	5,618,583	4,706,663
Installed designed daily capacity for commercial/industrial customers (Piped Gas) (m^3)	**33,422,696**	25,767,276	18,175,160	13,486,437
Units of piped gas sold				
Residential households ('000 m^3)	**930,290**	824,276	640,597	520,170
Commercial/industrial customers ('000 m^3)	**5,529,776**	4,549,268	3,508,759	2,419,662
Length of existing pipelines (1) (km)	**21,312**	18,854	16,340	14,126
Number of existing natural gas processing stations	**126**	115	100	94
Daily capacity of existing natural gas processing stations (m^3)	**46,176,000**	32,003,000	23,970,000	14,638,000
Revenue & Profit (RMB million)				
Revenue	**18,027**	15,068	11,215	8,413
Profit before tax	**2,852**	2,327	1,811	1,383
Income tax expense	**(859)**	(660)	(410)	(304)
Profit for the year	**1,993**	1,667	1,401	1,079
Non-controlling interests	**(511)**	(414)	(388)	(276)
Profit and total comprehensive income for the year attributable to owners of the Company	**1,482**	1,253	1,013	803
Dividends	**371**	315	297	200
Assets & Liabilities (RMB million)				
Non-current assets	**18,137**	15,517	12,712	10,542
Associates	**798**	694	488	324
Jointly controlled entities	**2,271**	1,733	1,361	1,016
Current assets	**9,687**	8,944	5,079	4,754
Current liabilities	**(11,614)**	(9,520)	(7,489)	(5,364)
Non-current liabilities	**(8,609)**	(8,528)	(4,611)	(4,844)
Net assets	**10,670**	8,840	7,540	6,428
Capital & Reserves (RMB million)				
Share capital	**113**	110	110	110
Reserves	**8,540**	6,936	5,922	5,007
Equity attributable to owners of the Company	**8,653**	7,046	6,032	5,117
Non-controlling interests	**2,017**	1,794	1,508	1,310
	10,670	8,840	7,540	6,427
Earnings per share – basic (RMB)	**1.39**	1.19	0.97	0.78

(1) Length of existing pipelines consists of intermediate pipelines and main pipelines.

2008 (Restated)	2007	2006 (Restated)	2005	2004	2003
3,745,145	3,167,800	2,458,735	1,793,216	970,339	650,411
9,518,438	7,594,338	5,023,652	2,495,479	1,250,873	631,493
420,880	359,991	299,806	198,488	104,912	44,967
2,150,978	1,777,497	1,027,939	273,051	142,798	71,626
12,584	11,301	9,234	7,268	4,871	1,958
90	83	74	64	51	35
14,378,000	14,149,000	13,563,000	8,786,000	7,493,000	4,709,000
8,266	5,756	3,397	2,057	1,440	878
1,131	815	534	401	313	199
(260)	(109)	(50)	(39)	(9)	(3)
871	706	484	362	304	196
(240)	(199)	(104)	(92)	(53)	(13)
631	507	380	270	251	183
158	127	76	45	25	–
9,138	8,176	6,329	4,391	3,013	2,105
292	386	340	77	61	10
758	484	296	235	170	22
4,354	3,504	3,070	2,852	1,609	961
(5,428)	(3,957)	(2,699)	(1,683)	(1,262)	(1,033)
(3,697)	(3,932)	(3,467)	(3,112)	(1,231)	(588)
5,417	4,661	3,869	2,760	2,360	1,477
106	106	103	96	92	78
4,128	3,629	2,954	2,136	1,831	1,060
4,234	3,735	3,057	2,232	1,923	1,138
1,183	926	812	528	437	339
5,417	4,661	3,869	2,760	2,360	1,477
0.63	0.51	0.41	0.31	0.30	0.25


CNG
CNG 加气站
ENN新奥

EXPAND
BUSINESS CHANNELS

While sustaining the development of city-gas business, we will actively develop other core businesses including industrial park projects, vehicle/ship natural gas business, distributed energy projects, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL COVERAGE OF CONNECTABLE URBAN POPULATION OF

55.52

MILLION

IN 117 PROJECT CITIES WITH AN AVERAGE PENETRATION RATE OF ONLY 42.1%

Industry Review

Energy Consumption Pattern in China

The year of 2012 was key to China's 12th Five-Year Plan. As the economy was gradually picking up, energy consumption was on the rise. According to the Statistical Communiqué of the People's Republic of China on the 2012 National Economic and Social Development, total energy consumption for the year amounted to 3.62 billion tons of standard coal, upped by 3.9% over last year. The consumption of coal, crude oil, natural gas and electricity grew by 2.5%, 6.0%, 10.2% and 5.5%, respectively. Energy consumed for each ten-thousand RMB of gross domestic product ("GDP") decreased by 3.6%.

At present, the environment of China cannot afford the pollution caused by the existing energy consumption pattern, and the country is currently among those topping the lists in respects of carbon dioxide and sulphur dioxide emissions. As the nation's resources and environment continues to be drained, the urgency of energy saving and emission cut has been highlighted as follows:

Firstly, the pressing needs for sustainable development has been spotlighted by our delicate ecosystem. Energy consumption in China is dominated by coal, the exploitation of which is mostly primitive and exerts great pressure on the environment. Lots of water resources are either depleted or polluted while waste rock from coal mines is occupying and contaminating our precious land resources. The area affected by acid rain reaches 1.2 million square meters. The country topped the world in terms of total emissions of major pollutants and greenhouse gases. While China's ruthless exploitation has become unbearable for its ecosystem, international pressure to fight climate change has also increased to a point that urgently calls for green reform.

Secondly, as the development pattern remains rudimentary, China's energy efficiency urgently needs to improve. The development of service industries in China lags behind while backward energy-intensive industries are overdeveloped and make up too large a proportion of the economy. Four high energy consuming sectors, namely the steel-making, non-ferrous metal, construction materials and chemical industries, consume approximately half of the total energy consumption and have high energy consumption per unit of production. Although energy consumption per capita in China has reached world average, its GDP per capita amounts to only half of the world median. Chinese energy consumption per unit of GDP surpasses not only the developed world, but also developing countries such as Brazil and Mexico. The low energy efficiency is caused by the development status of China as well as the division of labor among nations. It also spotlights the backwardness of development and the irrationality of the industrial structure of China. The need for control over the total intensity and amount of energy consumed becomes paramount. Fortunately, driven by state-owned enterprises, steady and real progress has been made in the technological and structural reform.

The coal-based energy structure has heightened energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a timely manner by promoting the development and use of natural gas and other kinds of new energy. This does not only save energy and reduce emission, but is also the right strategy for China to achieve sustainable economic development. The Chinese government issued the 12th Five-Year Plan for Energy Development on 1 January 2013, clearly stating the goal of diversification through promoting the use of clean and low-carbon fossil and non-fossil fuels, advancing efficient and clean use of coal, phasing out conventional energy consumption with the help of science, and speeding up the optimisation of the energy production and consumption structures. The government is also determined to protect the environment by advocating for green and low-carbon development, coordinating the exploitation of resources and protection of the ecosystem, balancing protection and development, and fostering an energy development model that caters to both ecological and civilisation development.

According to the blueprint of the Chinese government, there are four major energy development targets to be achieved by the end of the 12th Five-Year Plan. The first is related to total energy consumption and efficiency. It has planned to limit both the total amount and intensity of energy consumed to 4 billion tons of standard coal and 6.15 trillion kWh of electricity, respectively, so as to reduce the energy consumption per unit of GDP by 16% as compared with 2010, and raise the overall energy efficiency to 38%. The second target is the optimisation of the energy structure. This involves increasing the proportion of non-fossil fuel consumption and installed non-fossil fuel power generators to 11.4% and 30%, respectively, raising the share of natural gas in primary energy consumption to 7.5%, and reducing the consumption of coal to approximately 65% share. Number three is the protection of the environment by reducing emissions of carbon dioxide per unit of GDP by 17%, sulphur dioxide and nitrogen oxide emissions per kWh of coal powered electricity to 1.5 grams each, and the amount of fine particles (PM 2.5) produced by the exploitation and usage of energy by over 30%, as compared with 2010. Lastly, the energy market will be restructured with sweeping reforms of the key electricity, oil and gas sectors, marketization of energy pricing mechanisms and further improvement in the treasury and taxation systems in respect of energy. It is expected that with sound and comprehensive energy laws, policies and standards in place, an energy industry management structure that fits with scientific advancements in the energy sector will mature.

The current share of natural gas in China's primary energy consumption amounts to 4.6%, representing a relatively large difference from world average (23.8%). As a result of accelerated urbanization and expanding urban population in China, demand for natural gas will be on the rise. Increasing the use of natural gas and its share in the nation's primary energy consumption can significantly reduce the production of greenhouse gases and pollutants, such as carbon dioxide and fine particles (PM 2.5), as well as save energy, reduce emissions and protect the environment. This represents a practical solution for China to optimise its energy structure and meet the urgent needs for energy saving and emission cut.

Gas Source

Following the robust development of the natural gas industry in China in recent years, the relevant infrastructure has been developed at an unprecedented scale and the supply is rising year by year. In 2012, the total consumption of natural gas in China reached approximately 147.1 billion cubic meters, representing a year-on-year increase of about 13%.

The West-East Pipeline II, which has an annual transmission capacity of 30 billion cubic meters, came into full operation and started supplying gas during the year. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sichuan-East Pipeline, Yulin-Jinan Pipeline, Sebei-Xining-Lanzhou Pipeline, the second Sebei-Xining-Lanzhou Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. Meanwhile, the construction of the China-Myanmar Natural Gas Pipeline with an annual transmission capacity of 12 billion cubic meters will be completed and will commence operation in 2013, which will satisfy much of the gas demand from the Group's projects in Yunan and Guangxi. In addition, West-East Pipeline III and IV will be completed and put into operation within the next few years. Besides, following the commencement of the liquefied natural gas ("LNG") terminals in Rudong, Jiangsu and Dalian, Liaoning in 2011, the LNG terminal in Ningbo, Zhejiang with a capacity of 3 million tons has been completed and launched during the year. Other LNG importation terminals in Qingdao of Shandong, Zhuhai and Beihai with the capacity of 3 million tons each will also be completed and put into operation progressively in the coming years. These projects are crucial for satisfying rising domestic natural gas demand and redressing the imbalance between supply and demand in China. According to the schedule of the Chinese government, a nation-wide pipelines grid consisted of the West-East, Sichuan-East, Shaanxi-Beijing and coastal pipelines as its arteries linking four major import terminals, major production areas, consumption areas and storage sites will be basically completed by the end of the 12th Five-Year Plan in order to achieve a stable and secured gas supply system with multiple sources and various kinds of facilities for peak sharing. On the supply front, domestic production and natural gas import will reach approximately 176 billion and 93.5 billion cubic meters, respectively, by 2015. This further ensures that the Group will be able to enjoy stable supply of piped gas in the long run.

Besides, relevant information shows that China is rich in unconventional natural gas resources, including shale gas, coalbed methane and coal gas. It is estimated that the reserve of these types of unconventional natural gas is over five times than that of conventional natural gas. China will put extra efforts in developing and producing unconventional natural gas during the period of the 12th Five-Year Plan. By 2015, the production volume of unconventional natural gas is expected to reach over 50 billion cubic meters. With the aim of encouraging the development of unconventional natural gas, the Chinese government has promulgated a number of preferential policies in terms of project approval, taxation and subsidies. For instance, it has announced to grant enterprises subsidies for coalbed methane exploitation at the rate of RMB0.2 per cubic meter. Meanwhile, a value added tax ("VAT") refund mechanism was implemented, pursuant to which VAT will be collected and then refunded to the project companies, free from any enterprise income tax, for their use in their research of coalbed methane technology and production expansion. In addition, the collection of resource tax from enterprise exploiting land-based coalbed methane will be suspended. To enterprises exploiting shale gas, financial subsidies of RMB0.4 per cubic meters will be offered. Furthermore, under the Shale Gas Development Plan (2011-2015), owners and applicants for shale gas exploration and mining rights may apply for relief from shale gas exploration and mining right fees. Importation of self-used equipment, including the importation of relevant technologies, with no domestic supply for encouraged projects such as shale gas exploration and mining will be exempted from tariff pursuant to the relevant regulations. A market-oriented pricing mechanism and preferential land use rights approval system were also implemented for shale gas production.

What is more, the Chinese government has plans to construct more gas storage facilities along the extensive gas pipelines according to the design of the nation-wide natural gas network in order to accelerate the expansion of gas storage capacity, which is of shortage currently, and guarantee emergency supply during peak time. It will invest hundreds of billion RMB to construct gas storage facilities with a capacity of 25.7 billion cubic meters by the end of the 12th Five-Year Plan so as to satisfy market demand during peak seasons and provide backup supply during gas shortage.

Apart from fully utilising such extensive gas pipeline network and LNG terminals, the

CONNECTED C/I CUSTOMERS REACHED

30,741 SITES,

TOTAL INSTALLED DESIGNED DAILY CAPACITY EXCEEDED 33.42 MILLION M^3

Group has also endeavored to search for other energy sources. The LNG processing plants built by the Group in Beihai, Yinchuan and Jincheng, with an annual production capacity of 400 million cubic meters in aggregate, has been in smooth operation. On the other hand, the Group also invested in the construction of 2 LNG processing plants in Tangshan, Hebei and Pingdingshan, Henan which have a designed daily production capacity of 300,000 cubic meters and 260,000 cubic meters respectively, and are expected to be completed and start operation in the near future. This will further increase the aggregate annual production capacity of LNG to nearly 600 million cubic meters and ensure more gas sources for the Group's gas projects nearby. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum one-time transportation capacity of over 15.6 million cubic meters, making the Group one of the largest onshore gas transporters in China and allowing it to secure more stable gas supply.

China's Policies on City-gas Industry

As the Chinese government attaches higher importance to environmental protection and efficient use of energy, more policies encouraging the use of clean energy and optimisation of energy structure have been promulgated. Subsequent to the Natural Gas Utilising Policy issued in 2007, the Circular Economy Promotion Law of the People's Republic of China promulgated in 2008 and Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment issued in 2010, the Chinese government further promulgated a number of policies during the year in relation to the promotion and development of the natural gas industry.

MANAGEMENT DISCUSSION AND ANALYSIS

With a view to enlarging the use of natural gas, promoting the orderly and healthy development of the natural gas industry, the Chinese government issued the Development Plan for Natural Gas during the 12th Five-Year Plan Period during the year. Focusing on natural gas infrastructure, this plan encompasses upstream exploration and exploitation as well as downstream market consumption of various kinds of natural gas, such as coalbed methane, shale gas and coal gas. It will be the key guidance on the healthy development of the Chinese natural gas industry during the period of the 12th Five-Year Plan.

According to this plan, the development of infrastructure in China during the period of the 12th Five-Year Plan will be as follows: newly built natural gas pipeline (including branch lines) will amount to 44,000 kilometers with an additional annual transmission capacity of about 150 billion cubic meters; the capacity of gas storage facilities will be increased by approximately 22 billion cubic meters, which will represent approximately 9% of the total natural gas consumption in 2015; storage of gas for emergency and peak season municipal usage will reach 1.5 billion cubic meters; in respect of gas sources, domestic natural gas supply will rise to about 176 billion cubic meters by 2015, in which approximately 138.5 billion cubic meters will be conventional natural gas, around 15–18 billion cubic meters will be coal gas, approximately 16 billion cubic meters will be onshore coalbed methane, and 6.5 billion cubic meters will be shale gas. According to concluded contracts, by 2015, China's annual import of natural gas will amount to approximately 93.5 billion cubic meters. In respect of the coverage of natural gas, urban population in China to consume natural gas will reach 250 million people, representing 18% of the total population, by 2015.

During the year, the Chinese government amended the Natural Gas Utilising Policy issued in 2007 (the "New Policy") so as to further encourage, direct and regulate the downstream usage of natural gas, develop a low-carbon economy, promote energy saving and emission cut, enlarge the share of natural gas in primary energy consumption and enhance the consumption efficiency. The New Policy took into account various factors such as the social, environmental and economic benefits of using natural gas, and the characteristics and consumption patterns

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VEHICLE GAS REFUELLING STATIONS

SPANNING ACROSS 71 CITIES IN CHINA

of different users. It then classifies natural gas users into preferred, permitted, restricted and prohibited users. Under this classification systems, the existing and target customers of the Group fit perfectly with the preferred class which includes city-gas, industrial and other users.

In addition, in order to faithfully implement Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment issued on 7th May, 2010, support private investment in municipal utilities businesses and development, and further the reform of the municipal utilities sectors, the Chinese government further promulgated the Implementing Opinions on Further Encouraging and Guiding Private Capital to the Municipal Utilities Sector on 8th of June 2012. Pursuant to these implementation opinions, private enterprises investing in municipal utilities development shall be treated equally with other investing parties without any onerous conditions. The government shall also provide favorable conditions for private investment such as establishing automatic pass through mechanism for city-gas and water supply industries.

To further increase the efficiency of energy utilisation, facilitate structural adjustment, energy saving and emission reduction, and promote the orderly diversification of the energy structure into natural gas, the Chinese government released the Guidelines for Developing Distributed Energy Systems (DES) for Natural Gas (hereinafter referred to as the "Guidance") on 9 October 2011. It clearly proposed the constructions of around 1,000 DES for natural gas and about 10 DES demonstration zones with different features during the period of the 12th Five-Year Plan. By 2020, DES should be promoted and used in key cities throughout the country with an installed capacity of 50 million kilowatt, and initial DES equipment industrialisation should have been achieved. The Chinese government further illustrated the focus and targets of the aforementioned natural gas DES development in its Development Plan for Energy During the 12th Five-Year Plan Period issued on 1 January 2013.

DES for natural gas is a highly efficient, modern and important way of using and supplying natural gas which can realise graded utilisation of natural gas through the multi-generation of coolness, heat and power by using natural gas as fuel. An integrated energy utilisation efficiency of over 70.0% can be achieved as a result, and the source of energy supply can be located near the load centre. Compared with the conventional centralised energy supply model, DES for natural gas is more efficient, clean, environmentally friendly, safe, flexible and economical.

The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy, enhance the efficiency of natural gas use and attracting investment to the natural gas industry. It is believed that the encouragement and support of the said government policies reveals enormous potential for the development of the natural gas industry, and the Group is well positioned to secure gas supply and attract new customers.

Business Review

The principal businesses of the Group are sales of piped gas, gas connection, construction and operation of vehicle gas refuelling stations, wholesale of gas, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances and materials.

Sales of Piped Gas

During the year, the Group's total sales volume of piped gas was 6.460 million cubic meters, up 20.2% when compared with last year, in which 6,225 million cubic meters were natural gas, representing an increase of 24.2% as compared with last year. The proportion of piped gas sold to residential households and C/I customers amounted to 14.4% and 67.3% respectively, representing an increase of 12.9% and 21.0% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously, revenue generating from gas sales has become the major source of income of the Group. The percentage of revenue from gas sales over total revenue significantly increased further from 72.9% last year to 77.5%, showing that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees, therefore improving and optimising its revenue structure.

The consistent optimisation of China's energy structure and the stringent execution of the government's energy saving and emission reduction policies also create more potential customers including C/I and vehicle gas users. On the other hand, the overall gas penetration rate of residential households remains at a rather low level of 42.1%, the Group therefore has room to deepen the gas penetration rate of residential households. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow of the Group.

Gas Connection

During the year, the Group continued to boost connection in existing gas projects, resulting in sustained increases in the overall connection rate every year. As a result, the revenue generated from

MANAGEMENT DISCUSSION
AND ANALYSIS

TOTAL NATURAL GAS SALES OF

6.23 BILLION M3

consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2012, the gas penetration rate for residential households of the Group's projects in China increased from 38.5% at the end of 2011 to 42.1%. With the continuous and rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2012, the accumulated length of intermediate and main pipelines constructed by the Group was 21,312 kilometers, and the number of existing natural gas processing stations reached 126. Hence, the daily natural gas supply capacity of the Group has reached 46.18 million cubic meters. As such, the natural gas supply capacity of the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 1,122,407 residential households, up 9.0% as compared with the number of new connections recorded last year. In spite of the stagnant real estate market in China in 2012, with the Group's strong ability in connecting new and existing residential buildings, the annual new connection targets set by the Group for the year has been surpassed. As of the end of 2012, the aggregate number of piped natural gas residential households in the Group's projects amounted to 7,720,152. Including other piped gas residential users, the total number of connected residential households reached 7,785,098. Supported by the Group's 16 new project cities as well as organic growth in population due to urbanization in its existing project cities in

China, the connectable population coverage of the Group grew to 55.52 million at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80.0% in each city, while the current gas penetration rate of the Group is only 42.1%. Meanwhile, the increasing rate of urbanization boosts population growth in the cities, resulting in consistent rises in population covered by the Group's existing projects. As such, the future development in the residential households market still has room for growth. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,810.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety and convenience have become more obvious, and natural gas has become the first energy choice in household activities such as cooking, water boiling and bathing. According to the Development Plan for Natural Gas During the 12th Five-Year Plan Period, China's population using natural gas will reach 250 million in 2015, representing an increase of 33% compared to the 188 million in 2010. Given the Group's capability in raising the gas penetration rate of its projects, it is believed that the gas penetration rate of the Group will enjoy a stable yearly growth.

Development of Commercial/Industrial ("C/I") Customers

During the year, the Group provided natural gas connections for 7,300 C/I customers (with total installed designed daily capacity of 7,826,433 cubic meters) and the average connection fee was RMB156 per cubic meter. As of the end of 2012, the aggregate number of piped natural gas C/I customers of the Group amounted to 30,597 (with total designed installed daily capacity of 33,382,200 cubic meters). Including other piped gas C/I users, the total number of connected C/I customers of the Group reached 30,741 (with total installed designed daily capacity of 33,422,696 cubic meters).

With persistent technological innovations and highly efficient marketing strategies, we provide system renovation to customers for energy saving and emissions reduction, so as to enhance their energy efficiency and reduce their energy costs. In addition, despite of the economic fluctuation last year, the inherent advantages of natural gas of being cleaner and cheaper over other energy sources have driven the steady growth in the number of our C/I customers, which in turn contributes to the sustainable growth of the Group. The current share of natural gas in China's primary energy consumption amounts to only 4.6%, representing a relatively large difference from world average (23.8%). Increasing the use of natural gas and its share in the nation's primary energy consumption can significantly reduce the production of greenhouse gases and pollutants, such as carbon dioxide and fine particles (PM 2.5), as well as save energy, reduce emissions and protect the environment. This represents a practical solution for China to optimise its energy structure and meet the urgent needs for energy saving and emission cut. The Chinese government has promulgated a host of policies to strongly support the development of natural gas. It is believed that more C/I customers will turn to cleaner, highly-efficient and economical natural gas.

Construction and Operation of Vehicle Gas Refuelling Stations

In 2012, the Group continued to regard vehicle gas refuelling business as one of its core businesses. During the year, 25 CNG refuelling stations were constructed, a total of 244 CNG refuelling stations were built and put into operation, covering 71 cities of the state, among which 20 were not gas project cities of the Group. In addition, as of the end of 2012, the accumulated number of construction approval for CNG refuelling stations obtained was 459.

Moreover, the vehicle/ship LNG refuelling stations business developed by the Group since 2011 has been developing smoothly. During the year, 67 LNG refuelling stations were built and put into operation, 17 were completed but not yet operated and 24 were under construction. Those stations are mainly located at ports, mining zones and logistics hubs to provide clean and economical natural gas for 3,852 heavy trucks and long-haul buses, exceeding the development target set for the year.

During the year, the sales of vehicle gas amounted to 14.5% of the overall sales of the Group with a sales revenue of RMB2,307 million, up 42.4% compared with the same period last year.

Emissions from vehicles are one of the principle sources of pollution, especially for highly populated districts and aerial space within 3 meters above the ground for human activities. Hence, with further efforts of the Chinese government to optimise energy structure, control pollution and enforce energy saving and emission reduction policies, vehicles using clean energy have become a ubiquitous trend. Furthermore, the absolute advantages of natural gas over gasoline and diesel in terms of economic and environmental benefits attract drivers to convert their vehicles to natural gas-fuelled vehicles. Thus, the prospect for the development of vehicle refuelling stations will be promising. In 2013, the Group will fully utilise its resources and networks to intensively develop this highly promising business, so as to contribute to environmental protection and maximise the Group's profitability.

Wholesale of Gas

In order to enhance the returns to our shareholders and fully utilise our natural gas transportation capacity to distribute remaining gas source, the Group continued to conduct the natural gas wholesale business during the year. The Group sold 249 million cubic meter of natural gas in this wholesale business, representing a decrease of 4.7% as compared to last year and accounting for 3.8% of the total volume of gas sold.

Sales of Bottled LPG

During the year, the Group sold 17,785 tons of LPG (2011: 36,402 tons), decreased by 51.1% over last year.

As the Group cut down the bottled LPG business that carries low gross profit margin, more resources can be allocated to piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of Gas Appliances

In addition to offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group operates its own production plant of stored-value card gas meters and the products are manufactured for the Group's connection business as well as selling to other gas distributors. It can lower the cost of connection, ensure accurate collection of gas usage charges and generate additional revenue for the Group at the same time.

Sales of Materials

The Group would make a substantial procurement of materials in the process of pipeline construction and gas connection works and could enjoy price discount due to the bulk purchase. We would then re-sell some of these materials we purchased at low prices, and thus increasing our revenue and profits.

The materials sold by the Group during the year amounted to RMB310 million, representing an decrease of 47.6% over last year and accounting for 1.7% of the Group's total revenue.

New Projects

Having secured 7 gas projects, the Group secured another 9 gas projects including 6 city-gas projects and 3 industrial park projects in the second half of the year. The city-gas projects included Xinji, Lingshou, Wuji, Xingtang Development Zone, Luquan Green Island Development Zone of Hebei Province and Liling of Hunan Province, among which 5 projects of Hebei Province are under the jurisdiction of Shijiazhuang City, where industries like mechanical processing, textiles, pharmaceuticals, food processing etc. are more developed. The Group can fully utilize the management experience of Shijiazhuang project and its competitive edges in the area to expand the gas sales volume. Becoming the Group's 10th gas project in Hunan province, Liling, with its well-developed ceramic industry, is known as the Porcelain City, which provides a favorable environment for promoting the use of natural gas. The 3 industrial park projects namely Jieshou Industrial Zone, Jiangmen Hecheng Town Zone and Panjin Chemical Enterprises Zone boast concentrated C/I users, which provide a highly favorable environment for the distribution of clean energy such as natural gas. The acquisition of the above projects will further expand the Group's gas sales volume.

On 13 December 2011, the Group formed a consortium with Sino Petroleum & Chemical Corporation ("Sinopec") to make a conditional voluntary general offer to purchase China Gas Holdings Limited. We believed that the consortium will benefit from the offer by making use of Sinopec's rich upstream resources and the Group's experience in downstream operations, creating synergies in the management and operation of natural gas projects and enhancing profits for all parties. As the preconditions have not been satisfied by 15 October 2012 (which was the long stop date), the consortium decided to drop the offer after due consideration. In spite of the cancellation of this offer, the Group will still proactively look for other quality natural gas projects and potential acquisition opportunities, and seize such opportunities in a cautious manner as always.

Gross and Net Profit Margins

During the year, the Group's overall gross and net profit margins were 26.9% and 11.1% respectively. Gross profit margin increased by 1.0% and net profit margin remained unchanged as compared with last year.

The increase in our gross profit margin was mainly due to the commencement of piped gas supply from West East II to some of our projects, which has lowered our cost of gas procurement. Coupled with the decline in overall procurement price of LNG in 2012, the gross profit margins of our piped gas and vehicle refuelling businesses increased by 2.8% and 1.8%, respectively, as compared with last year, accounting for a total of 71% of the Group's total revenue. Offsetting the effect of the decrease in the share of connection fee in our total revenue from 22.7% last year to 20.2%, the Group's overall gross profit margin has increased by 1.0%.

Excellent Management

Informatisation has made increasing contribution to the efficiency and effectiveness of the Group's management since its inception in 2006. During the year, the Group continued to promote informatisation and successfully introduced the online sales management system as well as an operation system and the unified membership card settlement system for the vehicle gas refuelling stations across the nation. Core systems like Enterprise Resources Planning (ERP), Customer Care Services (CCS), personalised digital assistant, equipment maintenance and customer relationship management systems were promoted in various group companies. The Group also persisted in the optimisation of its system so as to enhance their efficiency. It organised model enterprise demonstrations to promote the utilisation and analysis of collected data, which led to a significant enhancement in operational efficiency. Furthermore, it also managed its operational risks by enhancing the digitalised safety management system and conducting inspections actively so as to eliminate potential defects of the systems.

With the continuous use of innovative management tools like balanced scorecard, the Group formulated a market and strategic performance optimisation solution and implemented it in different planning segments such as annual business goal, financial budget planning and the annual strategic conference, so as to ensure the effective performance of the Group's strategies among frontline branches, formulate an optimised system that based on market and our performances, and optimise resource allocation according to the market and strategies. Meanwhile, the Group emphasised the importance of long-term corporate development by implementing a three-year job rotation system among senior management, perfecting the profit-sharing measures and promoting the Economic Value Added (EVA) project among various group companies during the year.

In order to unify its sales methods and materials, standardise operation procedures of sales, reinforce sales management and enhance the efficiency and effectiveness of its marketing efforts, the Group has commenced the construction of its market system and introduced this system to 60 group companies during the year. Such methods and procedures were further informatised and strengthened by the implementation of a comprehensive cycle management system based on market observation and business management data, thereby enhanced its sales effectiveness and nurtured a customer-oriented corporate marketing approach.

In 2012, the Group has fully launched its quantitative project management system in 10 key pioneer group companies with a view to reducing corporate costs and bringing down the difference between its purchases and sales of gas. Meanwhile, the Group also strengthened the application of its operating cost model by studying 18 group companies, 50 gas refuelling stations and 15 points of sales in order to establish cost efficiency standards for its key businesses, therefore effectively controlling its costs. In addition, the Group continued to promote the active risk management model and instigated internal investigations, assessments and reforms at various organisational levels so as to further enhance key risk prevention, business risk management and emergency response capacities of each group company, thereby raising their awareness of active risk mitigation.

Advanced Collection System for Gas Usage Charges

The Group continues to adopt the prepaid stored-card system for all projects. Under the system, every connected residential household receives a stored-value card and is required to prepay for the gas. This system can eliminate the possibility of bad debts completely and save huge administrative expenses, thus enhancing the Group's cash flow. Meanwhile, by fully utilising the informatisation programme jointly developed with IBM China Company Limited ("IBM"), the Group succeeded in introducing various functions, such as the auto-accounting of connection fee charged to customers, payment to personal accounts, and printing and integration of financial vouchers.

On the other hand, some of the Group's project companies have been cooperating with local banks, convenience stores and supermarkets in the collection of gas usage charges. Collecting gas usage charges through the network of banks and retail outlets has satisfactory results as it offers great convenience to customers.

Advanced Safety Operation Management System

The Group has always regarded safe operation as its top priority and continued to maintain a good record of safe operation in 2012. During the year, the Group continued to run with its health, safety and environmental management systems. Standardised management was applied to all production activities. Meanwhile, "3-No" Campaign (no accidents, no personal injuries and no harmful acts to the environment) has been carried out continuously. In addition, regarding safety management system, the Group implemented various key measures such as corporate safety assessments with star ratings, certification of safety officers, scrutiny to combat "3-Breaches" (breach of instructions, breach of operational rules and breach of labour discipline) and hidden risk inspections. They have comprehensively raised the quality of our safety management. The overall number of all kinds of accidents declined by 25% as compared with last year. On the other hand, the Group also continued with the "Year of Safety Management" campaign, under which hidden risks were addressed and safe operation was ensured.

Meanwhile, for the purpose of promoting safe operation in the Group, improving the professional qualifications and expertise of employees, providing better customer services and supporting the rapid development of the Group's gas supply facilities and customer base, the Group developed three levels of capability (i.e. junior, middle and senior) for seven job positions, such as workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipment, as well as gas sales representatives, in 2009. In 2012, the number of employees who gained the capability recognition was more than 1,400 people, adding to a total of over 7,000 recognised employees, ensuring the safe operation of the Group.

Customer Service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relationships between the Company and customers and the bedrock for the Group's sustainable business development.

During the year, the Group continues with the consistent use of informatisation programme to provide rapid and efficient services to customers, so the service quality is steadily raised. Since the launch of "three-year service campaign", according to the ENN Energy customer satisfaction evaluation carried out by a third party company, the Group scored 86.2, 87.7 and 89.2 points respectively for 2010, 2011 and 2012. The overall rates of punctual contract performance, completion of miscellaneous works and maintenance services were 96.92%, 98.69% and 99.37%, respectively. All at high levels.

Ever since the Group has started to strengthen its customer service infrastructure in 2010, our service system has been greatly enhanced. As of the end of 2012, we have established a comprehensive service quality monitoring and evaluation system under which an evaluation model on overall service quality has been effectively applied to the service performance management of different group companies, enabling accurate and timely feedback on the service quality of different group companies. The successful implementation of the "through-train" service improvement project resulted in 30 improvements achieved in the year. All our customers were now fully covered by 7 regional call centres, 4 direct corporate management centres and the disaster response centre of the Group. At the same time, the Group will improve the call centre operation and management system according to the International Customer Operations Performance Centre (COPC) standards such that the professional management level and service capability of the Group can be enhanced. The Group acquired COPC recognition in February 2013. We are the first call centre operator in the energy sector in China to receive COPC recognition, and we are also the second call centre operator in China to succeed in acquiring COPC recognition in one single application.

During the year, companies within the Group continued to acquire recognitions and compliments from customers and government authorities. In the "Best Customer Service Rating" activity jointly held by China Information Industry Association and China Association of Trade in Services, ENN Energy won 4 prizes, namely "Best Service Management", "Best Points of Sales", "Best Customer Service Representatives" and "Best Service Manager".

Under the Group's unified requirement, all group companies are required to visit customers regularly for safety checks on their gas appliances. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus strengthen their confidence in our services.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the key to our advancement, and that the staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also our faith that talents are the source of our competitiveness and the critical factor for our continued success and future development. Hence, the Group has always attached great importance to talent cultivation and recruitment.

In 2012, the Group continued with its training programme for young management-level staff and the scheme for our engineering professionals to obtain master's degree. As of the end of 2012, 44 outstanding young members have been trained to be our future leaders. After receiving a series of stringent and distinctive training modules on theoretical knowledge and corporate frontline practices and going through regular assessments, 15 members have climbed to senior management positions. In respect of helping our engineering professionals to obtain master's degree, 57 distinguished employees were sent to different renowned universities in China and overseas to further enhance their expertise.

In the meantime, in order to pave the career path for our junior staff and direct them towards more technical expertise, the Group implemented a technical professionalism assessment scheme to all group companies which was developed based on the staff performance system which was jointly established with IBM and by reference to third parties' experience. 1,980 professional technicians were covered by the scheme, accounting for one-thirds of all our professionals, among which 92 obtained first grade, 320 obtained second grade and 529 obtained third grade recognitions after undergoing standardised assessments, examinations on technical knowledge and question and answer sections on expertise. As the qualification system for professional technicians has been preliminary established, all our staff were encouraged to participate actively, hence laying the foundation for the complete roll-out of the qualification assessment system.

In order to implement a better environment for value-building and belief-sharing, the Group successfully introduced a target performance and bonus related incentive programme in 2012. It takes EVA as the principle assessment criteria. Its implementation in 11 group companies has achieved overall success. This programme will be put forward in more group companies in 2013.

As at 31 December 2012, the Group had 23,771 employees. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and Financial Resources

As at 31 December 2012, the Group's total debts amounted to RMB11,242 million (2011: RMB10,672 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB6,156 million (2011: RMB5,869 million, which include cash and cash equivalents of RMB3,349 million and a bank deposit of RMB2,520 million in the restricted bank deposits as an escrow for the pre-conditional offer as at 31 December 2011). The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 47.7% (2011: 54.3%).

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,863 million) with issue price of 99.274% and redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25.0% of the issued share capital of the Company throughout the term of the bonds.

As all the operations of the Group are in China, if RMB appreciates in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs for foreign currency debt will be lowered indirectly.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings Structure

As at 31 December 2012, the Group's total debts amounted to RMB11,242 million (2011: RMB10,672 million), including bank loans and notes of US$760 million (equivalent to RMB4,692 million) and bank loans of HK$159 million (equivalent to RMB129 million). Apart from the US$750 million senior notes, RMB1,200 million short-term debentures, RMB700 million medium-term notes and RMB500 million corporate bond which bear interest at fixed coupons and interest rates and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,307 million that are secured by assets with carrying amount equivalent to RMB81 million, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB2,737 million while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in PRC, revenues and expenses were mainly denominated in Renminbi. However, certain loans and senior notes issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies. The Group will monitor the market trends of interest rates and exchange rates closely and adopt appropriate measures when necessary.

Subsequent to the current financial year, the Group issued US$500 million zero coupon convertible bonds which have commenced trading on Singapore Exchange Securities Trading Limited on 27 February 2013. After deducting commissions and other issue costs, the net proceeds from the bonds issued will be approximately US$489 million, which is intended to be used by the Group for refinancing of its existing indebtedness and for general corporate purposes. This issue will improve the Company's debt structure, reduce its interest expenses and therefore enhance its cash flow and profitability.

CONTINUE
GROWTH ACHIEVEMENTS

Leveraging on the support brought by favorable policies, sound business foundations and outstanding development strategies, we are confident to continue growth achievements and create promising returns to shareholders.

OPPORTUNITIES STRATEGIES EXPANSION GROWTH

DIRECTORS AND SENIOR MANAGEMENT


WANG Yusuo


CHEUNG Yip Sang


ZHAO Jinfeng


YU Jianchao


HAN Jishen


ZHAO Shengli


WANG Dongzhi

SOUND CORPORATE GOVERNANCE PRACTICES BY A MANAGEMENT TEAM WITH

FOR

Executive Directors

Mr. WANG Yusuo, aged 49, is a Co-founder, the Chairman and an Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. Mr. Wang has over 26 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a PhD qualification in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a standing committee member of the Twelfth Chinese People's Political Consultative Conference. He has won various awards, including Outstanding Builder of Socialism with Chinese Characteristics, Outstanding Entrepreneurs in China and The China Charity Award. Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng. Mr. Wang is a director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company, and the Chairman of Hebei Veyong Bio-Chemical Co., Ltd., a company listed in the Mainland China. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

Mr. CHEUNG Yip Sang, aged 46, is an Executive Director and the Chief Executive Officer of the Company responsible for the execution of the Group's overall strategies, business expansion and decision-making on important affairs and the executive thereof. Mr. Cheung joined the Group in 1998. He graduated from The Chinese People's Armed Police Force Academy in 1990 with a bachelor's degree in Legal Studies and received an executive master's degree in business administration from the Peking University in 2006. Mr. Cheung has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry.

Mr. ZHAO Jinfeng, aged 45, is an Executive Director of the Company responsible for coordinating the Group's investment in PRC projects. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and received an executive master's degree in business administration from the Sino-Europe International Business School in 2006. Prior to joining the Group in 1993, Mr. Zhao worked at Langfang City Electrical Company responsible for resources management. Mr. Zhao has over 20 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju and the brother-in-law of Mr. Wang Yusuo.

Mr. YU Jianchao, aged 44, is an Executive Director and the Finance Director of the Company and has joined the Group since 1998. He graduated from the Hebei Economics and Finance College in 1993 and obtained an executive master's degree in business administration from the Sino-Europe International Business School in 2005. Prior to joining the Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co., Ltd. Mr. Yu has over 24 years of experience in accounting and financial management. Mr. Yu is a director of EGII, which is a controlling shareholder of the Company.

Mr. HAN Jishen, aged 48, is the Executive Director and the President of the Company responsible for assisting the Chief Executive Officer in business expansion. He joined the Group in 1993 and was graduated from Baoding Staff University in 1990 and obtained an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2007. He has over 20 years of experience in the gas fuel industry in the PRC. Mr. Han worked at the senior managerial level for over 10 years at the subsidiary level of the Company.

ESIGHT

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHAO Shengli, aged 43, is an Executive Director and the Chief Operations Officer of the Company responsible for assisting the Chief Executive Officer and the President in the daily operations and management of the Group. He received a master's degree in business administration from the Tsinghua University in 2000. Prior to joining the Group in 1999, he worked in the China National Nuclear Corporation. Mr. Zhao has extensive experience in corporate governance and market expansion.

Mr. WANG Dongzhi, aged 44, is an Executive Director and the Chief Financial Officer of the Company responsible for the financial and risk control and investor relations management of Group. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from the Beijing Chemical University. Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a master's degree in business management from the Tianjin University in 2003. Before joining the Group in 2000, Mr. Wang was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management.

Non-executive Directors

Ms. ZHAO Baoju, aged 47, is a Co-founder and a Non-executive Director of the Company. She has over 20 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Professional Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is a director and a controlling shareholder of EGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

Mr. JIN Yongsheng, aged 49, is a Non-executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in finance, and has obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 23 years of experience in legal practice. Mr. Jin is a director and the Vice President of EGII, which is a controlling shareholder of the Company. He is also a non-executive director of CIMC Enric Holdings Limited, a Hong Kong listed company.

Independent Non-executive Directors

Mr. WANG Guangtian, aged 49, is an Independent Non-executive Director appointed by the Company in 2001. He holds a master's degree in world economics from the Hebei University and has over 30 years of experience in financial and administrative management. He is currently a vice president of Guofu Group and a director and the general manager of Guofu (Hong Kong) Holdings Limited. He is also an independent non-executive director of China Oil And Gas Group Limited, a Hong Kong listed company.

Ms. YIEN Yu Yu, Catherine, aged 42, is an Independent Non-executive Director appointed by the Company in 2004. She is currently a director of Rothschild (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BScHons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 43, is an Independent Non-executive Director appointed by the Company in 2005. He is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate, a fellow member of the Association of Chartered Certified Accountants in England and the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

Mr. ZHANG Gang, aged 62,is a Senior Engineer who has extensive experience in quality, safety management and construction of energy-related projects. From August 1999 to April 2001, he worked in the State Administration of Quality and Technical Supervision, and served as a Deputy Director and Director subsequently in Boiler and Pressure Vessel Safety Supervision Bureau in the People's Republic of China ("PRC"). Mr. Zhang was then appointed as the Director in Special Equipment Safety Supervision Bureau of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC. In 2008, Mr. Zhang was appointed as the Chief Engineer of AQSIQ till June 2011.

Mr. LIM Haw Kuang, aged 59,has extensive experience in the oil and gas business. Mr. Lim joined Shell in Malaysia in 1978 and had served in various capacities in IT, Finance, Natural Gas, Exploration and Production, Oil Products, etc in different Shell operations globally. Mr. Lim was appointed as the Executive Chairman of Shell Companies in China in September 2005, a position he held until 1 January 2013. He retired from Shell on 1 March 2013. Mr. Lim has been appointed as an independent board director for Sime Darby Group, a Malaysian conglomerate, since September 2010, and is concurrently Chairman of the Boards of Sime Darby Energy & Utilities. With effect from 4 March 2013, Mr. Lim has also been appointed as a Non-executive Director of BG Group, a global gas major based in the UK. Mr. Lim graduated from Imperial College, University of London in 1978. In 1986, he graduated from International Management Institute, Geneva with a MBA in International Management. Save as disclosed above, Mr. Lim did not hold any other positions with any members of the Group, nor did he hold any other directorships or major appointments in any other listed public companies in the last three years.

Senior Management

Mr. LIU Yongxin, aged 50, is the Vice President of the Company mainly responsible for assisting the Chief Executive Officer in the expansion of overseas projects and international business. He graduated from Chang'an University in 1987 with a master's degree in vehicle engineering, and obtained a master's degree in finance from the Massey University in New Zealand in 1999. He was awarded the doctor of philosophy in finance and investment management from the Sun Yat-sen University in 2010. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP holding various important positions in the marketing, operation and business development departments. Mr. Liu has accumulated over 20 years' experience in operation and market expansion in the energy sector.

Mr. CHEN Fuchao, aged 56, is the Vice President and General Manager–Zhejiang and Shanghai areas of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. He graduated from the School of Mathematics of the Huaiyin Normal University in 1981, and the Nantong Management College in 1987 majoring in industrial economics. He is now studying for an executive master's degree in business administration from the Xiamen University. Prior to joining the Group in January 2004, Mr. Chen worked in the local government of Huaiyin City, Jiangsu Province as the primary person-in-charge of a government department. He has extensive experience in corporate management.

Mr. WANG Fengsheng, aged 43, is the Vice President and General Manager–Jiangsu region of the Company. He joined the Group in 1999 and is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion in Eastern China. Prior to joining the Group, Mr. Wang had worked in the Baotou Iron & Steel Group. He received an executive master's degree in business administration from the Cheung Kong Graduate School of Business in 2009. He has extensive experience in corporate governance.

Mr. XU Jinbiao, aged 46, is the Vice President and Director of Information System of the Company responsible for information system management. He joined the Group in 2000. He graduated from the China Textile University in 1991 with a bachelor's degree in applied computing, and obtained an executive master's degree in business administration from the Tsinghua University in 2006. Before joining the Group, Mr. Xu had worked in a sizeable state-owned enterprise as the person-in-charge of its information system department. Mr. Xu has wide exposure in the construction of information system in modern corporations.

Mr. LI Shuwang, aged 47, is the Vice President of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in energy trading and materials management. He graduated from the Hebei University of Technology with a bachelor's degree in engineering in 1988 and was awarded the doctor of philosophy in management from the Nation University of USA in 2007. He is currently a part-time professor in the Sun Yat-sen University. Before joining the Group in 2006, he had worked in the Sinopec Group, and was among the first group of constructors and engineers who was awarded the Registered Constructor and Senior Engineer qualification by the state. Mr. Li has extensive experience in the energy sector.

Mr. XUE Zhi, aged 49, is the Vice President and the Chief Engineer of the Company responsible for the management of engineering technology and quality, and gas source allocation. Mr. Xue graduated from the Chongqing Jianzhu University in 1984 with a bachelor's degree in engineering, majoring in urban gas. He also received an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2009. Prior to joining the Group in 2003, Mr. Xue worked at the Central and Southern China Municipal Engineering Design and Research Institute, and had also held the position of Deputy Manager in a gas company in Zhuzhou. Mr. Xue possesses over 28 years' experience in the gas industry and has extensive exposure in the management of gas engineering and innovation of engineering technology.

Mr. GAO Jihua, aged 45, is the Vice President and General Manager-Hunan, Hubei and Guangxi areas responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. He graduated from the Hebei University of Science and Technology in 1989 with a bachelor's degree in engineering, majoring in hotwork and was awarded an executive master's degree in business administration by the Peking University in 2009. Prior to joining the Group in 1999, he had worked in HanDan Metallurgical Machinery Plant and was holding senior managerial position. Mr. Gao has extensive experience in corporate governance and market development.

Mr. OUYANG Su, aged 56, is the Vice President and Executive Deputy General Manager in Central China, responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. He graduated from the China University of Political Science and Law as a postgraduate in economics and management in 2004. Prior to joining the Company in 2003, he had worked in Zhuzhou Water Supply Company and Zhuzhou City Gas Company. Mr. Ouyang has over 28 years of managerial experience in public utilities company.

Mr. YIN Xuexin, aged 48, is the Vice President of the Company responsible for the Group's energy trading. He joined the Group in 1987 and graduated from the Guanghua School of Management of Beijing University with an executive master's degree in business administration. Mr. Yin has extensive exposure in market development and corporate governance and has accumulated over 23 years of experience in the PRC gas industry.

Ms. WU Xiaojing, aged 45, is the Vice President of the Company and the General Manager of Southern China region responsible for assisting the Chief Executive Officer and the President in the management of projects in Southern China region and business development. Ms. Wu graduated from The Chinese People's Armed Police Force Academy in 1990 with a law degree majoring in immigration inspection and obtained an executive master's degree in business administration from Beijing University in 2011. Prior to joining the Group in 2004, she worked in the Southern China branch of Beckman Coulter, Inc. (美國貝克曼庫爾特公司) and was responsible for the business development in the region. Ms. Wu is experienced in corporate governance, market development, brand building and cultural development.

Ms. Lu Yufang, aged 55, is the Vice President of the Company and the General Manager of Northern China region responsible for assisting the Chief Executive Officer and the President in the management of projects in Northern China region and business development. Ms. Lu graduated from the Party School of the Central Committee of C.P.C. in 1993 majoring in economics and management and obtained the qualification of senior accountant. Prior to joining the Group in 2005, she worked in Shijiazhuang Gas Group as the Chief Accountant. Ms. Lu is experienced in corporate governance and financial management.

Ms. WONG Chui Lai, aged 35, is the Company Secretary of the Company, responsible for finance and implementation of good corporate governance. Prior to joining the Group in 2007, Ms. Wong worked at one of the big four international accounting firms. Ms. Wong graduated from the City University of Hong Kong in 2000, with a bachelor's degree in BBA(Hons) in Accountancy. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Associate of Chartered Certified Accountants (ACCA) in England. Ms. Wong has over 12 years of experience in accounting and financial management. Ms. Wong is the Senior Finance Manager of EGII, which is a controlling shareholders of the Company.

DIRECTOR'S REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2012.

Principal Activities

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled gas in the People's Republic of China (the "PRC").

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the Consolidated Statement of Comprehensive Income on page 82.

The Directors recommend the payment of a final dividend of HK$42,20 cents (equivalent to approximately RMB34.22 cents) per share to the shareholders on the register of members on 28 May 2013. The total dividend amount is approximately RMB371 million, and the retention of the remaining profit for the year is approximately RMB1,111 million.

Financial Summary

Details of the summary of the published financial information of the Group for the past ten years are set out on pages 20 to 21.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB2,878 million has been incurred in acquiring property, plant and equipment.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 16 to the Consolidated Financial Statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 43 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 85.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 39 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations by the Group for 2012 amounted to RMB20 million.

Directors' and Senior Management Members' Emoluments

Details of Directors' and senior management members' emoluments are set out in Note 12 to the Consolidated Financial Statements.

Directors

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:

Wang Yusuo (Chairman)
Cheung Yip Sang (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Han Jishen (appointed on 26 March 2013)
Zhao Shengli
Wang Dongzhi (Chief Financial Officer)
Cheng Chak Ngok (resigned on 28 September 2012)

Non-executive Directors:

Zhao Baoju
Jin Yongsheng

Independent Non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau
Zhang Gang (appointed on 17 December 2012)
Lim Haw Kuang (appointed on 26 March 2013)

In accordance with Article 99 of the Company's Articles of Association, Mr. Han Jishen, Mr. Zhang Gang and Mr. Lim Haw Kuang shall retire at the forthcoming annual general meeting ("AGM") of the Company, while in accordance with Article 116 of the Company's Article of Association, Mr. Cheung Yip Sang, Ms. Zhao Baoju, Mr. Jin Yongsheng, Mr. Zhao Shengli and Mr. Wang Dongzhi shall retire by rotation at the AGM. All the retiring Directors are eligible and offer themselves for re-election.

As of 31 December 2012, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

The Company has received an annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company, and each of the Independent Non-executive Directors is considered independent to the Company.

Disclosure of Interests

Directors' interests or short positions in shares and in share options

As at 31 December 2012, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Personal interests	Interests in shares Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 31 December 2012
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	1,096,000 (Note 2)	326,095,000 (Note 1)	–	327,191,000	–	327,191,000	30.22%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	1,096,000 (Note 2)	327,191,000	–	327,191,000	30.22%
Mr. Cheung Yip Sang	Beneficial owner	2,130,000	–	–	2,130,000	1,950,000	4,080,000	0.38%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	1,180,000	1,180,000	0.11%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	1,800,000	1,800,000	0.17%
Mr. Zhao Shengli	Beneficial owner	–	–	–	–	1,550,000	1,550,000	0.14%
Mr. Wang Dongzhi	Beneficial owner	–	–	–	–	1,255,000	1,255,000	0.11%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Wang Guangtian	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	–	–	200,000	200,000	0.02%

Notes:

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by ENN Group International Investment Limited ("EGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.

3. Mr. Cheng Chak Ngok resigned from directorships of the Company with effect from 28 September 2012, and his outstanding share options have been fully exercised before the lapse of the options.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 31 December 2012, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option scheme, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2012	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2012 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2012 (Aggregate)
Mr. Wang	14.06.2010	14.12.2010–13.06.2020	16.26	400,000 (Note 2)	(400,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	400,000 (Note 2)	(400,000)		
Ms. Zhao	14.06.2010	14.12.2010–13.06.2020	16.26	100,000 (Note 2)	(100,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000 (Note 2)	(100,000)		
Mr. Cheung Yip Sang	14.06.2010	14.12.2010–13.06.2020	16.26	1,950,000	(1,950,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	1,950,000	(1,950,000)		
Mr. Zhao Jinfeng	14.06.2010	14.12.2010–13.06.2020	16.26	1,180,000	(1,180,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	1,180,000	(1,180,000)		
Mr. Yu Jianchao	14.06.2010	14.12.2010–13.06.2020	16.26	1,800,000	(1,800,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	1,800,000	(1,800,000)		
Mr. Cheng Chak Ngok (Note 3)	14.06.2010	14.12.2010–13.06.2020	16.26	225,000	(225,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	225,000	(225,000)		
Mr. Zhao Shengli (Note 4)	14.06.2010	14.12.2010–13.06.2020	16.26	1,550,000	(1,550,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	1,550,000	(1,550,000)		
Mr. Wang Dongzhi (Note 4)	14.06.2010	14.12.2010–13.06.2020	16.26	1,225,000	(1,225,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	1,225,000	(1,225,000)		
Mr. Jin Yongsheng	14.06.2010	14.12.2010–13.06.2020	16.26	200,000	(200,000)	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	200,000	(200,000)		
Mr. Wang Guangtian	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Mr. Kong Chung Kau	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Total				17,860,000	(17,260,000)	600,000	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.
3. Mr. Cheng Chak Ngok resigned from directorships of the Company with effect from 28 September 2012, and his outstanding share options have been fully exercised before the lapse of the options.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2012, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Personal interests	Corporate interests	Family interests	Total interests in shares	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 31 December 2012
Mr. Wang	Beneficial owner and interest of controlled corporation	1,096,000 (Note 2)	326,095,000 (Note 1)	–	327,191,000	327,191,000 (L)	30.22%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	1,096,000 (Note 2)	327,191,000	327,191,000 (L)	30.22%
EGII	Beneficial owner	–	326,095,000 (Note 1)	–	326,095,000	326,095,000 (L)	30.11%
The Capital Group Companies, Inc.	Interest of controlled corporation	–	138,747,300 (Note 3)	–	138,747,300 (Note 3)	138,747,300 (Note 3)	12.81%
Capital Research and Management Company	Investment manager	–	129,166,700	–	129,166,700	129,166,700 (L)	11.93%
Commonwealth Bank of Australia	Interest of controlled corporation	–	84,760,000	–	84,760,000	84,760,000 (L)	7.83%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	–	63,517,805	–	63,517,805	63,517,805 (L) (including 57,688,034 (P))	5.87%

Notes:

1 The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. Of these shares, 129,166,700 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.)
4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2012, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2012, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Option Scheme

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

Details of the share option scheme are set out in Note 47 to the Consolidated Financial Statements and the section headed "Directors' rights to acquire shares" in this report.

The following table discloses details of the Company's share options held by the employees (including Directors) and movements in such holdings under the 2002 Scheme during the year:

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2012	Number of shares involved under options exercised during the year	Number of shares subject to outstanding options as at 31 December 2012 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2012 (Aggregate)	Weighted average closing price of shares immediately before the date of exercise of options (HK$)
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	8,930,000	(8,630,000)	600,000	0.05%	28.43
	14.06.2010	14.06.2012–13.06.2020	16.26	8,930,000	(8,630,000)			
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	6,815,000	(6,815,000)	180,000	0.02%	28.45
	14.06.2010	14.06.2012–13.06.2020	16.26	7,815,000	(7,635,000)			
Total				32,490,000	(31,710,000)	780,000	0.07%	–

Note:

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

No share option was granted, lapsed or cancelled during the year.

Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions

During the year, the Group has entered into the transactions and arrangements as described below with persons who are "connected" for the purposes of the Listing Rules.

Non-Exempt Continuing Connected Transactions

(A) On 31 December 2010, those Wang Family Companies (Note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group.

Property Management Services

Service providing party (Note 1)	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Langfang Elephant Club Property Management Company Limited ("Elephant Club Management")	Langfang Xinao Gas Company Limited	1.1.2012	1 year	Office building in Langfang city	2,000,000
(ii) Langfang Elephant Club Property Services Company Limited ("Elephant Club Services")	Xinao Gas Development Company Limited	1.1.2012	1 year	Office building in Langfang city	2,716,000
(iii) Elephant Club Services	Langfang Xinao Gas Company Limited	1.1.2012	1 year	Gas processing station in Langfang city	230,000
(iv) Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2012	1 year	Office building in Langfang city	2,600,000
(v) Elephant Club Services	Langfang Xinao Gas Equipment Company Limited	1.1.2012	1 year	Office building in Langfang city	720,000
(vi) Elephant Club Services	Xinao Energy Logistics Company Limited	1.4.2012	1 year	Office building in Langfang city	1,552,000
(vii) Elephant Club Services	Xinao Energy Trading Company Limited	1.4.2012	1 year	Office building in Langfang city	282,000
					10,100,000

(B) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies has agreed to provide the Group with supporting services, including but not limited to employees training, catering services, information technology support and maintenance, legal and administrative services.

Supporting Services

Service providing party (Note 1)	Service accepting party	Contract date	Services	Contract sum (RMB)
• Langfang Tongcheng Vehicle Services Company Limited • Xinao Group Elephant Club Hotel Company Limited • Elephant Club Services • Xinao Group Company Limited • Xinbo Zhuochang Technology (Beijing) Company Limited • Xinao Technological Development Company Limited • Beihai Ovation International Travel Agency Company Limited • Beihai Travel Reception Service Centre Company Limited	Subsidiaries under ENN Energy Holdings Limited	1.1.2012	• Transportation services • Hotel services • Catering services • Repair and maintenance services • Cultural services • Provision of technical services • Provision of expert • Sharing services	37,206,000

(C) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide maritime transportation services to the Group for the transportation of energy including but not limited to liquefied petroleum gas, compressed natural gas and liquefied natural gas.

Maritime Transportation Services

Service providing party (Note 1)	Service accepting party	Service	Contract sum (RMB)
(i) Xinao Maritime Transportation Company Limited	Xinao Energy Trading Company Limited	Transportation of energy	15,120,000

(D) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide energy technology supporting services to the Group, including but not limited to solutions, project development, sub-contracting (construction services related), operational guidance, basic management and related training.

Energy Technology Supporting Services

Service providing party (Note 1)	Service accepting party	Service	Contract sum (RMB)
(i) Xinao Energy Services Company Limited	Subsidiaries under ENN Energy Holdings Limited	Energy technological support	35,064,000

The auditor of the Company has conducted an engagement with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and has provided a letter to the Board of Directors of the Company confirming that based on the procedures carried out on the continuing connected transactions by the auditor of the Company:

(a) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report have not been approved by the Company's Board of Directors.

(b) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(c) with respect to the aggregate amount of each of the continuing connected transactions disclosed in this report, nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Company's announcement dated 31 December 2010 made in respect of each of the continuing connected transactions.

Exempted Connected Transactions

(A) Gas Connection Service

	Service providing party	Service accepting party	Service	Contract sum (RMB)
(i)	Xinao Gas Development Company Limited	Langfang Xinao Property Development Company Limited (Note 1)	Gas connection for residential and commercial/industrial ("C/I") customers	2,476,000
(ii)	Luoyang Xinao Huayou Gas Company Limited	Xinao Energy Services (Shanghai) Company Limited (Note 1)	Gas connection for C/I customer	500,000
(iii)	Bozhou Xinao Gas Engineering Company Limited	Bozhou City Construction Investment Company Limited (Note 2)	Gas connection for residential customers	852,000
				3,828,000

(B) Construction Service

	Service providing party	Service accepting party	Service	Contract sum (RMB)
(i)	Shantou City Chenghai Gas Construction Company Limited (Note 2)	Shantou Xinao Gas Company Limited	Construction of pipeline	5,273,000
(ii)	Langfang Xinao Solar Energy Integration Company Limited (Note 1)	Xinao Energy Logistics Company Limited	Installation of solar panel	7,359,000
(iii)	Langfang Xinao Solar Energy Integration Company Limited (Note 1)	Langfang Xinao Gas Company Limited	Installation of solar panel	650,000
				13,282,000

(C) Property Leasing Service

	Service providing party	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Changsha City Gas Industry Company (Note 2)	Changsha Xinao Gas Company Limited	1.1.2012	1 year	Office building, street store and warehouse in Changsha City	1,718,000
(ii)	Changsha City Gas Industry Company (Note 2)	Xinao Gas Engineering Company Limited	1.12.2011	3 years	Warehouse in Changsha City	72,000
(iii)	Langfang Xinao Gas Company Limited	Xinao Group Company Limited (Note 1)	1.1.2011	3 years	Office building in Langfang city	1,475,000 (including RMB436,000 management fee)
(iv)	Xinao Group Company Limited (Note 1)	Xinao Gas Development Company Limited	1.1.2011	3 years	Office building in Langfang city	2,596,000
						5,861,000

(D) *Land Leasing*

Lessor (Note 2)	Lessee	Contract date	Contract period	Property	Contract sum (RMB)
(i) Bozhou City Construction Investment Company Limited	Bozhou Xinao Gas Company Limited	21.7.2012	10 years	Land parcel on which gas refuelling station is located	100,000
(ii) Xinxiang City Public Transportation Company	Xinxiang Xinao Gas Company Limited	30.3.2012	1 year	Land parcel on which gas refuelling station is located	160,000
(iii) Xinxiang City Public Transportation Company	Xinxiang Xinao Vehicle Gas Company Limited	1.1.2010	5 years	Land parcel on which gas refuelling station is located	160,000
					420,000

(E) *Transportation Service*

Service providing party	Service accepting party	Service	Contract sum (RMB)
Tongliao City Rixin Natural Gas Company Limited (Note 2)	Xinao Energy Logistics Company Limited	Transportation of energy	1,803,000

(F) *Purchase of materials*

Seller	Buyer	Transaction	Contract sum (RMB)
(i) Xinao Solar Energy Company Limited (Note 1)	Xinao Energy Logistics Company Limited	Purchase of materials	1,924,000

(G) *Supporting Services*

Service providing party	Service accepting party	Service	Contract sum (RMB)
Changsha City Gas Industry Company (Note 2)	Changsha Xinao Gas Company Limited	Comprehensive services	7,500,000

(H) *Purchase of Property*

Seller	Buyer	Transaction	Contract sum (RMB)
Beihai Xinao Gas Company Limited	Beibu Gulf Travel Company Limited (Note 1)	Purchase of office building	7,900,000

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any general meeting of the relevant company) by Mr. Wang, the Chairman, an Executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a Non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Group during the year.

2. Minority equity interest holder of one or more non-wholly-owned subsidiary(ies) of the Company who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary, thereby being connected persons of the Group.

3. Most subsidiaries, jointly-controlled entities and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

In the opinion of the Independent Non-executive Directors, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Other than as disclosed above, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Event after the Reporting Period

Details of significant event occurring after the reporting period are set out in Note 57 to the Consolidated Financial Statements.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in the section headed "Directors' rights to acquire shares" and the details of share options disclosed in Note 47 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2012.

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue attributable from the Group's five largest customers were less than 30% during the year.

Pre-Emptive Rights

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

Purchase Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. During the year and up to 25 March 2013, members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all Independent Non-executive Directors. Mr. Zhang Gang and Mr. Lim Haw Kuang, Independent Non-executive Directors, were appointed as additional Audit Committee members of the Company on 26 March 2013. Three Audit Committee meetings were held during the financial year, and the Audit Committee has reviewed the audited annual accounts for 2011 and the unaudited interim accounts for 2012. The Audit Committee has also reviewed the annual results and the audited annual accounts for 2012 at the audit committee meeting held on 25 March 2013.

Remuneration Committee

The Company's Remuneration Committee was established on 31 December 2004. As as the date of this report, the Remuneration Committee is composed of one Executive Director, namely, Mr. Yu Jianchao, and three Independent Non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang. The Remuneration Committee's responsibilities include the review of the Company's policy for remuneration of Directors and senior management and determination of the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments and making of recommendation to the Board on the remuneration of Non-executive Directors. One Remuneration Committee meeting was held during the financial year.

The Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) (the "Code") as contained in Appendix 14 to the Listing Rules throughout the year except the deviation from Code Provision A.6.7 and E.1.2. Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting held on 26 June 2012 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the Ex-executive Director and Ex-company Secretary of the Company, attended and acted as the chairman of the said annual general meeting. In addition, Ms. Zhao Baoju and Mr. Jin Yongsheng (Non-executive Directors) and Mr. Wang Guangtian (Independent Non-executive Director) were unable to attend the annual general meeting and extraordinary general meeting of the Company held on 26 June 2012 and 6 July 2012 respectively due to business trips.

The Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). Specific enquiries have been made with all Directors who have confirmed that they complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions.

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 7-year bonds on 5 August 2005 and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain control over the Company throughout the term of the bonds. The total amount of the loan involved is US$200 million (equivalent to RMB1,614 million). On 28 June 2011, the Company has completed the redemption of such 7-year bonds in full and therefore, the above mentioned obligation has been released.

On 13 May 2011, the Company issued 10-year bonds and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 25% of the total issued share capital of the Company throughout the term of the bonds. The total amount of the loan involved is US$750 million (equivalent to RMB4,863 million).

Interests in Competitors

During the year, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

Auditor

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 26 March 2013

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasize on an effective board, prudent internal and risk control, transparency and quality disclosure and accountability to shareholders. The board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. The Board believes that its continuous efforts in enhancing the Company's corporate governance practices has, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have received numerous awards from independent bodies recognising the Group's achievements in business and management which include the following:

AsiaMoney

- Year 2005 "Asia's Best Managed Company (China, Medium Cap)"
- Year 2004 "Overall Medium-Cap Company (China)"
- Year 2002, 2003 "Best Small Cap Company (China)"
- Year 2001, 2003 "Overall Best Managed Company (China)"

Yazhou Zhoukan

- Year 2007 "1000 Global Chinese Business"
- Year 2001, 2002, 2003, 2004, 2005, 2006 "Chinese Business 500"
- Year 2003, 2004, 2005 "Top 20 Chinese Enterprises of Assets Growth"
- Year 2002, 2003 "Top 20 Chinese Enterprises of Revenue Growth"

FinanceAsia

- Year 2005 "The Best Small Cap in China"
- Year 2002 "Best Financial Management"
- Year 2001 "The Best Small Cap IPO"

Forbes Global

- Year 2012 "Asia's Fabulous 50 Companies"
- Year 2001, 2002, 2003 "The 200 Best Under a Billion"

EuroWeek

- Year 2005 "Best Asian High Yield Bond Issue"

The Asset

- Year 2012 "China's Most Promising Companies 2012"
- Year 2009 "China's Most Promising Companies 2009"

The Hong Kong Management Association

- Year 2009 "Citation for Design, The Best Annual Reports Awards"
- Year 2006 "Honourable Mention, The Best Annual Reports Awards"

Annual International ARC Awards

- Year 2012, "Gold, Overall Annual Report: Electric & Gas Services"
- Year 2011 "Merit, Cover Design: Oil and Natural Gas Production and Service"
- Year 2010 "Bronze, Interior Design: Gas Distribution, Transport and Transmission"
- Year 2010 "Silver, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2008 "Gold, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2004, 2006, 2007 "Honors, Overall Annual Report"

Annual International Galaxy Awards

- Year 2009 "Gold, Annual Reports: Energy"
- Year 2004, 2006, 2008 "Silver, Annual Reports: Energy"

Mercury Excellence Awards

- Year 2004 “Silver, Annual Report”

China Affiliate of the Balanced Scorecard Institute

- Year 2008 “Star Organisation of Strategy Execution in China”

Institutional Investor Magazine

- Year 2012 – Best CEO Rank No.1 (Power Sector)

  – Best CFO Rank No.1 (Power Sector)

  – Best IR Company, Rank No.2 (Power Sector)

Vision Awards

- Year 2009 “Platinum Award”
- Year 2009 “Top 100 Annual Report of 2009”
- Year 2009 “Best Annual Report Cover – Gold, Asia Pacific Region”

International LACP Awards

- Year 2011 “Platinum, Vision Awards Annual Report: Energy: Oil, Gas & Consumable Fuels”
- Year 2010 “Gold, Vision Awards Annual Report: Energy: Oil, Gas & Consumable Fuels”

Code on Corporate Governance Practices

During 2012, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the time being in force, except the deviation from Code Provision A6.7 and E.1.2 with explanation set out herein. In addition, the Company has also further complied with those recommended best practices in the CG Code as set out herein.

The Group continues to maintain and optimise the system of internal control and risk management for:

1. internal risks identification, reporting, assessment and management;
2. knowledge management and sharing;
3. internal auditing systems with emphasis on operation and financial audit as well as management control; and
4. standardisation of work flow with reference to established best practices.

As of the end of 2012, the active risk management model was promoted to 67 group companies, improving their ability in key risk prevention, business risk control and emergency response, and their awareness of active risk prevention. The Group also provided various risk training programs for the senior management of group companies, issued 17 guiding documents on internal control (covering 90% of the Group’s businesses), encouraged group companies to conduct comprehensive self-evaluation for internal control and promoted reviews on key businesses and key companies, and has thus successfully enhanced the level of internal control of group companies.

Starting from 2006, the Group has engaged IBM Global Services (China) Company Limited (“IBM”) to implement Enterprise Resource Planning (“ERP”) and install SAP business software solutions. During the course of SAP development, all control points in our current operational and financial systems have been recognised, improved and implemented into SAP to ensure effective internal control. SAP also enhances the financial reporting system by providing more accurate and timely information.

The Group has continued its effort in fortifying the effectiveness of SAP, with a view to raising the transparency of business operation and accessibility of management information within the Group. The internal control framework of the Group has also been strengthened under the implementation of SAP. Currently, the Group’s business processes such as the procurement-payment, the sales-fee-collection business cycle and the expenses claiming procedure are under strict control and in compliance under the SAP system. These informationalisation measures have significantly enhanced the effectiveness of governance.

We summarise below each of the code provisions set out in the CG Code and the recommended best practices which the Company has complied with together with corresponding details of compliance.

Compliance of the Code on Corporate Governance Practices

A. Directors

A.1 The Board

Code Principle

The board should assume responsibility for leadership and be collectively responsible for directing and supervising the issuer's affairs. Directors should make decision objectively in the interest of the issuer.

Code Provisions	Compliance	Details of Compliance
• At least four regular board meetings a year.	Yes	• The Board meets at least on a quarterly basis. In 2012, a total of 11 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2012 are as follows:

Board meeting

Directors	*Attendance*	
Mr. Wang Yusuo	7/11	(4/4)*
Mr. Cheung Yip Sang	8/11	(4/4)*
Mr. Zhao Jinfeng	8/11	(4/4)*
Mr. Yu Jianchao	10/11	(4/4)*
Mr. Cheng Chak Ngok (resigned on 28 September 2012)	10/10	(3/3)*
Mr. Zhao Shengli	6/11	(4/4)*
Mr. Wang Dongzhi	10/11	(4/4)*
Ms. Zhao Baoju	7/11	(4/4)*
Mr. Jin Yongsheng	8/11	(3/4)*
Mr. Wang Guangtian	8/11	(3/4)*
Ms. Yien Yu Yu, Catherine	8/11	(3/4)*
Mr. Kong Chung Kau	9/11	(4/4)*
Mr. Zhang Gang (appointed on 17 December 2012)	0/0	(0/0)*

* *regular Board meetings*

Audit Committee meeting

Committee members	*Attendance*
Mr. Kong Chung Kau	3/3
Mr. Wang Guangtian	2/3
Ms. Yien Yu Yu, Catherine	3/3

Remuneration Committee meeting

Committee members	*Attendance*
Mr. Jin Yongsheng	1/1
Mr. Wang Guangtian	1/1
Ms. Yien Yu Yu, Catherine	1/1
Mr. Kong Chung Kau	1/1

Nomination Committee meeting

Committee members	*Attendance*
Mr. Wang Yusuo	1/1
Mr. Jin Yongsheng	1/1
Ms. Wang Guangtian	1/1
Mr. Yieu Yu Yu, Catherine	1/1
Mr. Kong Chung Kan	1/1

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• Opportunity to all directors to include matters in the agenda for regular board meetings.	Yes	• Directors are consulted as to items to be included and items which the Directors may wish to include in the agenda for regular Board meetings before the finalised version of the relevant agenda is despatched to the Directors.
• At least 14 days notice given to all directors prior to a regular board meeting to ensure that opportunity to attend is given.	Yes	• Notice of a regular Board meeting is given to all Directors not less than 14 days prior to such meeting.
• Minutes of meetings kept by company secretary and available for inspection.	Yes	• All Board and Board Committees minutes and records are kept by the Company Secretary and will be available for inspection in Hong Kong by any Directors.
• Draft and final minutes of board meetings sent to all directors for comments and records, in both cases, within a reasonable time.	Yes	• Draft minutes of a Board meeting will be prepared by the Company Secretary and circulated to all the Directors for review and comment, and final version of the Board minutes will be sent to all Directors for record as soon as practicable after the relevant Board meeting.
• Agreed procedure for directors to seek independent professional advice at the company's expense.	Yes	• The Board has adopted a written procedure for the Directors to seek independent professional advice at the Company's expense.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• If a substantial shareholder/director (or any of his/her associates) has a conflict of interest in a matter which the Board has determined to be material, a board meeting should be held. The director having interest in the matter must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	Yes	• The Articles of Association of the Company stipulate that subject to certain exceptions contained therein, a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation thereto) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he/she has any material interest, and if he/she shall do so his/her vote shall not be counted (nor will he/she be counted in the quorum for the resolution). • It is the practice of the Board to hold a meeting to decide on any matter in which a substantial shareholder or a Director (or any of its/his/her associates) has a material interest and to request for presence of independent non-executive Directors.
• Insurance cover in respect of legal action against directors.	Yes	• There is in place a directors & officers liabilities insurance covering the Directors and officers of the Group.

Recommended Best Practice	Compliance	Details of Compliance
• Board committees should adopt broadly the same principles and procedures.	Yes	• During the year under review, there are three Board Committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee. All Board Committees adopt broadly the same principles and procedures applicable to the Board as stated in this Section A.1 hereinabove.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.2 Chairman and chief executive officer

Code Principle

The management of the board and the day-to-day management of the issuer's business should be clearly divided and separately undertaken by different officers to ensure a balance of power and authority.

Code Provisions	Compliance	Details of Compliance
• Roles and responsibilities of chairman and chief executive officer should be separate and clearly established and set out in writing.	Yes	• The roles and responsibilities of the chairman (the "Chairman") and the chief executive officer (the "CEO") of the Company are separate and clearly set out in writing. • Mr. Wang Yusuo, the Chairman, is responsible for overseeing the Group's overall direction and strategic planning. In addition, the Chairman also plays a key role in driving all Directors to actively contribute to the Board affairs and establishing good corporate governance practices and procedures. • Mr. Cheung Yip Sang, the CEO, is responsible for managing the business of the Group, executing the strategies and decisions of the Board, and managing the day-to-day operations of the Group. • Apart from acting as a director or chief executive officer in a number of companies owned and controlled by Mr. Wang Yusuo and/or his family, Mr. Cheung Yip Sang has no other relationship with Mr. Wang Yusuo.
• The chairman should ensure all directors be briefed on issues arising at board meetings.	Yes	• Currently, the Chairman is responsible for provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at the Board meeting.
• The chairman should ensure that directors receive adequate information in a timely manner.	Yes	• The Board has established procedure regarding supply of and access to information (see Section A.6 below). Further, the Chairman will upon request provide the necessary information, either through himself or other members of the management, to all Directors for discharging their duties.
• The Chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner.	Yes	• The Chairman is responsible for drawing up and approving the agenda for each board meeting, and he will take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.2 Chairman and chief executive officer (continued)

Recommended Best Practice	Compliance	Details of Compliance
• The Chairman should ensure that good corporate governance practise and procedures are establised.	Yes	• The chairman plays a key role in ensuring good corporate governance practises and encouraging active participation and constructive contribution and relations of the Directors. • Any Directors could access to the Company Secretary anytime to express their opinion on the Company's business and require to hold a Board meeting anytime.
• The Chairman should encourage directors to make full and active contribution to board affairs, and also encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensures that board decisions fairly reflect board consensus.	Yes	The Board has taken the following measures in relation to corporate governance practices: 1. the Board has adopted guidelines regarding: a) the roles and responsibilities of the Board and the senior management; b) the procedure for the Directors to seek independent professional advice at the Company's expenses;
• The chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.	Yes	c) the division of responsibilities between the Chairman and the CEO; and d) dealing in the securities of the Company by Directors or relevant employees of the Group. 2. the Company arranged training programmes and seminars on various topics covering, inter alia, matters relating to the interpretation of government policies, execution of corporate strategy, establishment of market system, corporate monitoring and management as well as setup of human resources system.
• The Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	Yes	• A face-to-face meeting has been organized in the headquarter during the year by the Chairman, to update and communicate the strategy and operation of the Company with the non-executive directors. • The Company has set up an investor relations department since 2002.
• The Chairman should ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.	Yes	• Any shareholders could communicate with the Company through emails, letters, phone calls or meetings etc. Shareholder's view would be passed to the Board for discussion according to its importance.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.3 Board composition

Code Principle

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgment can be made effectively.

The Company's Board

The Board currently comprises six executive Directors, two non-executive Directors and four independent non-executive Directors. As at 31 December 2012, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Cheung Yip Sang	(CEO and Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Zhao Shengli	(Executive Director)
Mr. Wang Dongzhi	(CFO and Executive Director)
Ms. Zhao Baoju	(Non-executive Director)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)
Mr. Zhang Gang	(Independent Non-executive Director)

For qualifications, experience, expertise and relationships (if any) of the Board members, please refer to the biographies of the Directors on pages 38 to 41 of this Annual Report. The Board believes that the existing Board composition creates an adequate balance of skills and experience which is appropriate for the requirements of the business of the Company.

Roles and functions

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group. Such arrangements are reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the decisions of the Board can be carried out effectively.

For the year ended 31 December 2012, the Board:

1. reviewed the performance of the Group and formulated business strategy of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2011 and the interim results of the Group for the 6 months period ended 30 June 2012;
3. considered and approved the adjustment on the remuneration of non-executive directors and independent non-executive directors;
4. reviewed the effectiveness of the system of internal control and risk management of the Group;
5. reviewed general mandates to issue and repurchase shares of the Company;
6. considered and approved the termination of a very substantial acquisition of the Company; and
7. considered and approved the allotment of shares upon exercise of options in respect of the option scheme.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.3 Board composition (continued)

Code Provisions	Compliance	Details of Compliance
• Identify the independent non-executive directors in all corporate communications that disclose the names of directors of the issuer.	Yes	• The names of all Directors and their titles (including Chairman, CEO, executive Directors, non-executive Directors and independent non-executive Directors) are disclosed in all corporate communications that disclose the names of the Directors, including annual reports, announcements, circulars to shareholders, notices of general meetings and in the Company's website at www.ennenergy.com.
• The board should maintain on the website an updated list of directors identifying their roles, functions and (where applicable) whether they are independent non-executive directors	Yes	• Biographies of the Directors, including their titles, roles and responsibilities, are maintained on the Company's website at www.ennenergy.com and updated from time to time.

A.4 Appointment, re-election and removal

Code Principle

There should be a formal, considered and transparent procedures for the appointment of new directors. There should be plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. The company must explain the reasons for the resignation or removal of any director.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience, skills and possible contribution of such candidate.

Code Provisions	Compliance	Details of Compliance
• Non-executive directors should be appointed for a specific term, subject to re-election.	Yes	• Currently, the term of appointment of all non-executive Directors (including independent non-executive Directors) are three years subject to retirement by rotation in accordance with the Articles of Association of the Company.
• Every director should be subject to retirement by rotation at least once every three years.	Yes	• The Company's Articles of Association stipulate that every Director will be subject to retirement by rotation at least once every three years.
• All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after appointment.	Yes	• The Company's Articles of Association stipulate that a Director appointed to fill a casual vacancy will be subject to election at the next general meeting after appointment.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.4 Appointment, re-election and removal (continued)

Code Provisions	Compliance	Details of Compliance
• Further appointment of an independent non-executive director serving more than nine years requires (i) separate shareholders approval and (ii) explanatory statement to shareholders to provide information on his continual independence. • Provide information to shareholders regarding the independence of the independent non-executive director proposed to be appointed.	Yes	• It is the practice of the Company to seek shareholders' approval of the further appointment of an independent non-executive director serving more than nine years. • It is the current practice of the Company that a separate resolution will be proposed at the general meeting for shareholders' approval in respect of each Director nominated for election or re-election. • Where Directors are subject to election or re-election at a general meeting, a circular will be issued in which detailed biographies, interests and independence of such Directors will be disclosed (where appropriate).

A.5. Nomination Committee

Issuers should establish a nomination committee for appointment of new Directors to the Board, which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

On 30 March 2012, the Board has established a nomination committee chaired by Mr. Wang Yusuo (Chairman of the Board) and comprises Mr. Wang Guangtian (Independent Non-executive Director), Ms. Yien Yu Yu, Catherine (Independent Non-executive Director), Mr. Kong Chung Kau (Independent Non-executive Director) and Mr. Jin Yongsheng (Non-executive Director). The responsibilities of the nomination committee include identifying and selecting suitably qualified individuals to become members of the Board. When the nomination committee considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

Code Provisions	Compliance	Details of Compliance
• A nomination committee should be chaired by the chairman or an independent non-executive director and comprises a majority of independent non-executive directors.	Yes	• The nomination committee chaired by Mr. Wang Yusuo, and comprised of two independent non-executive Directors and one non-executive Director.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.5. Nomination Committee (continued)

Code Provisions	Compliance	Details of Compliance
• The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties. It should perform the following duties: – review the structure, size and composition of the board and make recommendations on the change to the board to complement the Company's corporate strategy. – Identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; – assess the independence of independent non-executive directors; and – make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.	Yes	• The nomination committee met once during the year and review on the structure, size and composition of the board, and recommended the appointment of Mr. Zhang Gang as the Independent non-executive Director. Throughout the process, committee members have fully considered the necessary information and access the independence.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.5. Nomination Committee (continued)

Code Provisions	Compliance	Details of Compliance
• The nomination committee should put its terms of reference on the websites of the Stock Exchange and the Company.	Yes	• The relevant terms of reference have been put on the Stock Exchange and the Company's website.
• The nomination committee should be provided sufficient resources and independent professional advices at the Company's expense to perform its responsibilities.	Yes	• The detailed resume and full background information of the new appointed directors have been provided and considered by the nomination committee.
• The circular to shareholders and/or explanatory statement of the relevant general meeting where board elect an individual as an independent non-executive director should set out the reasons of the election and his independence.	Yes	• The reasons of the election and the independence of the new Independent Non-executive Director will be set out in the circular to the shareholders.

A.6 Responsibilities of directors

Code Principle

All directors (including non-executive directors) shall keep abreast of their responsibilities as a director of an issuer, and of the conduct, business activities and development of such issuer.

Code Provisions	Compliance	Details of Compliance
• Every newly appointed director should receive a comprehensive, formal induction to ensure that he/she has proper understanding of the business and his/her responsibilities under regulatory requirements, business and governance policies of the issuer.	Yes	• The Board will provide information memorandum on director's duties and obligations under the Cayman Islands laws, the Hong Kong laws and the Listing Rules to a newly appointed Director to assist such Director to understand his/her responsibilities. • The Board will also arrange for a meeting between the Company's legal advisers and a newly appointed Director in which the Company's legal advisers will explain to such Director his/her responsibilities under the relevant legal and regulatory requirements. • In addition, the Company will provide relevant information to ensure that the newly appointed Director properly understands the business and governance policies of the Company. The newly appointed Director will be given opportunities to raise questions and give comments.

CORPORATE GOVERNANCE REPORT

Compliance of the Code on Corporate Governance Practices *(continued)*

A.6 Responsibilities of directors (continued)

Code Provisions	Compliance	Details of Compliance
• Functions of non-executive directors include: – bringing an independent judgment at board meetings. – taking the lead where potential conflicts of interests arise. – serving on committees if invited. – scrutinising the issuer's performance.	Yes	• Non-executive Directors are consulted as to the matters to be included for discussion at the Board meetings and are provided with opportunities to raise questions or give comments at Board meetings. • In relation to each connected transaction or continuing connected transaction of the Group that requires independent shareholders' approval, the Independent Non-executive Directors will give independent opinion on the transaction. • All the independent Non-executive Directors are members of the Audit Committee and the Remuneration Committee; both committees serve the function of scrutinising the Company.
• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.	Yes	• There have been satisfactory attendances in general for Board meetings and Board Committees meetings. Please refer to Directors' attendance record of Board meetings and Board Committees meetings (see Section A.1.)
• Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules regarding their securities transactions.	Yes	• The Company has adopted the Model Code as the code of conduct regarding securities transaction by the Directors of the Company. Each Director is specifically required to confirm with the Company that he/she has complied with the required standard set out in the Model Code at least twice each year and there has not been any non-compliance by any Director in this respect.
• The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the issuer.	Yes	• The Company has adopted written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the Company.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.6 Responsibilities of directors (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2012, the Company organised two series of internal training programmes and seminars for the Directors and the senior management on various matters relating to the interpretation of government policies, execution of corporate strategy, establishment of market system, corporate monitoring and management as well as set-up of human resources system. There have been satisfactory attendances in general.
• The Company should arrange training to place emphases on the director's roles, functions and duties.	Yes	• On 17 December 2012, the company has invited a professional law firm to organise an internal training for all directors on the updated listing rules, and relevant regulatory requirements. • All the training record of the Directors are received by the Company.
• Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.	Yes	• Details of a Director, including the offices held by such Director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each Director is updated from time to time and confirmed by such Director before being published in the Company's annual report and circulars. • Executive Directors who intend to accept any directorship or appointment in other companies or entities would need to consult and obtain prior approval from the Board before acceptance.
• Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.	Yes	• During the year under review, the non-executive Directors have actively participated in Board meetings, Board Committees meetings (if invited) (see Section A.1) and general meetings in general.
• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	• During the year under review, the non-executive Directors have satisfactorily discharged their duties.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.7 Supply of and access to information

Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as director of an issuer.

Code Provisions	Compliance	Details of Compliance
• Agenda and papers for regular board meetings should be sent in full to all directors at least three days before the date of such board meetings.	Yes	• Agenda and Board papers are currently sent in full to all Directors at least three days before the date of a regular Board meeting.
• Each director should have separate and independent access to senior management.	Yes	• Senior management will meet with the Directors from time to time and as requested by the Directors.
• Directors are entitled to have access to board papers and related materials and steps must be taken to respond promptly and fully to director queries.	Yes	• Papers relating to Board meetings will be circulated to the Directors who may request for further information. Draft minutes of a Board meeting will be circulated to all the Directors for review and comment prior to the same being finalised. Board minutes will be sent to the Directors for record after the meeting. • Board and committees minutes and papers are available for inspection by Directors and Board Committees members. • Each Director will be given the opportunity to raise questions or provide comments at Board meetings, and his/her questions will be answered at the meeting or promptly thereafter. Comments will be noted and relevant action will be taken (if appropriate) after discussion.

Compliance of the Code on Corporate Governance Practices *(continued)*

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION

B.1 The level and make-up of remuneration and disclosure

Code Principle

An issuer should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his own remuneration.

Remuneration Committee

The Remuneration Committee was established on 31 December 2004 and consists of the following members as at 31 December 2012:

Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director and chairman of the Remuneration Committee)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;

2. to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management;

3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

6. to make recommendations to the Board on the remuneration for Non-executive Directors;

7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;

8. to consult the Chairman and/or the CEO about their proposals relating to the remuneration of Executive Directors and have access to professional advice if considered necessary; and

9. to report to the Board.

The terms of reference, explaining its role and the authority delegated to it by the board have been included on the Exchange's website and the Company's website.

The Remuneration Committee met once during the year under review to consider the remuneration of the Directors and senior management. Attendance record of the Remuneration Committee members is set out in Section A.1 above. The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (RMB)	Number of persons
1 to 1,000,000	22
1,000,001 to 2,000,000	1
2,000,001 to 3,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Note 12 to the Consolidated Financial Statement.

Compliance of the Code on Corporate Governance Practices *(continued)*

B.1 The level and make-up of remuneration and disclosure (continued)

Code Provisions	Compliance	Details of Compliance
• Remuneration committee should be established with specific written terms of reference (containing the minimum prescribed details as set out in paragraph B.1.2 of Appendix 14 to the Listing Rules) and should be available on request.	Yes	• The Company has established a Remuneration Committee with written terms of reference which meet the requirements as set out in paragraph B.1.2 of Appendix 14 to the Listing Rules. • The terms of reference of the Remuneration Committee are posted on the Company's website and will be available on request.
• The remuneration committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to independent professional advice if necessary.	Yes	• The terms of reference of the Remuneration Committee provide that the committee should consult the Chairman and/or the CEO about proposed remuneration of other executive Directors. • The Remuneration Committee will consult the Chairman and/or the CEO before making recommendation on remuneration to the Board and will seek independent professional advice as and when necessary.
• The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Remuneration Committee provide that members of the Remuneration Committee may seek outside legal and independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Remuneration Committee.

Recommended Best Practice	Compliance	Details of Compliance
• Where the board resolves to approve any remuneration which the remuneration committee has previously resolved not to approve, the board must disclose the reasons for its resolution in its next annual report.	Yes	• The Board has not resolved to approve any remuneration which the Remuneration Committee has previously resolved not to approve. The Board will disclose the reasons in the corresponding annual report if such circumstances occur in the future.

Compliance of the Code on Corporate Governance Practices *(continued)*

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Details of Compliance
• Management should provide explanation on financial and other information to enable the board to make informed assessment.	Yes	• Directors are provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results (if any).
• Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.	Yes	• A statement of Directors' responsibilities for financial statements is set out in the interim and annual reports. • Auditors' reporting responsibilities statement is set out in the auditors' report.
• Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/ reports under regulatory requirements.	Yes	• The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/reports under regulatory requirements. In addition, the Audit Committee has been established to monitor the financial reporting process and the integrity of financial statements of the Company. • The Company's 2011 annual report was awarded by independent association as "Gold: Energy, Oil, Natural Gas and Fuels" and "Merit, Cover Design: Oil and Natural Gas Production and Service".

Compliance of the Code on Corporate Governance Practices *(continued)*

C.1 Financial reporting (continued)

Code Provisions	Compliance	Details of Compliance
• All members of the board and each director should be provided with monthly updates.	Yes	• The management submit the analysis report of operational activities and financial briefing report to the Executive Directors of the Board in order to make sure that the Board knows the Company's operational and financial conditions in a timely manner.
• The director should prepare the accounts on a going concern basis, with supporting assumptions or qualifications.	Yes	• The Company's Directors reviewed all the Company's operational business and were of the view that they are sustainable up to date and the accounts were prepared on the basis that the Company is operated on a sustainable basis.
• The Corporate Governance Report should cover material uncertainties on the Company's ability to continue as a going concern.	Yes	• The Company's Directors reviewed all the Company's operational business and were of the view that up to date there's no material ambiguous events or conditions that may impact the Company's sustainable operation.
• A separate statement should be included in the annual report containing the analysis of the Groups' performance, an explanation of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the Company's objectives.	Yes	• Besides Management Discussion and Analysis in the Company's annual report, an additional chapter of Director's Report was created to independently state the Group's performance and development strategies.

C.2 Internal controls

Code Principle

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Details of Compliance
• The directors should at least annually conduct a review of the effectiveness of the system of internal control.	Yes	• The Board has conducted a review of the effectiveness of the system of internal control and risk management of the Group covering all material controls including financial, operational and compliance controls, and risk management functions for the year 2012.
• Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.	Yes	• The Board has included in its annual review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year under review.

Compliance of the Code on Corporate Governance Practices *(continued)*

C.2 Internal controls (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Issuers should disclose as part of the Corporate Governance Report a narrative statement how they have complied with the code provisions on internal control during the reporting period.	Yes	• The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. • The Board will also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. • The Group has implemented ERP and installed SAP, which served to recognise, review and improve all control points in our operational and financial system on-goingly. SAP also enhances the financial reporting system by providing more accurate and timely information. • The Company has implemented a workflow management system developed by IBM jointly with Digital China Holdings Limited. Under the system, authorised users can access to and share information across the Group, which in turn helps enhancing the internal control system. On the other hand, active risk management model has been promoted and implemented in subsidiaries of the Group. Such model encourages the subsidiaries to identify and assess risks actively in order to achieve effective control over these risks. • The Group has made adjustments to the authority management system according to the development of each company. Clear division of authority between the shareholders, directors and management was defined so that a balance between management efficiency and risk management can be achieved. • The Group has established written procedures and an assessment system on assessing the effectiveness of the system of internal control and risk management of the Group. • A designated inspection team is responsible for performing the internal control and risk management work of the Group with reference to established procedures and an assessment system. • The Company has designed a customised balanced score card for each of its subsidiaries after taken into account the resources and customer nature of that subsidiary. As such, the achievement of major business targets and financial indicators in each subsidiary will be monitored monthly. The progress on the implementation of operational measures which have significant impact on its profitability will also be assessed. In case any problem arises, new operational policies will be formulated in a timely manner. • The risk management team will evaluate the operational risks of the enterprises and formulate action plans for managing significant risks. • Reports on each subsidiary of the Group will be produced for consideration. • The designated team will monitor the performance of those subsidiaries with low assessment results and will give advice on measures to be taken by such subsidiaries. • During the year under review, some internal control weaknesses have been found and corrected. There have not been any significant problems relating to the internal control aspects of the Group.

Compliance of the Code on Corporate Governance Practices *(continued)*

C.3 Audit committee

Code Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee should be established with a clear terms of reference.

Audit Committee

The Audit Committee was established on 28 March 2001 and consists of the following members as at 31 December 2012:

Mr. Kong Chung Kau, CPA	(Independent Non-executive Director and chairman of the Audit Committee)
Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine, CFA	(Independent Non-executive Director)

The Audit Committee is primarily responsible for the following duties:

1. to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services; and
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, interim report and to review significant financial reporting judgments contained therein.

The Audit Committee met 3 times during the year under review to consider the interim and annual results of the Group and discuss with the auditors the impact of any change of accounting policies, the scope of work regarding the annual audit and interim review, the supply of non-audit services and the remuneration of the auditors. Attendance record of the Audit Committee members is set out in Section A.1 above.

Auditors' remuneration

For the year ended 31 December 2012, audit services provided to the Group by Deloitte Touche Tohmatsu, the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

Services	**Approximate Amount**
Audit services for the year 2012	
• Interim review fee paid	RMB991,000
• Audit fee paid and payable – Annual audit (subject to final agreement with the auditors)	RMB4,399,000

Compliance of the Code on Corporate Governance Practices *(continued)*

C.3 Audit committee (continued)

Code Provisions	Compliance	Details of Compliance
• Minutes should be kept by a duly appointed secretary and should be sent to all committee members within a reasonable time.	Yes	• Audit Committee minutes and papers are kept by the Company Secretary. Draft Audit Committee minutes is circulated to all the committee members for review and comment and final version of the minutes will be sent to all the committee members for record, as soon as practicable after the relevant Audit Committee meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	Yes	• None of the Audit Committee members is a former partner of the external auditors of the Group.
• The terms of reference of audit committee should contain the minimum prescribed details in paragraph C.3.3 of Appendix 14 to the Listing Rules and should be made available on the websites of the Stock Exchange and the Company.	Yes	• The Company has established an Audit Committee with terms of reference which meet the requirements as set out in paragraph C.3.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Audit Committee will be updated from time to time to incorporate any relevant amendments made to Appendix 14 of the Listing Rules (if any), and a copy thereof is posted on the Company's website and will be made available on request. The primary responsibilities of the Audit Committee are set out therein.
• Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report the audit committee's recommendation and the board's view.	Yes	• The Board has not had any disagreement with the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. Should there be such a disagreement, the Board will include the relevant details in its Corporate Governance Report.
• The audit committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Audit Committee provide that the members of the Audit Committee may seek outside legal or other independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Committee.
• The terms of reference of the audit committee should include duties: (i) to review arrangements for employees and follow up action; and (ii) to act as the key representative body for overseeing the Company's relations with the external auditor.	Yes	• The terms of reference has included the duties on reviewing arrangements for employees and follow up actions, and also acting as the key representative body for overseeing the Company's relations with the external auditors.

Compliance of the Code on Corporate Governance Practices *(continued)*

D. DELEGATION BY THE BOARD

D.1 Management functions

Code Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Details of Compliance
• The board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board before making decisions or entering into any commitments on the Company's behalf. • Formalise the functions reserved to the board and those delegated to management.	Yes	• The Board has set out in writing clear division of the responsibilities of the Board and the senior management. In general, the Board is responsible for establishing the strategies and direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management, and ensuring good corporate governance. The senior management, which is led by the CEO, is responsible for executing the strategies and plans set by the Board, and reporting to the Board periodically to ensure proper execution.
• Disclosure of division of responsibility between the board and management to assist those affected by corporate decisions to better understand their respective accountabilities.	Yes	• The Company has written internal guidelines setting out the division of responsibilities between the Board and management of the Company. In addition, the Board has made such disclosure to the Directors, the management and other staff by various means including internal circulars and meetings with management and staff.
• Formal letters of appointment for directors setting out the key terms and conditions relative to their appointment so that directors understand the delegation arrangements.	Yes	• It is the practice of the Company to enter into (i) a written service contract with each executive Director setting out the rights, obligation, duties, responsibilities and other terms and conditions of his/her appointment, and (ii) a letter of appointment with each non-executive Director confirming the terms of his/her appointment. • Upon expiry, all such service contracts and letters of appointment will continue thereafter based on the original terms and conditions unless and until terminated by either party by giving prior written notice. • No new service contracts and letters of appointment will be entered into by the Company separately for the purpose of renewing the existing ones.

Compliance of the Code on Corporate Governance Practices *(continued)*

D.2 Board committees

Code Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Board has established the following committees with defined terms of reference:

1. Audit Committee; and
2. Remuneration Committee.

Further details of the Remuneration Committee and the Audit Committee are set out in Sections B.1 and C.3 above respectively.

In addition, a nomination committee chaired by Mr. Wang Yusuo and comprises Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau and Mr. Jin Yonsheng has been established on 30 March 2012 in order to comply with the revised Code Provision A.5 coming into effect on 1 April 2012. The nomination committee will be responsible to perform the responsibilities set out in Section A.4 above.

Code Provisions	Compliance	Details of Compliance
• Clear terms of reference to enable proper discharge of committee functions.	Yes	• During the year under review, the Company has two Board Committees, being the Audit Committee and the Remuneration Committee, each of which has clear written terms of reference setting out details of the authorities and duties of such committee. • The terms of reference of the abovementioned Board Committees are posted on the Company's website and will be available on request.
• The terms of reference should require committees to report back to the board their decisions.	Yes	• The terms of reference of each of the Board Committees contain provisions which require such Board Committee to report back to the Board any decision made by it.

D.3 Corporate governance Functions

Corporate Governance Functions

The Company has well established its Corporate Governance Functions, by the following procedures:

(a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;

(d) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report from time to time.

The board has been responsible for performing the corporate governance duties and it will also delegate the responsibility to the responsible senior management.

Currently, the Company is developing the code of conduct and compliance manual which will be applicable to employees and directors. Throughout the implementation process, the Company will review and closely monitor its effectiveness.

Compliance of the Code on Corporate Governance Practices *(continued)*

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Details of Compliance
• A separate resolution should be proposed by the chairman for each substantially separate issue.	Yes	• Separate resolutions are proposed at general meeting on each substantially separate issue. For example, a separate resolution will be proposed for each director nominated for election or re-election.
• The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.	No	• Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting held on 26 June 2012 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the Ex-executive Director and Ex-company Secretary of the Company, attended and acted as the chairman of the said annual general meeting. In addition, Ms. Zhao Baoju and Mr. Jin Yongsheng (Non-executive Directors) and Mr. Wang Guangtian (Independent Non-executive Director) were unable to attend the annual general meeting and extraordinary general meeting of the Company held on 26 June 2012 and 6 July 2012 respectively due to business trips.
• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	• During 2012, there was no general meeting for approving a connected transaction or any other transaction that is subject to independent shareholders' approval.
• Notice to shareholders should be sent in the case of annual general meeting at least 20 clear business days before the meeting and be sent at least 10 clear business days in the case of all other general meetings.	Yes	• The notice of 2012 annual general meeting was sent to shareholders on 25 May 2012, 33 clear business days before the meeting which was held on 26 June 2012. • In addition, the notice of 2012 extraordinary general meeting was sent to shareholders on 30 May 2012. The extraordinary general meeting was held on 6 July 2012.

Compliance of the Code on Corporate Governance Practices *(continued)*

E.2 Voting by poll

Code Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Code Provisions	Compliance	Details of Compliance
• Chairman of meeting should adequately explain the detailed poll procedures and answer questions from shareholders regarding voting by poll at the commencement of the meeting.	Yes	• At the annual general meeting held in the year under review, the chairman of the meeting explained the poll procedures in details at the commencement of the meeting. No question regarding voting by poll was raised by shareholders at the meeting.

F. Company Secretary

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy.

Principle

The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

Code Provisions	Compliance	Details of Compliance
• The company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs.	Yes	• Mr. Cheng Check Ngok being the Company Secretary of the Company before his resignation on 28 September 2012, joined the Group since 2000. During the year and up to the date of his resignation, he has taken no less than 15 hours of relevant professional training. Thereafter, Ms. Wong Chui Lai, who joined the Company since 2007, was appointed as the Company Secretary of the Company. Her biography is set out on page 41 of this annual report and she has taken 12 hours of relevant professional training during the year. She will take the yearly required relevant professional training for the coming years. Both of them have rich knowledge on the day-to-day operation of the Company. • The appointment of the Company Secretary has been appointed and approved by the Board. Full investigation and all-rounded assessment have been taken place in evaluating the skills and knowledge. • The Company Secretary report directly to the Chairman and CEO, and providing full support to the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. • all Directors may call upon for advice and assistance at any time in respect to their duties and the effective operation of the Board and the Board Committees.
• Where the Company engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority at the Company whom the external provider can contact.	N/A	
• The board should approve the selection, appointment or dismissal of the company secretary.	Yes	
• The company secretary should report to the board chairman and/or the chief executive.	Yes	
• All directors should have access to the advice and services of the company secretary.	Yes	

Compliance of the Code on Corporate Governance Practices *(continued)*

G. Shareholders' rights

Convening extraordinary general meeting and putting forward proposals at shareholders' meeting

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, extraordinary general meetings (if any), annual reports, notices of general meetings, circulars sent to shareholders, announcements, press releases and other corporate communications available on the Company's website.

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend annual and extraordinary general meetings of the Company provided that their shares have been fully paid up and recorded in the register of members of the Company. In respect of the financial year ended 31 December 2012, an annual general meeting of the Company will be held on 21 May 2013 and it is currently expected that interim results for the six months ended 30 June 2013 will be announced in August 2013. Notice of the forthcoming annual general meeting will be dispatched to shareholders at least 20 clear business days before the meeting.

Pursuant to article 72 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may convene a general meeting by depositing at the principal office of the Company in Hong Kong the written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) hold(s) as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

The procedures on proposing a person for election as a director is available at the Company's website at www.ennenergy.com.

Enquiries to the Board

Enquiries may be put to the Board through the Company's Principal Place of Business in Hong Kong at Rooms 3101-04, 31/F., Tower 1, Lippo Centre, 89 Queensway, Hong Kong (email: enn@ennenergy.com).

H. Amendment to the Articles of Association of the Company

During the annual general meeting that held on 6 July 2012, a special resolution has been passed on the amendment of articles of association of the Company, regarding the notice to be given when person proposed election.

Additional Corporate Governance Information

I. Investor relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and collecting views and feedbacks from such investors. The Group has an Investor Relations Department to handle matters relating to investor relations. In the year under review, the executive Directors and senior management of the Company participated in 10 international investors' conferences and 3 international road shows, covering Hong Kong, Mainland China, Japan, Singapore, Europe and the US, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. The Company has also delivered good interim and annual reports to shareholders which allow them to have a basic understanding of the natural gas industry, policy in China, prospect and the financial performance of the Company. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Hotline telephone number:	(852) 2528 5666
By fax:	(852) 2865 7204
By post:	Rooms 3101–04, 31/F., Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Attention:	Ms. Shirley W.M.Kwok.
By email:	enn@ennenergy.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ENN ENERGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 82 to 160, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB million	2011 RMB million
Revenue	7	**18,027**	15,068
Cost of sales		**(13,183)**	(11,166)
Gross profit		**4,844**	3,902
Other income	8	**171**	167
Other gains and losses	9	**13**	14
Distribution and selling expenses		**(344)**	(283)
Administrative expenses		**(1,627)**	(1,380)
Share of results of associates		**71**	51
Share of results of jointly controlled entities		**345**	316
Finance costs	10	**(621)**	(460)
Profit before tax	11	**2,852**	2,327
Income tax expense	13	**(859)**	(660)
Profit and total comprehensive income for the year		**1,993**	1,667
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**1,482**	1,253
Non-controlling interests		**511**	414
		1,993	1,667

	Notes	2012 RMB	2011 RMB
Earnings per share	15		
– Basic		**1.39**	1.19
– Diluted		**1.38**	1.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB million	2011 RMB million
Non-current Assets			
Property, plant and equipment	16	**15,099**	13,073
Prepaid lease payments	17	**770**	695
Investment properties	18	**69**	57
Goodwill	19	**196**	196
Intangible assets	20	**1,238**	1,051
Interests in associates	21	**798**	694
Interests in jointly controlled entities	22	**2,271**	1,733
Available-for-sale financial assets	23	**14**	14
Loan receivable	24	**–**	3
Other receivables	25	**–**	5
Amounts due from associates	27	**40**	39
Amounts due from jointly controlled entities	28	**116**	66
Amounts due from related companies	29	**42**	26
Deferred tax assets	30	**222**	176
Deposits paid for investments	31	**217**	41
Deposits paid for acquisition of property, and plant and equipment, land use rights and operation rights		**97**	68
Restricted bank deposits	32	**17**	7
		21,206	17,944
Current Assets			
Inventories	33	**311**	272
Trade and other receivables	25	**2,062**	1,837
Prepaid lease payments	17	**20**	17
Amounts due from customers for contract work	34	**180**	201
Amounts due from associates	27	**83**	31
Amounts due from jointly controlled entities	28	**528**	404
Amounts due from related companies	29	**31**	31
Restricted bank deposits	32	**316**	2,675
Cash and cash equivalents	35	**6,156**	3,349
		9,687	8,817
Assets classified as held for sale	36	**–**	127
		9,687	8,944

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB million	2011 RMB million
Current Liabilities			
Trade and other payables	37	**4,894**	4,172
Amounts due to customers for contract work	34	**1,451**	989
Amounts due to associates	27	**20**	119
Amounts due to jointly controlled entities	28	**896**	627
Amounts due to related companies	38	**32**	37
Taxation payables		**292**	234
Bank and other loans – due within one year	39	**2,737**	1,913
Short-term debentures	40	**1,208**	1,300
Financial guarantee liability	41	**23**	9
Deferred income	42	**61**	44
		11,614	9,444
Liabilities associated with assets held for sale	36	**–**	76
		11,614	9,520
Net Current Liabilities		**(1,927)**	(576)
Total Assets less Current Liabilities		**19,279**	17,368
Capital and Reserves			
Share capital	43	**113**	110
Reserves		**8,540**	6,936
Equity attributable to owners of the Company		**8,653**	7,046
Non-controlling interests		**2,017**	1,794
Total Equity		**10,670**	8,840
Non-current Liabilities			
Bank and other loans – due after one year	39	**1,471**	2,327
Corporate bond	44	**497**	496
Senior notes	45	**4,629**	4,636
Medium-term notes	46	**700**	–
Deferred tax liabilities	30	**346**	337
Deferred income	42	**966**	732
		8,609	8,528
		19,279	17,368

The consolidated financial statements on pages 82 to 160 were approved and authorised for issue by the Board of Directors on 26 March 2013 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Equity attributable to owners of the Company								Equity attributable to non-controlling interests	Total equity
	Share capital RMB million (Note 43)	Share premium RMB million	Special reserve RMB million (note a)	Share options reserve RMB million	Statutory surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	RMB million	RMB million
Balance at 1 January 2011	110	2,184	(17)	101	368	26	3,260	6,032	1,508	7,540
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,253	1,253	414	1,667
Issue of shares upon exercise of share option (Note 47)	–	18	–	(5)	–	–	–	13	–	13
Acquisition of businesses (Note 48)	–	–	–	–	–	–	–	–	45	45
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	58	58
Acquisition of additional interest in a subsidiary	–	–	(1)	–	–	–	–	(1)	(1)	(2)
Recognition of equity settled share-based payment	–	–	–	46	–	–	–	46	–	46
Dividend appropriation (Note 14)	–	–	–	–	–	–	(297)	(297)	–	(297)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(230)	(230)
Transfer to statutory surplus reserve fund	–	–	–	–	41	–	(41)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	12	(12)	–	–	–
Balance at 31 December 2011	110	2,202	(18)	142	409	38	4,163	7,046	1,794	8,840
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,482	1,482	511	1,993
Issue of shares upon exercise of share option (Note 47)	3	576	–	(160)	–	–	–	419	–	419
Acquisition of assets through acquisition of subsidiaries (Note 49)	–	–	–	–	–	–	–	–	37	37
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	49	49
Disposal of subsidiaries and derecognition of a subsidiary (Note 50)	–	–	–	–	–	–	–	–	(19)	(19)
Recognition of equity settled share-based payment	–	–	–	21	–	–	–	21	–	21
Dividend appropriation (Note 14)	–	(315)	–	–	–	–	–	(315)	–	(315)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(355)	(355)
Transfer to statutory surplus reserve fund	–	–	–	–	95	–	(95)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	1	(1)	–	–	–
Reclassification (note d)	–	(922)	–	–	–	–	922	–	–	–
Balance at 31 December 2012	113	1,541	(18)	3	504	39	6,471	8,653	2,017	10,670

Notes:

a. The balance as of 1 January 2011 represented the difference between paid up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial offering of the Company's shares in 2001 and the difference between the fair value and the carrying values of the underlying assets and liabilities attributable to the additional acquisition of interest in subsidiaries of RMB19 million.

   During the year ended 31 December 2011, the Group acquired additional interest in a subsidiary from a non-controlling shareholder, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of the additional interest in a subsidiary of RMB1 million is dealt with in reserve and attributable to owners of the Company.

b. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserve fund retained by subsidiaries in the PRC is non-distributable.

c. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the year represents the difference between the amount provided based on the relevant PRC regulation and the amount utilised during the year.

d. The amount represented the aggregate dividends paid by the Company since 2005 and debited to accumulated losses of the Company and was adjusted in current year for presentation purposes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB million	2011 RMB million
OPERATING ACTIVITIES			
Profit before tax		**2,852**	2,327
Adjustments for:			
Share of results of associates		**(71)**	(51)
Share of results of jointly controlled entities		**(345)**	(316)
Exchange gain of senior notes / guarantee note		**(8)**	(168)
Reversal of impairment loss on trade and other receivables, net		**(8)**	(23)
(Gain) loss on disposal of property, plant and equipment		**(7)**	5
Loss on disposal of interest in an associate		**5**	–
Gain on derecognition/disposal of subsidiaries	50	**(40)**	–
Increase in fair value of investment properties		**(11)**	(8)
Share-based payment expenses		**21**	46
Depreciation of property, plant and equipment		**551**	482
Amortisation of intangible assets		**70**	37
Release of prepaid lease payments		**20**	18
Fair value adjustment on interest-free advances to related companies at initial recognition		**–**	3
Financial guarantee income		**(9)**	(5)
Bank interest income		**(40)**	(46)
Premium on early redemption of guaranteed notes		**–**	95
Interest expenses		**621**	460
Deferred income released to profit or loss		**(52)**	(36)
		3,549	2,820
Movements in working capital:			
Increase in inventories		**(42)**	(16)
Increase in trade and other receivables		**(289)**	(391)
Decrease in amounts due from customers for contract work		**21**	106
Increase in amounts due from associates		**(12)**	(11)
Decrease (increase) in amounts due from jointly controlled entities		**59**	(103)
Increase in amounts due from related companies		**(8)**	(5)
Increase in trade and other payables		**846**	500
Increase in amounts due to customers for contract work		**462**	324
Increase (decrease) in amounts due to jointly controlled entities		**116**	(38)
Increase in amounts due to associates		**4**	13
Decrease in amounts due to related companies		**(5)**	(14)
Cash generated from operations		**4,701**	3,185
PRC enterprise income tax paid		**(833)**	(628)
Net cash generated from operating activities		**3,868**	2,557

	Notes	2012 RMB million	2011 RMB million
INVESTING ACTIVITIES			
Dividend received from jointly controlled entities		**24**	234
Dividend received from associates		**4**	11
Interest received		**38**	46
Deferred income received		**303**	281
Purchase of property, plant and equipment		**(2,695)**	(2,650)
Increase in prepaid lease payments		**(91)**	(55)
Deposits paid for investments		**(126)**	(11)
Deposits paid for acquisition of property, plant and equipment		**(93)**	(62)
Net cash outflow on acquisition of subsidiaries	48, 49	**(176)**	(354)
Net cash inflow on disposal of subsidiaries	50	**59**	–
Net cash outflow on derecognition of a subsidiary	50	**(15)**	–
Deposit received from disposal group		**–**	42
Proceeds from disposal of interest in an associate		**10**	–
Proceeds from disposal of a jointly controlled entity		**–**	20
Investments in jointly controlled entities		**(204)**	(248)
Investments in associates		**(126)**	(135)
Acquisition of intangible assets		**(31)**	–
Proceeds from disposal of property, plant and equipment		**86**	54
Increase in restricted bank deposits		**(321)**	(2,669)
Decrease in restricted bank deposits		**2,670**	57
Amounts advanced to associates		**(56)**	(30)
Amounts repaid by associates		**5**	1
Amounts advanced to jointly controlled entities		**(236)**	(384)
Amounts repaid by jointly controlled entities		**112**	224
Amounts advanced to related companies		**(8)**	(21)
Net cash used in investing activities		**(867)**	(5,649)
FINANCING ACTIVITIES			
Interest paid		**(734)**	(474)
Net proceeds from shares issued on exercise of share options		**419**	13
Proceeds from issuance of medium-term notes		**700**	–
Proceeds from issuance of short-term debentures		**1,198**	1,298
Repayment of short-term debentures		**(1,300)**	(800)
Repayment of guaranteed notes, including premium		**–**	(1,389)
Net proceeds from issue of corporate bond		**–**	496
Acquisition of additional interests in subsidiaries		**–**	(2)
Contribution from non-controlling shareholders		**49**	58
Dividends paid to non-controlling shareholders		**(355)**	(230)
Dividends paid to shareholders		**(315)**	(297)
New bank loans raised		**4,924**	4,820
Repayment of bank loans		**(4,836)**	(4,820)
Net proceeds from issue of senior notes		**–**	4,765
Amounts advanced from associates		**–**	72
Amounts repaid to associates		**(57)**	(35)
Amounts advanced from jointly controlled entities		**196**	511
Amounts repaid to jointly controlled entities		**(89)**	(400)
Amounts advanced from related companies		**–**	10
Net cash (used in) generated from financing activities		**(200)**	3,596

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB million	2011 RMB million
Net increase in cash and cash equivalents		**2,801**	504
Cash and cash equivalents at the beginning of the year		**3,355**	2,851
Cash and cash equivalents at the end of the year		**6,156**	3,355
Represented by:			
Cash and cash equivalents included in assets classified as held for sale		**–**	6
Cash and cash equivalents at the end of the year		**6,156**	3,349
		6,156	3,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. General Information

ENN Energy Holdings Limited (the "Company") is an exempted company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Company's Annual Report.

The consolidated financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 59.

2. Basis of Preparation of Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Company and its subsidiaries (collectively referred to as the "Group") in light of its net current liabilities of approximately RMB1,927 million as at 31 December 2012. Having considered the secured credit facilities of approximately RMB4,154 million which remain unutilised at the date of approval of the consolidated financial statements, and the net proceeds from issue of zero coupon convertible bonds due 2018 of US$500 million (approximately RMB3,120 million) subsequent to 31 December 2012 as set out in Note 57, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2012 have been prepared on a going concern basis.

3. 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 (the "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

Under the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

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 reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time through rental income and that the presumption set out in the amendments to HKAS 12 is rebutted.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks and suppliers to transfer to the banks or the suppliers its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through discounting those bills receivable to banks or endorsing those bills receivable to suppliers. In the opinion of Directors, the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7 (see Note 26). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKFRSs issued but not yet effective

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 1	Government Loans[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, HKFRS11 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 (Revised in 2011)	Employee Benefits[1]
HKAS 27 (Revised in 2011)	Separate Financial Statements[1]
HKAS 28 (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 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2014.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 July 2012.

The Directors anticipate that the application of the new and revised HKFRSs, other than set out below, will have no material impact on the consolidated financial statements.

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.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments *(continued)*

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The Directors anticipate that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the Group's available-for-sale financial assets which are currently stated at cost less impairment and will be measured at fair value upon adoption.

New and revised standards on consolidation, joint arrangements, associates and disclosures

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

Key requirements of these five standards are described below.

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

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

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

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

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

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards has no material impact on amounts reported in the consolidated financial statements, except that extensive disclosure under HKFRS 12 will be made.

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 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

4. 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values, 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 and services.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

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

4. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

4. Significant Accounting Policies *(continued)*

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

4. Significant Accounting Policies *(continued)*

Interests in associates *(continued)*

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

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

Interests in joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements, using equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or construction obligations or made payments on behalf of that jointly controlled entity.

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

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

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

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

4. Significant Accounting Policies *(continued)*

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

Service income is recognised at the time when services are provided.

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

Transfer of assets from customers

When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with HKAS 16 "Property, Plant and Equipment" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with HKAS 18 "Revenue".

When an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. When the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

4. Significant Accounting Policies *(continued)*

Gas connection contracts

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

Where the outcome of a gas connection contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

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

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

When a gas connection contract provides that the Group is committed to provide ongoing access to gas supply, revenue is recognised on a straight-line basis over the life of the connection service and gas supply period. The unearned portion of the gas connection income received is stated as deferred income in the consolidated statement of financial position.

Leasing

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

The Group as lessor

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

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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

4. Significant Accounting Policies *(continued)*

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

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

Retirement benefit scheme contribution

Payable to the Mandatory Provident Fund Scheme and the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, and are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

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

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

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

4. Significant Accounting Policies *(continued)*

Taxation

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

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

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

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

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment included building and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost or deemed cost for properties transferred from investment properties, less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

4. Significant Accounting Policies *(continued)*

Property, plant and equipment *continued*

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

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

Investment properties

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

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

For a transfer from investment property to property, plant and equipment, the investment property is measured at the fair value at the date of transfer. Gain or losses arising from changes in the fair value of investment property are recognised in the profit or loss for the period in which the investment property is transferred. The fair value of the investment property will be recognised as the deemed cost of the property for subsequent accounting in accordance with the accounting policy of property, plant and equipment as set out above.

Intangible assets

Intangible assets acquired separately

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

4. Significant Accounting Policies *(continued)*

Intangible assets *(continued)*

Research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

Inventories

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

Financial instruments

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

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets

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

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loan receivable, trade and other receivables, amounts due from associates, amounts due from jointly controlled entities, amounts due from related companies, restricted bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

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

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from associates, jointly controlled entities and related parties, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivables, amounts due from associates, amounts due from jointly controlled entities and amounts due from related companies is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance accounts are recognised in profit or loss.

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to associates, amounts due to jointly controlled entities, amounts due to related companies, bank and other loans, short-term debentures, medium-term notes, senior notes and guaranteed notes) are subsequently measured at amortised cost using the effective interest method.

4. Significant Accounting Policies *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group is initially measured at its fair value and if not designated as at fair value through profit or loss, are subsequently measured at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that reporting period, or in the reporting period of the revision and future reporting periods if the revision affects both current and future reporting periods.

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

Depreciation of property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2012 amounted to RMB15,099 million (2011: RMB13,073 million). Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

Estimated impairment of goodwill

The carrying value of goodwill at 31 December 2012 amounted to RMB196 million (2011: RMB196 million). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in Note 19.

Estimated impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of receivables. Impairment loss are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible or when the net present value of the receivable is less than the carrying amount of the receivable. The identification of impairment loss requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and the impairment in the reporting periods in which such estimate has been changed. At 31 December 2012, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB941 million (2011: RMB804 million). Details of movement in impairment on trade and other receivables are set out in Note 25.

6. Capital Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 39, 40, 44, 45 and 46, net of cash on hand) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. The gearing ratio at the end of the reporting period was as follows:

	2012 **RMB million**	2011 RMB million
Bank and other loans	**4,208**	4,240
Short-term debentures	**1,208**	1,300
Corporate bond	**497**	496
Senior notes	**4,629**	4,636
Medium-term notes	**700**	–
	11,242	10,672
Less: Cash and cash equivalents	**(6,156)**	(3,349)
Restricted bank deposit (note)	**–**	(2,520)
Net debt	**5,086**	4,803
Total equity	**10,670**	8,840

	2012 **%**	2011 %
Net debt to total equity ratio	**47.7**	54.3

Note: The balance as at 31 December 2011 represented the deposit as escrow to secure for the pre-conditional cash offer of China Gas Holdings Limited which was deducted from the total debt for the purpose of computing the gearing ratio for the Group's capital risk management purpose. The pre-conditional cash offer did not proceed and the deposit was released during the year ended 31 December 2012.

The entities comprising the Group are not subject to externally imposed capital requirements.

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities (including financial assets and liabilities that has been classified as held for sale) at the end of the reporting period are set out as follows:

	2012 **RMB million**	2011 RMB million
Financial assets		
Available-for-sale financial assets	**14**	14
Loans and receivables (including cash and cash equivalents)	**8,304**	7,543
Financial liabilities		
Amortised cost	**14,617**	13,091
Financial guarantee liability	**23**	9

6. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, trade and other receivables, available-for-sale financial assets, amounts due from/to associates, jointly controlled entities and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, short-term debentures, corporate bond, senior notes, medium-term notes and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Foreign currency risk management

The functional currency of the Group's entities is RMB in which most of the transactions are denominated. However, certain loans and senior notes issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies.

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	RMB million	RMB million	**RMB million**	RMB million
Foreign currency:				
United States Dollar ("USD")	**1,179**	2,691	**4,777**	5,529
Hong Kong Dollar ("HKD")	**94**	37	**129**	9

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

	United States Dollar		**Hong Kong Dollar**	
	2012	2011	**2012**	2011
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2012	2011	**2012**	2011
	RMB million	RMB million	**RMB million**	RMB million
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(180)**	(142)	**(2)**	1
– if RMB strengthens against foreign currencies	**180**	142	**2**	(1)

6. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Interest rate risk management

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risks if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates, jointly controlled entities and related companies, and fixed-rate bank and other loans, short-term debentures, corporate bond, senior notes and medium-term notes (see Notes 27, 28, 29, 39, 40, 44, 45 and 46 for details of these amounts, loans, debentures, bond and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate loan receivable and bank loans (see Notes 24 and 39 for details of these amounts).

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate financial instruments. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2012	2011
	%	%
Reasonably possible change in interest rate	**75 basis points**	75 basis points

	2012	2011
	RMB million	RMB million
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(11)**	(28)
– as a result of decrease in interest rate	**11**	28

The possible change in the interest rate does not affect the equity of the Group in both years.

6. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk management

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liability in relation to the financial guarantee provided by the Group as disclosed in Note 41.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt, advances to associate, jointly controlled entity and related party at each half-year end date and at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantee, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputational international and PRC banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk to certain counterparties as, the exposure are spreaded over a number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2011 and 2012.

6. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on bank and other loans as a significant source of liquidity. As at the date of the approval of the consolidated financial statements, the Group has available unutilised credit facilities of approximately RMB4,154 million (2011: RMB5,594 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2012									
Trade and other payables		**2,583**	**–**	**–**	**–**	**–**	**–**	**2,583**	**2,583**
Amounts due to associates		**19**	**–**	**–**	**–**	**–**	**–**	**19**	**19**
Amounts due to jointly controlled entities		**741**	**–**	**–**	**–**	**–**	**–**	**741**	**741**
Amounts due to related companies		**32**	**–**	**–**	**–**	**–**	**–**	**32**	**32**
Bank and other loans									
– fixed rate	6.20	**1,502**	**–**	**–**	**–**	**–**	**–**	**1,502**	**1,481**
– variable rate	6.86	**1,389**	**280**	**348**	**270**	**247**	**684**	**3,218**	**2,727**
Short-term debentures	4.71	**1,257**	**–**	**–**	**–**	**–**	**–**	**1,257**	**1,208**
Medium-term notes	5.55	**39**	**39**	**39**	**39**	**739**	**–**	**895**	**700**
Corporate bond	6.45	**32**	**32**	**32**	**32**	**32**	**532**	**692**	**497**
Senior notes	6.00	**283**	**283**	**283**	**283**	**283**	**5,704**	**7,119**	**4,629**
Financial guarantee contracts		**476**	**–**	**–**	**–**	**–**	**–**	**476**	**23**
		8,353	**634**	**702**	**624**	**1,301**	**6,920**	**18,534**	**14,640**
At 31 December 2011									
Trade and other payables		1,733	–	–	–	–	–	1,733	1,733
Amounts due to associates		118	–	–	–	–	–	118	118
Amounts due to jointly controlled entities		531	–	–	–	–	–	531	531
Amounts due to related companies		37	–	–	–	–	–	37	37
Bank and other loans									
–fixed rate	6.20	410	–	–	–	–	–	410	396
–variable rate	5.50	1,896	974	338	372	344	602	4,526	3,844
Short-term debentures	6.09	1,374	–	–	–	–	–	1,374	1,300
Corporate bond	6.62	32	32	32	32	32	538	698	496
Senior notes	6.28	284	284	284	284	284	6,245	7,665	4,636
Financial guarantee contracts		95	–	–	–	–	–	95	9
		6,510	1,290	654	688	660	7,385	17,187	13,100

6. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guarantee suffer credit losses.

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

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	2012		2011	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to associates and a jointly controlled entity	**476**	**2013-2017**	95	2012-2013

d. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

– The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– The fair value of financial guarantee contracts at initial recognition is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2012		2011	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank loans	**1,481**	**1,470**	396	372
Senior notes	**4,629**	**5,453**	4,636	4,442
Short-term debentures	**1,208**	**1,170**	1,300	1,288
Medium-term notes	**700**	**680**	–	–
Corporate bond	**497**	**475**	496	479

7. Revenue

	2012 RMB million	2011 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**10,516**	7,980
Vehicle gas refuelling stations	**2,307**	1,620
Wholesale of gas	**1,031**	1,172
Distributions of bottled liquefied petroleum gas ("LPG")	**127**	192
Sales of gas appliances	**103**	97
Sales of material	**310**	592
	14,394	11,653
Provision of service		
Gas connection fees	**3,633**	3,415
	18,027	15,068

8. Other Income

	2012 RMB million	2011 RMB million
Other income includes:		
Incentive subsidies (note)	**57**	46
Bank interest income	**40**	46
Rental income from equipments, net	**11**	9
Financial guarantee income	**9**	5

Note: The amount mainly represents refunds of various taxes as incentives and other incentives in relation to encouragement for development of natural gas business by the government authorities in various cities of the PRC.

9. Other Gains and Losses

	2012 RMB million	2011 RMB million
Impairment loss reversed on trade and other receivables, net (note 25)	**8**	23
Gain (loss) on disposal of:		
– Property, plant and equipment	**7**	(5)
– Interest in an associate (note a)	**(5)**	–
Gain on derecognition/disposal of subsidiaries (note 50)	**40**	–
Increase in fair value of investment properties (note 18)	**11**	8
Early redemption premium of guaranteed notes (note b)	**–**	(95)
Arrangement fee of a banking facility (note c)	**(29)**	(57)
Fair value adjustment on interest-free advances to related companies at initial recognition	**–**	(3)
(Loss) gain on foreign exchange, net (note d)	**(19)**	143
	13	14

Notes:

a. In August 2012, the Group disposed 5.57% of equity interest in an associate to an independent third party for a cash consideration of RMB10 million. The different between the proceeds and the carrying amount of the Group's investment disposed of RMB5 million has been recognised during the year ended 31 December 2012. It became a jointly controlled entity due to the revision of Article of Association of the entity.

b. The balance of RMB95 million in 2011 was related to the premium arising from the early redemption of guaranteed notes of the company with the principal amount of US$200 million.

c. The balance represented an arrangement fee payable to a financial institution for certain banking facilities granted to the Group which is not refundable regardless of the utilisation of such facilities by the Group.

d. Included in the balance for the year ended 31 December 2012 is an amount of approximately RMB8 million (2011: RMB138 million) which is the exchange gain arising from the translation of senior notes denominated in USD to RMB..

10. Finance Costs

	2012 RMB million	2011 RMB million
Interest on:		
Bank and other loans wholly repayable within five years	**230**	155
Bank loans not wholly repayable within five years	**111**	105
Guaranteed notes	**–**	55
Short-term debentures	**87**	18
Medium-term notes	**8**	–
Senior notes	**281**	187
Corporate bond	**32**	29
	749	549
Less: Amount capitalised under construction in progress (note)	**(128)**	(89)
	621	460

Note: Borrowing costs capitalised during both years arose from funds borrowed specifically for the purpose of obtaining qualifying assets. In addition, during the year ended 31 December 2012, the borrowing cost capitalised arose from the pool of general borrowing calculated by applying a capitalisation rate of 6.22% per annum (2011: 5.74% per annum) to expenditure on qualifying assets.

11. Profit Before Tax

	2012 **RMB million**	2011 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**21**	46
Other staff costs, including directors' emoluments	**1,467**	1,272
Less: Amount of other staff costs capitalised under construction in progress	**(55)**	(56)
	1,412	1,216
Depreciation and amortisation:		
Property, plant and equipment	**551**	482
Intangible assets	**70**	37
Total depreciation and amortisation (note)	**621**	519
Release of prepaid lease payments	**20**	18
Auditors' remuneration	**11**	8
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**66**	49
Research and development expenses	**7**	2

Note: The amount of total depreciation and amortisation included in cost of sales and administrative expenses are as follows:

	2012 **RMB million**	2011 RMB million
Depreciation and amortisation included in:		
Cost of sales	**495**	388
Administrative expenses	**126**	131
	621	519

12. Directors', Chief Executive's and Employees' Emoluments

a. Directors' emoluments

Emoluments paid and payable to the Directors for the year were as follows:

2012						
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	2,538	–	505	–	3,043
Zhao Jinfeng	–	586	–	1,491	–	2,077
Jin Yongsheng	195	–	–	253	–	448
Yu Jianchao	–	586	–	2,274	–	2,860
Cheung Yip Sang	–	1,727	1,508	2,464	63	5,762
Cheng Chak Ngok*	–	1,319	–	284	8	1,611
Zhao Baoju	195	–	–	126	–	321
Wang Guangtian	195	–	–	126	–	321
Yien Yu Yu, Catherine	195	–	–	126	–	321
Kong Chung Kau	195	–	–	126	–	321
Zhao Shengli	–	1,949	1,315	1,958	53	5,275
Wang Dongzhi	–	800	–	1,548	–	2,348
Zhang Gang**	–	8	–	–	–	8
	975	9,513	2,823	11,281	124	24,716

* Mr. Cheng Chak Ngok, executive director of the Company, retired from office as director of the Company on 28 September 2012.

** Mr. Zhang Gang have been appointed as independent non-executive director of the Company with effect from 17 December 2012.

2011						
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	2,583	–	1,103	–	3,686
Zhao Jinfeng	–	596	–	3,252	–	3,848
Jin Yongsheng	199	–	–	551	–	750
Yu Jianchao	–	596	–	4,962	–	5,558
Cheung Yip Sang	–	1,834	493	5,375	48	7,750
Cheng Chak Ngok	–	1,490	–	620	10	2,120
Liang Zhiwei*	–	209	–	1,722	–	1,931
Zhai Xiaoqin*	–	209	–	1,722	–	1,931
Zhao Baoju	199	–	–	276	–	475
Wang Guangtian	199	–	–	276	–	475
Yien Yu Yu, Catherine	199	–	–	276	–	475
Kong Chung Kau	199	–	–	276	–	475
Zhao Shengli**	–	954	941	4,273	48	6,216
Wang Dongzhi**	–	447	–	3,377	–	3,824
	995	8,918	1,434	28,061	106	39,514

* In accordance with the articles of association of the Company, Mr. Liang Zhiwei and Ms. Zhai Xiaoqin, executive directors of the Company, retired from office as directors of the Company at the annual general meeting on 31 May 2011 and did not offer themselves for re-election.

** Mr. Zhao Shengli and Mr. Wang Dongzhi have been appointed as executive directors of the Company with effect from 25 March 2011.

12. Directors', Chief Executive's and Employees' Emoluments *(continued)*

a. Directors' emoluments *(continued)*

The amounts disclosed above include directors' fees of RMB585,000 (2011: RMB597,000) payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

The discretionary performance bonus is determined by reference to the Group performance during the year.

Mr. Cheung Yip Sang is also chief executive of the Company and his emoluments disclosed above include those for services rendered by him as chief executive.

b. Five highest paid individuals

The five highest paid individuals of the Group in 2012 and 2011 were all Directors and details of their emoluments are included in Note 12(a) above.

13. Income Tax Expense

	2012 RMB million	2011 RMB million
PRC Enterprise Income Tax:		
Current tax	**869**	687
Under provision in prior years	**13**	–
Withholding tax	**10**	3
	892	690
Deferred tax (Note 30)		
Current year	**(33)**	(30)
	859	660

The charge represents PRC Enterprise Income Tax for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% except for certain group entities which are entitled to various concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC in respect of preferential tax benefit for entities engaged in energy infrastructure business, certain PRC subsidiaries enjoying preferential tax rate of 15% in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the current EIT Law from 1 January 2008 and the tax rate applicable for 2012 is 25% (2011: 24%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter and a 50% relief from PRC Enterprise Income Tax for the following three years. Under the EIT Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries is 25% (2011: 24% to 25%) and the reduced tax rates for the relief period range from12.5% to 15% (2011: 12% to 12.5%). The charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The tax benefit expired in 2012.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both years.

13. Income Tax Expense *(continued)*

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

	2012 RMB million	2011 RMB million
Profit before tax	**2,852**	2,327
Tax at the PRC Enterprise Income Tax rate of 25% (2011: 25%)	**713**	582
Tax effects of share of results of associates	**(17)**	(13)
Tax effects of share of results of jointly controlled entities	**(87)**	(79)
Tax effects of income not taxable for tax purpose	**(13)**	(6)
Tax effects of expenses not deductible for tax purpose	**127**	101
Tax effects of tax losses not recognised	**141**	129
Utilisation of tax losses previously not recognised	**(37)**	(24)
Tax effects of deductible temporary differences not recognised	**19**	18
Tax concession and exemption granted to PRC subsidiaries	**(25)**	(29)
Effect of different tax rates of subsidiaries	**(14)**	(41)
Under provision in respect of prior years	**13**	–
Withholding tax on undistributed profit of PRC entities	**39**	22
Income tax charge for the year	**859**	660

14. Dividends

	2012 RMB million	2011 RMB million
Final dividend paid in respect of previous financial year	**315**	248
Special dividend paid in respect of 2010	**–**	49
	315	297

Notes:

a. 2010 final dividend of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share or approximately RMB248 million in aggregate was paid during the year ended 31 December 2011.

b. 2010 special dividend of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share or approximately RMB49 million in aggregate was paid during the year ended 31 December 2011.

c. 2011 final dividend of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share or approximately RMB315 million in aggregate was paid during the year ended 31 December 2012.

d. The proposed final dividend in respect of 2012 of HK$42.20 cents (equivalent to approximately RMB34.22 cents) per share on 1,082,859,397 shares has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

	2012 RMB million	2011 RMB million
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,482**	1,253

	2012 Number of shares	2011 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,067,694,000**	1,050,428,849
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	**6,746,139**	11,370,212
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,074,440,139**	1,061,799,061

16. Property, Plant and Equipment

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
Balance at 1 January 2011	1,104	7,567	762	389	599	1,980	12,401
Acquisition of subsidiaries	17	112	2	7	1	40	179
Additions	31	190	92	57	150	2,219	2,739
Reclassification	100	1,436	28	–	73	(1,637)	–
Transfer from investment properties	5	–	–	–	–	–	5
Transfer to assets classified as held for sale	(13)	(104)	(1)	(9)	(2)	(3)	(132)
Disposal/deregistration of subsidiaries	(5)	–	(7)	–	–	–	(12)
Disposals	(35)	(6)	(25)	(22)	(8)	–	(96)
Balance at 31 December 2011	1,204	9,195	851	422	813	2,599	15,084
Acquisition of subsidiaries	–	–	–	1	–	2	3
Additions	92	244	129	72	24	2,317	2,878
Reclassification	454	1,465	297	–	54	(2,270)	–
Transfer to investment property	(2)	–	–	–	–	–	(2)
Disposal/derecognition of subsidiaries	(4)	(145)	(14)	(2)	(1)	(91)	(257)
Disposals	(11)	(28)	(11)	(15)	(21)	(2)	(88)
Balance at 31 December 2012	1,733	10,731	1,252	478	869	2,555	17,618
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
Balance at 1 January 2011	130	930	161	188	186	6	1,601
Provided for the year	34	255	60	54	79	–	482
Transfer to assets classified as held for sale	(3)	(21)	(1)	(5)	(1)	–	(31)
Eliminated on disposal/deregistration of subsidiaries	–	–	(3)	(1)	–	–	(4)
Eliminated on disposals	(4)	(2)	(10)	(15)	(6)	–	(37)
Balance at 31 December 2011	157	1,162	207	221	258	6	2,011
Provided for the year	41	301	66	52	91	–	551
Transfer to investment property	(1)	–	–	–	–	–	(1)
Eliminated on disposal/derecognition of subsidiaries	–	(2)	–	(1)	–	–	(3)
Eliminated on disposals	(2)	(10)	(6)	(13)	(8)	–	(39)
Balance at 31 December 2012	195	1,451	267	259	341	6	2,519
CARRYING VALUES							
Balance at 31 December 2012	1,538	9,280	985	219	528	2,549	15,099
Balance at 31 December 2011	1,047	8,033	644	201	555	2,593	13,073

16. Property, Plant and Equipment *(continued)*

The above items of property, plant and equipment other than properties under construction are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Pipelines	Over the shorter of 30 years or the term of the leases
Machinery and equipment	10 years
Motor vehicles	6 years
Office equipment	6 years

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB45million (2011: RMB46 million) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for the ownership certificates for its buildings in the PRC amounting to approximately RMB242million (2011: RMB235 million).

17. Prepaid Lease Payments

	2012 **RMB million**	2011 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**790**	712
Analysed for reporting purposes as:		
Current portion	**20**	17
Non-current portion	**770**	695
	790	712

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB74 million (2011: RMB50 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

18. Investment Properties

	RMB million
FAIR VALUE	
At 1 January 2011	54
Net increase in fair value recognised in profit or loss	8
Transfer to property, plant and equipment (Note 16)	(5)
At 31 December 2011	57
Net increase in fair value recognised in profit or loss	11
Transfer from property, plant and equipment (Note 16)	1
At 31 December 2012	69

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. These investment properties include land and buildings which comprise operating leases in respect of properties situated in the PRC under medium-term.

The fair value of the Group's investment properties at 31 December 2011 and 2012 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

19. Goodwill

	2012 RMB million	2011 RMB million
COST		
At beginning of the year	**247**	243
Arising on:		
Acquisition of businesses (Note 48)	**–**	4
At end of the year	**247**	247
IMPAIRMENT		
At beginning and end of the year	**(51)**	(51)
CARRYING AMOUNTS		
At end of the year	**196**	196

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

19. Goodwill *(continued)*

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs"). At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2012 **RMB million**	2011 RMB million
Sale of piped gas business located in Lianyungang, the PRC	**18**	18
Sale of piped gas business located in Kaifeng, the PRC	**16**	16
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37**	37
Sale of piped gas business located in Guangdong, the PRC	**21**	21
Production and sale of liquefied natural gas ("LNG") (included under sale of piped gas segment)	**15**	15
Other CGUs	**89**	89
	196	196

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling price and direct costs during the projection period. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

For the purpose of impairment testing, the Group prepares cash flow projection covering a 10-year period (2011: 10-year period). The calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period. The cash flows beyond the 3-year period are extrapolated using an estimated growth pattern at growth rates between 1.5% to 23.9% (2011: 1.5% to 26.5%), and discount rate of 10% (2011: 10%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The financial budgets and growth rates used in the cash flow forecasts are estimated according to the average project life and the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

20. Intangible Assets

	Rights of operation RMB million	Customer base RMB million	Total RMB million
COST			
At 1 January 2011	763	46	809
Arising on acquisition of subsidiaries (Note 48)	382	4	386
At 31 December 2011	1,145	50	1,195
Arising on acquisition of subsidiaries (Note 49)	243	–	243
Addition	31	–	31
Disposal of subsidiaries	(20)	–	(20)
At 31 December 2012	1,399	50	1,449
AMORTISATION			
At 1 January 2011	100	7	107
Charge for the year	35	2	37
At 31 December 2011	135	9	144
Charge for the year	68	2	70
Eliminated on disposal of subsidiaries	(3)	–	(3)
At 31 December 2012	200	11	211
CARRYING VALUES			
At 31 December 2012	1,199	39	1,238
At 31 December 2011	1,010	41	1,051

Note: Rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 8 to 50 years.

21. Interests in Associates

	2012 RMB million	2011 RMB million
Cost of investment in associates		
Listed	**44**	44
Unlisted	**698**	592
Share of post-acquisition profits net of dividend received	**15**	38
	757	674
Deemed capital contribution		
Financial guarantee	**35**	9
Fair value adjustments on interest-free advances	**6**	11
	41	20
	798	694
Market value of the listed equity interests in an associate	**12**	14

21. Interests in Associates *(continued)*

Included in the interests in associates is goodwill of approximately RMB75 million (2011: RMB110 million) arising on acquisitions of associates.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.15% (2011: 6.9%) per annum and average terms of 2 years.

Details of the Group's principal associates as at 31 December 2011 and 2012 are as follows:

Name of company	Form of business structure	Place of establishment/operation	Proportion of nominal value of registered capital held by the Group 2012	2011	Principal activities
上海九環大眾油汽供應有限公司 (Shanghai Jiuhuan Public Gas Supplies Company Limited)	Incorporated	The PRC	**30%**	30%	Sales of LPG
新能能源有限公司 (Xinneng Energy Company Limited) ("Xinneng Energy")	Incorporated	The PRC	**15%**	15% (note a)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant

Notes:

a. The Group holds 15% interest in Xinneng Energy and has the power to appoint two directors out of a total eleven directors in Xinneng Energy. Accordingly, the Directors consider that the Group exercises significant influence over this entity and it is therefore classified as associate of the Group.

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

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

	2012 RMB million	2011 RMB million
Total assets	**5,911**	5,226
Total liabilities	**(3,545)**	(3,320)
Net assets	**2,366**	1,906
Group's share of net assets of associates	**682**	564
Goodwill on acquisition of associates	**75**	110
Deemed capital contribution		
– Financial guarantee	**35**	9
– Fair value adjustments on interest-free advances	**6**	11
	798	694
Revenue	**3,797**	3,496
Profit for the year	**354**	221
Group's share of profit of associates for the year	**71**	51

22. Interests in Jointly Controlled Entities

	2012 RMB million	2011 RMB million
Cost of unlisted investments	**1,355**	1,048
Shares of post-acquisition profits, net of dividends received	**894**	669
	2,249	1,717
Deemed capital contribution		
Financial guarantee	**6**	9
Fair value adjustments on interest-free advances	**16**	7
	22	16
	2,271	1,733

Included in the interests in jointly controlled entities is goodwill of approximately RMB192 million (2011: RMB160 million) arising on acquisitions of jointly controlled entities.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.15% (2011: 6.9%) per annum and average terms of 2 years.

Details of the Group's principal jointly controlled entities as at 31 December 2011 and 2012 are as follows:

Name of company	Form of business structure	Place of establishment/operation	Proportion of nominal value of registered capital held by the Group 2012	2011	Principal activities
長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Limited)	Incorporated	The PRC	**55% (note a)**	55% (note a)	Sales of piped gas
東莞新奧燃氣有限公司 (Dongguan Xinao Gas Company Limited)	Incorporated	The PRC	**55% (note a)**	55% (note a)	Investment in gas pipeline infrastructure and sales of piped gas and LPG
煙台新奧燃氣發展有限公司 (Yantai Xinao Gas Development Company Limited)	Incorporated	The PRC	**50%**	50%	Investment in gas pipeline infrastructure and sales of piped gas
株州新奧燃氣發展有限公司 (Zhuzhou Xinao Gas Development Company Limited) ("Zhuzhou Xinao")	Incorporated	The PRC	**55% (note b)**	55% (note b)	Sales of piped gas

Notes:

a. The Group holds more than 50% of the registered capital of these entities but it does not has the power to appoint further directors to control these entities and the joint venture partners in each entity controls jointly on the operational and financial policies of each entity. Accordingly, these entities are classified as jointly controlled entities of the Group.

b. The Group holds 55% of the registered capital of Zhuzhou Xinao and controls 55% of the voting power in general meeting. However, under the joint venture agreement, all financial and operational decisions must be approved by more than two-third of the directors of Zhuzhou Xinao, therefore, Zhuzhou Xinao is classified as a jointly controlled entity of the Group.

c. The above table lists the jointly controlled entities of the Group which in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other jointly controlled entities of the Group would, in the opinion of the Directors, results in particulars of excessive length

22. Interests in Jointly Controlled Entities *(continued)*

The summarised financial information in respect of the Group's share of interest in jointly controlled entities is set out below:

	2012 RMB million	2011 RMB million
Current assets	**1,663**	1,258
Non-current assets	**2,298**	1,926
Current liabilities	**1,682**	1,236
Non-current liabilities	**222**	240
Income for the year	**3,845**	3,121
Expenses for the year	**3,500**	2,805

23. Available-for-Sale Financial Assets

	2012 RMB million	2011 RMB million
Unlisted equity securities, at cost less impairment	**14**	14

The above unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

24. Loan Receivable

	2012 RMB million	2011 RMB million
Represented by:		
Current portion (included in trade and other receivables)	**10**	6
Non-current portion	**–**	3
	10	9

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15 million to an independent third party. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable on equal installment starting from 31 March 2009 and up to 31 March 2013.

The Directors are of the opinion that the loan receivable balance is not impaired as the repayment history of the debtor is satisfactory.

25. Trade and Other Receivables

	2012 RMB million	2011 RMB million
Trade receivables	**597**	525
Less: Impairment	**(56)**	(62)
	541	463
Other receivables:		
Current portion	**415**	353
Non-current portion	**–**	5
	415	358
Less: Impairment	**(15)**	(17)
	400	341
Notes receivable (note)	**309**	318
Advance to suppliers, deposits and prepayments	**812**	720
Total trade and other receivables	**2,062**	1,842

	2012 RMB million	2011 RMB million
Analysed for reporting purpose as:		
Current portion	**2,062**	1,837
Non-current portion	**–**	5
	2,062	1,842

Note: The notes receivable were endorsed for guarantee payments by PRC banks and the default risk is considered to be minimal.

The Group allows an average credit period of 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012 RMB million	2011 RMB million
Within three months	**463**	358
4 to 6 months	**39**	58
7 to 9 months	**26**	29
10 to 12 months	**6**	10
More than one year	**7**	8
	541	463

The following is an aged analysis of notes receivable:

	2012 RMB million	2011 RMB million
Within three months	**136**	228
4 to 6 months	**173**	90
	309	318

25. Trade and Other Receivables *(continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately RMB481 million (2011: RMB405 million) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 64 days (2011: 83 days).

Aged analysis of trade receivables which are past due but not impaired

Except for certain trade receivable past due beyond one year, the Group has fully provided for all receivables over one year because historical experience is that receivables that are past due beyond one year are generally not recoverable. No impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	2012 **RMB million**	2011 RMB million
Within one year	**474**	397
Over one year	**7**	8
Total	**481**	405

Movements in the impairment on trade receivables

	2012 **RMB million**	2011 RMB million
Balance at beginning of the year	**62**	62
Impairment losses recognised on receivables	**29**	27
Amounts recovered during the year	**(35)**	(23)
Amounts written off as uncollectible	**–**	(4)
Balance at end of the year	**56**	62

All trade receivables are assessed not to be impaired individually and therefore, they are subsequently assessed for impairment on a collective basis. The Group does not hold any collateral over these balances.

Movements in the impairment on other receivables

	2012 **RMB million**	2011 RMB million
Balance at beginning of the year	**17**	44
Amounts recovered during the year	**(2)**	(27)
Balance at end of the year	**15**	17

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either affiliates of non-controlling shareholders of subsidiaries or with satisfactory repayment history. Included in other receivables as of 31 December 2011 of approximately RMB45 million is secured by pledge of shares held by the debtor in an associate of the Group, which was released during the year ended 31 December 2012.

26. Transfer of Financial Assets

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks or suppliers by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks RMB million	**Bills receivable endorsed to suppliers** RMB million	**Total** RMB million
Carrying amount of transferred assets	625	191	816
Carrying amount of associated liabilities	(625)	(191)	(816)
	–	–	–

27. Amounts Due from/to Associates

	2012 **RMB million**	2011 RMB million
Amounts due from associates:		
Current portion	**83**	31
Non-current portion	**40**	39
	123	70
Amounts due to associates	**20**	119

Included in the amount due from/to associates are trade receivables amounting to approximately RMB41 million (2011: RMB20 million) and trade payables amounting to approximately RMB13 million (2011: RMB14 million) and the aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2012 **RMB million**	2011 RMB million
Trade receivables due from associates		
Within three months	**23**	9
4 to 6 months	**2**	3
7 to 9 months	**3**	2
10 to 12 months	**3**	1
More than one year	**10**	5
	41	20

	2012 **RMB million**	2011 RMB million
Trade payables due to associates		
Within three months	**13**	13
4 to 6 months	**–**	1
	13	14

Owing the strategic relationship with the associates, there is no formal credit policy applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to associates are unsecured, interest-free and repayable on demand. The interest-free amounts due from associates that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.15% (2011: 6.9%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

28. Amounts Due from/to Jointly Controlled Entities

	2012 RMB million	2011 RMB million
Amounts due from jointly controlled entities:		
Current portion	**528**	404
Non-current portion	**116**	66
	644	470
Amounts due to jointly controlled entities	**896**	627

Included in the amounts due from jointly controlled entities was approximately RMB66 million (2011: RMB56 million) arising from the deposits placed for purchases of gas by the Group from the jointly controlled entities which the Directors consider is not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to approximately RMB252 (2011: RMB217 million) and trade payables amounting to approximately RMB180 (2011: RMB125 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2012 RMB million	2011 RMB million
Trade receivables due from jointly controlled entities		
Within three months	**145**	155
4 to 6 months	**17**	29
7 to 9 months	**36**	12
10 to 12 months	**14**	4
More than one year	**40**	17
	252	217
Trade payables due to jointly controlled entities		
Within three months	**106**	93
4 to 6 months	**21**	4
7 to 9 months	**26**	5
10 to 12 months	**–**	–
More than one year	**27**	23
	180	125

Owing the strategic relationship with the jointly controlled entities, there is no formal credit policy applied to above balances by the Group and the jointly controlled entities and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to jointly controlled entities are unsecured, interest-free and repayable on demand.

The interest-free amounts due from jointly controlled entities that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.15% (2011: 6.9%) per annum. For the remaining amounts due from jointly controlled entities, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from jointly controlled entities are not impaired as the counterparties are jointly controlled entities that are financially sound.

29. Amounts Due from Related Companies

	2012 RMB million	2011 RMB million
Amounts due from non-controlling shareholders of subsidiaries with significant influence	**51**	43
Amounts due from companies controlled by a shareholder and director (note a)	**22**	14
	73	57

Analysed for reporting purposes as:

	2012 RMB million	2011 RMB million
Current portion (note b)	**31**	31
Non-current portion (note c)	**42**	26
	73	57

Notes:

a. The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a shareholder and director of the Company. The maximum amount outstanding during the year in respect of the amount due from companies controlled by Mr. Wang is RMB24 million (2011: RMB17 million).

b. The amounts due from related companies are unsecured, interest-free and repayable on demand. The Group expects the amounts will be recoverable within one year from the end of the reporting period.

c. The non-current amounts due from related companies represent advances to non-controlling shareholders of certain subsidiaries of the Company. The amounts are unsecured, interest-free and will be settled through future distribution of dividend by the relevant subsidiaries to the non-controlling shareholders. The Directors consider that the balances will not be repayable within one year, therefore, they are classified as non-current assets.

Included in the amounts due from related companies are trade receivables amounting to RMB24 million (2011: RMB16 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2012 RMB million	2011 RMB million
Within three months	**6**	8
4 to 6 months	**1**	2
7 to 9 months	**3**	1
10 to 12 months	**4**	2
More than one year	**10**	3
	24	16

Owing the strategic relationship with the related companies, there is no formal credit policy applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

For the amounts due from companies controlled by a shareholder and director of the Company, the counterparties are related companies that are financially sound and for the amounts due from non-controlling shareholders of subsidiaries, the amounts will be settled through future distribution of dividend by subsidiaries, therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

30. Deferred Taxation

	2012 RMB million	2011 RMB million
Deferred tax assets	**222**	176
Deferred tax liabilities	**(346)**	(337)
	(124)	(161)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Valuation of properties RMB million	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profit of PRC entities from 1 January 2008 RMB million (note)	Deferred income RMB million	Others RMB million	Total RMB million
At 1 January 2011	5	142	44	37	(134)	–	94
Acquisition of business (Note 48)	–	97	–	–	–	–	97
(Credit) charge to profit or loss	–	(8)	21	19	(62)	–	(30)
At 31 December 2011	5	231	65	56	(196)	–	161
Disposal of business (Note 50)	–	(4)	–	–	–	–	(4)
(Credit) charge to profit or loss	–	(17)	22	29	(45)	(22)	(33)
At 31 December 2012	5	210	87	85	(241)	(22)	124

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 10% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB405 million (2011: RMB289 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,626 million (2011: RMB1,382 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following year ending 31 December:

	2012 RMB million	2011 RMB million
2012	**–**	184
2013	**300**	342
2014	**205**	345
2015	**253**	382
2016	**302**	129
2017	**566**	–
	1,626	1,382

At the end of the reporting period, the Group has other deductible temporary differences of approximately RMB648 million (2011: RMB651 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

31. Deposits Paid for Investments

The balance as at 31 December 2012 of RMB117 million (2011: RMB41 million) represented the deposits paid for the investments in various piped gas and clean energy projects in the PRC which have not been completed at the end of the reporting period.

The balance as at 31 December 2012 also included a deposit of RMB100 million (2011: nil) in respect of the Group's investment in a fund company which will be established to engage in investment activities. As at 31 December 2012, the establishment of the fund company is still in process.

32. Restricted Bank Deposits

	2012 **RMB million**	2011 RMB million
Current portion	**316**	2,675
Non-current portion	**17**	7
	333	2,682
Bank deposits secured for:		
Bills facilities	**253**	99
Purchase contracts with suppliers	**66**	56
Rights of operations	**14**	7
Pre-conditional cash offer of shares of China Gas Holdings Limited	**–**	2,520
	333	2,682

The balance as at 31 December 2011 included the restricted bank deposits of RMB2,520 million which was made pursuant to an escrow agreement dated 1 December 2011 entered into between the Company, a financial institution and an escrow agent. According to the agreement, the Group has agreed to establish an escrow account and credited a sum of US$400 million (the "Escrow Amount") to secure the proposed pre-conditional cash offer of shares of China Gas Holdings Limited (the "Offer") made by the Group in its announcement dated 12 December 2011. The Escrow Amount was released during the year ended 31 December 2012 pursuant to the decision made by the Company that the Offer was not proceeded.

As at 31 December 2012, the restricted bank deposits carry fixed interest rate range from 0.35% to 0.46% (2011: from 0.30% to 0.36%) per annum. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

33. Inventories

	2012 **RMB million**	2011 RMB million
Construction materials	**164**	142
Gas appliances	**64**	61
Piped gas	**62**	45
Bottled LPG	**10**	6
Spare parts and consumable	**11**	18
	311	272

The cost of inventories recognised as an expense during the year was approximately RMB11,593 million (2011: RMB9,942 million).

34. Amounts Due from (to) Customers for Contract Work

	2012 RMB million	2011 RMB million
Contract costs incurred plus recognised profits	1,012	879
Less: Progress billings	(2,283)	(1,667)
	(1,271)	(788)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	180	201
Amounts due to customers for contract work	(1,451)	(989)
	(1,271)	(788)

35. Cash and Cash Equivalents

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.35% to 2.6% (2011: 0.5% to 3.1%) per annum as at 31 December 2012. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB1,273 million (2011: RMB207 million), of which approximately RMB1,179 million (2011: RMB170 million) and approximately RMB94 million (2011: RMB37 million) are denominated in USD and HKD respectively.

36. Assets Classified As Held for Sale

On 1 December 2011, the Group entered into an equity transfer agreement with an independent third party to transfer 95% of equity interest in 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited or “Beijing Xinao”) and 80% of equity interest in 北京新奥京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited or “Beijing Jingchang”) at a cash consideration of RMB39 million and RMB13.5 million, respectively.

The major classes of assets and liabilities of the disposal were as follows:

	2011 RMB million
Property, plant and equipment	101
Prepaid lease payments	8
Inventories	4
Trade and other receivables	8
Cash and cash equivalents	6
Total assets classified as held for sale	127
Trade and other payables (included deposit received of RMB48 million)	76
Total liabilities associated with assets classified as held for sale	76

The transfer of these equity interests were completed during the year ended 31 December 2012, details of which are set out in Note 50.

37. Trade and Other Payables

	2012 RMB million	2011 RMB million
Trade payables	**1,818**	1,437
Advances received from customers	**2,312**	2,050
Accrued charges and other payables	**764**	685
	4,894	4,172

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

	2012 RMB million	2011 RMB million
Trade payables aged:		
Within three months	**1,554**	1,060
4 to 6 months	**77**	191
7 to 9 months	**53**	34
10 to 12 months	**15**	13
More than 1 year	**119**	139
	1,818	1,437

The average credit period on purchases of goods is 30 to 90 days.

38. Amounts Due to Related Companies

	2012 RMB million	2011 RMB million
Amounts due to non-controlling shareholders of subsidiaries with significant influence	**4**	30
Amounts due to companies controlled by a shareholder and director (note)	**28**	7
	32	37

Note: The related companies are controlled by Mr. Wang who is a shareholder and director of the Company.

The amounts due to related companies of approximately RMB32 million (2011: RMB37 million) are unsecured, interest-free and repayable on demand.

Included in the amounts due to related companies are trade payables amounting to approximately RMB30 million (2011: RMB16 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2012 RMB million	2011 RMB million
Within three months	**28**	9
4 to 6 months	**1**	3
More than one year	**1**	4
	30	16

39. Bank and Other Loans

	2012 RMB million	2011 RMB million
Bank loans		
Secured	**1,285**	1,585
Unsecured	**2,805**	2,528
	4,090	4,113
Other loans		
Secured	**22**	31
Unsecured	**96**	96
	118	127
	4,208	4,240
The bank and other loans are repayable:		
Within one year	**2,737**	1,913
More than one year, but not exceeding two years	**185**	853
More than two years, but not exceeding five years	**675**	840
More than five years	**611**	634
	4,208	4,240
Less: Amounts due within one year shown under current liabilities	**(2,737)**	(1,913)
Amounts due after one year	**1,471**	2,327

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB63 million (2011: RMB803 million) and approximately RMB129 million (2011: RMB9 million) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by property, plant and equipment and rights to fee income of certain subsidiaries and jointly controlled entities as set out in Note 53 and personal guarantee of Mr. Wang and his spouse as set out in Note 54.

39. Bank and Other Loans *(continued)*

Details of the terms of the Group's borrowings are set out below:

At 31 December 2012

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loan	18/1/2013 – 15/9/2013	6.44% – 7.54%	1,385
Unsecured RMB other loans	17/6/2013	3.38% – 5%	96
Total fixed-rate borrowings			1,481
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	7/1/2013 – 27/7/2023	6.63%	1,235
Secured RMB bank loan at PBOC base rate	17/6/2014 – 29/11/2021	6.77%	1,278
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2%	11/1/2013	2.21%	63
Unsecured HKD bank loan at 0.5% above Prime Rate	9/4/2013	5.5%	122
Secured HKD bank loan from 2.5% to 2.95% below Prime Rate	11/7/2013 – 27/9/2022	2.05% – 2.50%	7
Secured RMB other loan at PRC government bond rate	15/12/2014 – 12/6/2017	3.80%	22
Total floating-rate borrowings			2,727
Total borrowings			4,208

39. Bank and Other Loans *(continued)*

Details of the terms of the Group's borrowings are set out below: *(continued)*

At 31 December 2011

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
6.56% – 8.8% unsecured RMB bank loan	12/4/2012–26/10/2012	6.56% – 8.8%	300
3.38% – 5% unsecured RMB other loans	17/06/2012	3.38% – 5%	96
Total fixed-rate borrowings			396
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	20/1/2012–27/7/2023	6.34%	1,425
Secured RMB bank loan at PBOC base rate	28/8/2012–29/11/2021	6.19%	1,576
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.2%	30/11/2012–30/11/2013	2.45%	803
Secured HKD bank loan at 2.37% below Prime Rate	11/7/2013–27/9/2022	2.37%	9
Secured RMB other loan at PRC government bond rate	15/12/2014–12/6/2017	2.22%	31
Total floating-rate borrowings			3,844
Total borrowings			4,240

40. Short-Term Debentures

Pursuant to the approval [2011] No. CP278 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 16 December 2011, NAFMII granted an approval to wholly-owned subsidiary of the Company, 新奧（中國）燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited) ("Xinao (China)") to issue short-term debentures with a maximum limit of RMB2,500 million up to 16 December 2013. The balance as at 31 December 2011 represented the short-term debenture to third party with face value of RMB1,300 million. The short-term debentures were unsecured, carried interest at 5.9% per annum and were repaid on 18 December 2012.

The balance as at 31 December 2012 represented the short-term debentures to third party with face value of RMB1,200 million. The short-term debentures are unsecured, carry interest at 4.71% per annum and are repayable on 24 October 2013.

Details of the outstanding balance at the end of the reporting period are as follows:

	2012 RMB million	2011 RMB million
Short-term debentures issued during the year and repayable within one year:		
Principal	**1,200**	1,300
Less: Issue costs	**(2)**	(2)
	1,198	1,298
Interest payable	**10**	2
	1,208	1,300

41. Financial Guarantee Liability

As at 31 December 2012, the Group had outstanding guarantees issued to banks to secure loan facilities granted to jointly controlled entities and associates to the extent of approximately RMB476 million (2011: RMB95 million) for loans with maturity from one to four years, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2012 is approximately RMB23 million (2011: RMB9 million).

42. Deferred Income

	Subsidies received from customers RMB million (note a)	**Connection fee received from customers** RMB million (note b)	**Total** RMB million
GROSS			
At 1 January 2011	20	546	566
Additions	16	265	281
At 31 December 2011	36	811	847
Additions	–	303	303
At 31 December 2012	36	1,114	1,150
RECOGNITION			
At 1 January 2011	6	29	35
Release to profit or loss	4	32	36
At 31 December 2011	10	61	71
Release to profit or loss	4	48	52
At 31 December 2012	14	109	123
CARRYING VALUES			
At 31 December 2012	22	1,005	1,027
At 31 December 2011	26	750	776

	2012 **RMB million**	2011 RMB million
Analysed for reporting purposes as:		
Current liabilities	**61**	44
Non-current liabilities	**966**	732
	1,027	776

Notes:

a. The balance represented the subsidies received from the industrial customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 5 to 30 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas provision period and the useful lives of the related assets.

b. Since 2009, the PRC local governments in certain provinces in the PRC has issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of the Group's main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and release to the profit or loss over the estimated useful lives of the assets constructed.

43. Share Capital

	2012 Number of shares	2011 Number of shares	**2012 HK$ million**	2011 HK$ million
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,051,149,397**	1,050,149,397	**105**	105
Issue of shares on exercise of share options	**31,710,000**	1,000,000	**3**	–
At end of the year	**1,082,859,397**	1,051,149,397	**108**	105

	2012 RMB million	2011 RMB million
Presented in financial statements as:		
At beginning of the year	**110**	110
Issue of shares on exercise of share options	**3**	–
At end of the year	**113**	110

During the year ended 31 December 2012, 31,710,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

44. Corporate Bond

On 16 February 2011, pursuant to the approval 2011 No. 29 issued by National Development and Reform Commission ("NDRC"), NDRC approved Xinao (China) to issue a corporate bond of RMB500 million. The amount is unsecured and carries a fixed interest rate of 6.45% per annum and is repayable on 16 February 2018. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB496 million.

According to the terms and conditions of the corporate bond, the Group may at its option to increase the coupon rate by 0% to 1% at the end of year five, that is 16 February 2016 by giving a 10-day notice to the bondholder before 16 February 2016. At the same time, the bondholder may at its option require the Company to redeem the bond at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bond will be subject to the increased interest rate until the maturity date. The put option is considered closely related to the host contract and is therefore not separately accounted for. The effective interest rate of the corporate bond is approximately 6.616% per annum after the adjustment for transaction costs.

The corporate bond recognised in the consolidated statement of financial position were as follows:

	2012 RMB million	2011 RMB million
Principal amount	**500**	500
Issue costs	**(4)**	4
	496	496
Effective interest recognised	**1**	–
Carrying amount as at end of the year	**497**	496

45. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of US$750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to US$735 million (equivalent to RMB4,765 million). The 2021 Senior Notes matures on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

According to the terms and conditions of the 2021 Senior Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums is the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equal to the Treasury Rate plus 25 basis points, over (B) the principal amount on redemption date.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 6.2756% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated as follows:

	2012 **RMB million**	2011 RMB million
Nominal value of 2021 Senior Notes	**4,863**	4,863
Issue costs	**(98)**	(98)
Fair value at date of issuance	**4,765**	4,765
Effective interest recognised	**477**	196
Interest paid/payable	**(467)**	(187)
Exchange gain	**(146)**	(138)
Carrying amount at 31 December	**4,629**	4,636
Fair values of the 2021 Senior Notes*	**5,453**	4,442

* The fair values of the 2021 Senior Notes are determined directly by references to the price quotations published by the SGX-ST on 30 December 2011 and 31 December 2012.

46. Medium-Term Notes

On 15 October 2012, Xinao (China) issued medium-term notes in the aggregate principal amount of RMB700 million which are unsecured. The medium-term notes carry a fixed interest rate of 5.55% per annum and are repayable on 17 August 2017. The interest is payable to the holders of the notes on yearly basis.

47. Share Options

The Company has adopted a share option scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

The purpose of the share option scheme is to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option scheme, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

47. Share Options *(continued)*

On 14 June 2010, the Company granted share options to directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe 18,680,000 shares in the Company.

As at the end of the reporting period, the number of share options granted to the Directors and certain employees of the Group that are outstanding are 600,000 (2011: 17,860,000) and 180,000 (2011: 14,630,000) share options, respectively.

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the share option scheme during the year:

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Outstanding at 31.12.2012
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	15,745	–	(15,745)	–
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	16,745	–	(15,965)	780
					32,490	–	(31,710)	780
Exercisable at the end of the year								780
Weighted average exercise price					HK$16.26	–	HK$16.26	HK$16.26

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Outstanding at 31.12.2011
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	16,745	–	(1,000)	15,745
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	16,745	–	–	16,745
					33,490	–	(1,000)	32,490
Exercisable at the end of the year								15,745
Weighted average exercise price					HK$16.26	–	HK$16.26	HK$16.26

The closing price of the Group's shares immediately before 14 June 2010, the date of grant, was HK$16.22 per share.

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

During the year, the Group recognised share-based expenses of RMB21 million (2011: RMB46 million) and 31,710,000 (2011: 1,000,000) share options were exercised at the weighted average price of HK$16.26. The total fair value of the options calculated by using the binomial model was HK$193 million.

47. Share Options *(continued)*

The following assumptions were used to calculation the fair value of share options:

Spot price	HK$16.26
Exercise price	HK$16.26
Risk free rate	2.421%
Expected volatility	49.23%
Expected dividend yield	1.37%
Early exercise behaviour	150% of the Exercise Price

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

48. Acquisition of Businesses During the Year Ended 31 December 2011

On 15 April 2011, the Group acquired 90% of the registered capital of 江蘇華海管道燃氣有限責任公司 ("Jiangsu Huahai") at a cash consideration of RMB33 million. Jiangsu Huahai is the holding company of a group of companies engaging in the sales of piped gas in Jiangsu province.

On 21 October 2011, the Group acquired 60% of the registered capital of 廣州市番禺煤氣有限公司 (''Guangzhou Panyu'') at a cash consideration of RMB333 million. Guangzhou Panyu is engaged in sales of piped gas.

Jiangsu Huahai and Guangzhou Panyu were acquired with the objective of significantly improving marketing coverage in Jiangsu and Guangzhou and obtaining contribution arising from gas supply to industrial centre.

Consideration transferred

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Cash consideration paid	33	333

Acquisition-related costs amounting to RMB121,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of comprehensive income in the year ended 31 December 2011.

The fair value of assets and liabilities of Jiangsu Huahai and the provisional values of the assets and liabilities of Guangzhou Panyu at the date of acquisition are as follows:

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Current assets		
Cash and cash equivalents	1	11
Trade and other receivables	1	50
Inventories	–	11
Non-current assets		
Property, plant and equipment	23	156
Intangible assets – rights of operation	27	355
Intangible assets – customer base	–	4
Interest in an associate	–	28
Prepaid lease payments	2	10
Current liabilities		
Trade and other payables	(17)	(55)
Bank loans – due within one year	–	(45)
Non-current liabilities		
Deferred tax liabilities	(7)	(90)
Bank loans – due after one year	–	(58)
	30	377

48. Acquisition of Businesses During the Year Ended 31 December 2011 *(continued)*

The fair value of intangible assets of Jiangsu Huahai was determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence. The value of assets and liabilities of Guangzhou Panyu were provisional as at 31 December 2011. In 2012, the valuation report has been finalised and issued by an independent professional valuer. The final fair value of the intangible assets of Guangzhou Panyu approximate the management estimates of above, and accordingly no adjustment to the fair value of the assets and liabilities of Guangzhou Panyu as required.

The fair value of the trade and other receivables amounted to approximately RMB51 million in aggregated which is estimated to be the same as the gross contractual amounts of these receivables. The Directors preliminarily considered that all acquired receivables will be recoverable.

Non-controlling interests

The Group has elected to measure non-controlling interests in Jiangsu Huahai and Guangzhou Panyu at the proportionate share of the acquirees' net identified assets at the respective acquisition date.

The non-controlling interest (10%) in Jiangsu Huahai and (40%) in Guangzhou Panyu recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identifiable assets which amounted to approximately RMB1 million and approximately RMB44 million respectively.

Goodwill arising on acquisition

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Consideration transferred	33	333
Plus: Non-controlling interests	1	44
Less: Fair value of identified net assets acquired	(30)	(377)
Goodwill arising on acquisition	4	–

Goodwill arose on the acquisition of Jiangsu Huahai is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

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

Net cash outflow arising on acquisition

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Consideration paid in cash	(33)	(333)
Less: Cash and cash equivalent balances acquired	1	11
	(32)	(322)

48. Acquisition of Businesses During the Year Ended 31 December 2011 *(continued)*

Impact of acquisition on the results of the Group

Included in the revenue and profit for the year ended 31 December 2011 was approximately RMB2 million and RMB0.3 million respectively attributable to the additional business generated by Jiangsu Huahai. Included in the revenue and profit for the year then ended was approximately RMB67 million and RMB2 million, respectively attributable to Guangzhou Panyu.

Had the acquisition of Jiangsu Huahai and Guangzhou Panyu been effected at 1 January 2011, the revenue of the Group for the year would have been approximately RMB15,250 million, and the profit for the year ended 31 December 2011 would have been approximately RMB1,683 million. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

Impact of acquisition on the results of the Group *(continued)*

In determining the 'pro-forma' revenue and profit of the Group, had Jiangsu Huahai and Guangzhou Panyu been acquired on 1 January 2011, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

49. Acquisition of Assets Through Acquisitions of Subsidiaries

To facilitate with the Group's overall business strategy, the Group will from time to time liaise the local PRC government and potential vendor to acquire the existing gas connection and related assets. During the year ended 31 December 2012, the Group has acquired assets through the acquisitions of the following subsidiaries.

On 24 February 2012, the Group acquired 70% of the registered capital of 龍岩民生燃氣發展有限公司 ("Longyan") at a cash consideration of RMB34 million. Longyan is engaged in sales of piped gas. Longyan had not yet commenced operation as at acquisition date.

On 22 March 2012, the Group acquired 100% of the registered capital of 聚源通投資有限公司 ("Juyuantong") at a cash consideration of approximately RMB173 million. At the time of the acquisition, Juyuantong and its subsidiary had not yet commenced operations other than securing gas supply contracts for the sales of piped gas in Henan province.

On 16 August 2012, the Group acquired 51% of the registered capital of 界首市新奥阜康天然氣利用有限公司 ("Jieshou") at a cash consideration of approximately RMB23 million. At the time of acquisition, Jieshou had not yet commenced operations.

49. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

These transactions were accounted for acquisition of assets through acquisition of subsidiaries and the fair value of the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	3
Intangible assets – rights of operation	243
Prepaid lease payments	2
Current assets	
Trade and other receivables	3
Cash and cash equivalents	20
Current liabilities	
Trade and other payables	(4)
Total net assets	267
Less: Non-controlling interests	(37)
Net assets acquired	230
Total consideration	230
Satisfied by:	
Cash	196
Consideration payables (included in other payables)	34
Total consideration	230
Net cash outflow arising on acquisition:	
Cash consideration paid	196
Less: cash and cash equivalents acquired	(20)
	176

50. Derecognition/Deregistration/Disposal of Subsidiaries

a. Derecognition of a subsidiary

In 2011, a 72.8% owned subsidiary, 江蘇大通管輸天然氣有限公司 (“Jiangsu Datong”), increased its registered capital of approximately RMB30 million by introducing of 大豊市大豊港開發建設有限公司 (“Dafeng”) and 鹽城市城市建設投資集團有限公司 (“Yancheng”) as its equity holders. Dafeng and Yancheng together contributed RMB30 million as additional registered capital of Jiangsu Datong.

On 1 January 2012, upon completion of the contribution from Dafeng and Yancheng, the Group’s equity interest in Jiangsu Datong diluted to 51%. Pursuant to the revised articles of association of Jiangsu Datong, the Group was unable to control Jiangsu Datong because a resolution for the financial and operating activities of Jiangsu Datong can only be passed with a two-third majority.

The net assets of Jiangsu Datong derecognised at the date the Group lost control over Jiangsu Datong were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	218
Prepaid lease payment	4
Current assets	
Inventories	1
Other receivables	41
Cash and cash equivalents	15
Current liabilities	
Trade and other payables	(86)
Taxation payable	(1)
Non-current liabilities	
Bank loans	(120)
	72
Less: Non-controlling interests	(16)
Net amount derecognised attributable to the equity owners of the Group before capital injection	56
Capital injection by Dafeng and Yancheng	30
Net amount derecognised including capital injection by Dafeng and Yancheng	86

The loss recognised in profit or loss on loss of control of Jiangsu Datong was calculated as follows:

	RMB million
Fair value of the residual interests in Jiangsu Datong recognised as investment cost of an associate	51
Capital injection by Dafeng and Yancheng	30
	81
Less: Net assets derecognised	(86)
Loss on derecognition of a subsidiary on loss of control to associate	(5)

Net cash outflow arising on disposal of subsidiaries

	RMB million
Cash outflow arising on derecognition	
Cash and cash equivalent disposed of	(15)

50. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

b. Disposal of subsidiaries during the year ended 31 December 2012

The Group completed the disposal of 95% of equity interest in Beijing Xinao and 80% of equity interest in Beijing Jingchang on 22 May 2012 and 1 July 2012 respectively.

On 12 December 2012, the Group completed the disposal of 90% of equity interest in 廣州富城管道燃氣有限公司 ("Guangzhou Fucheng") to an independent third party for a cash consideration of RMB19.5 million.

The aggregate net assets of Beijing Xinao, Beijing Jingchang and Guangzhou Fucheng derecognised at the date of disposal were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	91
Prepaid lease payment	8
Intangible assets	17
Current assets	
Inventories	6
Trade and other receivables	17
Cash and cash equivalents	9
Current liabilities	
Trade and other payables	(114)
Non-current liabilities	
Deferred tax liabilities	(4)
	30

Gain on disposal of subsidiaries

	RMB million
Consideration receivable (out of which RMB4 million is not yet received and included as other receivable at 31 December 2012)	72
Net asset disposed of	(30)
Non-controlling interest	3
Gain on disposal of subsidiaries	45

Net cash inflow arising on disposal of subsidiaries

	RMB million
Consideration received	68
Cash and cash equivalent disposed of	(9)
	59

50. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

c. Disposal of subsidiaries during the year ended 31 December 2011 *(continued)*

On 31 March 2011, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to acquire 40% of equity interest in 河北中石油昆侖天然氣利用有限公司 ("Hebei Kunlun") at a cash consideration of RMB76 million. At the same time, the Group agreed to transfer 100% of equity interest in a wholly owned subsidiary, 新奧鹿泉車用燃氣有限公司 ("Xinao Luquan") to the Seller, for a cash consideration of RMB8 million.

The net assets of Xinao Luquan derecognised at the date of disposal were as follows:

	RMB million
Current assets	
Cash and cash equivalents	14
Trade and other receivables	4
Non-current asset	
Property, plant and equipment	8
Current liabilities	
Trade and other payables	(6)
	20

The carrying amount of the net assets of Xinao Luquan derecognised approximates the fair value of the business of Xinao Luquan. The disposal of Xinao Luquan is considered to be an exchange of assets for the acquisition of 40% of equity interest in Hebei Kunlun, and accordingly, the cost of acquisition of Hebei Kunlun is calculated as follows:

	RMB million
Fair value of net assets of a subsidiary disposed of	20
Less: Proceeds from disposal (not yet received and included as other receivable at 31 December 2011)	(8)
	12
Cash consideration (out of which RMB50,000,000 are not yet paid and included in other payable at 31 December 2011)	76
Cost of acquisition of a jointly controlled entity	88

Net cash outflow arising on acquisition of a jointly controlled entity (included in investments in jointly controlled entities in the consolidated statement of cash flows)

	RMB million
Consideration paid	(26)
Cash and cash equivalent disposed of	(14)
	(40)

51. Commitments

a. Capital commitments

	2012 RMB million	2011 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**110**	124
Capital commitment in respect of		
– investments in joint ventures	**287**	–
– investments in associates	**40**	57

b. Other commitments

As at 31 December 2012, the Group has commitment amounting to approximately RMB30million (2011: RMB32 million) in respect of acquisition of land use rights in the PRC.

52. Lease Commitments

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2012 RMB million	2011 RMB million
Premises	**59**	44
Other assets	**3**	3
	62	47

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

	2012 RMB million	2011 RMB million
Within one year	**35**	27
In the second to fifth year inclusive	**75**	53
Over five years	**83**	56
	193	136

Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 4.45% (2011: 5.15%) on an ongoing basis. All of the properties held have committed tenants for terms ranging from one to twenty two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 RMB million	2011 RMB million
Within one year	**5**	5
In the second to fifth year inclusive	**9**	9
Over five years	**5**	1
	19	15

53. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and jointly controlled entities as follows:

	2012 RMB million	2011 RMB million
Carrying amount of:		
Property, plant and equipment	**81**	94
Restricted bank deposits	**333**	162

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries and jointly controlled entities in favour of banks to secure banking facilities amounting to RMB1,590 million (2011: RMB1,520 million) granted to the Group and RMB1,226 million (2011: RMB1,273 million) of which is utilised up to 31 December 2012.

54. Related Party Transactions

Apart from the related party balances as stated in Notes 27, 28, 29 and 38, the Group had the following transactions with certain related parties:

	2012 RMB million	2011 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**28**	16
– Sales of materials to	**21**	11
– Sales of assets to	**16**	–
– Purchase of gas from	**61**	46
– Purchase of materials from	**2**	3
– Loan interest received from	**1**	–
– Provision of gas transportation services to	**2**	1
– Provision of gas connection services to	**–**	1
Jointly controlled entities:		
– Sales of gas to	**307**	342
– Sales of materials to	**91**	136
– Purchase of gas from	**528**	319
– Provision of gas transportation services to	**378**	249
– Loan interest received from	**5**	1
– Payment made on behalf of the Group	**–**	2
– Provision of gas connection services to	**42**	42
– Provision of supporting services by	**19**	16
– Lease of equipment from	**1**	–
– Lease of property from	**1**	–

54. Related Party Transactions *(continued)*

	2012 RMB million	2011 RMB million
Nature of transaction		
Companies controlled by Mr. Wang:		
– Provision of gas supporting services by	35	2
– Sales of shares	–	20
– Sales of gas to	7	6
– Purchase of property from	8	20
– Purchase of materials from	2	1
– Provision of gas connection service to	3	2
– Provision of construction service by	8	2
– Provision of property management services by	10	6
– Lease of premises to	1	1
– Lease of premises from	3	3
– Provision of supporting services by	37	31
– Provision of maritime transportation services by	15	16
Non-controlling shareholders of subsidiaries with significant influence:		
– Provision of gas connection service to	1	8
– Purchase of land from	–	8
– Provision of construction service by	5	5
– Lease of premises from	2	2
– Provision of transportation services by	2	2
– Purchase of gas from	2	2
– Provision of supporting services by	8	3

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB2,370 million (2011: RMB2,250 million).

As at 31 December 2011, non-controlling shareholders of a subsidiary with significant influence have provided their guarantees to the extent of RMB216 million to certain banks for banking facilities granted to the Group, which was repaid during the year.

A jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounting to RMB561 million(2011: RMB100 million) granted to the Group and RMB497 million(2011: RMB95 million) of which is utilised up to 31 December 2012.

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the year was disclosed in Note 12.

55. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection, sales of piped gas, vehicle refuelling stations, wholesale of gas, distributions of bottled LPG, sales of gas appliances and sales of material. Segment profit reviewed by CEO represents the gross profit earned by each segment. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable segment which is also the operating segments for the periods under review:

2012

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	**4,302**	**13,207**	**2,309**	**2,987**	**248**	**324**	**1,267**	**24,644**
Inter-segment sales	**(669)**	**(2,691)**	**(2)**	**(1,956)**	**(121)**	**(221)**	**(957)**	**(6,617)**
Revenue from external customers	**3,633**	**10,516**	**2,307**	**1,031**	**127**	**103**	**310**	**18,027**
Segment profit before depreciation and amortisation	**2,401**	**2,303**	**522**	**61**	**8**	**21**	**23**	**5,339**
Depreciation and amortisation	**(133)**	**(313)**	**(36)**	**(6)**	**(5)**	**(2)**	**–**	**(495)**
Segment profit	**2,268**	**1,990**	**486**	**55**	**3**	**19**	**23**	**4,844**

2011

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	4,001	9,717	1,622	2,935	285	322	1,424	20,306
Inter-segment sales	(586)	(1,737)	(2)	(1,763)	(93)	(225)	(832)	(5,238)
Revenue from external customers	3,415	7,980	1,620	1,172	192	97	592	15,068
Segment profit before depreciation and amortisation	2,254	1,504	339	116	17	25	35	4,290
Depreciation and amortisation	(127)	(217)	(28)	(10)	(4)	(2)	–	(388)
Segment profit	2,127	1,287	311	106	13	23	35	3,902

55. Segment Information *(continued)*

An analysis of the Group's total assets and liabilities by segment is as follows:

2012

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	**2,923**	**12,123**	**857**	**295**	**93**	**191**	**109**	**16,591**
Interests in associates								**798**
Interests in jointly controlled entities								**2,271**
Unallocated corporate assets								**11,233**
Consolidated total assets								**30,893**
Liabilities:								
Segment liabilities	**4,366**	**2,018**	**174**	**56**	**11**	**83**	**144**	**6,852**
Bank and other loans								**4,208**
Short-term debentures								**1,208**
Corporate bond								**497**
Senior notes								**4,629**
Medium-term notes								**700**
Unallocated corporate liabilities								**2,129**
Consolidated total liabilities								**20,223**

2011

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	2,857	10,484	596	279	105	195	161	14,677
Interests in associates								694
Interests in jointly controlled entities								1,733
Unallocated corporate assets								9,784
Consolidated total assets								26,888
Liabilities:								
Segment liabilities	3,959	1,330	99	78	14	70	200	5,750
Bank and other loans								4,240
Short-term debentures								1,300
Corporate bond								496
Senior notes								4,636
Unallocated corporate liabilities								1,626
Consolidated total liabilities								18,048

55. Segment Information *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly include unallocated property, plant and equipment, prepaid lease payments, investment properties, other receivable, interests in associates, interests in jointly controlled entities, deferred tax assets and available-for-sale financial assets; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxation payable, bank and other loans, short-term debentures, corporate bond, senior notes, Medium-term notes, financial guarantee liability and deferred tax liabilities.

For the purposes of presenting segment revenue, results, assets and liabilities, the Group allocates certain property, plant and equipment and prepaid lease payments to certain segments without allocating the related depreciation and release of prepaid lease payments to those segments.

Other segment information

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Amounts included in the measure of segment profit or loss or segment assets:								
2012								
Additions to non-current assets (note b)	**547**	**2,218**	**188**	**98**	**–**	**–**	**1**	**3,052**
Depreciation and amortisation	**133**	**313**	**36**	**6**	**5**	**2**	**–**	**495**
2011								
Additions to non-current assets (note b)	267	2,356	217	11	–	42	3	2,896
Depreciation and amortisation	127	217	28	10	4	2	–	388

	Additions to non-current assets (note b) 2012 RMB million	Additions to non-current assets (note b) 2011 RMB million	Depreciation and amortisation 2012 RMB million	Depreciation and amortisation 2011 RMB million
Segment total	**3,052**	2,896	**495**	388
Adjustments (note a)	**234**	483	**134**	131
Total	**3,286**	3,379	**629**	519

Notes:

a. Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

b. Non-current assets include property, plant and equipment, prepaid lease payments, goodwill and intangible assets.

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

There is no single customer contribute more than 10% of the total revenue of the Group.

56. Retirement Benefits Scheme

	2012 RMB million	2011 RMB million
Retirement benefit contribution made during the year	**106**	87

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. A subsidiary of the Group is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes.

57. Event after the Reporting Period

On 26 February 2013, the Directors approved the issue of zero coupon convertible bonds due 2018 (the "Bonds") by the Company. The Bonds have an aggregate principal amount of US$500 million (approximately RMB3,120 million). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The Bonds were admitted for trading on the SGX-ST on 27 February 2013.

58. Statement of Financial Position of the Company

	2012 RMB million	2011 RMB million
Non-current Assets		
Investment in subsidiaries	**2,901**	1,891
Investment in an associate	**44**	44
Amounts due from a subsidiary	**1,552**	–
	4,497	1,935
Current Assets		
Other receivables	**–**	1
Amounts due from subsidiaries	**1,095**	1,838
Restricted bank deposits	**–**	2,520
Cash and cash equivalents	**79**	40
	1,174	4,399
Current Liabilities		
Other payables and accrued expenses	**39**	96
Amounts due to subsidiaries	**160**	51
Bank loans – due within one year	**185**	236
	384	383
Net Current Assets	**790**	4,016
Total Assets less Current Liabilities	**5,287**	5,951
Capital and Reserves		
Share capital (note)	**113**	110
Reserves (note)	**545**	638
Total Equity	**658**	748
Non-current Liabilities		
Bank loans – due after one year	**–**	567
Senior notes	**4,629**	4,636
	4,629	5,203
Total Equity and Non-current Liabilities	**5,287**	5,951

58. Statement of Financial Position of the Company *(continued)*

Note: The statement of changes in equity as follow:

	Share capital RMB million	Options reserve RMB million	Distributable reserve# RMB million	Total RMB million
Balance at 1 January 2011	110	101	1,037	1,248
Profit and total comprehensive income for the year	–	–	(262)	(262)
Exercise of share options during the year	–	(5)	18	13
Recognition of equity settled share-based payment	–	46	–	46
Dividend appropriation	–	–	(297)	(297)
Balance at 31 December 2011	110	142	496	748
Balance at 1 January 2012	**110**	**142**	**496**	**748**
Profit and total comprehensive income for the year	**–**	**–**	**(215)**	**(215)**
Exercise of share options during the year	**3**	**(160)**	**576**	**419**
Recognition of equity settled share-based payment	**–**	**21**	**–**	**21**
Dividend appropriation	**–**	**–**	**(315)**	**(315)**
Balance at 31 December 2012	**113**	**3**	**542**	**658**

The distributable reserve includes the Company's share premium and accumulated profit and loss.

59. Particular of Principal Subsidiaries

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2012	2011	Principal activities
ENN Gas Investment Group Limited ("ENN Gas")	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited*	PRC	RMB9,900,000	**90.00%**	90.00%	Sales of piped gas
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* ("Changsha Xinao")	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas

59. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2012	2011	Principal activities
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	US$7,100,000	**90.00%**	90.00%	Sales of piped gas
淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliances
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Sales of natural gas, LPG and coal gas
青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited*	PRC	RMB20,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	US$1,610,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited (“Quanzhou City Gas”)	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas

59. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2012	2011	Principal activities
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**60.00%**	65.00%	Investment in gas pipeline infrastructure and sales of piped gas
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 Xinao Finance Company Limited	PRC	RMB500,000,000	**97.00%**	97.00%	Provision of financial services
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China)#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
湘潭新奧燃氣發展有限公司 Xiangtan Xinao Gas Development Company Limited*	PRC	RMB30,000,000	**85.00%**	85.00%	Sales of piped gas and gas appliances
湛江新奧燃氣有限公司 Zhanjiang Xinao Gas Company Limited*	PRC	RMB85,000,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure and sales of piped gas

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

59. Particular of Principal Subsidiaries *(continued)*

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN Gas, whose place of operation is the PRC. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities as at 31 December 2012 or at any time during the year except for Xinao (China) which has issued the following debt securities in which the Group has no interest.

	2012 **RMB million**	2011 RMB million
Short-term debentures	**1,208**	1,300
Corporate bond	**497**	496
Medium-term notes	**700**	–
	2,405	1,796

* Sino-foreign equity joint venture

Wholly foreign owned enterprise

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