The Hong Kong and China Gas Company Limited
(Stock Code: 3)

2012 Annual Report

150 Warming
Everyday Life 1862-2012

Expanding New Horizons

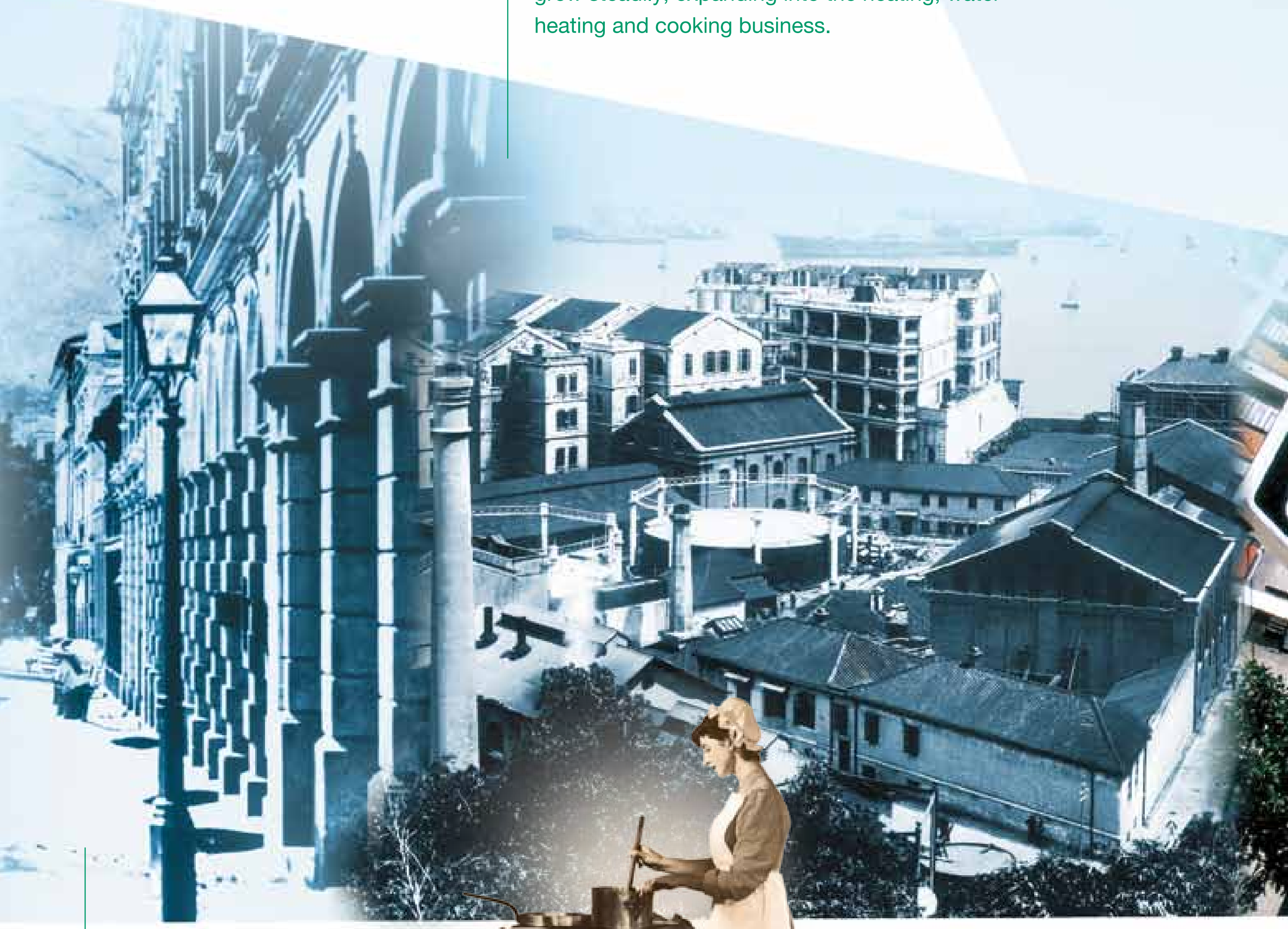
Contents

In 2012, we reported that 2011 was a record year. In comparison, 2012 can only be described as a superlative year as the Towngas Group reached a number of new highs, never before recorded in our existence.

- On 3rd June 2012, we reached our 150th birthday, one in only a handful of companies in Hong Kong to do so.
- The share price and market capitalisation of the two listed companies in the Group reached repeated record highs in 2012. In 2013, they further reached new heights on 19th March 2013 when their share prices rose to HK$22.60 for The Hong Kong and China Gas (0003.HK) and HK$7.59 for Towngas China (1083.HK) while their market capitalisation increased to HK$196.4 billion and HK$19.8 billion respectively.
- During the year we reached a defining moment in our history fulfilling the prediction "… the results of the Group's emerging environmentally-friendly energy businesses and mainland utility businesses will reach the same level as that of Hong Kong gas businesses in 2012, and will maintain growth momentum faster than Hong Kong businesses thereafter." (Chairman's Statement, Annual Report 2009)
- Hand-in-hand with our 150th Anniversary, our portfolio on the mainland rose from 138 projects in 2011 to 150 projects in 2012.
- In mid-2012, we took a significant step towards the realisation of our vision "To be Asia's leading energy supplier and service provider, …" with the acquisition of our first overseas oil and gas upstream project in Phetchabun province some 250 km north of Bangkok, Thailand.
- We have now sold a total of over 1.5 million Bauhinia appliances through our city-gas businesses on the mainland.
- Emerging as a global leader not only in the energy industry but also as a leading international entity, we were listed as a Global 500 company by the prestigious Financial Times.
- Listed as a constituent stock on the Hang Seng Corporate Sustainability Index.

1860s–1960s

The early years were a major challenge. Electricity arrived in Hong Kong in 1889 seriously eroding our lighting market while cheap fuels, from coal and charcoal to kerosene and later LPG, provided stiff competition against town gas. However, our services grew steadily, expanding into the heating, water heating and cooking business.



1860s

Established in 1862, we were initially formed to provide public lighting for the streets of Central in Hong Kong.

1970s

Things changed as Hong Kong's population swelled and as the territory grew in affluence. Marking this turnaround, we began connecting town gas to Hong Kong's public housing estates in the 1970s. In addition to the introduction of naphtha in our production, providing a cleaner fuel, town gas had become a convenient, safe and affordable source of energy for the general population.

1980s

Meeting the burgeoning demand for town gas, our modern production plant in Tai Po, using naphtha as feedstock, was officially opened in 1986 with an initial capacity of 2.8 million cubic metres a day. This was followed by the commissioning of Phase II seven years later. Today, together with our Ma Tau Kok plant, we have a total production capacity of 12.26 million cubic metres a day.

1990s

As the market matured in Hong Kong and as commercial and economic opportunities opened up increasingly in mainland China, we moved across the border into this brand new market in the Pearl River Delta region.

2000s

Benefitting from the booming economic environment, China's move into cleaner energy and growing supply of natural gas, and building on our proven business model in Hong Kong, business took off on the mainland. Today we operate 107 piped city-gas projects in 20 provinces, municipalities and autonomous regions.

Our activities in the upstream and midstream gas supply markets, have taken us increasingly into the clean and new energy market. These include our landfill gas activities; liquefied petroleum gas, liquefied natural gas and compressed natural gas filling stations; our liquefied coalbed methane as well as our chemical coal-based methanol facilities.

1862–2012

150 years of Towngas

Together with our other utility activities – water services, telecommunications, engineering services and infrastructure support as well as the manufacturing of gas-related products, we now operate 150 businesses on the mainland.

TOWNGAS' BUSINESSES IN 2012

As our businesses advance, we continue our transformation into a nation-wide and eco-friendly energy supplier, providing piped gas, new energies, water, information technology, telecommunications, engineering services and other related facilities. Based in Hong Kong, our portfolio on the mainland currently includes a total of 150 projects in 22 provinces, municipalities and autonomous regions. In 2012, we also broke new ground with our first overseas oilfield project in Thailand.

Towngas Piped City-gas Projects

Guangdong Province
1. Panyu
2. Zhongshan
3. Dongyong
4. Jianke
5. Shunde
6. Shenzhen
7. Chaoan
8. Chaozhou Raoping

Central China
9. Wuhan
10. Xinmi

Eastern China
11. Yixing
12. Taizhou
13. Zhangjiagang
14. Wujiang
15. Xuzhou
16. Suining
17. Fengxian
18. Danyang
19. Jintan
20. Tongling
21. Suzhou Industrial Park
22. Changzhou
23. Nanjing
24. Fengcheng
25. Pingxiang
26. Jiangxi
27. Zhangshu
28. Yonganzhou

Shandong Province
29. Jinan East

Northern China
30. Jilin
31. Beijing Economic-technological Development Area
32. Hebei Jingxian

Northwestern China
33. Xi'an

Hainan Province
34. Qionghai

Midstream Projects

35. Guangdong LNG
36. Hangzhou NG
37. Anhui NG
38. Hebei NG
39. Jilin NG
40. Suzhou NG
41. Henan NG

Water Projects

42. Wujiang
43. Suzhou Industrial Park
44. Wuhu
45. Suzhou Industrial Park (Industrial Wastewater Treatment)

Telecommunication Projects

46. Shandong Jinan
47. Shandong Jinan Chibo
48. Liaoning Dalian DETA
49. Dalian Yida
50. Shandong Laiyang
51. Xuzhou Fengxian

New Energy Projects

Coal Mining
52. Jiangxi Fengcheng
53. Inner Mongolia Erdos Xiaoyugou
54. Inner Mongolia Erdos Kejian

Coal-based Chemical
55. Jiangxi Fengcheng
56. Inner Mongolia Erdos

CNG/LNG Filling Stations
57. Shaanxi Xianyang
58. Shaanxi Huitai
59. Anhui Maanshan
60. Shanxi Yuanping
61. Dalian DETA
62. Shandong Chiping
63. Shandong Jining
64. Shandong Dongping
65. Henan Xinmi
66. Shandong Jiaxiang
67. Henan Anyang

Upstream Projects
68. Shanxi LCBM
69. Jilin Tianyuan
70. LCMM Project

Coal Logistic Project
71. Shandong Jining Jiaxianggang Logistic Port

Oilfield Project
72. Phetchabun Province in Thailand

Other Projects

73. Shenyang Sanquan Construction Supervisory
74. M-TECH
75. GH-Fusion
76. Towngas Technology
77. Suzhou Industrial Park Broad Energy Services

Towngas China Piped City-gas Projects

Guangdong Province
78. Foshan
79. Shaoguan
80. Qingyuan
81. Yangdong

Eastern China
82. Nanjing Gaochun
83. Maanshan
84. Bowang
85. Anqing
86. Chizhou
87. Tunxi
88. Huangshan
89. Huizhou
90. Tongxiang
91. Huzhou
92. Yuhang
93. Changjiu
94. Fuzhou
95. Jiujiang
96. Wuning
97. Xiushui
98. Yifeng
99. Changting

Shandong Province
100. Jimo
101. Laoshan
102. Zibo
103. Zibo Lubo
104. Longkou
105. Jinan West
106. Jinan Changqing
107. Weifang
108. Weihai
109. Taian
110. Chiping
111. Linqu
112. Laiyang
113. Zhaoyuan
114. Pingyin

Hunan Province
115. Miluo

Northeastern China
116. Benxi
117. Chaoyang
118. Tieling
119. Fuxin
120. Shenyang Coastal Economic Zone
121. Yingkou
122. Dalian Changxingdao
123. Dalian Economic and Technical Development Zone
124. Anshan
125. Lvshun
126. Kazuo
127. Beipiao
128. Wafangdian
129. Xinqiu
130. Changchun
131. Gongzhuling
132. Qiqihar

Hebei Province
133. Qinhuangdao

Southwestern China
134. Ziyang
135. Weiyuan
136. Pengxi
137. Lezhi
138. Pingchang
139. Dayi
140. Yuechi
141. Cangxi
142. Chengdu
143. Zhongjiang
144. Jianyang
145. Pengshan
146. Mianyang
147. Xinjin
148. Xindu
149. Qijiang
150. Guilin

Midstream Project

151. Wafangdian NG


Heilongjiang
Jilin
Liaoning
Inner Mongolia
Beijing
Hebei
Shanxi
Shandong
Yellow Sea
Jiangsu
Shaanxi
Henan
Anhui
Sichuan
Hubei
Chongqing
Zhejiang
East China Sea
Hunan
Jiangxi
Fujian
Guangdong
Guangxi
Hong Kong
Hainan
Towngas Group Hong Kong headquarters
Towngas piped city-gas projects
Towngas China piped city-gas projects
Liquefied natural gas receiving station
Provincial natural gas pipeline network
City high pressure pipeline network (Towngas)
City high pressure pipeline network (Towngas China)
Water projects
Telecommunication projects
Coal mining
Coal-based chemical processing
Compressed natural gas / liquefied natural gas filling stations
Upstream projects
Coal logistic project
Other projects
Oilfield project

BUSINESS HIGHLIGHTS

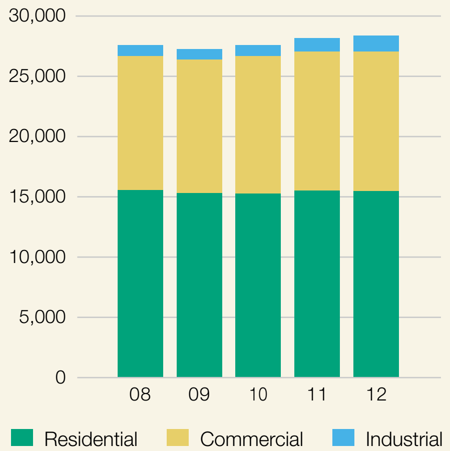
	2012	2011	Change %
Operating (Company)			
Number of Customers as at 31st December	**1,776,360**	1,750,553	+1
Number of Customers per km of Mains	**545**	538	+1
Installed Capacity, thousand m^3 per hour	**511**	511	–
Peak Hourly Demand, thousand m^3	**493**	517	-5
Town Gas Sales, million MJ	**28,360**	28,147	+1
Number of Employees as at 31st December	**1,943**	1,938	–
Number of Customers per Employee	**914**	903	+1
Financial			
Revenue, HK million dollars	**24,923**	22,427	+11
Profit Attributable to Shareholders, HK million dollars	**7,728**	6,150	+26
Dividends, HK million dollars	**3,042**	4,148 [2]	-27
Shareholders			
Issued Shares, million of shares	**8,691**	7,901	+10
Shareholders' Funds, HK million dollars	**45,319**	41,584	+9
Earnings per Share, HK cents	**88.9**	70.8 [1]	+26
Dividends per Share, HK cents	**35.0**	47.7 [1, 2]	-27
Shareholders' Funds, HK dollars per share	**5.21**	4.78 [1]	+9
Number of Shareholders as at 31st December	**12,111**	11,957	+1

1 Adjusted for the bonus issue in 2012
2 Included a 150th Anniversary special dividend of HK15.9 cents per share (adjusted)

FIVE-YEAR SUMMARY

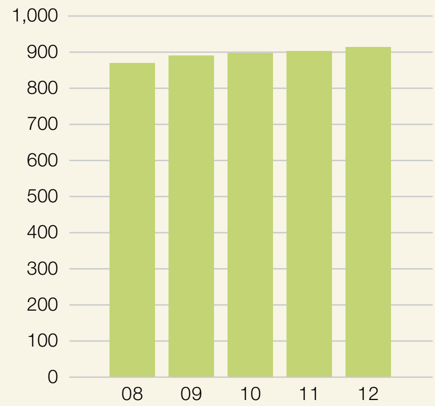
Town Gas Sales

Company (million MJ)



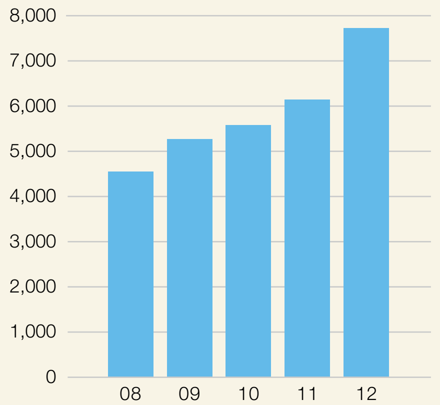
Number of Customers per Employee

Company



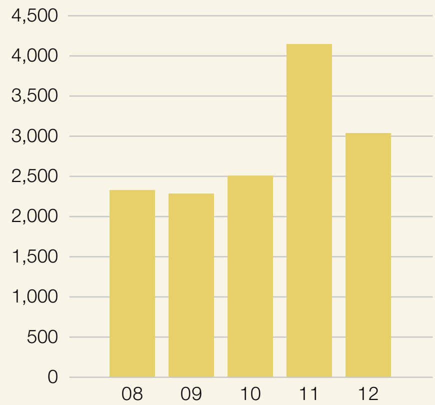
Profit Attributable to Shareholders

(HK$ million)



Dividend

(HK$ million)



CHAIRMAN'S STATEMENT

The Year's Results

The performance of the Group's gas business in Hong Kong remained steady in 2012. In comparison, the Group's city-gas businesses in mainland China thrived, continuing to record good profit growth; concurrently emerging environmentally-friendly energy businesses are being developed at a fast pace. As anticipated, the combined results of the Group's emerging environmentally-friendly energy and mainland utility businesses were higher than those of its Hong Kong gas business for the year 2012.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$7,727.9 million, an increase of HK$1,578.3 million compared to 2011. Earnings per share for the year amounted to HK88.9 cents, an increase of 25.7 per cent over 2011. Profit growth in 2012 was mainly due to growth in profit of mainland businesses, a revaluation surplus from the International Finance Centre ("IFC") complex and a one-off net gain. Profit after taxation attributable to shareholders of the Group, excluding revaluation surplus from the investment property, amounted to HK$6,333.4 million.

During the year under review, the Group invested HK$5,905.5 million in production facilities, pipelines, plants and other fixed and intangible assets for the sustainable development of its various businesses in Hong Kong and mainland China.

Gas Business in Hong Kong

Local economic growth slowed down in 2012 compared to 2011 under the impact of a weak global economy and low demand from European and United States markets. Despite this, tourism, restaurant and hotel sectors, still benefiting from an increase in the number of inbound tourists, continued to prosper. However, as the average temperature for 2012 in Hong Kong was slightly higher than 2011, overall gas sales were affected as a result, and total volume of gas sales in Hong Kong for the year increased only slightly by 0.8 per cent compared to 2011. Appliance sales for the year 2012 increased by 6.1 per cent compared to 2011.

As at the end of 2012, the number of customers was 1,776,360, an increase of 25,807, as forecasted, compared to 2011.

The Company's operating costs have been increasing over the past few years. Although the Company has been implementing cost saving and process re-engineering measures, such initiatives are no longer offsetting additional costs. Therefore the Company will raise its standard gas tariff by HK1 cent per megajoule with effect from 1st April 2013, which represents 4.6 per cent of the standard gas tariff, with a commitment to no further increase for this tariff in the coming two years.

Business Development in Mainland China

The Group's mainland businesses progressed well in 2012 in respect of the number of projects and profit.

The mainland economy continued to grow steadily during 2012 though the pace was slower compared with 2011 owing to the weak global economy and a downturn in domestic exports. The Group's city-gas and natural gas businesses, benefiting from both an increase in upstream natural gas supply and on-going economic advancement in certain regions on the mainland, recorded continuous growth during 2012. The Group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is progressing well with ECO now at various stages of project investment, construction and gradual commissioning.

Mainland China's sustainable economic development is leading to a rise in internal demand for consumer goods, progressive urbanisation and an increasing demand for clean energy. These factors, coupled with improving upstream natural gas supplies, are creating good prospects and investment value for both city-gas and emerging environmentally-friendly energy businesses on the mainland in the long run. Furthermore, the Group's establishment of several data centre and telecommunications conduit system project companies, following the development of telecommunications businesses in both Hong Kong and the mainland over the last few years, is also contributing to diversification of the Group's businesses.

Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 150 projects on the mainland, as at the end of 2012, 12 more than at the end of 2011, spread across 22 provinces, municipalities and autonomous regions. These projects encompass upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

Diversification and an increase in the number of projects are rapidly transforming the Group from a locally-based company centred on city-gas businesses into a sizable, nation-wide, multi-business corporation with a focus on environmental protection, energy ventures and utility sectors.

Utility Businesses in Mainland China

The Group's city-gas businesses are progressing well, with seven new projects successfully established by Towngas China in 2012. As at the end of 2012, the Group had 107 city-gas projects in mainland cities spread across 20 provinces, municipalities and autonomous regions. The total volume of gas sales of these projects for 2012 was approximately 11,900 million cubic metres, an increase of 15 per cent over 2011, and at the end of the year the Group's gas customers on the mainland stood at approximately 14.82 million. The Group continues to be a large-scale city-gas enterprise with outstanding performance on the mainland.

With on-going completion of large-scale natural gas projects, including transmission pipelines from Sichuan province to eastern and southern China and phase two of the West-to-East pipeline, and an increase in the sources and quantity of imported and domestic liquefied natural gas, the shortfall in the mainland's natural gas supply in the past few years is now gradually being mitigated. Thus, with sufficient sources of gas supply, expanding pipeline networks and the public's aspiration for greater environmental protection, the Group anticipates its mainland city-gas businesses will continue to thrive in the future.

The Group's midstream natural gas projects are making good progress. These include high-pressure natural gas pipeline joint ventures in Anhui province, in Hebei province, in Hangzhou city, Zhejiang province and in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; a natural gas valve station project in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a new pipeline project in Henan province. Towngas China, the Group's subsidiary, also added a midstream pipeline project located in Wafangdian, Dalian city, Liaoning province to its portfolio in 2012. These kinds of high-pressure, natural gas pipeline projects generate good returns and help the Group develop and strengthen its downstream city-gas markets.

As at the end of 2012, the Group had invested in and was operating four water projects, all of which are progressing well. These include water supply projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; and an integrated water supply and wastewater joint venture project, together with an integrated wastewater treatment project for a special industry, in Suzhou Industrial Park, Suzhou city, Jiangsu province. During the first quarter of 2013, the Group successfully added a water supply project in Zhengpugang Xin Qu, Maanshan city, Anhui province to its portfolio, making a total of five water projects in hand.

Operation and management of businesses encompassing city-gas, city-water and midstream natural gas projects create positive synergy and mutual advantages. Furthermore, these businesses generate stable income and high environmental benefits, with room for expansion. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

Emerging Environmentally-friendly Energy Businesses

ECO's two major businesses in Hong Kong – an aviation fuel facility, servicing Hong Kong International Airport, and dedicated liquefied petroleum gas ("LPG") vehicular filling stations – are operating smoothly. Total turnover for the aviation fuel facility for 2012 was 5.56 million tonnes of aviation fuel, providing a safe and reliable fuel supply for Hong Kong International Airport. In comparison, the profit margin for ECO's filling station business for 2012 was lower than in 2011 due to the impact of rising petroleum gas prices.

ECO's vehicular clean energy business on the mainland mainly focuses on the use of compressed or liquefied natural gas to replace diesel in order to conserve energy, reduce emissions and create economic benefits by saving on fuel costs. After several years of development, a network of filling stations established by ECO is gradually taking shape in Shaanxi, Shanxi, Shandong, Henan and Liaoning provinces mainly servicing heavy-duty trucks. As at the end of 2012, nine filling stations were in operation and another five under construction. Further expansion of this business into other provinces is expected. By increasing the number of filling stations, the brand name of ECO will gradually become more well-known in the market.

Construction of a logistics port in Jining city, Shandong province, to link an upstream dedicated coal transportation railway with a nearby downstream canal connecting Beijing and Hangzhou, part of ECO's new "Energy Logistics" business sector, is nearly complete. The pilot run for bulk cargo transportation has commenced. The logistics port is expected to be fully commissioned during the fourth quarter of 2013. ECO is also planning to provide liquefied natural gas filling facilities for incoming and outgoing heavy-duty trucks and river transport vessels at the pier so they may progressively replace their use of diesel.

With gradual depletion of global petroleum resources and associated price increases, the mainland is proactively developing alternative substitutes to meet its growth in demand for energy. To this end, ECO's coalbed methane liquefaction facility located in Jincheng city, Shanxi province is operating smoothly; production increased by 36 per cent in 2012 compared with the same period for 2011, generating good profits for the Group. ECO's methanol production plant in Erdos city, Inner Mongolia, which converts coal into methanol and has an annual production capacity of 200,000 tonnes, is now running smoothly at the pilot stage of production. To further enhance the economic benefits of this project, ECO plans to also convert the methanol into high value-added energy products.

In addition, ECO's new-energy research and development centre, which possesses a strong and growing technical force, is also working proactively on technologies to convert resources of low value into high value-added energy. Industrial tests on a medium scale, focused on converting coal tar oil of medium to low temperature into petrol or diesel, were successfully completed in 2012 and planning is now in place to apply this technology to commercial projects in 2013. Furthermore, ECO is also developing its interests in methanol processing and in conversion prospects for coke oven gas, tar oil and biomass energy. ECO will continue to work proactively to apply these technologies to industrial use; these kinds of investments are expected to play an increasingly important part in ECO's new energy businesses.

ECO also made a new investment in the upstream sector of its new energy businesses in mid-2012 by acquiring a 60 per cent effective stake in the development of onshore oilfield blocks in central Thailand; ECO has already smoothly taken over the operational management of the oilfields and organised a professional team to formulate a plan for their comprehensive development. In addition, in Guizhou province, ECO has conducted an innovative test with promising results on surface extraction of coalbed methane for coal mines of low permeability. In Inner Mongolia, ECO's Xiaoyugou coal mine, with an annual production capacity of 1.2 million tonnes, is now at the pilot stage of production and is expected to be fully commissioned during the first quarter of 2013 while its open-pit Kejian coal mine has been operating normally as planned.

Towngas China Company Limited

(Stock Code: 1083.HK)

Towngas China, a subsidiary of the Group, continued to record good growth in profit after taxation attributable to its shareholders, amounting to HK$841 million in 2012, an increase of approximately 19 per cent over 2011. As at the end of December 2012, the Group had an approximately 66.18 per cent interest in Towngas China.

In 2012, Towngas China acquired seven new piped-gas projects located in Wafangdian, Dalian city and Xinqiu district, Fuxin city, Liaoning province; in Binhai Science and Technology Industrial Park, Zhaoyuan city and Pingyin county, Jinan city, Shandong province; in Yifeng county, Yichun city, Jiangxi province; in Lingang Industrial Park, Shanhaiguan district, Qinhuangdao city, Hebei province; and in Changting county, Longyan city, the Group's first in Fujian province. Towngas China also added a new midstream pipeline project in Wafangdian, Dalian city, Liaoning province to its portfolio in 2012. Towngas China is focused on developing city-gas businesses in cities with a high proportion of industrial gas consumption. To capture investment opportunities resulting from the country's commitment to promote the utilisation of natural gas during the period of the Twelfth Five-Year Plan (2011-2015), Towngas China will continue to strive for rapid expansion through mergers and acquisitions.

In January 2013, Towngas China issued and sold 150 million new ordinary shares by placement (the "Placing") at a price of HK$6.31 per share. Net proceeds from the Placing after deducting related commission and other expenses were HK$930 million. The Placing was over-subscribed more than 20 times within a very short period of time, demonstrating a very good response. All new shares were finally subscribed by a number of investors. The Group's interest in Towngas China was slightly diluted from 66.18 per cent to 62.37 per cent after the Placing. The Placing helps Towngas China to strengthen its funding structure, lower its future financing costs and increase its public float.

Development of Town Gas Network and Facilities in Hong Kong

The network supply capability of the Company is expanding at a good pace in line with market growth. Several network development projects are in progress to meet long-term demand.

Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is near completion with commissioning expected this year. Construction of a 9 km pipeline in the western New Territories to strengthen supply capability and reliability is also in progress. In tandem with the government's development of West Kowloon, South East Kowloon and a cruise terminal, network planning, design and construction in these locations are underway. Construction of a new submarine pipeline from Ma Tau Kok to North Point commenced in 2012. Meanwhile, the gas main extension to Lei Yue Mun is substantially complete and some of the restaurants situated along the South East Kowloon seashore have already converted to the use of town gas.

The Group will constantly allocate resources towards renovating Hong Kong's town gas network to ensure safety of gas supply.

Property Developments

Leasing of the commercial area of the Grand Waterfront property development project located at Ma Tau Kok is good. The Group also has an approximately 15.8 per cent interest in the IFC complex. Rental demand for the shopping mall and office towers of IFC continues to be robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

Financing Programmes

In line with the Group's long-term business investments, the Group continued issuing medium term notes, for a total amount equivalent to HK$4.4 billion, during the year 2012 under its medium term note programme (the "Programme") established through HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Inclusive of the Group's first renminbi-denominated notes in Hong Kong issued in late March 2011 for a total amount of RMB1 billion over a term of five years, the Group had issued, as at the end of December 2012, medium term notes of an aggregate amount equivalent to HK$10.2 billion under the Programme with tenors ranging from 5 to 40 years.

Commemorative Activities for the Company's 150th Anniversary

The Company celebrated its 150th Anniversary in 2012. To reward our shareholders, the Company distributed a one-off special dividend of HK17.5 cents per share to shareholders in mid-2012; including interim and final dividends, the total dividend paid out represented 150 per cent of that originally recommended for the whole year. The Company also held a series of commemorative activities, including a 150th Anniversary cocktail reception on 15th October 2012 for several hundred guests representing political, commercial and other sectors; Mrs. Carrie Lam, Chief Secretary for Administration of the Hong Kong Special Administrative Region ("HKSAR"), was Guest of Honour. All were there to celebrate the Company serving the local community in Hong Kong for over one and a half centuries during which unremitting efforts have been made to contribute to the prosperous development of the territory.

Company Awards

The Company gained a number of awards and recognitions in Hong Kong and overseas during its 150th Anniversary year, and for the first time reached the British newspaper Financial Times' "Global 500 List", with a ranking of 443rd, the only Asian company in the "Gas, water and multi-utilities" sector; market capitalisation of companies is a major criterion for ranking.

The Company has gained "The Excellence of Listed Enterprise Awards" from Capital Weekly for two consecutive years, in recognition of the Company's excellent corporate governance, investor relations, corporate strategy, corporate social responsibility performance and business growth. The Company was also once again listed by Yazhou Zhoukan in 2012 in its "Global Chinese Business 1000" with sixth ranking for Hong Kong.

By virtue of their outstanding performance in corporate sustainability, both the Company and Towngas China have been selected as constituent companies of the Hang Seng Corporate Sustainability Index Series for the last two consecutive years, indicating the Group's high standard of performance in environmental, social and corporate governance aspects as well as workplace practices.

With good business results and comprehensive strengths in its business operations, the Company also reached the "Top 100 – Comprehensive Strength", the main ranking of the "Top 100 Hong Kong Listed Companies" jointly organised by Finet Group Limited and Tencent in 2012. Towngas China also made its way into the sub-ranking "Top 10 Stock Price Gainers".

A new series of appliances launched to commemorate the Company's 150th Anniversary was selected for the "2012 Hong Kong Awards for Industries: Consumer Product Design Category", in recognition that the Company's products are meeting the demands of the consumer market.

In mid-2012, the Company gained the Gold Award under the category of "Public Organisation and Utilities" of the "2011 Hong Kong Awards for Environmental Excellence" jointly organised by 11 organisations including the Government of the HKSAR and the Environmental Campaign Committee. In the "Hong Kong Green Awards 2012" organised by the Green Council, the Company also won the "Corporate Green Governance Award – Grand Award", the "Corporate Green Governance Award – Corporate Leadership" and the "Green Management Award (Corporate) – Gold", in recognition of the Company's outstanding achievements in environmental protection, management and green corporate governance.

Hong Kong Employees and Productivity

As at the end of 2012, the number of employees engaged in the town gas business in Hong Kong was 1,943 (2011 year end: 1,938), the number of customers was 1,776,360, and each employee served the equivalent of 914 customers, slightly up compared to each employee serving 903 customers as at the end of 2011. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular filling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,282 as at the end of 2012 compared with 2,255 as at the end of 2011. Related manpower costs amounted to HK$829 million for 2012. In 2012, there was an approximately 5.5 per cent average increase in remuneration over 2011. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

On behalf of the Board of Directors, I would like to thank all our employees for their dedication and hard work in creating value for shareholders and customers.

Bonus Issue of Shares

The Directors propose to make a bonus issue of one new share credited as fully paid for every ten shares held on the Register of Members on 14th June 2013.

The necessary resolution will be proposed at the forthcoming Annual General Meeting on 5th June 2013, and if passed, share certificates will be posted on 24th June 2013.

Final Dividend

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members as at 14th June 2013. Including the interim dividend of HK12 cents per share paid on 3rd October 2012, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2013 after bonus share issue shall not be less than the interim and final dividends for 2012.

Business Outlook for 2013

The Company predicts steady growth and an increase of about 25,000 new customers in Hong Kong during 2013. Restaurant, hotel and retail sectors are still benefiting from a prospering tourism industry in Hong Kong. However, the Government of the HKSAR anticipates that the global economy will continue to grow only modestly and downside risks still exist. In Hong Kong, operating costs for all business sectors are increasing. The Company's increase in the standard gas tariff with effect from 1st April 2013 will offset some of the pressure on its own rising operating costs. The Company will continue to enhance its operational efficiency so as to maintain stable revenue from its gas business in the territory.

In line with the gradual implementation of the Twelfth Five-Year Plan, the mainland government advocates increasing urbanisation, expanding domestic demand, more energy conservation and a reduction of gas emissions. As the mainland economy is sustaining good growth, it is anticipated that there will be rising demand for utility services and clean energy. The Group's city-gas and natural gas businesses on the mainland are therefore expected to continue to achieve good growth. Furthermore, following the mainland government's move towards a policy of energy diversification and environmental protection, the Group predicts good prospects for its emerging environmentally-friendly energy businesses, which will ignite a new light illuminating the way for the Group's long-term development and business growth.

It is projected that the Group's businesses will maintain good growth during 2013. The combined results of the Group's emerging environmentally-friendly energy and mainland utility businesses have already overtaken the results of its Hong Kong gas business, and, with the former's good prospects, are forecast to grow faster than the latter in the coming years.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its successful corporate brand names built up there over the last 20 years and an anticipated rising demand for clean energy, the Group predicts good prospects and an even better future for all its businesses in the years to come.

LEE Shau Kee
Chairman
Hong Kong, 18th March 2013

BOARD OF DIRECTORS

From left to right

Front Row

David Li Kwok Po

Lee Shau Kee
Chairman

Poon Chung Kwong

Back Row

Peter Wong Wai Yee [(1)]

James Kwan Yuk Choi [(2)]

Alfred Chan Wing Kin

Colin Lam Ko Yin

Lee Ka Kit

Leung Hay Man

Lee Ka Shing

(1) appointed on 1st February 2013
(2) retired on 1st February 2013

BIOGRAPHICAL DETAILS OF DIRECTORS

Dr. the Hon. LEE Shau Kee

G.B.M., D.B.A. (Hon.), D.S.Sc. (Hon.), LL.D. (Hon.),

Chairman & Non-executive Director

Age 84. Dr. Lee was appointed to the Board of Directors of the Company in 1978 and subsequently appointed Chairman in 1983. He has been engaged in property development in Hong Kong for more than 55 years. Dr. Lee is the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited, Chairman of Miramar Hotel and Investment Company, Limited, a Vice Chairman of Sun Hung Kai Properties Limited and a Non-executive Director of Hong Kong Ferry (Holdings) Company Limited. He is also an Independent Non-executive Director of The Bank of East Asia, Limited but will retire from such directorship on 24th April 2013. All the above companies are listed public companies. Dr. Lee is also a Director of Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Timpani Investments Limited ("Timpani Investments"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Timpani Investments, Disralei Investment, Medley Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 62 of this Annual Report for details). Dr. Lee was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007. Dr. Lee is the father of Mr. Lee Ka Kit and Mr. Lee Ka Shing, Non-executive Directors of the Company.

Mr. LEUNG Hay Man

F.R.I.C.S., F.C.I.Arb., F.H.K.I.S.,

Independent Non-executive Director

Age 78. Mr. Leung was appointed to the Board of Directors of the Company in 1981. He is an Independent Non-executive Director of Henderson Land Development Company Limited ("Henderson Land Development"), Henderson Investment Limited and Hong Kong Ferry (Holdings) Company Limited, all of which are listed public companies. Henderson Land Development has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 62 of this Annual Report for details). Mr. Leung is a Fellow of the Royal Institute of Chartered Surveyors, Fellow of the Chartered Institute of Arbitrators and Fellow of the Hong Kong Institute of Surveyors.

Mr. Colin LAM Ko Yin

F.C.I.L.T., F.H.K.I.o.D.,

Non-executive Director

Age 61. Mr. Lam was appointed to the Board of Directors of the Company in 1983. He has more than 39 years' experience in banking and property development. He is a Director of The University of Hong Kong Foundation for Educational Development and Research Limited and a Director of Fudan University Education Development Foundation. Mr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008.

He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Mr. Lam is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited, Chairman of Hong Kong Ferry (Holdings) Company Limited, and an Executive Director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Mr. Lam is a Director of Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Disralei Investment, Medley Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 62 of this Annual Report for details).

Dr. the Hon. David LI Kwok Po

G.B.M., G.B.S., O.B.E., J.P., Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur, F.C.A., F.C.P.A., F.C.P.A. (Aust.), F.C.I.B., F.H.K.I.B., F.B.C.S., C.I.T.P., F.C.I.Arb., Hon. D.Sc. (Imperial), Hon. D.B.A. (Edinburgh Napier), Hon. D. Hum. Litt. (Trinity, USA), Hon. D.Soc.Sc. (Lingnan), Hon. LL.D. (Hong Kong), Hon. LL.D. (Warwick), Hon. LL.D. (Cantab), Hon. DLitt (Macquarie), M.A. Cantab. (Economics & Law),

Independent Non-executive Director

Age 74. Dr. Li was appointed to the Board of Directors of the Company in 1984. He is the Chairman and Chief Executive of The Bank of East Asia, Limited. Dr. Li is a Non-independent Non-executive Director of AFFIN Holdings Berhad, a Director of CaixaBank, S.A., an Independent Non-executive Director of Guangdong Investment Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited, all being companies listed either in Hong Kong or overseas. He was previously an Independent Non-executive Director of COSCO Pacific Limited and China Overseas Land & Investment Limited. Dr. Li is the Chairman of The Chinese Banks' Association, Limited. Dr. Li is currently a Member of the Banking Advisory Committee and a Member of the Council of the Treasury Markets Association. He was a Member of the Legislative Council of the Hong Kong Special Administrative Region from 1985 until 2012. Dr. Li was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007 and he also received the Business Person of the Year Award in the Hong Kong Business Awards 2006. Dr. Li is a Fellow of Hong Kong Institute of Certified Public Accountants, Fellow of Institute of Chartered Accountants in England and Wales, Fellow of The Australian Society of Certified Practising Accountants, Fellow of Chartered Institute of Bankers, Fellow of The Hong Kong Institute of Bankers, Chartered Fellow of British Computer Society, Chartered IT Professional, Fellow of Chartered Institute of Arbitrators in England, an Honorary Fellow of the School of Accountancy, Central University of Finance and Economics and a Companion of the Chartered Management Institute.

Mr. LEE Ka Kit

J.P.,

Non-executive Director

Age 49. Mr. Lee was appointed to the Board of Directors of the Company in 1990. He was educated in the United Kingdom. He is a Vice Chairman of Henderson Land Development Company Limited

("Henderson Land Development") and Henderson Investment Limited as well as a Non-executive Director of Intime Department Store (Group) Company Limited, all of which are listed public companies. He is also a Vice Chairman of Henderson Development Limited ("Henderson Development"). Henderson Land Development and Henderson Development have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 62 of this Annual Report for details). Mr. Lee is a Member of the Standing Committee of the 12th National Committee of the Chinese People's Political Consultative Conference. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region and awarded an Honorary University Fellowship by The University of Hong Kong in 2009 respectively. Mr. Lee is the son of Dr. Lee Shau Kee, the Chairman of the Company and the brother of Mr. Lee Ka Shing, a Non-executive Director of the Company.

Mr. LEE Ka Shing

Non-executive Director

Age 41. Mr. Lee was appointed to the Board of Directors of the Company in 1999. He was educated in Canada. He is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited and Chief Executive Officer of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Mr. Lee is also a Vice Chairman of Henderson Development Limited ("Henderson Development") and a Director of Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment"), Faxson Investment Limited ("Faxson Investment"), Chelco Investment Limited ("Chelco Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Disralei Investment, Medley Investment, Faxson Investment, Chelco Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 62 of this Annual Report for details). Mr. Lee is a Member of the Tenth Guangxi Zhuangzu Zizhiqu Committee of the Chinese People's Political Consultative Conference and a Member of the Tenth Foshan Committee of the Chinese People's Political Consultative Conference. Mr. Lee is the son of Dr. Lee Shau Kee, the Chairman of the Company and the brother of Mr. Lee Ka Kit, a Non-executive Director of the Company.

Professor POON Chung Kwong

G.B.S., J.P., Ph.D., D.Sc.,

Independent Non-executive Director

Aged 73. Professor Poon was appointed to the Board of Directors of the Company in 2009. Professor Poon is currently the Chairman of Virya Foundation Limited (a registered non-profit charitable organisation) and the President Emeritus of The Hong Kong Polytechnic University. He had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land Development"), Chevalier International Holdings Limited, Hopewell Highway Infrastructure Limited, K. Wah International Holdings, all of which are listed public companies. Henderson Land Development has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on

"Substantial Shareholders and Others" on page 62 of this Annual Report for details). Professor Poon received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002 and also the "Leader of the Year Awards 2008 (Education)" and the Honorary Degree of Doctor of Humanity from The Hong Kong Polytechnic University in 2009. In addition, Professor Poon was appointed as a member of the Legislative Council (1985-1991) and a member of the National Committee of the Chinese People's Political Consultative Conference (1998-2013).

Mr. Alfred CHAN Wing Kin

B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc. (Eng), B.Sc. (Eng),

Managing Director

Age 62. Mr. Chan joined the Company as the General Manager – Marketing in 1992 and was appointed as the General Manager – Marketing & Customer Service in 1995. He was appointed to the Board of Directors of the Company in January 1997 and as the Managing Director in May 1997. Mr. Chan is a director of major local and overseas subsidiary companies of the Group. He is also the Chairman and President of Hong Kong & China Gas Investment Limited, the Group's investment holding company in mainland China and chairman, vice chairman or a director of most of the Group's project companies in mainland China. Mr. Chan is the Chairman of Towngas China Company Limited and a director of Shenzhen Gas Corporation Ltd., both of which are listed public companies. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited. He is a Vice Chairman of China Gas Association. Mr. Chan received the Executive Award under the DHL/ SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

Mr. Peter WONG Wai Yee

C.M.A., A.C.S., A.C.I.S., M.B.A,

Executive Director and Chief Operating Officer – Utilities Business

Age 61. Mr. Wong joined the Company in 1997, initially as its Financial Controller, and in 2000 became its Audit & Business Improvement Manager. Since 2002, he has been deeply involved in the development of the Group's mainland utilities business, operating from its headquarters in Shenzhen, mainland China. Mr. Wong was appointed to the Board of Directors of the Company in February 2013. Mr. Wong is currently the Head – Mainland Utilities of the Company and also holds directorships in various subsidiaries of the Company. He is also an Executive Director and the Chief Executive Officer of Towngas China Company Limited and a director of Shenzhen Gas Corporation Ltd., both of which are listed public companies. Mr. Wong was named as one of "The Best CEO of Chinese Listed Companies" by Forbes China in June 2012. He is a professional accountant and a chartered company secretary. He was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 36 years of experience in corporate finance, management and international working experience.

EXECUTIVE COMMITTEE

From left to right

Peter Wong Lam Sang
Head of Commercial –
Hong Kong Utilities

Alfred Chan Wing Kin
Managing Director

Simon Ngo Siu Hing
Head of Engineering –
Hong Kong Utilities

Fan Kit Yee
Head of Corporate Human Resources

John Ho Hon Ming
Chief Financial Officer and
Company Secretary

Philip Siu Kam Shing
Chief Operating Officer –
New Energy Business

Peter Wong Wai Yee
Executive Director and Chief
Operating Officer – Utilities Business

THE MAINLAND CHINA GAS BUSINESS

Expanding our footprint

107

city-gas businesses serving 14.82 million customer accounts

Sold over

1.5 million

Bauhinia appliances since 2005

Won the most competitive China city-gas operator 2012 title presented jointly by Economy magazine, China Trade News, China Co-operation Times, the Chinese Industrial Economy Research Centre and Chinese Economy Innovation and Development Alliance

Towngas China was presented with the "Top 10 Stock Price Gainers" in the "Top 100 Hong Kong Listed Companies" ranking by Finet Group Limited and Tencent

THE MAINLAND CHINA GAS BUSINESS

While it was our Hong Kong operations that celebrated its 150th Anniversary, this milestone has also made an invaluable contribution to our businesses on the mainland.

With 150 years of service behind us, established management culture and high service and safety standards, added to the fact that we were listed as a Top 500 company by the Financial Times, our already impeccable reputation soared. We thus cemented our role not only as an established leader in the industry, but also as a successful and international business that is making an essential contribution to modern society in China.

Based on these solid foundations, our businesses in mainland China continued to grow and thrive. During the year, Hong Kong & China Gas Investment Limited, set up in Shenzhen to manage the Group's investments on the mainland, celebrated its 10th birthday. We also added a further 12 businesses to our portfolio, bringing the number to a total of 150 projects and ventures in 22 provinces, municipalities and autonomous regions throughout the country. In addition to our upstream, midstream and downstream city-gas businesses, these activities also include telecommunications and water projects as well as a burgeoning range of energy resources and logistics, green and new energy activities and applications. Reaching a total turnover of HK$56.3 billion for the year, a growth of 17.6 per cent over 2011.

Our City-gas Operations

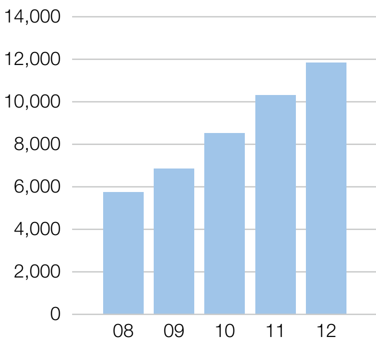
With 107 city-gas businesses operating in 20 provinces, municipalities and autonomous regions, not only are we one of the largest city-gas suppliers in China, our piped gas services also continue to form the backbone of our activities on the mainland. While China was not immune to the uncertainties that plagued the global environment during the year, we nevertheless witnessed continued growth in our sales volumes, which increased by 15 per cent to reach a total of 11.9 billion cubic metres. Our customer numbers too rose to around 14.82 million customer accounts.

Gas boilers are used to dry the smelter by a large-scale power engine manufacturer.

While the economy in China may have experienced a slowdown in the past year, our outlook remains bright. Growth in GDP and energy consumption is forecast to remain significantly higher in Asia than the rest of the world for the foreseeable future and China is also seeing increasing urbanisation, a major driver for piped gas sales. In 2011, urbanisation stood at just 51.3 per cent in China, well below the average of 80 per cent in developed countries around the world. Coupled with the country's growing focus on clean energy, China's total natural gas consumption is expected to rise to 230 billion cubic metres by 2015 under the country's Twelfth Five-Year Plan; increasing supplies of natural gas as more and more infrastructure projects open up; and as natural gas is used in wider applications, China's natural gas consumption is set to grow exponentially into the future.

Making the most of this positive market environment, our strategy is clear. Despite the keen competition, our aim is to grow our business by some 10 new projects or so a year in the next several years. At the same time, building on China's role as the world's manufacturing capital and, as our commercial and industrial activities provide us with both higher margins and greater usage, we are placing our focus on areas where there will be high commercial and industrial demand and where there will be a plentiful supply of natural gas.

China Joint Ventures Gas Sales (million m^3)



Our 200 modern customer centres provide easy access to a full range of gas services and appliances.

Upstream and Midstream Facilities

Together with our natural gas exploration facility in Jilin province, liquefied coalbed methane facility in Shanxi province, our coal-based methanol plant in Inner Mongolia, as well as the coke and coke oven plant taking shape in Jiangxi province, our upstream portfolio is experiencing rapid and diverse growth.

The exceptional growth enjoyed by our midstream operations in 2011 carried into 2012. During the year, we acquired a new pipeline project in Henan province as well as a gas pipeline project in Dalian, Liaoning province, which together with our high-pressure pipeline ventures in Anhui, Hebei, Zhejiang and Jilin provinces, together with the LNG Receiving Terminal in Guangdong province, performed well. The ventures in Hebei and Anhui provinces in particular experienced strong growth, picking up a number of new supply areas and helping to drive midstream gas sales to 2.6 billion cubic metres, an increase of 22 per cent over the previous year.

Enhancing our Customer Services

Making sure that our customers have easy access to both our products and services, we make every effort to provide efficient and economical one-stop services that will cover their needs throughout the entire service spectrum. Our customer service network with 200 customer service centres in 75 cities lies at one end of this service spectrum, with regular maintenance and safety inspections rounding it off at the other. Customers can thus not only sign on for city-gas services and choose from a range of modern and quality Bauhinia gas appliances in one easy step, they can also be assured that they will enjoy the highest standards of convenience, quality and safety supported by regular inspections and ongoing maintenance. In line with our 150th Anniversary celebrations, we continued our "Service with Smiles" campaign including publishing a training manual for frontline staff and managers to further enhance our friendly and caring service culture.

As part of this one-stop service model and to drive the greater use of safe and quality gas equipment in the home, we introduced our own brand of Bauhinia appliances in 2005, becoming the first gas supply company to also market service appliances in mainland China. In 2012, reflecting the success of this model, we sold over 500,000 Bauhinia units, a growth of 30 per cent over 2011. Since Bauhinia's inception in 2005, we have now sold over 1.5 million units in total. These impressive numbers have brought the brand strong customer recognition.

Serving our business customers, studies and workshops were held to explore relevant markets on the distribution of energy resources as well as to share our knowledge and experience on new and existing energy applications in the commercial and industrial sector.

Leading the industry, our latest Bauhinia built-in hob and rangehood provide a 15 per cent saving in energy compared to other cookers.

In view of the rapidity of our growth as well as the diversity of computer systems used by our different business ventures, integrating information and standardising procedures have proven to be a major challenge. Tackling this problem, we launched our Towngas Management System to create a common platform for the different computer systems to share information, create linkages and most important of all, allow individual systems to talk to each other. Since then the system has grown and expanded and first phase completion is expected by the end of 2013. A point of pride is that the project has been developed and managed by our own specialist teams in-house, resulting in a very positive "low-cost, high-performance" solution for the Group.

Improving Gas Safety and Risk Management

The strong leadership that we hold in the industry is due in great part to our high standards of safety. This uncompromising attitude has proven its value and over the years, there has been a visible improvement in our accident and safety figures both among our staff and our customers. We are thus delighted to report that in 2012, the number of serious gas-related incidents fell again by a positive and encouraging 20 per cent. On the customer front, the backbone of our safety activities continued with our Regular Safety Inspections, which are carried out annually to check the condition of both gas piping and gas appliances in customer homes. These inspections greatly boost gas safety as they not only identify and prevent possible problems, they also enable the gas safety message to be taken directly to the customer.

The "Service with Smiles Ambassadors" Campaign worked to encourage our frontline staff to provide caring and efficient services.

Internally, we make every effort to imbue a safety mindset not only among our own employees but also our partners and contractors. "Walking the talk" at the highest levels of management, Group Safety Committee Meetings are held every month. In addition to addressing safety issues, members of this committee also carry out safety inspections in person to ensure that the highest levels of safety are being met. These activities in turn are supported by the activities of our highly successful "General Manager Monthly Safety and Risk Management Programme".

Our "Year of Safe Operation" campaign, analysing key operating factors to identify areas of high risk, was extended to Eastern China during the year, following its successes in Shanxi and Shandong provinces as well as Northeastern and Southwestern China. Seven Key Management Focus and five "We Deliver" projects were subsequently implemented improving safety and business performance in the region.

Coupled with ongoing risk assessment exercises – a special workshop was held for senior management and the corporate risk assessment committee to formulate risk control strategies for example, and our safety and risk management audits, we are seeing increasing improvement in our overall standards. Audits completed in 2012 record an average score of 83 out of 100, substantially higher than the 71 recorded in 2006 when the first audits were conducted.

Gas Businesses in Mainland China in 2012

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
TOWNGAS PIPED CITY-GAS PROJECTS				
Guangdong Province				
Panyu	1994	260	105	80%
Zhongshan	1995	240	96	70%
Dongyong	1998	132	53	80%
Jianke	2002	45	23	100%
Shunde	2004	200	100	60%
Shenzhen	2004	2,316	1,980	26.8%
Chaoan	2007	185	99	60%
Chaozhou Raoping	2011	189	106	60%
Central China				
Wuhan	2003	1,200	420	50%
Xinmi	2009	205	85	100%
Eastern China				
Yixing	2001	246	124	80%
Taizhou	2002	200	83	65%
Zhangjiagang	2003	200	100	50%
Wujiang	2003	150	60	80%
Xuzhou	2004	245	125	80%
Suining	2009	85	34	100%
Fengxian	2009	60	31	100%
Danyang	2004	150	60	80%
Jintan	2006	150	60	60%
Tongling	2006	240	100	70%
Suzhou Industrial Park	2001	600	200	55%
Changzhou	2003	248	166	50%
Nanjing	2003	1,200	600	50%
Fengcheng	2007	206	88	55%
Pingxiang	2009	87	35	100%
Jiangxi	2009	52	26	56%
Zhangshu	2009	86	34	100%
Yonganzhou	2010	100	68	93.9%
Shandong Province				
Jinan East	2003	610	470	50%
Northern China				
Jilin	2005	247	100	63%
Beijing Economic-technological Development Area	2005	111	44	50%
Hebei Jingxian	2011	186	79	81%
Northwestern China				
Xi'an	2006	1,668	1,000	49%
Hainan Province				
Qionghai	2008	110	50	49%
MIDSTREAM PROJECTS				
Guangdong LNG	2004	7,628	2,289	3%
Hangzhou NG	2005	760	304	10%
Anhui NG	2005	750	250	27.5%
Hebei NG	2005	1,560	520	45%
Jilin NG	2007	360	220	49%
Suzhou NG	2009	60	40	29%
Henan Xuedian – Xinmi – Dengfeng NG	2012	125	50	49%

TOWNGAS CHINA PIPED CITY-GAS PROJECTS

Guangdong Province
Foshan
Shaoguan
Qingyuan
Yangdong

Eastern China
Nanjing Gaochun
Maanshan
Bowang
Anqing
Chizhou
Tunxi
Huangshan
Huizhou
Tongxiang
Huzhou
Yuhang
Changjiu
Fuzhou
Jiujiang
Wuning
Xiushui
Yifeng
Changting

Shandong Province
Jimo
Laoshan
Zibo
Zibo Lubo
Longkou
Jinan West
Jinan Changqing
Weifang
Weihai
Taian
Chiping
Linqu
Laiyang
Zhaoyuan
Pingyin

Hunan Province
Miluo

Northeastern China
Benxi
Chaoyang
Tieling
Fuxin
Shenyang Coastal Economic Zone
Yingkou
Dalian Changxingdao
Dalian Economic and Technical Development Zone
Anshan
Lvshun
Kazuo
Beipiao
Wafangdian
Xinqiu
Changchun
Gongzhuling
Qiqihar

Hebei Province
Qinhuangdao

Southwestern China
Ziyang
Weiyuan
Pengxi
Lezhi
Pingchang
Dayi
Yuechi
Cangxi
Chengdu
Zhongjiang
Jianyang
Pengshan
Mianyang
Xinjin
Xindu
Qijiang
Guilin

MIDSTREAM PROJECT

Wafangdian NG

THE HONG KONG GAS BUSINESS

Contemporary living

Sales growth in the industrial sector reached **22.6** per cent

Introduced the prestigious **Scholtès** appliance brand to provide high-end kitchen solutions

Received **5,627** written compliment letters – the highest on record

Listed as a Global 500 company by the Financial Times, the only Asian company to be included in the "Gas, water & multi-utilities sector"

Our "Four Treasures" cool kitchen series won the Hang Seng Pearl River Delta Environmental Award – Silver Award

TGC won the Platinum Award in Reader's Digest's Trusted Brand Survey once again

THE HONG KONG GAS BUSINESS

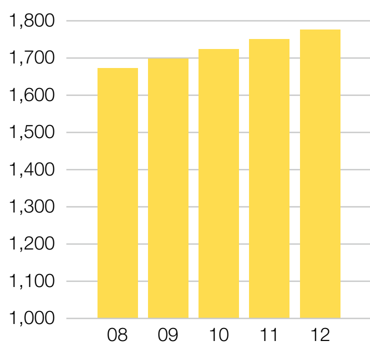
With the celebration of our 150th Anniversary, we have not only survived the passage of time, we remain, as ever, a vibrant and dynamic organisation, which continues to enjoy vigorous growth.

Starting as a relatively small company to provide public lighting for the streets of Hong Kong in 1862, we have since evolved into the Asian energy conglomerate that we are today. We now hold a market capitalisation of over HK$190 billion, over 150 companies, more than 16 million customer accounts, and a diversity of utility and energy activities in Hong Kong, mainland China and the South East Asian region. The message is clear – Towngas is here, not only to stay but also to prosper!

Looking forward, we are seeking to grow our vision and broaden our activities even further with the introduction of our brand new management theme – Expanding New Horizons – from 2013 onwards.

Number of Customers

Company (Thousand)



150 Warming Everyday Life

Celebrating our 150th Anniversary, we not only launched a range of signature appliances and TV commercials, we also held a celebratory party, exhibitions, cooking competitions and community events.

Our Residential and Commercial Activities

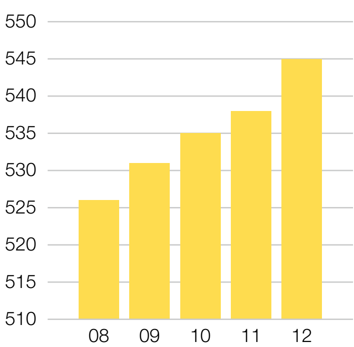
During the year, new customer accounts continued to grow at a steady rate, rising by a further 25,807 customers, to a total of 1,776,360 accounts. However, both the warmer weather as well as the slowdown in the global economy had a knock on effect in Hong Kong affecting gas sales. The total volume of gas sales thus rose a slight 0.8 per cent in comparison to 2011.

Our commercial and industrial activities however continued to do well. Working in close partnership with customers to create tailored solutions for their specific needs, together with the addition of several new customers, particularly in the laundry and food processing businesses, we saw sales growth of 22.6 per cent in the industrial sector over 2011.

Serving Hong Kong's commercial kitchens, our "Four Treasures" cool kitchen series continued its ongoing success. In addition to the design award won in the Hong Kong Awards for Industries last year, it won the Hang Seng Pearl River Delta Environmental Award – Silver Award for its energy saving properties in 2012. Equipped with a waste energy recycle system, these appliances can save up to 30 per cent in gas usage. Expanding this range, we introduced a heat recovery device that can be fitted to a stockpot, recovering flue heat to heat water elsewhere in the kitchen, together with an automatic programmable meat roaster to increase the productivity of meat roasting.

This close partnership with Hong Kong's Food and Beverage (F&B) trade is ongoing. Members of our F&B Environment Protection Group are always available to provide professional advice on saving energy and reducing emissions, as well as maximising efficiencies and cost-savings in Hong Kong's commercial kitchens. During the year, the group provided professional advice to more than 800 small and mid-range restaurants in this aspect. Taking these activities yet further forward we opened our Towngas Green Kitchen – literally a "green" kitchen where our partners in the trade can see the benefits of our Towngas commercial appliances and applications.

Number of Customers per km of Mains Company



Our gas supply network extended to the popular seafood restaurants of Lei Yue Mun in 2012.

On the domestic front, innovation and technology play a key role in the launch of our new products. Commemorating our 150th Anniversary, we introduced our 150th Special Edition – TGC Perfecto Series, which include a unique Vortex Built-in Hob and Infinity Water Heater. Highlighting their success, the Vortex Built-in Hob won the 2012 Hong Kong Awards for Industries: Consumer Product Design while the Infinity Water Heater won the Japan Good Design Award 2012. A further item launched during the year, the TGC Y-Hob with its contemporary and stylish appearance, together with its dual counter-top or built-in facility, also won the Japan Good Design Award 2012.

In addition to our new TGC appliances we also introduced a well-known European brand – Scholtès. With almost 100 years of French cuisine behind it, the full range of Scholtès appliances from cooking hobs and ovens to fridges, dishwashers and wine cabinets, provides high-end solutions for Hong Kong's kitchens.

This commitment to excellence has helped us to maintain our appliance sales over the years and in 2012, notwithstanding the slower market, we achieved healthy growth in sales revenue by 6.1 per cent over 2011 with over 241,000 appliances sold.

As part of our 150th Anniversary, we held our innovative "City WOW" celebration campaign, when over 1,500 businesses in Hong Kong worked with us to offer 8,000 Super Jetso coupons, specials deals and big discounts to Towngas customers. We also organised the first "Towngas Young Master Chef" cooking contest for secondary students. The Champion was able to realise her dream to attend a cooking course at Le Cordon Bleu in Paris.

Improving Our Customer Services

Over the years we have established an excellent reputation for customer service, winning numerous awards along the way, achieving high ratings in customer satisfaction surveys, as well as

Results of Towngas Service Pledge 2012

RELIABILITY

Uninterrupted gas supply (over 99.99%)
99.991%

Three days prior notification in case of supply interruption on account of maintenance or engineering work
100%

Restoration of gas supply within 12 hours
100%

SAFETY

Emergency Team arrived on site within 30 minutes at 95% of the times
95.60%

SPEED AND CONVENIENCE

Customer Service Hotline calls answered within four rings
94.53%

Connect or disconnect gas supply within one working day
100% upon customer's request

Deposit refunded at Customer Centres two hours after disconnection of gas supply
100% upon customer's request

HANDLING SUGGESTIONS

Reply within three working days
100%

Resolution, or a statement of when the matter will be resolved, within two weeks
100%

APPOINTMENTS

Availability of maintenance and installation services within two working days
Average
1.05 day

SERVICE QUALITY

Efficiency[1]
8.79

Courteous and friendly attitude[1]
8.80

1. The result was based on monthly surveys conducted from January to December 2012 by an independent research company. Our target is to exceed a score of 8 out of 10.

receiving an increasing number of complimentary letters every year. 2012 was no exception and during the year we received 5,627 letters, which translates into 15 letters a day for every day of the year. Sing Tao Daily readers again voted us as an Excellent Service Brand in the "Excellent After-sales Service" category.

Despite this positive situation we continue our efforts to not only meet but surpass customer expectations and 2012, set up as an "innovative service year", saw the launch of our "5-Heart" service programme. Working in tandem with this extended service programme, we also introduced a new Call Centre System, which uses the latest technology to enable our customers to get in touch with us in a number of ways – both traditionally, by phone and fax, and digitally via email, web chat or SMS.

Our ongoing Regular Safety Inspections continue to bear fruit. Apart from inspecting the safety of pipes and appliances in customer premises, we are also placing a special focus on replacing older equipment – such as cookers without flame failure devices, flueless and conventional-flued water heaters, with appliances that have more up-to-date safety features. The number of these items have now fallen to less than 5,000 throughout Hong Kong.

The focus on digital communication has been a major driver in our communications with our younger customers and the great majority of our recent customer and community initiatives have incorporated and even rely on both smartphone and Internet applications. Our communications in this direction have been so successful that our Towngas App gained a trophy in the United Nations' World Summit Award – Mobile Content in the "m-Government and Participation" category.

The Gas Infrastructure

Hong Kong enjoys a high rate of supply continuity with a service supply rate of 99.99 per cent. These services are provided by our gas production and pipeline infrastructure which consists of two production plants at Tai Po and Ma Tau Kok with a combined production capacity of 12.26 million cubic metres a day, as well as our gas network which, with some 3,500 kilometres of pipeline, links almost every inhabited corner of Hong Kong to our services.

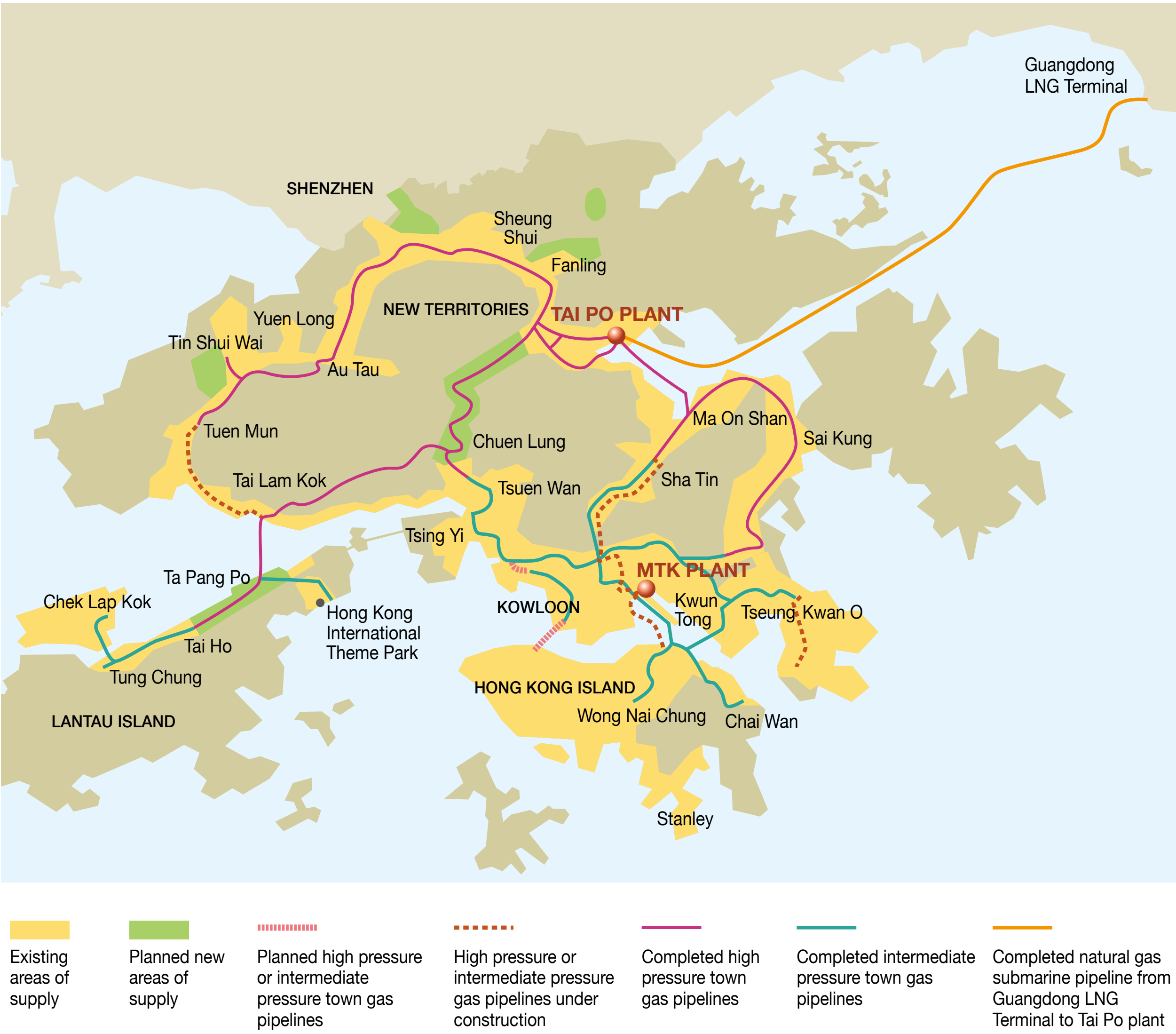
In line with our commitment to the environment we make every attempt to use green production fuels in our activities. Natural gas, currently the cleanest fossil fuel available, thus accounts for the lion's share, reaching around 55 per cent of our total feedstock usage. Landfill gas (LFG) contributes about 2 per cent and the remainder is made up by the light fuel oil, naphtha. Looking forward we expect both the use of natural gas and LFG to increase – the former with the completion of a 15-km natural gas pipeline bringing this fuel to our Ma Tau Kok plant and the latter, as talks are in good progress with the Hong Kong Government on the use of LFG from the Southeastern New Territories (SENT) landfill site. Once SENT is up and running we expect to more or less double our use of LFG. We are particularly focused on the use of this methane-rich gas as it turns what would be an otherwise waste material into a valuable resource. It also reduces the use of fossil fuels as well as the release of greenhouse gases into the atmosphere.

In addition to the natural gas pipeline from Tai Po to Ma Tau Kok, which is nearing completion, we are also carrying out the relocation of a twin submarine pipeline between To Kwa Wan and North Point to cope with the Government's new development plans in South East Kowloon. Consisting of about 8 km of pipeline in total, this project is expected to be finished at the end of 2013. The 9-km ring-feed pipeline in the Northwest New Territories is also progressing and is about halfway accomplished, while a number of network extension projects bringing gas services to new customers in Lei Yue Mun and the Tai Po Industrial Estate for example, were also delivered.

The "Laparobot", an innovative tool developed in-house, removes dip pipes in old metallic network in an environmentally-friendly and cost effective manner.

"We place huge commitment and care on safety and remind ourselves of the need for vigilance at all times. A number of customers in Tai Po lost service in early June. A burst salt water main affected our pipelines in the vicinity – leading to water ingress into the pipeline system, services were disrupted to a large area. Working around the clock, our efforts and committed team spirit prevailed and services were restored to most customers the next day and totally back to normal within 56 hours."

Towngas Network in Hong Kong



The use of new technology plays a crucial role in enhancing our ongoing operation efficiencies. A pilot installation to replace our aging underground galvanised iron pipes with corrugated polyethylene (PE) piping was carried out successfully. We also introduced a number of innovations, a new Ovality Measurement Tool, for instance, enhance the quality control of PE fusion joints; the "Laparobot" removes dip pipes in condensate receivers which are used for collecting water condensate in gas in the older metallic network to facilitate trenchless pipe insertion rehabilitation work; and the "Predator" uses infra-red thermography to locate leakage points in underground piping. All three inventions were developed in-house and are the first of their kind in the world.

OUR NEW ENERGY AND DIVERSIFIED BUSINESSES

Driving innovation and change

ECO's coalbed methane plant gained ISO14001:2004 certification

"The Enterprise with Advanced Technology in China" award by the Xi'an Government

ECO operates a total of 22 businesses in Hong Kong and China

Established G-Tech to manufacture quality PE piping

Took on our first overseas onshore oilfield project in Thailand

OUR NEW ENERGY AND DIVERSIFIED BUSINESSES

As more and more of our new and diversified businesses come on stream, this sector of our business is not only gathering momentum, it is beginning to make an increasing contribution to the overall activities of the Group.

New ECO Energy

Our new management theme "Expanding New Horizons" is particularly apt for this area of our business where, our first exploratory steps into a project have opened up whole new worlds for growth. Our first renewable gas project, using landfill gas (LFG) at the Shuen Wan landfill site in Hong Kong in 1999, is a prime example. Though a very small project in itself, it laid the foundations for our activities that turn waste into a valuable gas resource. Today, as we seek to develop both new and more gas areas for the Group, this key objective defines a major aspect of our new energy business – converting waste resources and low grade feedstock into high value energy.

While this "new energy" initiative is still very much in its infancy, we have become a pioneer in the field with a range of diverse activities and established projects. Starting with just two businesses in the early 2000s, ECO Environmental Investments Limited (ECO), our environmentally-friendly energy arm, now operates 20 energy businesses on the mainland in addition to the aviation fuel facility as well as our liquefied petroleum gas (LPG) filling stations in Hong Kong.

A Pioneer in the Field – Turning Waste into Energy

Riding on our traditional core competencies in chemical processing and our successful activities in this sector, this area of activity has now become a key focus in our business operations. Beginning with our LFG operation, this portfolio has grown to include our coalbed methane liquefaction and coal to methanol plants. This portfolio will be expanding even further in view of our growing interest in the use of coke oven gas, tar oil, biomass, etc.

In 2008, we commissioned our coalbed methane liquefaction facility in Shanxi province, the largest of its kind in mainland China. Using cryogenic techniques to liquefy the coalbed gas, this very clean liquid fuel can be transported easily to wherever it is needed. Now fully commissioned, the plant, with its annual capacity of 250 million cubic metres, is not only furthering supplies to our city-gas operations, it is also generating

With an annual capacity of 200,000 tonnes, our clean coal methanol plant in Inner Mongolia is currently undergoing pilot operations.

profits for the Group. Moving forward, we are actively looking into a number of similar opportunities on the mainland.

The benefits of these projects are multifold. Not only do they turn a waste methane resource into valuable market products, they also help to conserve existing fossil fuels and reduce the level of greenhouse gases emitted into the atmosphere. The extraction of the highly-flammable coalbed gas before coal is mined also creates a safer working environment for miners.

Apart from making use of methane from various resources, we are also keeping our eyes on the production of syngas, a simple gaseous product which can in turn be synthesised into other products such as different clean fuels or chemical feedstock. To this end, we commenced the building and operation of a coal to methanol plant in Inner Mongolia. This facility is currently undergoing pilot production with an annual production capacity of 200,000 tonnes of methanol. As methanol is in itself a block feedstock which can easily be converted chemically into products such as gasoline, dimethylether, propylene, etc, we have commenced efforts to further "reform" the methanol into a higher value gasoline additive.

A liquefied natural gas filling station for heavy-duty trucks in Chiping, Shandong province.

In our bid to remain at the forefront of the new energy arena, ECO's research and development centre is focusing on the use of waste and low value materials to produce higher value products and new energy. A recent focus is to develop new technology to upgrade tar oil, a by-product in the coal carbonisation process, into clean vehicle fuels. The technology can also be adapted to convert non-mineral oil feedstocks such as used cooking oil. We expect to be able to turn this research into viable commercial projects in 2013.

A great deal of development work has been undertaken in the upgrading of coke oven gas, turning it either into methane, methanol or other high grade liquid fuels. Our team is also testing an innovative approach to gasify agricultural waste by turning it into syngas, for further conversion into different clean fuel products.

Energy-related Logistics and Infrastructure Activities

Our activities in this area first commenced when we won a contract from the Hong Kong Government in 2000 to build and operate five dedicated LPG filling stations to provide cleaner energy to replace diesel for Hong Kong's fleet of taxis and public light buses. This line of business has since expanded onto the mainland and ECO now operates nine natural gas refilling stations, with five further facilities under construction, for vehicles in Anhui, Shaanxi, Shanxi, Shandong, Henan and Liaoning provinces. These stations provide clean and economic fuel for heavy-duty trucks and public buses in the region.

We moved into the world of aviation fuel in 2002 with the construction and subsequent operation of the aviation fuel facility in Tuen Mun serving the aviation fuel needs of the Hong Kong International Airport. This facility, which consists of eight large fuel tanks capable of storing up to 264,000 cubic metres of aviation fuel, opened in 2010. Completing its second year of operation in 2012, business is proceeding smoothly. With its throughput of 6 million tonnes of fuel a year, it is one of Hong Kong's largest energy infrastructure facilities. Seeking the use of more environmentally-friendly fuel for the aviation industry, there is increasing talk of bio-jet fuels to reduce carbon emission. As bio-energy is one of our key areas of focus, ECO is actively exploring this possibility.

ECO's logistics port in Jining, Shandong province, to be fully commissioned in the fourth quarter of 2013, is connected to upstream suppliers by rail and downstream via the famous Beijing-Hangzhou Grand Canal.

Energy Resources

Feeding the coal requirements of our methanol plant, we own and operate two coal mines in the vicinity. The Xiaoyugou underground mine in Inner Mongolia, with an annual production capacity of 1.2 million tonnes of coal, commenced trial operations during the year and is expected to be fully commissioned in 2013. The Kejian open-pit coal facility, acquired in 2011 and located nearby is also operating well.

Our energy resource portfolio took a major leap forward during the year with our first overseas oilfield project. We acquired a 60 per cent effective stake in the development of onshore oilfield, located conveniently about 250 km north of Bangkok in Thailand. Evaluations are currently under way studying the sustainable expansion of production levels. The experience gained from this project will enrich our upstream oil and gas capabilities, preparing us for further opportunities ahead.

Hand-in-hand with these developments, we are also looking into the use of shale gas which has proven to be very successful in the United States. Accounting for just 1 per cent of US natural gas production in 2000, this figure had grown to over 20 per cent by 2010. With China estimated to have the world's largest shale gas reserves, there is tremendous scope for development.

Safety and Risk Management

With more and more businesses coming on stream under our ECO umbrella, safety and risk management are key to the company's success. Safety Steering Committees were established for its Hong Kong operations and other businesses. Its corporate emergency plan was also updated to incorporate all its businesses. Training was carried out at the Xiaoyugou mine and table-top exercises, to ensure that the emergency management team will be fully familiar with emergency response procedures, were also conducted both at the mine and the methanol plant in Inner Mongolia. The "General Manager Monthly Safety and Risk Management Programme" was also extended to ECO's natural gas filling stations with 70 inspections conducted during the year.

Telecommunications

Gaining substantial synergies and economies of scale, we expanded our services into the telecommunications industry with an optical fibre network that rides on our gas network using either glass-in-gas (GIG) or glass-along-gas (GAG) techniques. Managed and operated by Towngas Telecommunications Limited (Towngas Telecom) this optical network provides high-end telecommunication infrastructure services as well as efficient and quality network solutions for telecom carriers, service providers and large corporations.

With the growing demand for outsourced IT and cloud computing services in recent years, our data centre business, which also provides management and operations for computer equipment housed in our centre, has seen a major boom, bringing our existing facilities very rapidly to saturation point. Addressing the situation, we began the construction of a new Internet Applications Centre with a floor area of around 22,000 square metres in the Tseung Kwan O Industrial Estate, where the Hong Kong Government's data centre hub for the Asian Region is also taking shape. Phase I of this world-class facility is scheduled for commissioning in 2013.

Expanding onto the mainland in 2007, we currently operate seven telecom ventures in Liaoning, Shandong and Jiangsu provinces and riding the vast demand for IT services, we also operate two data centres – one in Jinan, Shandong province and the other in Dalian, Liaoning province.

Water Supply and Waste Water Operations

Our water businesses, managed and operated by Hong Kong & China Water Limited (Hua Yan Water) continued to do extremely well. The Group had invested in and was operating four water projects. Performing significantly above forecasts, water sales in our three projects in Wuhu, Wujiang and the Suzhou Industrial Park rose 6 per cent to reach over 393 million tonnes during the year.

Construction of the Bowen Drive Salt Water Pumping Station, the Magazine Gap Road Salt Water Service Reservoir and associated works by U-Tech for the Water Supplies Department.

These strong sales are due to a variety of reasons – not only are we seeing organic demand growth but we have also been expanding our networks to cover the surrounding newly developed districts.

With the growing demand for water supply and expectations for higher water quality, we are actively seeking additional water project opportunities throughout the country. This resulted in the addition of a new water supply project in Maanshan, Anhui province to Hua Yan Water's portfolio in early 2013.

Civil and Building Services Engineering

Branching out from its initial expertise in the building of both underground and aboveground pipeline systems, U-Tech Engineering Company Limited (U-Tech) has developed into a reputable construction contractor, specialised in civil and building services engineering. During the year, U-Tech took on a number of waterworks and drainage pipeline installation projects for the Hong Kong Government and private organisations. Now an Approved Contractor for Public Works under the categories of Waterworks Group C and Roads & Drainage Group A, the company is currently working on a 60 km water mains replacement project in Shatin, Sai Kung and Tseung Kwan O, 12 km of which will be rehabilitated by trenchless technology, for the Water Supplies Department. Work on a salt water reservoir and pumping station is also progressing and expanding its range of services, U-Tech is also carrying out a number of building addition and alternation, electrical installation and building services projects.

Manufacturing Facilities

In 2000, GH-Fusion Corporation Limited was formed to manufacture polyethylene (PE) pipe fitting and jointing products for both gas and water piping systems. In September 2012, broadening the product scope and offering a total solutions package to customers, G-Tech Piping System Company Limited, the Group's wholly owned subsidiary, was established to manufacture quality PE piping. Located in Zhongshan, Guangdong province, the new facility is currently being commissioned with production expected in 2013.

M-TECH Metering Solution Company Limited (M-TECH), a wholly-owned Towngas subsidiary established in 2011, to develop, manufacture and market smart metering solutions via the new generation of gas meters using Micro-Electro-Mechanical Systems technology in the measurement of mass flow. The manufacturing plant in Longgang, Guangdong province is now in production. An Interactive Metering System model for commercial customers will be launched in 2013 while a residential version is currently under development.

A technician tests one of the new-generation smart meters manufactured by M-TECH.

New Energy and Other Projects in 2012

	Year of Establishment	Project Investment Rmb M	Registered Capital Rmb M	Equity Share %
NEW ENERGY PROJECTS				
Coal Mining				
Jiangxi Fengcheng	2008	1,100	236	25%
Inner Mongolia Erdos Xiaoyugou	2009	447	120	70.1%
Inner Mongolia Erdos Kejian	2011	450	150	100%
Coal-based Chemical				
Jiangxi Fengcheng	2009	1,250	350	40%
Inner Mongolia Erdos	2009	1,170	400	70.1%
CNG/LNG Filling Stations				
Shaanxi Xianyang	2007	12	12	100%
Shaanxi Huitai	2010	54	27	60%
Anhui Maanshan	2006	15	11	30%
Shanxi Yuanping	2008	40	20	42%
Dalian DETA	2010	40	20	49%
Shandong Chiping	2010	30	15	70%
Shandong Jining	2010	30	15	51%
Shandong Dongping	2010	43	26	91%
Henan Xinmi	2011	29	15	100%
Shandong Jiaxiang	2012	50	28	70%
Henan Anyang	2012	30	15	100%
Upstream Projects				
Shanxi LCBM	2006	600	200	70%
Jilin Tianyuan	2007	140	5	50%
LCMM Project	2010	520	180	50%
Coal Logistic Project				
Shandong Jining Jiaxianggang Logistic Port	2011	540	180	55%
TELECOMMUNICATION PROJECTS				
Shandong Jinan	2007	80	40	90.1%
Shandong Jinan Chibo	2009	170	68	65.5%
Liaoning Dalian DETA	2010	14	10	49%
Dalian Yida	2011	190	76	90%
Shandong Laiyang	2011	14	10	90%
Xuzhou Fengxian	2011	11	8	100%
WATER PROJECTS				
Wujiang	2005	2,450	860	80%
Suzhou Industrial Park	2005	3,685	2,197	50%
Wuhu	2005	1,000	400	75%
Suzhou Industrial Park (Industrial Wastewater Treatment)	2011	828	300	49%
OTHER PROJECTS				
Shenyang Sanquan Construction Supervisory	2011	4	3	60%
M-TECH	2011	60	30	100%
GH-Fusion	2002	87	43	50%
Towngas Technology	2011	30	21	90.1%
Suzhou Industrial Park Broad Energy Services	2012	170	71	25%

	Year of Establishment	Project Investment USD M	Registered Capital USD	Equity Share %
OILFIELD PROJECT				
Thailand Phetchabun	2012	181	12,000	100%

With care and commitment

Launched a new form of urban art with 150 artistically designed gas **pit covers** in Hong Kong

"Wenxin" continued to spread warmth and care throughout our operations and the community

2011 Hong Kong Awards for Environmental Excellence, Sectoral Awards: Public Organisations and Utilities, Gold Award

China's Outstanding Corporate Citizenship 2012 – Towngas China, Hua Yan Water and ECO

11th Hong Kong Occupational Safety & Health Awards:

Safety Culture Award – Gold Award
OSH Annual Report Award – Gold Award
Safety Performance Award

Our Carbon Reduction Campaign helps to reduce more than 26,000 tonnes of carbon emissions a year

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility and sustainability have always been an intrinsic part of our corporate philosophy. They have been essential in building trust and fostering partnerships with our shareholders and employees, our customers and the community.

Caring for Our Environment

As a leading supplier of energy, our goal is to provide clean and green products and services in every aspect of our business. We are helped by the nature of our product as gas is a cleaner energy than many other energy alternatives. Additionally, natural gas, which accounts for about 55 per cent of our feedstock in Hong Kong, is the cleanest fossil fuel available today. On the mainland, our city-gas projects supply natural gas to customers. Together with our landfill gas, coalbed and coal-mine methane facilities, ECO's clean coal and new energy activities, as well as our active programme to replace diesel with natural gas for trucks and marine vessels, we are actively driving the use of clean energy to new highs.

We also seek to conserve energy, reduce carbon emissions and promote a green lifestyle in our everyday operations. These initiatives include the introduction of waste heat recovery systems in our Tai Po plant which has resulted in a substantial reduction of carbon emissions. Our cool kitchen series, also featuring waste heat recovery technology, has done much to not only reduce energy usage but also to create a cooler environment for our customers and seeking to reduce carbon emissions even further, we also completed a study on the carbon footprint of a typical gas appliance.

Our highly successful Carbon Reduction Competition on the mainland was in its third year. Under this initiative, a total of 110 entries have been received so far, saving more than 26,000 tonnes of emissions a year.

Under its Month of Tree Plantation and Carbon Reduction Campaign, Towngas China planted around 40,000 trees in a green area of approximately 300,000 square meters.

Our popular rice dumplings and mooncakes for the community events now form a regular part of our social calendar. Members of the Hong Chi Association learnt how to make rice dumplings (left) and Towngas volunteers got together with the elderly to make heart-shaped mooncakes (right).

Within the community, we continue our sponsorships and partnerships with leading Green groups, such as Friends of the Earth (HK)'s tree planting challenge and WWF's "Earth Hour" initiative. The leadership training programme under the "Green Leaders Bloc", organised by the Conservancy Association was also completed, with 17 student "leaders" being trained and equipped to lead and carry out environmental campaigns. Seeking to make a difference and in celebration of our 150th Anniversary, "Towngas China Tree Zone" was formed on the mainland to plant 1,500 trees in Guangzhou, Guangdong province where our earliest joint venture businesses were located.

In Partnership with Our Community

Our multi-faceted community programme is headed by our Towngas Concession Scheme which offers concessionary rates for our services among the elderly, people with disabilities, single-parent as well as low-income families. We also continue our now well-established Rice Dumplings and Mooncakes for the Community initiatives. During the year, we produced 230,000 rice dumplings for distribution during the Dragon Boat festival. This brings the total number of dumplings distributed over the years to well over 1.5 million dumplings. Similarly, we prepared and gave away more than 210,000 mooncakes, bringing the grand total of mooncakes distributed to 1.1 million so far. These activities have also extended to our businesses in mainland China and similar rice dumpling events are held throughout the country.

Our Volunteer Service Teams donate their time to care for the communities. In Hong Kong, we once again won the championship in the Social Welfare Department's Highest Service Hour Award in the category of Private Organisations – Best Customer Participation, an honour we have now received for five years running. On the mainland, more than 70 per cent of our businesses have set up volunteer teams, serving around 60,000 needy people over the years.

Our "Cook for Love" campaign, which helps single-parent families to improve their communication and interaction skills through group activities and play, received a boost during the year with the winning of the first runner-up award in the Social Welfare Department's 2011/12 Best Corporate Volunteer Service Project Competition. This achievement was echoed by our "Book Donation with Love and Care Programme" in mainland China, which won a Corporate Social Responsibility Award presented by China Philanthropy Times. Under this programme, over 15,000 books have been collected for donation to school "book corners" in a number of provinces.

Taking the lead on the mainland, we organised a large-scale "Corporate Responsibility Summit" in Beijing, the first of its kind to be hosted by a private gas entity. During the event, we released Hua Yan Water's first Corporate Social Responsibility (CSR) report and Towngas China's "Guidelines for Preparing the CSR Report".

Investing in Our People

A business is only as good as its people. To this end we make every effort to attract and keep a skilled, motivated and professional workforce, who in helping us to achieve our business goals, will also fulfill their own career objectives. We therefore do our utmost to offer a positive and rewarding work environment that ensures employee well-being while also making the best of their abilities through comprehensive training and development. At the same time, as our businesses grow in scale and scope, our aim is to provide our people with ample opportunities for career advancement.

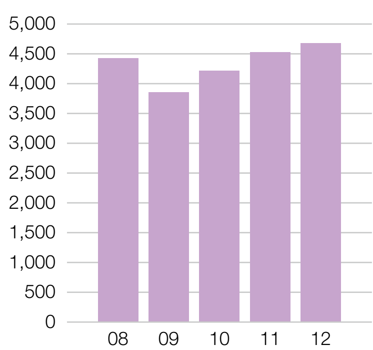
Growing Our People

The first step in building a quality workforce is to ensure that our employees have the necessary skills to carry out their jobs both ably and professionally. We thus run a number of trainee and apprenticeship schemes, turning out qualified gas engineers and technicians for the industry. Towngas China has received approval from the Hong Kong Institute of Engineers to train young engineers via a two-year structured engineering programme and together with Institution of Gas Engineers and Managers' tailor-made route for engineers to achieve world-class qualifications, our Towngas Engineering Academy (TEA) is turning out a number of qualified professionals to serve the industry.

During the year we sponsored the "Salvation Army O! Day", one of Hong Kong's largest orienteering competitions to raise funds for the needy.

Revenue per Employee

Company (HK$ thousand)



150 Warming Everyday Life

Street Art – Our Artistic Pit Cover Designs

A major community initiative held to celebrate our 150th Anniversary was our innovative Artistic Pit Cover campaign, the first of its kind in Hong Kong. We launched Towngas Street Art x Pit Cover Design Contest to bring this brand new form of urban art to Hong Kong people. Eleven artists were also involved in the project, which resulted in the creation of 150 decorative pit covers installed all over Hong Kong.

Promoting this initiative and involving the people of Hong Kong in this novel form of art, we also held a "Go Snap! Pit Cover Photo contest" and an interactive smartphone app, encouraging participants to locate these artistic pit covers and snap a creative photo.

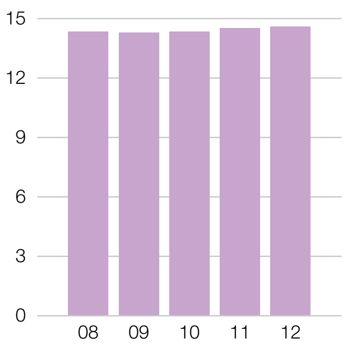
With centres in Hong Kong, Shandong, Sichuan, Changchun and more recently in Shenzhen, which opened in March 2012, TEA also works to promote a continuous learning culture, helping employees to not only improve their qualifications but also to maintain a keen interest in new developments and processes. A prime example of this ongoing and refresher training was the launch of new Superior Quality Service (SQS) models in support of our SQS initiative which celebrated its 20th birthday in 2012. Enhancing our SQS culture, the training provides a systematic and innovative problem solving toolkit that heightens and accelerates creative problem solving skills.

Together with a special campaign on gas safety comprising 111 sessions for over 2,600 employees and contractors, TEA completed a total of 146,489 man-hours of training during the year.

Technical competencies aside, management and leadership development also play a key role in our activities. Not only do they help to develop a pool of talent for our needs, they also foster personal development and career growth for our people. Another key area of focus is the endorsement of our corporate culture – an understanding of our goals and values promotes mutual appreciation, awareness and respect, as well as the better achievement of shared goals.

As part of our corporate Towngas Leadership Competency programme we continue our Executive Development Programmes (EDP) which are held in partnership with various universities and professional institutions. During the year, 17 executives participated in our week-long Tsinghua EDP while 35 participants completed the more recently established Zhongshan University programme in Southern China. Thirty senior group executives also attended a five-day programme at the Chinese Academy of Governance while over 300 financial professionals from more than a 100 mainland businesses attended a finance workshop in Liaoning province.

Town Gas Sales per Employee Company (million MJ)



We set up a "Happy Zone" at our North Point Headquarters, providing our employees with a comfortable place to rest and relax.

Nine new graduate trainees came on board during the year under our Graduate Trainee Scheme, while 17 fresh graduates joined ECO as ECO Management Trainees (EMTs). As part of their training programme, the 18 EMTs recruited in 2011, spent two weeks in Hong Kong familiarising themselves with our operations. Twenty-two candidates identified under Hua Yan Water's 2011 Elite Talent Development Programme also completed their 12-month accelerated learning programme.

Enhancing the Well-Being of our Employees

Happy people translate into happy customers. We are committed to ensuring the health and well-being of our people, not only with a positive and pleasant work environment hand-in-hand with a rewarding remuneration package but also with a sense of unity and belonging to our Towngas family.

This sense of belonging received a strong boost during the year as we celebrated our 150th Anniversary. Fully aware that this success would not have been possible without "our people", a number of events were held throughout the Group to both celebrate this success and to thank our employees for their contribution. This "Thank You" took a physical form in Hong Kong when every employee on board on our actual birthday, 3rd June 2012, received a gold coin in commemoration of their service.

A range of activities also took place under our "Wenxin" warmth and care initiative. Kicking off in 2011, the programme continued into 2012 with a Wenxin story-writing competition to highlight Wenxin-related stories throughout the Group. A photo competition was also held on the Wenxin theme with the submissions being displayed at our North Point Headquarters.

A number of talks were also held to improve the quality of life for our people – extending the Wenxin culture into employees' families and personal lives. These included a series of talks on behaviour and body language to improve communication and relationships with family members, and teenagers in particular, while presentations were also held for pre-retirees on how to prepare themselves for this new chapter in their lives.

On a more general note, we also won the Grand Award in the Hong Kong Smoke-free Leading Companies event organised by the Hong Kong Council on Smoking and Health (COSH) for our efforts in promoting a smoke-free culture in the workplace. Driving this positive message forward, representatives from COSH also gave a number of talks on the benefits of not smoking and of living and working in a smoke-free environment.

Towards Better Work Safety

In ensuring the well-being of our employees, safety must be a key commitment. We once again managed to achieve our lowest accident rate on record – seven cases in total for the year in Hong Kong.

Seeking to drive our safety levels even higher, November 2012 was designated as "Health, Safety and Environmental (HSE) Month" in Hong Kong. The month unfolded with over 2,000 participants taking part in a variety of activities, from quizzes and experience sharing workshops, to fire and work safety, to environmental issues. Similar activities including site safety inspections and an Occupational Safety and Health Contractor Forum were also organised for our contractors. A Behavioural-Based Safety Programme too was implemented at our plant in Tai Po.

In addition to our HSE Policy, which saw the addition of a new section on the "minimisation of climate changes risks", our quality and safety systems also conform to the internationally accredited ISO9001, ISO14001, OSHAS18001 and PAS55-1 standards. Also making sure that our safety practices and contingency plans work as well in action as in theory we hold various table-top exercises, fire drills and other emergency exercises not only internally but also with the relevant parties externally – Hong Kong Fire Services Department (FSD) and Hong Kong Police Force for example. Two such exercises were conducted in Hong Kong for the Corporate Emergency Management Team during the year.

Environmental Performance Table (Hong Kong)

OZONE LAYER PROTECTION

- All of our vehicle air-conditioning systems now operate with refrigerant R134A.
- All BCF portable fire extinguishers have been replaced by dry powder extinguishers.

GREENHOUSE GAS EMISSION

- Greenhouse gas emissions from major gas production equipment was 360,634 metric tonnes in terms of CO_2 equivalent.

CHEMICAL WASTE

- Total chemical waste output was 1.23 kg/TJ of town gas.

AIR QUALITY

- Total NOx output was 4.20 kg/TJ of town gas.
- Total SOx output was 0.02 kg/TJ of town gas.
- Total CO_2 output was 11.92 metric tonnes/TJ of town gas.

WATER QUALITY

- Total wastewater output was 5.74 m^3/TJ of town gas.

NOISE

- All installations and operations complied with the statutory requirements.
- No noise abatement notice has ever been received.

All legal requirements relating to environmental protection were fully complied with.

Driving a "safety culture" mindset, we continue our hands-on training programmes. The safety and risk management personnel from the mainland visited Hong Kong to see our safety practices and attended a safety and fire-fighting course conducted by the FSD at their training school to enhance their fire safety and risk awareness.

Driving Growth and Building Long Term Value

Established in 1862 to provide lighting for the streets of Hong Kong, Towngas has since grown into the modern, diverse and multi-faceted energy conglomerate that we are today. This success has been built on our vision to be Asia's leading energy supplier and service provider, with an environmentally-friendly focus, supported by our mission to provide our customers with a safe, reliable supply of energy together with the caring, competent and efficient service they expect, while also working to preserve, protect and improve our environment.

Responsible corporate behaviour as well as good corporate governance are essential to creating long-term value for our stakeholders such as our customers and the community. Our activities are thus defined by our organisational values, which ensure that they are carried out with due care and respect. Over the years, this strategy has not only helped us to build both trust and partnership with our stakeholders and the community, but it has also helped us to establish an award-winning brand that stands for a solid and healthy financial position, world-class service and product quality, innovation and efficiency as well as uncompromising standards of safety.

Our business drivers which include the transfer of this business model onto the mainland have been particularly successful and the Towngas group currently operates 150 projects in mainland China. This footprint expanded yet again with our recent move into the region with a new project in Thailand. Building on this success, our ongoing business development will focus on Asia's growth economies with their developing energy markets, increasing industrialisation and rapid urbanisation. Our business portfolio will continue its diversification with energy infrastructure and pipeline projects, city-gas operations, water supply and telecommunications, as well as clean fuel and the development of unconventional fuel alternatives, as we seek to deliver both stable and sustainable growth.

Business Drivers

- Growth
- Value
- Improved Shareholder Return
- Innovation
- Safety and Reliability
- Products and Services
- Operational Excellence
- Corporate Citizenship

Organisation Values

- Accountability
- Creativity
- Leadership
- Open Communication
- Driving Achievement
- Respect and Integrity
- Continuous Learning
- Teamwork
- Entrepreneurial Spirit

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 31st December 2012, the Group had a net current deposits position of HK$5,957 million (31st December 2011: HK$7,515 million) and long-term borrowings of HK$25,230 million (31st December 2011: HK$21,628 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK$347 million (31st December 2011: HK$313 million), net current funds as at 31st December 2012 amounted to HK$6,304 million (31st December 2011: HK$7,828 million). In addition, banking facilities available for use amounted to HK$7,139 million (31st December 2011: HK$6,962 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities and debt financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Borrowing Structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing under the Programme. In May 2012, the Programme was updated with the size increased to US$2 billion. After the update of the Programme, other than Hong Kong dollar and Australian dollar notes, the Group issued two JPY Note of JPY5 billion each at a fixed coupon rate of 1.36 per cent and 1.19 per cent per annum respectively and both in 10-year maturity term. Up to 31st December 2012, the Group issued notes in the total amount of HK$10,210 million (31st December 2011: HK$5,855 million) with maturity terms of 5 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2012 was HK$10,046 million (31st December 2011: HK$5,807 million).

As at 31st December 2012, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million (31st December 2011: US$995 million) and the carrying value was HK$7,651 million (31st December 2011: HK$7,660 million).

As at 31st December 2012, the Group's borrowings amounted to HK$31,721 million (31st December 2011: HK$25,849 million). The increase was mainly due to the new issue of MTNs of total equivalent of HK$4,356 million, and net drawn down of bank loans for the rest. The Notes mentioned above together with the bank and other loans of HK$1,331 million had fixed interest rate and were unsecured. While the bank and other loans of HK$5 million of a joint venture, which was fully repaid in January 2013, was secured by a pledge of certain assets of the joint venture, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$6,469 million (31st December 2011: HK$7,317 million) were long-term bank loans while HK$6,219 million (31st December 2011: HK$4,188 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2012, the maturity profile of the Group's borrowings was 20 per cent within 1 year, 4 per cent within 1 to 2 years, 24 per cent within 2 to 5 years and 52 per cent over 5 years (31st December 2011: 16 per cent within 1 year, 7 per cent within 1 to 2 years, 29 per cent within 2 to 5 years and 48 per cent over 5 years).

The US dollar Guaranteed Notes, the RMB Note, AUD Note and JPY Note issued, and a bank loan of RMB500 million raised in Hong Kong are hedged to Hong Kong dollars by currency swaps and the Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi; thus, the Group has no significant exposure to foreign exchange risk. The gearing ratio [net borrowing/(shareholders' funds + net borrowing)] for the Group as at 31st December 2012 remained healthy at 30 per cent (31st December 2011: 25 per cent).

Contingent Liabilities

As at 31st December 2012, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associated companies, jointly controlled entities or third parties (31st December 2011: Nil).

Currency Profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

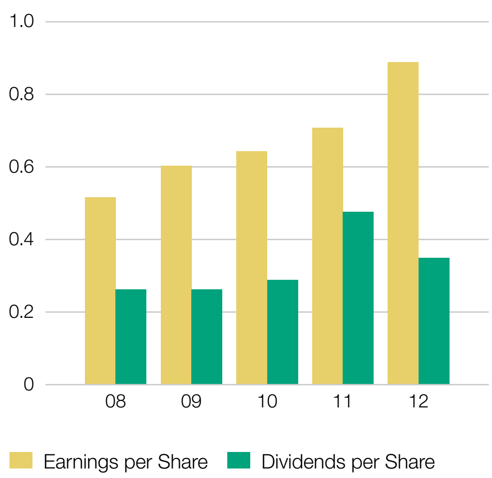
Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2012, the investments in securities amounted to HK$3,426 million (31st December 2011: HK$3,424 million). The performance of the Group's investments in securities was satisfactory.

FIVE-YEAR FINANCIAL STATISTICS

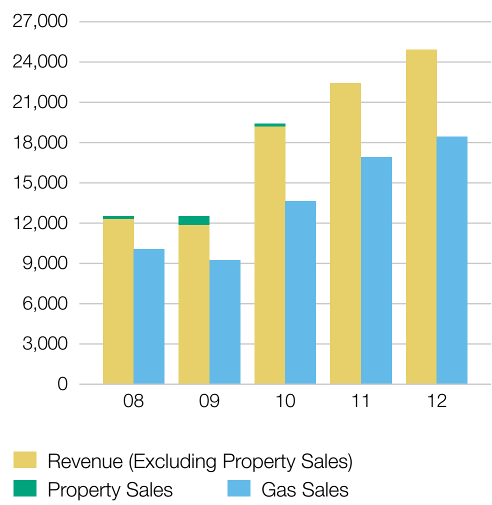
Earnings and Dividends per Share

(HK$)

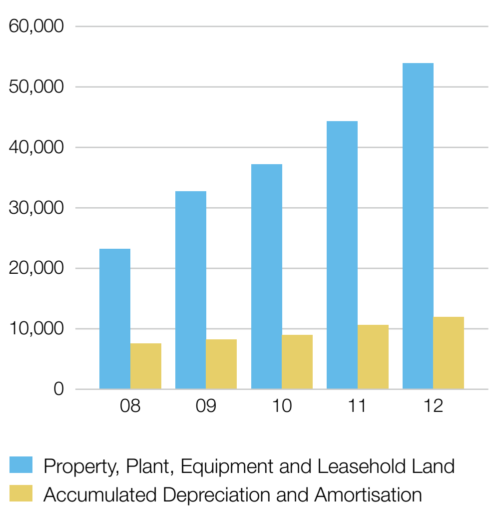


Revenue and Gas Sales

(HK$ million)

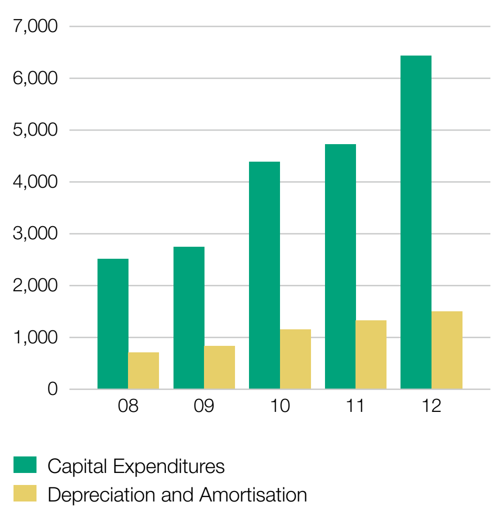


Property, Plant, Equipment and Leasehold Land (HK$ million)



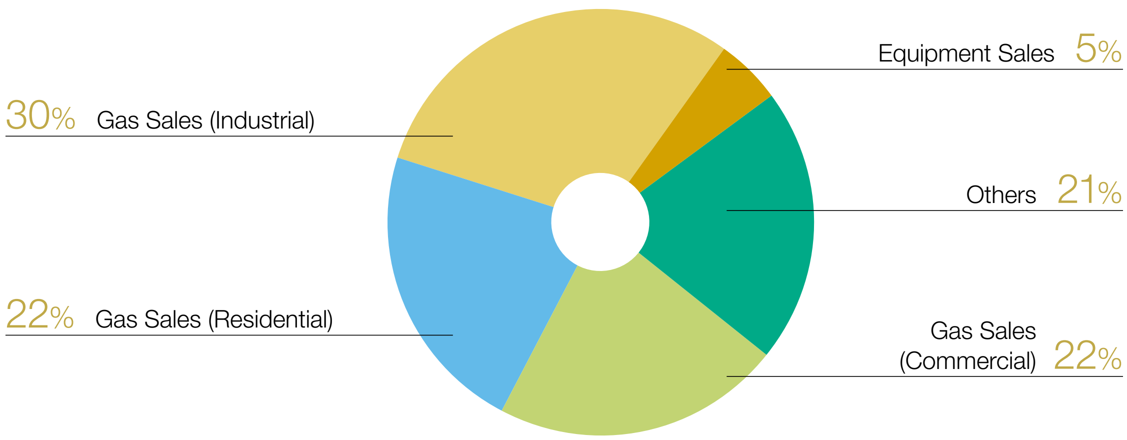
Capital Expenditures

(HK$ million)

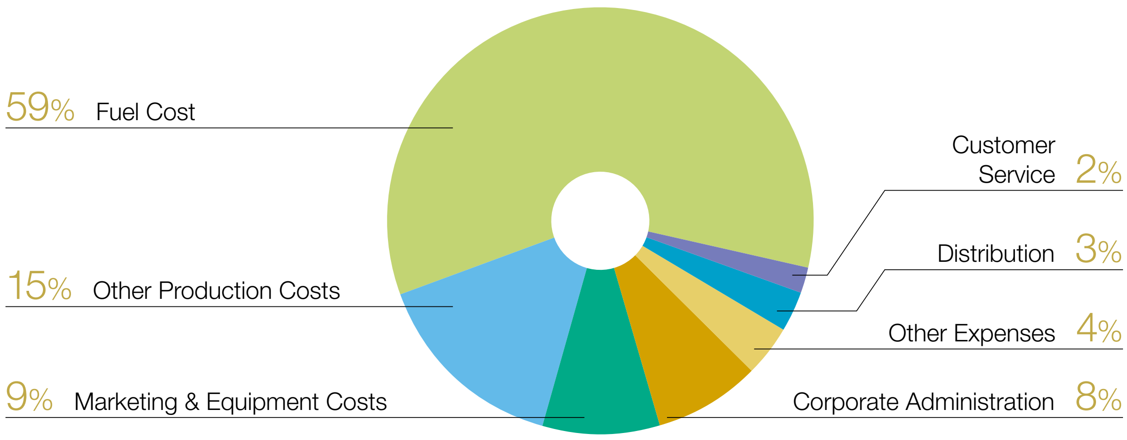


2012 FINANCIAL ANALYSIS

Analysis of Revenue



Analysis of Expenditures



COMPARISON OF TEN-YEAR RESULTS

	2012	2011	2010
Highlights (Company)			
Number of Customers as at 31st December	**1,776,360**	1,750,553	1,724,316
Town Gas Sales, million MJ	**28,360**	28,147	27,578
Installed Capacity, thousand m^3 per day	**12,260**	12,260	12,260
Maximum Daily Demand, thousand m^3	**6,403**	6,742	6,191
Revenue & Profit	**HK$ M**	HK$ M	HK$ M
Revenue	**24,922.5**	22,426.8	19,375.4
Profit before Taxation	**9,901.4**	8,068.7	7,086.7
Taxation	**(1,484.6)**	(1,344.0)	(1,038.8)
Profit after Taxation	**8,416.8**	6,724.7	6,047.9
Non-controlling Interests	**(688.9)**	(575.1)	(463.1)
Profit Attributable to Shareholders	**7,727.9**	6,149.6	5,584.8
Dividends	**3,041.7**	4,147.8	2,513.8
Assets & Liabilities			
Property, Plant, Equipment and Leasehold Land	**41,914.1**	33,606.3	27,825.8
Investment Property	**540.0**	518.0	501.0
Intangible Assets	**3,845.4**	3,434.8	2,575.6
Associated Companies	**16,307.1**	12,706.8	10,802.2
Jointly Controlled Entities	**9,103.6**	8,964.7	7,768.8
Available-for-sale Financial Assets	**3,078.6**	3,110.6	3,441.2
Other Non-current Assets	**2,797.1**	2,792.6	2,791.9
Current Assets	**21,437.8**	19,955.1	16,957.6
Current Liabilities	**(17,252.9)**	(13,403.4)	(16,523.4)
Non-current Liabilities	**(31,303.9)**	(25,353.3)	(14,932.1)
Net Assets	**50,466.9**	46,332.2	41,208.6
Capital & Reserves			
Share Capital	**2,172.6**	1,975.1	1,795.6
Share Premium	**3,078.3**	3,275.8	3,455.3
Reserves	**38,068.8**	33,133.5	30,561.3
Proposed Dividend	**1,998.8**	3,199.7	1,651.9
Shareholders' Funds	**45,318.5**	41,584.1	37,464.1
Non-controlling Interests	**5,148.4**	4,748.1	3,744.5
Total Equity	**50,466.9**	46,332.2	41,208.6
Earnings per Share, HK Dollar [1]	**0.89**	0.71	0.64
Dividends per Share, HK Dollar [1]	**0.35**	0.48	0.29
Dividend Cover	**2.54**	1.48	2.22

[1] Adjusted for the bonus issue in 2012

2009	2008	2007	2006	2005	2004	2003
1,698,723	1,672,084	1,646,492	1,622,648	1,597,273	1,562,278	1,520,166
27,274	27,583	27,041	27,034	27,261	27,137	27,002
12,260	12,260	12,260	12,260	12,050	11,210	11,000
6,621	7,158	5,806	6,279	6,614	6,694	5,848
HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M	HK$ M
12,351.8	12,352.2	14,225.5	13,465.3	9,350.9	8,154.0	7,288.8
6,159.9	5,189.6	10,577.3	6,986.4	6,047.3	3,966.1	3,842.2
(750.6)	(546.3)	(933.8)	(914.6)	(628.6)	(623.0)	(735.2)
5,409.3	4,643.3	9,643.5	6,071.8	5,418.7	3,343.1	3,107.0
(134.2)	(92.3)	(64.1)	(27.0)	(10.4)	(12.9)	(13.6)
5,275.1	4,551.0	9,579.4	6,044.8	5,408.3	3,330.2	3,093.4
2,285.3	2,333.0	2,120.9	1,928.1	1,935.7	1,966.7	1,975.2
24,452.6	15,638.0	13,585.7	12,864.7	11,067.0	8,969.9	9,644.3
501.0	523.0	410.0	–	–	–	–
2,461.7	196.4	185.1	48.6	45.8	–	–
9,304.0	11,327.7	9,016.6	3,817.8	2,239.5	1,258.4	2,712.1
7,011.2	6,164.0	6,501.7	5,815.0	5,197.5	1,709.5	2,558.9
2,996.0	1,105.2	1,066.9	848.5	768.0	624.3	861.3
722.7	153.8	148.0	100.7	–	–	–
19,622.3	17,708.2	12,961.2	13,028.2	10,457.7	8,584.0	5,991.4
(10,628.8)	(5,407.7)	(7,188.3)	(7,141.0)	(8,182.5)	(4,182.6)	(3,203.7)
(18,635.4)	(14,989.7)	(6,517.0)	(7,803.5)	(4,570.1)	(2,022.9)	(1,852.0)
37,807.3	32,418.9	30,169.9	21,579.0	17,022.9	14,940.6	16,712.3
1,632.3	1,666.4	1,514.9	1,377.2	1,377.2	1,403.7	1,410.9
3,618.6	3,618.6	3,770.1	3,907.8	3,907.8	3,907.8	3,907.8
27,112.3	24,752.6	22,769.1	14,502.5	10,042.5	8,052.7	9,873.1
1,501.8	1,533.1	1,393.7	1,267.0	1,267.0	1,291.4	1,298.0
33,865.0	31,570.7	29,447.8	21,054.5	16,594.5	14,655.6	16,489.8
3,942.3	848.2	722.1	524.5	428.4	285.0	222.5
37,807.3	32,418.9	30,169.9	21,579.0	17,022.9	14,940.6	16,712.3
0.60	0.52	1.09	0.69	0.61	0.37	0.35
0.26	0.26	0.24	0.22	0.22	0.22	0.22
2.31	1.95	4.52	3.14	2.79	1.69	1.57

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders their Report and the Audited Accounts for the year ended 31st December 2012 which are to be presented at the Annual General Meeting to be held at the Convention Hall, Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 5th June 2013.

Principal Activities

The principal activities of the Group are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and mainland China. Particulars of the principal subsidiaries of the Company are shown on pages 162 to 171 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and mainland China.

Results and Appropriations

The results of the Group for the year ended 31st December 2012 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 78 and 79 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 3rd October 2012 and the Directors recommend a final dividend of HK23 cents per share payable on 24th June 2013 to shareholders whose names are on the register of members on 14th June 2013.

Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every ten existing shares held by the shareholders of the Company whose names are on the register of members on 14th June 2013. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

Financial Summary

A summary of the results of the Group for the past nine financial years is set out on pages 56 and 57 of this Annual Report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 39 to the Accounts.

The distributable reserves of the Company as at 31st December 2012 amounted to HK$10,515,700,000 (2011: HK$11,595,000,000) before the proposed final dividend for the year ended 31st December 2012.

Property, Plant and Equipment

Movements in property, plant and equipment of the Group and the Company are shown in Note 17 to the Accounts.

Share Capital

Movements in share capital of the Company are shown in Note 37 to the Accounts.

Borrowings

Particulars of the borrowings of the Group are provided in Note 33 to the Accounts.

Charitable Donations

Charitable donations made by the Company and its subsidiaries, operating mainly in mainland China, amounted to HK$3,900,000 and HK$4,000,000 (2011: HK$28,700,000 and HK$4,800,000) respectively in 2012.

Directors

At the annual general meeting held on 5th June 2012, Mr. Lee Ka Kit, Mr. Lee Ka Shing, Professor Poon Chung Kwong and Mr. James Kwan Yuk Choi were re-elected as Directors of the Company. Dr. the Hon. Lee Shau Kee, Mr. Leung Hay Man, Mr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po and Mr. Alfred Chan Wing Kin held office throughout the year. Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer of the Company effective from 1st February 2013 upon his retirement. Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer – Utilities Business of the Company effective from 1st February 2013.

According to the Articles of Association of the Company (the "Company's Articles"), one-third of its non-executive directors and one-third of its executive directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97 of the Company's Articles, Dr. the Hon. Lee Shau Kee, Mr. Leung Hay Man and Mr. Colin Lam Ko Yin, non-executive directors, and Mr. Alfred Chan Wing Kin, an executive director, are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment. Pursuant to Article 91 of the Company's Articles, Mr. Peter Wong Wai Yee, an executive director, is due to retire at the forthcoming Annual General Meeting and, being eligible, offer himself for reappointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 15 to 18 of this Annual Report.

Disclosure of Interests

A. Directors

As at 31st 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 "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and Underlying Shares *(Long Positions)*

		Interest in Shares				Interest in Underlying Shares		
Name of Company	Director	Personal Interests	Family Interests	Corporate Interests	Other	Pursuant to Share Options	Aggregate Interest	%*
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee	5,195,784		3,601,429,693 (Note 5)			3,606,625,477	41.50
	Dr. the Hon. David Li Kwok Po	24,224,200					24,224,200	0.28
	Mr. Lee Ka Kit				3,601,429,693 (Note 4)		3,601,429,693	41.44
	Mr. Alfred Chan Wing Kin	165,597 (Note 7)					165,597	0.00
	Mr. James Kwan Yuk Choi **	58,460	66,235				124,695	0.00
	Mr. Lee Ka Shing				3,601,429,693 (Note 4)		3,601,429,693	41.44
	Professor Poon Chung Kwong	53,146 (Note 6)					53,146	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 (Note 8)			9,500	95
	Mr. Lee Ka Kit				9,500 (Note 8)		9,500	95
	Mr. Lee Ka Shing				9,500 (Note 8)		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 (Note 9)			2	100
	Mr. Lee Ka Kit				2 (Note 9)		2	100
	Mr. Lee Ka Shing				2 (Note 9)		2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee			1,628,172,901 (Note 10)			1,628,172,901	66.18
	Mr. Lee Ka Kit				1,628,172,901 (Note 10)		1,628,172,901	66.18
	Mr. Lee Ka Shing				1,628,172,901 (Note 10)		1,628,172,901	66.18
	Mr. Alfred Chan Wing Kin					3,618,000 (Note 11)	3,618,000	0.15
	Mr. James Kwan Yuk Choi **					3,015,000 (Note 11)	3,015,000	0.12

* Percentage which the aggregate long position in the shares or underlying shares represents to the issued share capital of the Company or any of its associated corporations.

** Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Disclosure of Interests (continued)

A. Directors (continued)

Options to Subscribe for Shares of Towngas China *(Long Positions)*

Pursuant to the share option scheme of Towngas China, a subsidiary of the Company, certain Directors of the Company have been granted options to subscribe for the shares of Towngas China, details of which as at 31st December 2012 were as follows:

Name of Company	Director	Date of Grant	Exercise Period	Exercise Price (HK$)	Number of Shares Subject to Outstanding Options as at 01.01.2012*	Number of Shares Subject to Outstanding Options as at 31.12.2012*
Towngas China	Mr. Alfred Chan Wing Kin	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200
	Total				3,618,000	3,618,000
	Mr. James Kwan Yuk Choi **	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
	Total				3,015,000	3,015,000

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

** Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

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

Disclosure of Interests (continued)

B. Substantial Shareholders and Others *(Long Positions)*

As at 31st 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 Company	No. of Shares in which Interested	%*
Substantial Shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	1,866,620,696	21.48
	Timpani Investments Limited (Note 1)	2,646,469,898	30.45
	Faxson Investment Limited (Note 1)	3,465,428,197	39.88
	Henderson Land Development Company Limited (Note 1)	3,465,428,197	39.88
	Henderson Development Limited (Note 2)	3,471,816,238	39.95
	Hopkins (Cayman) Limited (Note 3)	3,601,429,693	41.44
	Riddick (Cayman) Limited (Note 4)	3,601,429,693	41.44
	Rimmer (Cayman) Limited (Note 4)	3,601,429,693	41.44
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	818,958,299	9.42
	Chelco Investment Limited (Note 1)	818,958,299	9.42
	Medley Investment Limited (Note 1)	779,849,202	8.97
	Commonwealth Bank of Australia (Note 12)	691,414,050	7.96

* Percentage which the aggregate long position in the shares represents to the issued share capital of the Company.

Save as mentioned above, as at 31st 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.

Notes:

1. These 3,465,428,197 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD").
2. Henderson Development Limited ("HD") was taken to be interested in 62.27% of the total issued shares of HLD. Of these 3,471,816,238 shares, 3,465,428,197 shares represented the shares described in Note 1 and the other shares were beneficially owned by a wholly-owned subsidiary of HD.
3. Of these 3,601,429,693 shares, 3,471,816,238 shares represented the shares described in Notes 1 and 2 and 129,613,455 shares were beneficially owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust ("Unit Trust").
4. These 3,601,429,693 shares are duplicated in the interests described in Note 3. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
5. These 3,601,429,693 shares included the shares described in Notes 1 to 4. Dr. the Hon. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.
6. These 53,146 shares were jointly held by Professor Poon Chung Kwong and his spouse.
7. These 165,597 shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.
8. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
9. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
10. These 1,628,172,901 shares in Towngas China representing 66.18% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,585,202,901 shares), Planwise Properties Limited (as to 40,470,000 shares) and Superfun Enterprises Limited (as to 2,500,000 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 5 by virtue of Part XV of the SFO.
11. These options represent personal interests held by the Directors.
12. Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 691,414,050 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Share Option Scheme of Towngas China

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

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

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

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

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

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

Details of specific categories of options of Towngas China are as follows:

Option Types	Date of Grant	Exercise Period	Exercise Price (HK$)
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

Share Option Scheme of Towngas China (continued)

The details of movements in the share options of Towngas China during the year are as follows:

	Option Types	Date of Grant	Exercise Period	Exercise Price (HK$)	Outstanding at 01.01.2012	Outstanding at 31.12.2012
Category 1: Directors of Towngas China						
Mr. Alfred Chan Wing Kin	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200
Mr. James Kwan Yuk Choi (Note 1)	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
Other directors of Towngas China	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,809,000	1,809,000
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,809,000	1,809,000
		16.03.2007	16.03.2010 – 27.11.2015	3.811	2,412,000	2,412,000
Total for Category 1					12,663,000	12,663,000
Category 2: Employees of Towngas China	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	301,500	301,500
		03.10.2006	04.04.2008 – 27.11.2015	2.796	542,700	542,700
		03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	723,600
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	603,000
		16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	603,000
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	804,000
Total for Category 2					3,577,800	3,577,800
All categories					16,240,800	16,240,800

Notes:

1. Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer of the Company on 1st February 2013 upon his retirement.
2. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
3. During the year, no share option was exercised, cancelled or had lapsed.
4. During the year, no new option was granted.

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interests of Directors of the Company in businesses which might compete with the Group during the year ended 31st December 2012 and as at 31st December 2012 were as follows:

Directors, Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi (who resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement), have held directorships in companies engaged in the same businesses of production, distribution and marketing of gas in mainland China as the Group. Although some of the businesses carried out by these companies are similar to the businesses carried out by the Group, they are of different scale and/or at different locations, and the Group, has been operating independently of, and at arm's length from, the businesses of those companies. Therefore, the Board is of the view that the businesses of those companies did not compete with the businesses of the Group.

Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Interests in Contracts and Connected Transactions

During the year, the Company had the following connected transaction which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules since each of the applicable percentage ratios was less than 5%:

As disclosed in an announcement dated 26th October 2012, U-Tech Engineering Company Limited, a wholly-owned subsidiary of the Company, had by signing and returning to Heng Shung Construction Co. Ltd. ("Heng Shung"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"), a letter of award on 26th October 2012 successfully tendered for a sub-contract for the carrying out of the supply and installation of electrical equipment and the testing and commissioning of electrical systems at the comprehensive development situated at Shatin Town Lot No. 502 (Phase 2), Lok Wo Sha, Ma On Shan, New Territories, Hong Kong at the maximum aggregate amount of not exceeding HK$82,668,032 for Heng Shung. As Heng Shung is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, Heng Shung is a connected person of the Company under the Listing Rules and the aforesaid transaction therefore constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The related party transactions set out in Note 42 to the Accounts include transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as mentioned above, no contract of significance in relation to the Group's business to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

Management Contracts

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Major Customers and Suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 19 per cent and 64 per cent respectively during the year. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30 per cent during the year.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 67 to 76 of this Annual Report.

Public Float

As at the latest practicable date prior to the issue of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

The Accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment at a fee to be agreed by the Board.

On behalf of the Board

LEE Shau Kee
Chairman
Hong Kong, 18th March 2013

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company (the "Board") is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasise accountability and an increase in transparency which will enable the Group's stakeholders, including shareholders, investors, customers, suppliers, employees and the community to have trust and faith in the Group to take care of their needs and to fulfill its social responsibility.

Corporate Governance Practices

The Company complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) during the period from 1st January 2012 to 31st March 2012 and the Corporate Governance Code (the "Revised Code") (the new edition of the Code, which is applicable to financial reports covering a period after 1st April 2012) during the period from 1st April 2012 to 31st December 2012.

The Board is responsible for the Group's system of corporate governance and has performed and reviewed in a timely manner the corporate governance functions as required under the Revised Code. The terms of reference for performing the corporate governance functions as set out in the Revised Code have been approved by the Board for adoption.

The below sets out the corporate governance principles and practices adopted by the Group which indicates how the Group has applied relevant principles in the Code and the Revised Code.

Board of Directors

Responsibilities of Directors

The Board is ultimately accountable for the Group's activities, strategies and financial performance, which includes formulating business development strategies, directing and supervising the Group's affairs, reviewing the accounts and budget proposal of the Group, approving interim reports and annual reports and announcements of interim results and annual results, considering dividend policy, reviewing the effectiveness of the internal control system and so on.

The management team is responsible for the day-to-day management, administration and operation of the Group. The Board gives clear directions to the management team as to their powers of management, and circumstances in which the management team should report back.

Newly appointed Directors will be arranged a comprehensive, formal and tailored induction which includes provision of key guidelines, documents and publications relevant to their roles, responsibilities and ongoing obligations; a briefing on the Group's structure, businesses, risk management and other governance practices and meeting with other fellow Directors to help the newly appointed Directors familiarise with the management, business and governance policies and practices of the Company, and ensure that he has a proper understanding of the operations and businesses of the Group.

Board of Directors (continued)

Responsibilities of Directors (continued)

To ensure that Directors' contribution to the Board/committees remains informed, continuous professional development are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. Directors are also provided with monthly updates of the Group's development, and information such as performance and key operational highlights to enable the Board as a whole and each Director to discharge their duties.

All Directors have participated in appropriate continuous professional development and provided the Company their records of training they received for the period from 1st April 2012 to 31st December 2012.

During the period from 1st April 2012 to 31st December 2012, all Directors participated in the training which included reading regulatory updates or information relevant to the Group or its business and attending or giving talks at seminars and/or conference.

Directors	Training
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	✓
Mr. Colin LAM Ko Yin	✓
Mr. LEE Ka Kit	✓
Mr. LEE Ka Shing	✓
Independent Non-executive Directors	
Mr. LEUNG Hay Man	✓
Dr. the Hon. David LI Kwok Po	✓
Professor POON Chung Kwong	✓
Executive Directors	
Mr. Alfred CHAN Wing Kin	✓
Mr. James KWAN Yuk Choi *	✓

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Every Director ensures that he gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his appointment the directorships held in other listed companies or nature of offices held in public organisations and other significant commitment. The Company has also requested Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company their time commitment.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from their risks arising from the businesses of the Group.

Board of Directors (continued)

Board Composition

The Board currently has two Executive Directors and seven Non-executive Directors. Three of the seven Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests.

During the year ended 31st December 2012 and up to the date of publication of this Annual Report, the Directors of the Company are set out below:

Non-executive Directors

Dr. the Hon. LEE Shau Kee (Chairman)
Mr. Colin LAM Ko Yin
Mr. LEE Ka Kit
Mr. LEE Ka Shing

Independent Non-executive Directors

Mr. LEUNG Hay Man
Dr. the Hon. David LI Kwok Po
Professor POON Chung Kwong

Executive Directors

Mr. Alfred CHAN Wing Kin
Mr. James KWAN Yuk Choi *
Mr. Peter WONG Wai Yee **

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.
** Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer - Utilities Business on 1st February 2013.

The Company has received from each of the Independent Non-executive Directors confirmation in writing of their independence pursuant to Rule 3.13 of the Listing Rules. Mr. Leung Hay Man ("Mr. Leung") was previously a non-executive director of three listed companies which are connected persons of the Company under the Listing Rules and was engaged by one of these connected persons to provide occasional general consultancy services. Notwithstanding, the aforesaid are considered insignificant and immaterial by the Company. In view of the fact that Mr. Leung does not have any material interests in any business activities of, and is not involved in any material business dealings with, the Company or any of its subsidiaries or with any connected persons of the Company, the Board considers that the independence of Mr. Leung as an Independent Non-executive Director of the Company is not in any way affected. Further, Mr. Leung was re-designated from a non-executive director to an independent non-executive director of the said listed companies in August and October 2012 respectively and had ceased to provide the consultancy services to the connected person since June 2012. In view of the above, Mr. Leung is able to meet the requirements under Rules 3.13(3) and (7) of the Listing Rules. Taking into account the above, the Company considers Mr. Leung to be independent to continue to act as an Independent Non-executive Director of the Company.

In conclusion, the Board considers Mr. Leung Hay Man, Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong as independent.

Biographical details of the Directors and relevant relationships among them are set out on pages 15 to 18 of this Annual Report.

Board of Directors (continued)

Board Composition (continued)

According to the Articles of Association of the Company, one-third of its non-executive directors and one-third of its executive directors are subject to retirement by rotation at every annual general meeting. Subject to the provisions contained in the Articles of Association of the Company, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2014.

Chairman of the Board and Managing Director

The Chairman of the Board is Dr. the Hon. Lee Shau Kee and the Managing Director is Mr. Alfred Chan Wing Kin. The roles of Chairman of the Board and Managing Director are separate and are not performed by the same individual. The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive, in a timely manner, adequate and reliable information. The Managing Director is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board. Their respective responsibilities are clearly established and set out in writing.

Board Meetings

The Board meets regularly at least four times a year at approximately quarterly intervals. The Directors can attend meetings in person or through electronic means of communication in accordance with the Articles of Association of the Company.

During the year ended 31st December 2012, the Board met four times. The attendance of each Director at the Board meetings during the year ended 31st December 2012 is set out below:

Directors	No. of Meetings Attended / Held
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	4/4
Mr. Colin LAM Ko Yin	4/4
Mr. LEE Ka Kit	4/4
Mr. LEE Ka Shing	4/4
Independent Non-executive Directors	
Mr. LEUNG Hay Man	4/4
Dr. the Hon. David LI Kwok Po	4/4
Professor POON Chung Kwong	4/4
Executive Directors	
Mr. Alfred CHAN Wing Kin	4/4
Mr. James KWAN Yuk Choi *	4/4

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Board of Directors (continued)

Board Meetings (continued)

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors so as to give them an opportunity to attend. Board papers are circulated not less than three days before the date of a Board meeting to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings.

In addition, Directors at all times have full and timely access to all information on the Group and may seek independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31st December 2012.

The Board has also established written guidelines for relevant employees, including certain employees of the Company, certain directors or employees of its subsidiaries who are considered to be likely to possess inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities.

Directors' Responsibility for the Accounts

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

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report on page 77 of this Annual Report.

Board Committees

The Board has established the following Board committees to oversee particular aspects of the Company's affairs:

Audit Committee

The Audit Committee was formed in May 1996. The members of the Audit Committee are Dr. the Hon. David Li Kwok Po (Chairman of the Audit Committee), Mr. Leung Hay Man and Professor Poon Chung Kwong. All members are Independent Non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

The principal duties of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control systems operate in accordance with applicable standards and conventions. The written terms of reference of the Audit Committee which clearly define the role, authority and function of the Audit Committee were revised in line with the Revised Code and are available on both the websites of The Stock Exchange of Hong Kong Limited (the "Exchange") and the Company.

Board Committees (continued)

Audit Committee (continued)

The Audit Committee held two meetings during the year ended 31st December 2012 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2011 annual results and 2012 interim results;
- recommendation to the Board, for the approval by shareholders, of the reappointment of PricewaterhouseCoopers as the external Auditor and approval of their remuneration;
- determination of the nature and scope of the audit;
- review of the financial and accounting policies and practices of the Company; and
- review of the effectiveness of the Company's financial control, internal control, and risk management system, including the review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The attendance record of each member at the Audit Committee meetings during the year ended 31st December 2012 is set out below:

Directors	No. of Meetings Attended / Held
Dr. the Hon. David LI Kwok Po	2/2
Mr. LEUNG Hay Man	2/2
Professor POON Chung Kwong	2/2

Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. The members of the Remuneration Committee are Dr. the Hon. Lee Shau Kee (Non-executive Director), Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong (both were Independent Non-executive Directors). In light of the Revised Code, the Board appointed Dr. the Hon. David Li Kwok Po (an Independent Non-executive Director) to be the Chairman of the Remuneration Committee on 19th March 2012 to replace Dr. the Hon. Lee Shau Kee who remains as a member of the Remuneration Committee.

The principal duties of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for all Directors' and senior management (who are also executive directors of the Company) remuneration, reviewing and approving the special remuneration packages of all executive directors with reference to corporate goals and objectives resolved by the Board from time to time and determining, with delegated responsibility, the remuneration packages of individual executive directors. The written terms of reference of the Remuneration Committee which clearly define the role, authority and function of the Remuneration Committee were revised in line with the Revised Code and are available on both the Exchange's and the Company's websites.

Board Committees (continued)

Remuneration Committee (continued)

The Company has not adopted any share option scheme. The emoluments of Directors are determined based on the duties and responsibilities of each Director. The Directors' fees were reviewed by the Remuneration Committee. During the year ended 31st December 2012, every Director received a Director's fee at the rate of HK$160,000 per annum while the Chairman received an additional fee at the rate of HK$160,000 per annum and each member of the Audit Committee received an additional fee at the rate of HK$160,000 per annum. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities.

During the year ended 31st December 2012, the Remuneration Committee held its meeting once to review the above matters. The attendance record of each member at the Remuneration Committee meeting during the year ended 31st December 2012 is set out below:

Directors	No. of Meeting Attended / Held
Dr. the Hon. LEE Shau Kee	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1

Nomination Committee

The Company established a Nomination Committee on 19th March 2012 and is chaired by Dr. the Hon. Lee Shau Kee (Non-executive Director) with Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong (both were Independent Non-executive Directors) as members.

The principal duties of the Nomination Committee include, but are not limited to, reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy. It is also responsible for making recommendations to the Board on nominations and appointment of Directors as well as assessing the independence of independent non-executive directors. The Committee shall consider the candidate from a range of backgrounds on his/her merits and against objective criteria set out by the Board. The Company has adopted written terms of reference for the Nomination Committee that clearly define the role, authority and function of the Nomination Committee. The terms of reference of the Nomination Committee are available on both the Exchange's and the Company's websites.

The Nomination Committee held one meeting during the year ended 31st December 2012. During the year under review, the Nomination Committee considered the appointment of Mr. Peter Wong Wai Yee as Executive Director and Chief Operating Officer – Utilities Business and made recommendation to the Board.

Board Committees (continued)

Nomination Committee (continued)

The attendance record of each member at the Nomination Committee meeting during the year ended 31st December 2012 is set out below:

Directors	No. of Meeting Attended / Held
Dr. the Hon. LEE Shau Kee	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1

Auditor's Remuneration

For the year ended 31st December 2012, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to HK$8.3 million. During the year, payment to PricewaterhouseCoopers in respect of non-audit services, mainly including taxation services and interim results review services provided to the Group amounted to HK$5.4 million.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board will from time to time conduct a review of the Group's internal control system. During the year ended 31st December 2012, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system over financial, operational and compliance issues, risk management process, information systems security, scope and quality of the management's monitoring of risks and the effectiveness of financial reporting and compliance with the Listing Rules. The Board considered that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

Company Secretary

The Company Secretary is responsible to assist the Board by ensuring good information flow within the Board as well as the Board policy and procedures being followed properly. The Company Secretary also provides professional advice to the Board on corporate governance and other matters. He is also responsible for organising general meetings and facilitating the induction and professional development of Directors.

During the year ended 31st December 2012, the Company Secretary undertook no less than 15 hours of relevant professional training.

Shareholder Rights and Investor Relations

The Board is committed to maintaining an on-going communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The annual general meetings ("AGMs") of the Company provide a good forum for communication between the Board and shareholders. The notice of the AGMs is despatched to all shareholders at least 20 clear business days prior to such AGMs. The Chairman of the Board and the chairmen of all the Board Committees are available to answer questions at the AGMs. Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders in the general meeting so that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of the Exchange and the Company on the business day following the shareholders' meeting. Moreover, a separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

The chairmen of Audit Committee, Remuneration Committee and Nomination Committee are invited to attend the AGMs. Auditor is also invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The 2012 AGM was held on 5th June 2012. The attendance record of each Director at the 2012 AGM is set out below:

Directors	No. of Meeting Attended / Held
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	1/1
Mr. Colin LAM Ko Yin	1/1
Mr. LEE Ka Kit	1/1
Mr. LEE Ka Shing	1/1
Independent Non-executive Directors	
Mr. LEUNG Hay Man	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1
Executive Directors	
Mr. Alfred CHAN Wing Kin	1/1
Mr. James KWAN Yuk Choi *	1/1

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Under the Hong Kong Companies Ordinance, shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company are entitled to send a request to the Company to convene an extraordinary general meeting. Such requisition must state the objects of the meeting and must be signed by the shareholders and deposited at the registered office of the Company.

Shareholder Rights and Investor Relations (continued)

If a member wishes to propose a person other than a retiring director of the Company for election as a director of the Company at a general meeting, that member should deposit a written notice stating the full name of the person proposed for election as a director of the Company, together with (a) the proposed person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the member concerned and that proposed person indicating his/her willingness to be elected; and (b) the proposed person's written consent to the publication of his/her personal data not earlier than the day after the despatch of the notice of the meeting and not later than 7 days prior to the day appointed for the meeting. Detailed procedures can be found in the "Procedures for shareholders to propose a person for election as a director of the Company at a general meeting" which is available on the Company's website.

The Company has also maintained a policy on shareholders' communication to handle enquires put to the Board and contact details have been provided so as to enable such enquires be properly directed.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Questions from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at www.towngas.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance practices and other information are posted.

羅兵咸永道

TO THE SHAREHOLDERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 78 to 171, which comprise the consolidated and company balance sheets as at 31st December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation of consolidated accounts 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts 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 accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance 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 accounts are free from material misstatement.

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18th March 2013

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2012

	Note	**2012 HK$'M**	2011 HK$'M
Revenue	5	**24,922.5**	22,426.8
Total operating expenses	6	**(18,818.7)**	(16,752.2)
		6,103.8	5,674.6
Other gains, net	7	**1,006.6**	589.7
Interest expense	9	**(863.8)**	(752.0)
Share of results of associated companies	22	**2,455.4**	1,647.7
Share of results of jointly controlled entities	23	**1,199.4**	908.7
Profit before taxation	10	**9,901.4**	8,068.7
Taxation	13	**(1,484.6)**	(1,344.0)
Profit for the year		**8,416.8**	6,724.7
Attributable to:			
Shareholders of the Company		**7,727.9**	6,149.6
Non-controlling interests		**688.9**	575.1
		8,416.8	6,724.7
Dividends	15	**3,041.7**	4,147.8
Earnings per share - basic and diluted, HK cents	16	**88.9**	70.8[1]

[1] Adjusted for the bonus issue in 2012

The notes on pages 85 to 171 form part of these accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2012

	2012 HK$'M	2011 HK$'M
Profit for the year	**8,416.8**	6,724.7
Other comprehensive income:		
Revaluation surplus/(deficit) of available-for-sale financial assets transferred to equity	**280.3**	(401.0)
Impairment loss on available-for-sale financial assets transferred to income statement	**17.8**	78.3
Change in fair value of cash flow hedges	**(152.6)**	36.3
Recognition of exchange reserve upon disposal of a subsidiary	**(17.8)**	–
Exchange differences	**209.3**	1,019.8
Other comprehensive income for the year, net of tax	**337.0**	733.4
Total comprehensive income for the year	**8,753.8**	7,458.1
Total comprehensive income attributable to:		
Shareholders of the Company	**8,000.5**	6,726.4
Non-controlling interests	**753.3**	731.7
	8,753.8	7,458.1

The notes on pages 85 to 171 form part of these accounts.

CONSOLIDATED BALANCE SHEET

as at 31st December 2012

	Note	2012 HK$'M	2011 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**40,550.0**	32,255.1
Investment property	18	**540.0**	518.0
Leasehold land	19	**1,364.1**	1,351.2
Intangible assets	20	**3,845.4**	3,434.8
Associated companies	22	**16,307.1**	12,706.8
Jointly controlled entities	23	**9,103.6**	8,964.7
Available-for-sale financial assets	24	**3,078.6**	3,110.6
Derivative financial instruments	36	**381.0**	452.3
Retirement benefit assets	25	**86.5**	81.4
Other non-current assets	26	**2,329.6**	2,258.9
		77,585.9	65,133.8
Current assets			
Inventories	27	**1,831.8**	1,622.4
Trade and other receivables	28	**5,722.2**	5,606.7
Loan and other receivables from associated companies	22	**73.0**	73.3
Loan and other receivables from jointly controlled entities	23	**861.3**	468.1
Loan and other receivables from non-controlling shareholders		**154.7**	135.4
Financial assets at fair value through profit or loss	29	**347.1**	313.3
Time deposits over three months	30	**261.3**	493.7
Time deposits up to three months, cash and bank balances	30	**12,186.4**	11,242.2
		21,437.8	19,955.1
Current liabilities			
Trade and other payables	31	**(9,329.4)**	(7,990.5)
Amounts due to jointly controlled entities	23	**(392.4)**	(31.7)
Loan and other payables to non-controlling shareholders		**(211.5)**	(282.4)
Provision for taxation		**(828.8)**	(878.0)
Borrowings	33	**(6,490.8)**	(4,220.8)
		(17,252.9)	(13,403.4)
Net current assets		**4,184.9**	6,551.7
Total assets less current liabilities		**81,770.8**	71,685.5

The notes on pages 85 to 171 form part of these accounts.

CONSOLIDATED BALANCE SHEET (continued)

as at 31st December 2012

	Note	2012 HK$'M	2011 HK$'M
Non-current liabilities			
Customers' deposits	34	**(1,205.1)**	(1,165.7)
Deferred taxation	35	**(4,446.2)**	(2,444.1)
Borrowings	33	**(25,230.2)**	(21,628.4)
Loan payables to non-controlling shareholders		**(39.3)**	–
Asset retirement obligations	32	**(78.0)**	–
Derivative financial instruments	36	**(305.1)**	(115.1)
		(31,303.9)	(25,353.3)
Net assets		**50,466.9**	46,332.2
Capital and reserves			
Share capital	37	**2,172.6**	1,975.1
Share premium	38	**3,078.3**	3,275.8
Reserves	39	**38,068.8**	33,133.5
Proposed dividend	39	**1,998.8**	3,199.7
Shareholders' funds		**45,318.5**	41,584.1
Non-controlling interests		**5,148.4**	4,748.1
Total equity		**50,466.9**	46,332.2

Approved by the Board of Directors on 18th March 2013

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 85 to 171 form part of these accounts.

BALANCE SHEET

as at 31st December 2012

	Note	2012 HK$'M	2011 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	17	**9,490.5**	9,271.1
Leasehold land	19	**218.8**	225.1
Subsidiaries	21	**26,551.9**	25,919.8
Jointly controlled entities	23	**933.4**	933.4
Available-for-sale financial assets	24	**51.7**	42.7
Retirement benefit assets	25	**86.5**	81.4
		37,332.8	36,473.5
Current assets			
Inventories	27	**933.2**	877.9
Trade and other receivables	28	**1,718.4**	1,612.8
Loans to subsidiaries	21	**390.0**	384.7
Loan and other receivables from associated companies	22	**30.2**	29.5
Amounts due from jointly controlled entities	23	**6.0**	4.5
Financial assets at fair value through profit or loss	29	**–**	1.8
Time deposits over three months	30	**–**	99.8
Time deposits up to three months, cash and bank balances	30	**2,024.0**	1,481.4
		5,101.8	4,492.4
Current liabilities			
Trade and other payables	31	**(862.9)**	(712.4)
Amounts due to jointly controlled entities	23	**(1.1)**	(1.9)
Provision for taxation		**(138.4)**	(151.8)
Borrowings	33	**(800.0)**	–
		(1,802.4)	(866.1)
Net current assets		**3,299.4**	3,626.3
Total assets less current liabilities		**40,632.2**	40,099.8
Non-current liabilities			
Amounts due to subsidiaries	21	**(22,011.0)**	(19,671.4)
Customers' deposits	34	**(1,198.1)**	(1,158.9)
Deferred taxation	35	**(1,121.3)**	(1,097.3)
Borrowings	33	**(300.0)**	(1,100.0)
		(24,630.4)	(23,027.6)
Net assets		**16,001.8**	17,072.2
Capital and reserves			
Share capital	37	**2,172.6**	1,975.1
Share premium	38	**3,078.3**	3,275.8
Reserves	39	**8,752.1**	8,621.6
Proposed dividend	39	**1,998.8**	3,199.7
		16,001.8	17,072.2

Approved by the Board of Directors on 18th March 2013

Lee Shau Kee
Director

David Li Kwok Po
Director

The notes on pages 85 to 171 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2012

	Note	2012 HK$'M	2011 HK$'M
Net cash from operating activities	43	**6,665.7**	4,957.3
Investing activities			
Receipt from sale of property, plant and equipment		**44.6**	42.2
Receipt from sale of leasehold land		**35.5**	–
Purchase of property, plant and equipment		**(5,816.1)**	(4,578.9)
Purchase of other intangible asset		**–**	(83.1)
Payment for leasehold land		**(89.4)**	(63.1)
Increase in investments in associated companies		**(549.8)**	(575.1)
Increase in loans to associated companies		**(1,306.1)**	(186.2)
Repayment of loans by associated companies		**–**	42.3
Increase in investments in jointly controlled entities		**–**	(33.9)
Increase in loans to jointly controlled entities		**(93.2)**	(770.2)
Increase in loans from jointly controlled entities		**351.6**	235.3
Repayment of loans by jointly controlled entities		**176.9**	154.8
Consideration paid for acquisition of subsidiaries in prior periods		**(152.8)**	(13.0)
Deferred consideration received		**40.0**	40.0
Acquisition of subsidiaries	46	**(1,485.8)**	(737.3)
Further acquisition of subsidiaries		**(38.7)**	(9.2)
Disposal of a subsidiary	45	**180.1**	–
Sale of financial assets at fair value through profit or loss		**56.3**	294.4
Sale of available-for-sale financial assets		**424.4**	658.5
Purchase of available-for-sale financial assets		**(24.7)**	(617.8)
Purchase of financial assets at fair value through profit or loss		**(100.6)**	(151.9)
Decrease in time deposits over three months		**238.4**	1,149.3
Interest received		**312.6**	266.1
Dividends received from investments in securities		**183.8**	178.4
Dividends received from associated companies		**731.8**	619.9
Dividends received from jointly controlled entities		**578.6**	387.1
Net cash used in investing activities		**(6,302.6)**	(3,751.4)
Financing activities			
Issue of shares of a subsidiary under share option scheme		**–**	39.1
Change in loans with non-controlling shareholders		**(50.3)**	(74.5)
Capital injection by non-controlling shareholders		**93.8**	224.6
Increase in borrowings		**7,041.1**	10,067.8
Repayment of borrowings		**(807.1)**	(6,376.5)
Interest paid		**(1,101.9)**	(918.4)
Dividends paid to shareholders of the Company	39	**(4,242.6)**	(2,600.0)
Dividends paid to non-controlling shareholders		**(353.5)**	(146.8)
Net cash inflow financing activities		**579.5**	215.3
Increase in cash and cash equivalents		**942.6**	1,421.2
Cash and cash equivalents at 1st January		**11,242.2**	9,696.3
Effect of foreign exchange rate changes		**1.6**	124.7
Cash and cash equivalents at 31st December		**12,186.4**	11,242.2
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**7,037.7**	5,704.9
Time deposits up to three months		**5,148.7**	5,537.3
		12,186.4	11,242.2

The notes on pages 85 to 171 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2012

	Attributable to shareholders of the Company				
	Share capital HK$'M	Share premium HK$'M	Reserves HK$'M	Non-controlling interests HK$'M	Total HK$'M
Total equity as at 1st January 2012	**1,975.1**	**3,275.8**	**36,333.2**	**4,748.1**	**46,332.2**
Profit for the year	**–**	**–**	**7,727.9**	**688.9**	**8,416.8**
Other comprehensive income:					
Revaluation surplus of available-for-sale financial assets transferred to equity	**–**	**–**	**280.3**	**–**	**280.3**
Impairment loss on available-for-sale financial assets transferred to income statement	**–**	**–**	**17.8**	**–**	**17.8**
Change in fair value of cash flow hedges	**–**	**–**	**(150.5)**	**(2.1)**	**(152.6)**
Recognition of exchange reserve upon disposal of a subsidiary	**–**	**–**	**(17.8)**	**–**	**(17.8)**
Exchange differences	**–**	**–**	**142.8**	**66.5**	**209.3**
Total comprehensive income for the year	**–**	**–**	**8,000.5**	**753.3**	**8,753.8**
Capital injection	**–**	**–**	**–**	**93.8**	**93.8**
Acquisition of subsidiaries (Note 46(b))	**–**	**–**	**–**	**2.8**	**2.8**
Further acquisition of subsidiaries	**–**	**–**	**(23.5)**	**(15.2)**	**(38.7)**
Disposal of a subsidiary (Note 45)	**–**	**–**	**–**	**(80.9)**	**(80.9)**
Dividends paid to shareholders of the Company	**–**	**–**	**(4,242.6)**	**–**	**(4,242.6)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**(353.5)**	**(353.5)**
Bonus issue	**197.5**	**(197.5)**	**–**	**–**	**–**
Total equity as at 31st December 2012	**2,172.6**	**3,078.3**	**40,067.6**	**5,148.4**	**50,466.9**
Total equity as at 1st January 2011	1,795.6	3,455.3	32,213.2	3,744.5	41,208.6
Profit for the year	–	–	6,149.6	575.1	6,724.7
Other comprehensive income:					
Revaluation deficit of available-for-sale financial assets transferred to equity	–	–	(401.0)	–	(401.0)
Impairment loss on available-for-sale financial assets transferred to income statement	–	–	78.3	–	78.3
Change in fair value of cash flow hedges	–	–	40.6	(4.3)	36.3
Exchange differences	–	–	858.9	160.9	1,019.8
Total comprehensive income for the year	–	–	6,726.4	731.7	7,458.1
Capital injection	–	–	–	224.6	224.6
Acquisition of subsidiaries	–	–	–	157.8	157.8
Further acquisition of subsidiaries	–	–	4.9	(14.1)	(9.2)
Dividends paid to shareholders of the Company	–	–	(2,600.0)	–	(2,600.0)
Dividends paid to non-controlling shareholders	–	–	–	(146.8)	(146.8)
Bonus issue	179.5	(179.5)	–	–	–
Issue of shares of a subsidiary under share option schemes	–	–	(11.3)	50.4	39.1
Total equity as at 31st December 2011	1,975.1	3,275.8	36,333.2	4,748.1	46,332.2

The notes on pages 85 to 171 form part of these accounts.

1 General information

The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (collectively, the "Group") have been diversified into different fields of businesses and principally engages in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the People's Republic of China (the "PRC"). The Group is also engaged in property development and investment activities in Hong Kong.

The Company is a limited liability company incorporated and domiciled in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 23rd Floor, 363 Java Road, North Point, Hong Kong.

These consolidated accounts have been approved for issue by the Board of Directors on 18th March 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in Note 4.

(i) New or revised standards, interpretations and amendments adopted in 2012

The Group has adopted HKFRS 7 (amendment) "Financial Instruments: Disclosures – Transfer of Financial Assets" which is mandatory for the financial year ended 31st December 2012. There is however no significant impact on the Group's results and financial position or any substantial changes in Group's accounting policies.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) New or revised standards, interpretations and amendments that are not yet effective for the year ended 31st December 2012 but relevant to the Group and have not been early adopted by the Group

New or revised standards, interpretations and amendments		Effective for accounting periods beginning on or after
HKAS 1 (amendment)	"Presentation of Financial Statements – Presentation of Items on Other Comprehensive Income"	1st July 2012
HKFRS 7 (amendment)	"Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"	1st January 2013
HKFRS 10	"Consolidated Financial Statements"	1st January 2013
HKFRS 11	"Joint Arrangements"	1st January 2013
HKFRS 12	"Disclosure of Interests in Other Entities"	1st January 2013
HKFRS 13	"Fair Value Measurement"	1st January 2013
HKAS 19 (amendment 2011)	"Employee Benefits"	1st January 2013
HKAS 27 (revised 2011)	"Separate Financial Statements"	1st January 2013
HKAS 28 (revised 2011)	"Investments in Associates and Joint Ventures"	1st January 2013
HK(IFRIC) 20	"Stripping Costs in the Production Phase of a Surface Mine"	1st January 2013
Annual Improvements 2011		1st January 2013
HKAS 32 (amendment)	"Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"	1st January 2014
HKFRS 9	"Financial Instruments"	1st January 2015

The Group will apply the above standards, interpretations and amendments from accounting periods beginning on or after 1st January 2013 or later periods. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether there will be any substantial changes to the Group's significant accounting policies and presentation of financial information, except for the adoption of HKAS 19 (amendment 2011) will result in a change in accounting policies and require to be applied retrospectively. HKAS 19 (amendment 2011) required the actuarial gains and losses to be recognised immediately in other comprehensive income and past service costs also required to be recognised immediately in the income statement. However, management considered the adoption of HKAS 19 (amendment 2011) will not have significant impact to both the Group's consolidated balance sheet and income statement.

2 Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment. Cost also includes direct attributable cost of investment. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, jointly controlled entity or financial asset. In addition, any amounts previously recognised in the other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the other comprehensive income are reclassified to the income statement.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(iv) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill identified on acquisition.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the income statement where appropriate.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associated companies" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated company are recognised in the Group's accounts only to the extent of unrelated investor's interests in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the income statement.

(v) Jointly controlled entities

Jointly controlled entities are joint ventures whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for by the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in jointly controlled entities includes goodwill identified on acquisition.

If the ownership interest in a jointly controlled entity is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the income statement where appropriate.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(v) Jointly controlled entities (Continued)

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount adjacent to "share of results of jointly controlled entities" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entity are recognised in the Group's accounts only to the extent of unrelated investor's interests in the jointly controlled entities. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in jointly controlled entities are recognised in the income statement.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee members that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars ("HKD"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in carrying amount are recognised in the other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities, including associated companies and jointly controlled entities, (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in the other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to the other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing historical exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in acquiring mining and oil properties, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs, other than costs incurred in acquiring land use right and mining and oil properties, are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the income statement.

2 Summary of significant accounting policies (Continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The capitalised costs in respect of capital work in progress include direct materials, direct labour costs, subcontracting costs, capitalised borrowing costs and other direct overheads. Capital work in progress are transferred to relevant categories of property, plant and equipment upon completion of their respective work.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement.

Depreciation of property, plant and equipment is calculated on a straight-line basis to allocate the cost less accumulated impairment of each component of the asset to its residual value over its estimated useful life as follows:

Production plant	10 - 30 years
Vehicles, office furniture and equipment	5 - 15 years
Compressors	10 years
Gas mains	40 years
Water mains	40 - 50 years
Risers, gasholders, office, store and buildings	30 years
Meters and installations	5 - 20 years
Mining and oil properties	Based on the units of production method utilising only recoverable coal and oil reserves as the depletion base
Others	3 - 30 years
Capital work in progress	No depreciation

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

(g) Deferred overburden removal costs

Mining structures include deferred stripping costs and mining related property, plant and equipment. When proven and probable coal reserves have been determined, stripping costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral properties, in which case the stripping costs would be capitalised into property, plant and equipment as mining structures. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

Mining structures are depreciated on the unit-of-production method utilising only proven and probable coal reserves in the depletion base, or based on the useful lives of respective items of property, plant and equipment, whichever is appropriate.

2 Summary of significant accounting policies (Continued)

(h) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. In such cases, the operating leases concerned are accounted for as if it were finance leases.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market value, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors ("HKIS"). These valuations are reviewed annually by qualified valuers. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

Property that is being constructed or developed for future use as investment property is classified as investment properties and measured at fair value unless fair value cannot be reliably determined. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment, the gain is recognised in the income statement.

(i) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (Continued)

(i) Leases (Continued)

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are carried at cost less accumulated depreciation and impairment. They are depreciated over the shorter of the useful life of the assets and the lease term.

(j) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies and jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill arising on an acquisition of an associated company or jointly controlled entity is included in the cost of the investment of the relevant associated company or jointly controlled entity. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately recognised goodwill is allocated to cash-generating units, primarily individual projects, for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible asset is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over the period of the relevant right of 15 years.

(k) Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than separately recognised goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

(l) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and with no intention of trading the receivables. They are included in the current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

The unlisted equity securities are carried at cost less impairment when these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 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 stated at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Loans and receivables are carried at amortised cost using effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other gains, net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of "other gains, net" when the Group's right to receive payment is established.

2 Summary of significant accounting policies (Continued)

(l) Financial assets (Continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences resulting from changes in the amortised cost of the securities are recognised in the income statement, and other changes in the carrying amount are recognised in the other comprehensive income.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses on disposal of available-for-sale financial assets under "other gains, net".

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of "other gains, net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of "other gains, net" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group may choose to reclassify a non-derivative trading financial asset out of the financial assets at fair value through profit or loss category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the financial assets at fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of the derivative instruments used for hedging purposes are disclosed in Note 36. Movements on the hedging reserve in shareholders' equity are shown in Note 39. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

2 Summary of significant accounting policies (Continued)

(m) Derivative financial instruments and hedging activities (Continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other gains, net".

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of changes in the fair value of derivatives is recognised in the income statement within "interest expense". The gain or loss relating to the ineffective portion is recognised in the income statement within "other gains, net". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within "other gains, net".

(n) Inventories

Inventories comprise coal and oil, stores and materials and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(o) Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

2 Summary of significant accounting policies (Continued)

(p) Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

(q) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies (Continued)

(q) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the separate income statement. Impairment losses recognised in the separate income statement on equity instruments are not reversed through the separate income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the separate income statement.

(r) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, cash and cash equivalents are presented as time deposits up to three months, cash and bank balances in current assets and bank overdrafts are included in borrowings in current liabilities.

(s) Trade payables and customers' deposits

Trade payables and customers' deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(t) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

2 Summary of significant accounting policies (Continued)

(u) Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity. In this case, the tax is also recognised in the other comprehensive income or directly in equity.

The current taxation is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, deferred taxation is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(v) Revenue and income recognition

(i) Gas sales – based on gas consumption derived from meter readings.
(ii) Water sales – based on water consumption derived from meter readings.
(iii) Liquefied petroleum gas sales – upon completion of the gas filling transaction.
(iv) Equipment sales – upon completion of installation work or when equipment, materials and parts are delivered to customers and title has passed.
(v) Coal and oil sales – upon completion of delivery and title has passed.
(vi) Maintenance and service charges – when services are provided.
(vii) Interest income – recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
(viii) Dividend income – recognised when the right to receive payment is established.
(ix) Rental income – recognised on a straight–line accrual basis over the terms of lease agreements.
(x) Construction income – recognised under percentage of completion method.

2 Summary of significant accounting policies (Continued)

(w) Employee benefits

Salaries, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Group.

The Group operates a number of defined contribution and one defined benefit retirement schemes and the assets of the schemes are held separately from those of the Group in independently administered funds. The retirement schemes are funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

(i) Defined contribution retirement schemes

The Group contributes to defined contribution retirement schemes and Mandatory Provident Fund schemes which are available to salaried employees in Hong Kong. The Group's contributions to these retirement schemes are calculated as a percentage of the employees' basic salaries or relevant income and are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

For employees in mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial government in the PRC based on a certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Defined benefit retirement scheme

The Group also operates a defined benefit retirement scheme, namely the Workmen Retirement Scheme, in Hong Kong. The scheme provides benefit to employees based on final salary. The Group's net obligation in respect of the defined benefit retirement scheme is calculated separately for the scheme using the projected unit credit method. The costs of providing scheme benefit are charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with advice of the actuaries who carry out a full valuation of the scheme annually. The benefit obligation is measured as the present value of the estimated future benefit that employees have earned for their service in the current and prior years using interest rates of government bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefit becomes vested.

2 Summary of significant accounting policies (Continued)

(x) Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil properties. Interest expenses from the assets retirement obligations for each period are recognised with the effective interest method during the useful life of the related oil properties.

If the conditions for the recognition of the provisions are not met, the expenditures for the decommissioning, removal and site cleaning will be expensed in the income statement when occurred.

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage and reduce certain risk exposures.

Risk management is carried out by treasury and investment departments (Group Treasury) under policies approved by the Treasury Committee, comprising all the executive directors of the Company. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Treasury Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, mainland China and Thailand and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD"), Renminbi ("RMB") and Thailand Baht ("THB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has also entered into cross currency swap contracts to manage its exposure to foreign exchange risk from recognised liabilities. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts and other suitable financial instruments.

Transactions denominated in the USD mainly arise from the Group's operation in Hong Kong. Pursuant to Hong Kong's Linked Exchange Rate System under which HKD is pegged to the USD, management considers there are no significant foreign exchange risks with respect to the USD. Furthermore, there are no significant transactions and recognised assets and liabilities of the Thailand business in currency other than THB. Management considers there is no significant foreign exchange risk from the Thailand business.

At 31st December 2012, if the RMB had weakened/strengthened by 2 per cent against HKD with all other variables held constant, pre-tax profit for the year would have been HK$154.0 million (2011: HK$139.4 million) lower/higher.

(ii) Price risk

The Group is exposed to equity securities price risk for the listed equity investments held by the Group which are classified as available-for-sale financial assets and financial assets at fair value through profit or loss of HK$1,472.2 million (2011: HK$1,354.6 million) and HK$64.4 million (2011: HK$39.6 million) respectively.

The Group also held unlisted equity investments which are classified as available-for-sale financial assets of HK$302.2 million (2011: HK$260.0 million). The underlyings of the investments are listed equity securities, which making them subject to equity securities price risk.

It is the Group's policy to maintain a well-diversified portfolio of investments to minimise impact of price risk.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

Majority of the Group's equity securities are publicly traded and are included in one of the following indexes: Hang Seng Index, S&P 500 Index, Financial Times Stock Exchange ("FTSE") 100 Index, Cotation Assistée en Continu ("CAC") Index, Swiss Market Index, Tokyo Stock Price Index and MSCI AC Asia Pacific excluding Japan ("MSCI Asia Pacific ex-Japan") Index.

The table below summarises the impact of increases/decreases of the following indexes on the Group's pre-tax profit for the year and on equity. The analysis is based on the assumption that the indexes had increased/decreased by 10 per cent with all other variables held constant and all the Group's equity securities moved according to the historical correlation with the indexes.

	Group			
	Impact on pre-tax profit		Impact on equity	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Hang Seng Index	**4.5**	1.8	**144.3**	131.3
S&P 500 Index	**0.2**	0.7	**3.2**	4.0
FTSE 100 Index	**–**	1.3	**10.6**	7.7
CAC Index	**–**	–	**–**	3.0
Swiss Market Index	**–**	–	**–**	2.9
Tokyo Stock Price Index	**–**	–	**–**	1.1
MSCI Asia Pacific ex-Japan Index	**–**	–	**33.9**	27.5

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

The Company has no significant equity securities and the Company's financial results are not significantly affected by equity securities price risk.

(iii) Cash flow and fair value interest rate risk

The Group

Financial instruments at fixed and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group's interest-bearing assets mainly comprise floating and fixed rate bank deposits of HK$12,447.7 million (2011: HK$11,735.9 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$12,693.0 million (2011: HK$11,700.7 million), fixed rate borrowings of HK$19,028.0 million (2011: HK$14,148.5 million) and floating rate deposits received from customers of HK$1,205.1 million (2011: HK$1,165.7 million).

At 31st December 2012, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$119.6 million (2011: HK$119.8 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank deposits.

At 31st December 2012, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$136.9 million (2011: HK$122.8 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

3 Financial risk management (Continued)

(a) Market risk (Continued)

(iii) *Cash flow and fair value interest rate risk* (Continued)

The Company

The Company's interest bearing assets mainly comprise floating and fixed rates bank deposits of HK$2,024.0 million (2011: HK$1,581.2 million). The Company's interest rate risk arises from floating rate borrowings of HK$1,100.0 million (2011: HK$1,100.0 million) and floating rate deposits received from customers of HK$1,198.1 million (2011: HK$1,158.9 million).

At 31st December 2012, if market interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$11.3 million (2011: HK$17.7 million) higher/lower, mainly as a result of higher/lower bank deposits interest income on floating rate bank deposits.

At 31st December 2012, if market interest rates on borrowings and customers' deposits had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$22.7 million (2011: HK$24.6 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

(b) Credit risk

Credit risk of the Group and Company mainly arises from:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Cash and bank deposits	**12,447.7**	11,735.9	**2,024.0**	1,581.2
Debt securities and derivative financial instruments	**1,465.7**	1,695.1	**–**	–
Trade receivables	**3,065.1**	2,851.2	**1,573.2**	1,430.2
Other receivables	**1,160.2**	1,273.1	**144.2**	177.0
Loan and other receivables from jointly controlled entities	**2,068.7**	1,805.1	**88.6**	87.1
Loan and other receivables from associated companies	**1,569.1**	263.0	**30.2**	29.5
Loan and other receivables from non-controlling interests	**154.7**	135.4	**–**	–
Other non-current assets	**2,329.6**	2,258.9	**–**	–

The Group has no significant concentrations of credit risk. The Group has credit policy to handle credit risk of customers. There is no significant concentration of sales to any individual customer. The top five largest customers account for less than 30 per cent of the total revenues. Furthermore, security deposits are required for gas customers. This also applies to the PRC joint ventures where there is no significant concentration of sales to any individual customer. Other non-current assets mainly represent aviation fuel facility construction receivable. Management considered that counter party default risk is low and there is no history of default in repayment. Debt securities, derivative financial instruments and cash transactions counter parties are with good credit rating of investment grade or above. The Group has policies that limit the amount of credit exposure to any one financial institution.

3 Financial risk management (Continued)

(b) Credit risk (Continued)

The Group and Company monitor the exposure to credit risk in respect of the financial assistance provided to its subsidiaries, jointly controlled entities and associated companies through exercising control or influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates is as follows:

	Group		Company	
	2012 %	2011 %	**2012 %**	2011 %
Cash and bank deposits				
AA	**14.1**	13.5	**8.1**	36.8
A	**56.0**	60.2	**73.3**	63.1
BBB	**21.9**	19.9	**18.6**	0.1
BB	**2.4**	0.8	**–**	–
Unrated	**5.6**	5.6	**–**	–
	100.0	100.0	**100.0**	100.0
Debt securities and derivative financial instruments				
AA	**18.4**	15.6	**N/A**	N/A
A	**64.8**	72.3	**N/A**	N/A
BBB	**7.9**	5.6	**N/A**	N/A
Unrated	**8.9**	6.5	**N/A**	N/A
	100.0	100.0	**N/A**	N/A

Credit ratings are quoted from Bloomberg.

Credit quality of loan and other receivables from associated companies, loan and other receivables from jointly controlled entities, other non-current assets and trade and other receivables are disclosed in Notes 22, 23, 26 and 28 respectively to the accounts. None of the financial assets that are fully performing has been renegotiated during the year.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping adequate free cash and credit lines available.

The Group determines that there is no significant liquidity risk in view of our adequate and stable sources of funds and unutilised banking facilities.

3 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's major financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year HK$'M	Between 1 and 2 years HK$'M	Between 2 and 5 years HK$'M	Over 5 years HK$'M
Group				
At 31st December 2012				
Trade and other payables	**6,242.2**	**–**	**–**	**–**
Amounts due to jointly controlled entities	**392.4**	**–**	**–**	**–**
Loan and other payables to non-controlling shareholders	**211.5**	**–**	**39.3**	**–**
Borrowings	**7,501.3**	**2,059.0**	**10,043.4**	**20,512.8**
Derivative financial instruments	**–**	**–**	**63.2**	**241.9**
At 31st December 2011				
Trade and other payables	5,438.5	–	–	–
Amounts due to jointly controlled entities	31.7	–	–	–
Loan and other payables to non-controlling shareholders	283.6	–	–	–
Borrowings	5,050.2	2,449.4	9,578.7	16,079.2
Derivative financial instruments	21.4	10.7	43.3	39.7
Company				
At 31st December 2012				
Trade and other payables	**755.2**	**–**	**–**	**–**
Borrowings	**806.3**	**2.6**	**302.4**	**–**
At 31st December 2011				
Trade and other payables	610.3	–	–	–
Borrowings	8.1	806.8	305.4	–

The customers' deposits are not presented in the above liquidity analysis as management considers it is not practical to allocate the deposits into maturity groupings and the movement in customers' deposits is not significant based on past experience.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase existing shares, drawdown and repay borrowings, issue new shares or sell assets to reduce debt.

3 Financial risk management (Continued)

Capital risk management (Continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowing divided by shareholders' funds and net borrowing. Net borrowing is calculated as total borrowings, less time deposits, cash and bank deposits as shown in the consolidated balance sheet.

The gearing ratios at 31st December 2012 and 2011 are as follows:

	2012 HK$'M	2011 HK$'M
Total borrowings	**(31,721.0)**	(25,849.2)
Less: Time deposits, cash and bank deposits	**12,447.7**	11,735.9
Net borrowing	**(19,273.3)**	(14,113.3)
Shareholders' funds	**(45,318.5)**	(41,584.1)
	(64,591.8)	(55,697.4)
Gearing ratio	**30%**	25%

Fair value estimation

The Group's financial instruments are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31st December 2012 and 2011.

	Level 1		Level 2		Total	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Assets						
Financial assets at fair value through profit or loss						
– Debt securities	**74.1**	81.4	**208.6**	192.3	**282.7**	273.7
– Equity securities	**64.4**	39.6	**–**	–	**64.4**	39.6
Derivative financial instruments	**–**	–	**381.0**	452.3	**381.0**	452.3
Available-for-sale financial assets						
– Debt securities	**782.8**	916.5	**19.2**	52.6	**802.0**	969.1
– Equity investments	**1,774.4**	1,614.7	**–**	–	**1,774.4**	1,614.7
Total assets	**2,695.7**	2,652.2	**608.8**	697.2	**3,304.5**	3,349.4
Liabilities						
Derivative financial instruments	**–**	–	**305.1**	115.1	**305.1**	115.1

3 Financial risk management (Continued)

Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 31st December 2012, the Group did not have financial instruments under this category.

Specific valuation techniques used to value financial instruments includes:

– Quoted market prices or dealer quotes for similar instruments.

– The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

– The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Critical accounting estimates

(i) Estimated impairment of assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in the accounts Note 2(k). Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less cost to sell or value-in-use calculations. These value-in-use calculations require the use of estimates.

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(iii) Estimate of fair value of investment property

The valuation of investment properties (including those held by an associated company) are performed in accordance with the "The HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- rental income derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of the rental income.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are mainly determined using income capitalisation valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(iv) Estimate of gas and water consumption

Revenue for gas and water supply may include an estimation of the gas and water supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. As of the year-end date, the overall billed gas and water sales are in line with the gas and water supplied to the customers.

(v) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining and oil properties for coal mines in mainland China and oil concession in Thailand. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

4 Critical accounting estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(v) Reserve estimates (Continued)

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset carrying values may be affected due to changes in estimated future cash flows.

– Depreciation charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

– Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

5 Segment information

The Group's principal activities are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses ("New Energy") in Hong Kong and mainland China. The revenue comprises the following:

	2012 HK$'M	2011 HK$'M
Gas sales before fuel cost adjustment	**16,754.4**	15,442.8
Fuel cost adjustment	**1,708.5**	1,471.6
Gas sales after fuel cost adjustment	**18,462.9**	16,914.4
Equipment sales	**1,305.1**	1,177.9
Maintenance and services	**336.2**	331.5
Water sales	**490.1**	444.8
Coal and oil sales	**1,241.3**	734.0
Rental income	**37.9**	33.0
Other sales	**3,049.0**	2,791.2
	24,922.5	22,426.8

The chief operating decision-maker has been identified as the executive committee members (the "ECM") of the Company. The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspective. From a product perspective, management assesses the performance of (a) gas, water and related businesses; (b) New Energy and (c) property business. Gas, water and related businesses is further evaluated on a geographic basis (Hong Kong and Mainland China).

5 Segment information (Continued)

The ECM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the accounts.

Segment assets exclude available-for-sale financial assets, financial assets at fair value through profit or loss, time deposits, cash and bank balances other than those included under segment assets for operation purposes, derivative financial instruments, retirement benefit assets, other non-current assets other than those included under segment assets and loan and other receivables from non-controlling shareholders.

As a result of the fast growth of a new segment – New Energy, its contribution becomes significant to the Group, our segment presentation is changed for this year and the comparative figures are also restated accordingly.

The segment information provided to the ECM for the reportable segments is as follows:

	Gas, water and related businesses		New Energy	Property	Other segments	Total
	Hong Kong	Mainland China				
	2012 HK$'M	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**
Revenue	**9,276.2**	**12,790.4**	**2,679.5**	**37.9**	**138.5**	**24,922.5**
Adjusted EBITDA	**4,072.7**	**2,949.1**	**975.8**	**20.6**	**50.4**	**8,068.6**
Depreciation and amortisation	**(617.1)**	**(629.6)**	**(180.6)**	**(0.1)**	**(27.9)**	**(1,455.3)**
Unallocated expenses						**(509.5)**
						6,103.8
Other gains, net						**1,006.6**
Interest expense						**(863.8)**
Share of results of associated companies	**–**	**630.4**	**(0.6)**	**1,822.8**	**2.8**	**2,455.4**
Share of results of jointly controlled entities	**–**	**1,194.6**	**(0.9)**	**5.5**	**0.2**	**1,199.4**
Profit before taxation						**9,901.4**
Taxation						**(1,484.6)**
Profit for the year						**8,416.8**

Share of results of associated companies includes HK$1,394.5 million (2011: HK$725.0 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

5 Segment information (Continued)

	Gas, water and related businesses		New Energy	Property	Other segments	Total
	Hong Kong	Mainland China				
	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M
Revenue	8,973.3	11,301.5	2,052.7	33.0	66.3	22,426.8
Adjusted EBITDA	4,126.8	2,687.1	779.7	17.4	16.5	7,627.5
Depreciation and amortisation	(593.2)	(588.0)	(107.5)	(0.2)	(14.7)	(1,303.6)
Unallocated expenses						(649.3)
						5,674.6
Other gains, net						589.7
Interest expense						(752.0)
Share of results of associated companies	–	513.0	(0.1)	1,133.9	0.9	1,647.7
Share of results of jointly controlled entities	–	889.7	(1.3)	20.3	–	908.7
Profit before taxation						8,068.7
Taxation						(1,344.0)
Profit for the year						6,724.7

	Gas, water and related businesses		New Energy	Property	Other segments	Total
	Hong Kong	Mainland China				
	2012 HK$'M	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**	**2012 HK$'M**
Segment assets	**16,784.1**	**43,913.9**	**18,850.9**	**10,967.3**	**1,103.5**	**91,619.7**
Unallocated assets:						
Available-for-sale financial assets						**3,078.6**
Financial assets at fair value through profit or loss						**347.1**
Time deposits, cash and bank balances excluded from segment assets						**3,085.9**
Others						**892.4**
Total assets	**16,784.1**	**43,913.9**	**18,850.9**	**10,967.3**	**1,103.5**	**99,023.7**

5 Segment information (Continued)

	Gas, water and related businesses		New Energy	Property	Other segments	Total
	Hong Kong	Mainland China				
	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M	2011 HK$'M
Segment assets	15,989.1	38,426.6	13,431.3	8,402.3	686.0	76,935.3
Unallocated assets:						
Available-for-sale financial assets						3,110.6
Financial assets at fair value through profit or loss						313.3
Time deposits, cash and bank balances excluded from segment assets						3,728.7
Others						1,001.0
Total assets	15,989.1	38,426.6	13,431.3	8,402.3	686.0	85,088.9

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2012 is HK$10,296.2 million (2011: HK$9,934.0 million), and the revenue from external customers in other geographical locations is HK$14,626.3 million (2011: HK$12,492.8 million).

At 31st December 2012, the total of non-current assets other than financial instruments and retirement benefit assets located in Hong Kong and other geographical locations are HK$21,172.7 million and HK$50,537.5 million (2011: HK$18,431.7 million and HK$40,798.9 million) respectively.

For the year ended 31st December 2012, the percentage of revenues attributable to the Group's five largest customers is less than 30 per cent.

6 Total operating expenses

	Group	
	2012 **HK$'M**	2011 HK$'M
Stores and materials used	**11,954.8**	10,736.2
Cost of coal purchased	**688.7**	416.0
Manpower costs (Note 11)	**1,997.4**	1,700.1
Depreciation and amortisation	**1,465.1**	1,311.0
Other operating items	**2,712.7**	2,588.9
	18,818.7	16,752.2

7 Other gains, net

	Group	
	2012 **HK$'M**	2011 HK$'M
Net investment gains (Note 8)	**557.9**	432.9
Fair value gain on investment property (Note 18)	**22.0**	17.0
Net gain on acquisition of subsidiaries (Note 46(a))	**598.1**	124.6
Gain on disposal of a subsidiary (Note 45)	**66.3**	–
Provision for investment in a jointly controlled entity	**(20.0)**	–
Project research and development costs	**(120.1)**	–
Provision for other receivables	**(100.3)**	–
Ineffective portion on cash flow hedges (Note 36)	**0.8**	12.6
Others	**1.9**	2.6
	1,006.6	589.7

8 Net investment gains

	Group 2012 HK$'M	Group 2011 HK$'M
(a) Interest income		
Bank deposits	**166.5**	157.6
Listed available-for-sale financial assets	**20.1**	34.4
Unlisted available-for-sale financial assets	**1.2**	1.2
Loans to associated companies and jointly controlled entities	**103.3**	49.9
Others	**22.1**	19.0
	313.2	262.1
(b) Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss and derivative financial instruments		
Listed securities	**56.2**	(68.0)
Unlisted securities	**(5.5)**	(89.3)
Exchange differences	**5.4**	15.0
	56.1	(142.3)
(c) Net realised gains/(losses) on available-for-sale financial assets		
Listed securities	**18.2**	58.8
Unlisted securities	**–**	(42.4)
Exchange differences	**(6.3)**	1.3
	11.9	17.7
(d) Dividend income		
Listed available-for-sale financial assets	**87.2**	87.7
Unlisted available-for-sale financial assets	**96.2**	90.5
Listed financial assets at fair value through profit or loss	**0.4**	0.2
	183.8	178.4
(e) Other investment and exchange (losses)/gains	**(7.1)**	117.0
	557.9	432.9

9 Interest expense

	Group 2012 HK$'M	Group 2011 HK$'M
Interest on bank loans and overdrafts wholly repayable within five years	**431.0**	301.3
Interest on guaranteed notes not wholly repayable within five years	**733.2**	634.1
	1,164.2	935.4
Less: Amount capitalised	**(300.4)**	(183.4)
	863.8	752.0

The interest expense is capitalised at an average rate of 3.55 per cent (2011: 3.58 per cent) per annum.

10 Profit before taxation

Profit before taxation is stated after charging and (crediting) the following:

	Group	
	2012 HK$'M	2011 HK$'M
Cost of inventories sold	**13,828.1**	12,601.1
Depreciation and amortisation	**1,465.1**	1,311.0
Loss on disposal/write off of property, plant and equipment	**26.0**	34.1
Gain on disposal of leasehold land	**(6.6)**	(11.3)
Impairment loss of trade receivables	**21.1**	17.8
Impairment loss of available-for-sale financial assets	**17.8**	78.3
Operating lease rentals		
– land and buildings	**77.6**	59.5
– plant and equipment	**10.7**	9.3
Rental income from investment property		
– gross rental income	**(37.9)**	(33.0)
– outgoing expenses	**17.1**	15.6
Auditors' remuneration	**19.7**	15.8
Net loss on residential maintenance (Note)	**13.4**	14.8

Note

Analysis of net loss on residential maintenance:

	2012	2011
Residential maintenance revenue	**(191.8)**	(188.6)
Less expenses:		
Manpower costs	**112.2**	113.3
Other operating and administrative expenses	**93.0**	90.1
Net loss	**13.4**	14.8

11 Manpower costs

	Group	
	2012 HK$'M	2011 HK$'M
Salaries and wages	**1,760.7**	1,504.9
Pension costs – defined contribution retirement schemes	**237.1**	203.9
Pension costs – defined benefit retirement scheme (Note 25)	**(0.4)**	(8.7)
	1,997.4	1,700.1

12 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration paid to every director for the year ended 31st December 2012 for their service on the Board of the Company is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin (Note)	**0.2**	**5.5**	**25.0**	**4.8**	**35.5**
James Kwan Yuk Choi* (Note)	**0.2**	**3.2**	**8.6**	**3.3**	**15.3**
Lee Shau Kee	**0.3**	**0.2**	**–**	**–**	**0.5**
Leung Hay Man	**0.3**	**–**	**–**	**–**	**0.3**
Colin Lam Ko Yin	**0.2**	**–**	**–**	**–**	**0.2**
Lee Ka Kit	**0.2**	**–**	**–**	**–**	**0.2**
Lee Ka Shing	**0.2**	**–**	**–**	**–**	**0.2**
David Li Kwok Po	**0.3**	**0.1**	**–**	**–**	**0.4**
Poon Chung Kwong	**0.3**	**–**	**–**	**–**	**0.3**
	2.2	**9.0**	**33.6**	**8.1**	**52.9**

Note

Both Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi are also directors of Towngas China Company Limited ("Towngas China"), a significant subsidiary of the Group. In this connection, Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi each received director's fee of HK$0.2 million (2011: HK$0.2 million) and no share-based payments were received during the year and in 2011.

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement. At the same date, Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer-Utilities Business.

12 Directors' and senior management's emoluments (Continued)

(a) Directors' emoluments (Continued)

The remuneration paid to every director for the year ended 31st December 2011 for their service on the Board of the Company is set out below:

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Total HK$'M
Alfred Chan Wing Kin (Note)	0.2	5.3	24.2	4.2	33.9
James Kwan Yuk Choi (Note)	0.2	3.0	8.5	2.9	14.6
Lee Shau Kee	0.3	0.2	–	–	0.5
Leung Hay Man	0.3	–	–	–	0.3
Colin Lam Ko Yin	0.2	–	–	–	0.2
Lee Ka Kit	0.2	–	–	–	0.2
Lee Ka Shing	0.2	–	–	–	0.2
David Li Kwok Po	0.3	0.1	–	–	0.4
Poon Chung Kwong	0.3	–	–	–	0.3
	2.2	8.6	32.7	7.1	50.6

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK$44.8 million (2011: HK$43.5 million) and post-employment benefits of HK$8.1 million (2011: HK$7.1 million) paid to the Group's key management during the year ended 31st December 2012. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's key management during the year (2011: nil).

(b) Five highest paid individuals

The above analysis includes two (2011: two) individuals whose emoluments were among the five highest in the Group. Details of the emoluments payable to the remaining three (2011: three) individuals are as follows:

	2012 HK$'M	2011 HK$'M
Fee, salaries, allowances and benefits in kind	**9.7**	9.3
Performance bonus	**13.0**	11.5
Contributions to retirement scheme	**3.1**	2.7
	25.8	23.5

The above emoluments for the year of 2012 include HK$7.7 million (2011: HK$7.2 million) paid by Towngas China.

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	**2012**	2011
10.0 – 11.0	**1**	–
9.0 – 10.0	**–**	1
8.0 – 9.0	**1**	–
7.0 – 8.0	**1**	1
6.0 – 7.0	**–**	1

12 Directors' and senior management's emoluments (Continued)

(c) Emoluments of senior management

Senior management for the year ended 31st December 2012 and 2011 were all executive directors of the Company whose emoluments have been shown in directors' emoluments above.

13 Taxation

The amount of taxation charged to the income statement represents:

	Group	
	2012 HK$'M	2011 HK$'M
Current taxation – provision for Hong Kong Profits Tax at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year	**642.5**	606.3
Current taxation – provision for other countries income tax at the prevailing rates on the estimated assessable profits for the year	**536.0**	522.3
Current taxation – over provision in prior years	**(8.4)**	(14.5)
Deferred taxation – origination and reversal of temporary differences	**193.0**	103.6
Withholding tax	**121.5**	126.3
	1,484.6	1,344.0

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Group	
	2012 HK$'M	2011 HK$'M
Profit before taxation	**9,901.4**	8,068.7
Less: Share of results of associated companies	**(2,455.4)**	(1,647.7)
Share of results of jointly controlled entities	**(1,199.4)**	(908.7)
	6,246.6	5,512.3
Calculated at a tax rate of 16.5% (2011: 16.5%)	**1,030.7**	909.5
Effect of different tax rates in other countries	**242.7**	204.4
Income not subject to taxation	**(217.5)**	(145.2)
Expenses not deductible for taxation purposes	**250.0**	216.7
Utilisation of previously unrecognised tax losses	**(7.6)**	(6.2)
Over provision in prior years	**(8.4)**	(14.5)
Withholding tax	**121.5**	126.3
Others	**73.2**	53.0
	1,484.6	1,344.0

13 Taxation (Continued)

Share of associated companies' taxation for the year ended 31st December 2012 of HK$287.6 million (2011: HK$229.0 million) is included in the income statement as share of results of associated companies.

Share of jointly controlled entities' taxation for the year ended 31st December 2012 of HK$474.3 million (2011: HK$465.5 million) is included in the income statement as share of results of jointly controlled entities.

14 Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$3,163.3 million (2011: HK$9,079.3 million).

15 Dividends

	Company	
	2012 HK$'M	2011 HK$'M
Interim, paid of HK12 cents per ordinary share (2011: HK12 cents per ordinary share)	**1,042.9**	948.1
Final, proposed of HK23 cents per ordinary share (2011: HK23 cents per ordinary share)	**1,998.8**	1,817.1
Special, paid of HK17.5 cents per ordinary share for 2011	**–**	1,382.6
	3,041.7	4,147.8

At a meeting held on 18th March 2013, the directors of the Company declared a final dividend of HK23 cents per ordinary share for the year ended 31st December 2012. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2012.

16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$7,727.9 million (2011: HK$6,149.6 million) and the weighted average of 8,690,609,549 shares (2011: 8,690,609,549 shares[1]) in issue during the year.

As the impact of diluted potential ordinary shares of a subsidiary is insignificant during the years 2012 and 2011, the diluted earnings per share for the years ended 31st December 2012 and 2011 are approximately the same as the basic earnings per share.

[1] Adjusted for the bonus issue in 2012

17 Property, plant and equipment

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining and oil properties HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Group							
Cost							
At 1st January 2012	9,991.0	20,582.4	2,721.3	2,430.5	308.2	6,703.0	42,736.4
Additions	779.8	554.2	199.5	46.1	391.5	4,377.8	6,348.9
Acquisition of subsidiaries (Note 46)	473.4	102.3	–	3,257.6	–	–	3,833.3
Disposal of a subsidiary (Note 45)	(151.4)	(370.8)	–	–	(4.9)	(82.2)	(609.3)
Transfers from capital work in progress	508.5	1,425.0	0.6	–	101.6	(2,035.7)	–
Disposals/write off	(135.1)	(29.3)	(41.4)	–	–	(5.7)	(211.5)
Exchange differences	39.5	58.9	–	101.9	2.0	11.2	213.5
At 31st December 2012	11,505.7	22,322.7	2,880.0	5,836.1	798.4	8,968.4	52,311.3
Accumulated depreciation							
At 1st January 2012	4,433.7	4,319.4	1,654.3	36.3	37.6	–	10,481.3
Charge for the year	578.5	564.1	222.7	71.7	28.7	–	1,465.7
Disposal of a subsidiary (Note 45)	(35.9)	(34.7)	–	–	(0.9)	–	(71.5)
Disposals/write off	(93.5)	(13.5)	(28.4)	–	–	–	(135.4)
Exchange differences	12.1	8.6	–	–	0.5	–	21.2
At 31st December 2012	4,894.9	4,843.9	1,848.6	108.0	65.9	–	11,761.3
Net book value							
At 31st December 2012	6,610.8	17,478.8	1,031.4	5,728.1	732.5	8,968.4	40,550.0
At 31st December 2011	5,557.3	16,263.0	1,067.0	2,394.2	270.6	6,703.0	32,255.1

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Company					
Cost					
At 1st January 2012	4,453.6	9,241.6	2,596.4	949.4	17,241.0
Additions	82.4	–	200.1	568.4	850.9
Transfers from capital work in progress	17.1	319.8	0.3	(337.2)	–
Disposals/write off	(40.5)	(17.8)	(37.6)	–	(95.9)
At 31st December 2012	4,512.6	9,543.6	2,759.2	1,180.6	17,996.0
Accumulated depreciation					
At 1st January 2012	3,181.2	3,194.3	1,594.4	–	7,969.9
Charge for the year	158.3	236.2	216.6	–	611.1
Disposals/write off	(40.4)	(9.8)	(25.3)	–	(75.5)
At 31st December 2012	3,299.1	3,420.7	1,785.7	–	8,505.5
Net book value					
At 31st December 2012	1,213.5	6,122.9	973.5	1,180.6	9,490.5
At 31st December 2011	1,272.4	6,047.3	1,002.0	949.4	9,271.1

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining properties HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Group							
Cost							
At 1st January 2011	8,568.1	18,247.6	2,504.9	1,590.8	222.7	4,954.9	36,089.0
Additions	444.9	328.4	251.5	–	–	3,559.0	4,583.8
Acquisition of subsidiaries	57.7	99.4	–	760.5	73.3	344.3	1,335.2
Transfers from capital work in progress	851.7	1,474.7	–	–	–	(2,326.4)	–
Disposals/write off	(121.1)	(32.4)	(40.8)	–	–	(7.7)	(202.0)
Exchange differences	189.7	464.7	5.7	79.2	12.2	178.9	930.4
At 31st December 2011	9,991.0	20,582.4	2,721.3	2,430.5	308.2	6,703.0	42,736.4
Accumulated depreciation							
At 1st January 2011	3,960.7	3,750.9	1,469.4	–	17.9	–	9,198.9
Charge for the year	514.5	522.5	206.8	36.3	17.4	–	1,297.5
Disposals/write off	(89.5)	(11.9)	(24.3)	–	–	–	(125.7)
Exchange differences	48.0	57.9	2.4	–	2.3	–	110.6
At 31st December 2011	4,433.7	4,319.4	1,654.3	36.3	37.6	–	10,481.3
Net book value							
At 31st December 2011	5,557.3	16,263.0	1,067.0	2,394.2	270.6	6,703.0	32,255.1
At 31st December 2010	4,607.4	14,496.7	1,035.5	1,590.8	204.8	4,954.9	26,890.1

17 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Capital work in progress HK$'M	Total HK$'M
Company					
Cost					
At 1st January 2011	4,397.6	8,832.4	2,379.5	923.6	16,533.1
Additions	86.8	–	254.2	442.5	783.5
Transfers from capital work in progress	0.8	415.9	–	(416.7)	–
Disposals/write off	(31.6)	(6.7)	(37.3)	–	(75.6)
At 31st December 2011	4,453.6	9,241.6	2,596.4	949.4	17,241.0
Accumulated depreciation					
At 1st January 2011	3,054.1	2,972.6	1,414.3	–	7,441.0
Charge for the year	158.7	226.9	201.5	–	587.1
Disposals/write off	(31.6)	(5.2)	(21.4)	–	(58.2)
At 31st December 2011	3,181.2	3,194.3	1,594.4	–	7,969.9
Net book value					
At 31st December 2011	1,272.4	6,047.3	1,002.0	949.4	9,271.1
At 31st December 2010	1,343.5	5,859.8	965.2	923.6	9,092.1

18 Investment property

	Group	
	2012 HK$'M	2011 HK$'M
At 1st January	**518.0**	501.0
Fair value gain (Note 7)	**22.0**	17.0
At 31st December	**540.0**	518.0

The Group's interest in investment property is located in Hong Kong under a land lease of over 50 years. The investment property was revalued at 31st December 2012 by an independent professionally qualified valuer, Knight Frank Petty Limited, on an open market value basis.

19 Leasehold land

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Held in Hong Kong:				
Leases of 10 to 50 years	**310.1**	319.0	**218.8**	225.1
Held outside Hong Kong:				
Leases of 10 to 50 years	**1,054.0**	1,028.8	**–**	–
Leases of over 50 years	**–**	3.4	**–**	–
	1,364.1	1,351.2	**218.8**	225.1

The Group's interests in leasehold land and land use rights movements during the year are analysed as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
At 1st January	**1,351.2**	935.7	**225.1**	235.5
Additions	**89.4**	63.1	**–**	–
Acquisition of subsidiaries (Note 46(b))	**12.4**	357.3	**–**	–
Disposal of a subsidiary (Note 45)	**(29.9)**	–	**–**	–
Disposals	**(28.9)**	(4.0)	**–**	(4.0)
Amortisation	**(34.6)**	(31.5)	**(6.3)**	(6.4)
Exchange differences	**4.5**	30.6	**–**	–
At 31st December	**1,364.1**	1,351.2	**218.8**	225.1

A bank borrowing of the Group is secured on land use rights with an aggregate carrying amount of HK$9.5 million (2011: HK$203.7 million).

20 Intangible assets

	Group	
	2012 HK$'M	2011 HK$'M
(a) Goodwill		
At 1st January	**3,353.5**	2,575.6
Additions	**416.1**	767.1
Exchange differences	**0.1**	10.8
At 31st December	**3,769.7**	3,353.5
(b) Other intangible asset		
Cost		
At 1st January	**83.1**	–
Additions	**–**	83.1
At 31st December	**83.1**	83.1
Accumulated amortisation		
At 1st January	**(1.8)**	–
Amortisation	**(5.6)**	(1.8)
At 31st December	**(7.4)**	(1.8)
Net book value		
At 31st December	**75.7**	81.3
Total intangible assets	**3,845.4**	3,434.8

Goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose, majority related to segment – gas, water and related businesses in mainland China. The Group tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired. For the purpose of impairment test, the recoverable amount of the cash-generating units is determined based on either fair value less costs to sell or value in use calculations. The fair value less costs to sell is by referencing to an active market. The value in use calculations are derived from cash flow projections based on the most recent financial budget for the next five years approved by management. Cash flows beyond five year period have been extrapolated using growth rates from 0.0 per cent to 10.0 per cent (2011: 0.0 per cent to 10.0 per cent) per annum which are determined by considering both internal and external factors relating to the cash-generating units. Discount rate used of 8.0 per cent or 10.0 per cent (2011: 8.0 per cent or 10.0 per cent) is adopted to reflect specific risks relating to the relevant cash-generating units. Based on impairment tests prepared, there is no impairment for intangible assets as at 31st December 2012 and 2011.

Assuming growth rate decreased by 25 basis points or discount rate increased by 25 basis points, there is still adequate headroom and no impairment charge is required.

21 Subsidiaries

	Company	
	2012 HK$'M	2011 HK$'M
Investments in subsidiaries	**339.2**	307.6
Loans and amounts due from subsidiaries – non-current	**26,212.7**	25,612.2
	26,551.9	25,919.8
Loans to subsidiaries – current	**390.0**	384.7
Amounts due to subsidiaries – non-current	**(22,011.0)**	(19,671.4)

Loans to subsidiaries in the PRC of HK$390.0 million (2011: HK$384.7 million) are denominated in USD, unsecured and bear interest at the prevailing lending rate quoted by The People's Bank of China Rate and repayable on demand.

Loans and amounts due from/(to) subsidiaries are unsecured, interest free and no fixed terms of repayment except for HK$1,559.0 million (2011: HK$1,690.0 million) due from a subsidiary of the Group is carried at an average rate of 3.55 per cent (2011: 3.58 per cent) per annum.

Amounts due to subsidiaries denominated in the following currencies:

	Company	
	2012 HK$'M	2011 HK$'M
HKD	**15,503.7**	13,747.0
USD	**5,588.1**	5,449.0
RMB	**911.1**	475.2
Others	**8.1**	0.2
	22,011.0	19,671.4

Amounts due from subsidiaries are neither past due nor impaired and there is no history of default. The principal subsidiaries of the Company are shown on pages 162 to 171 of the accounts.

Towngas China is a company listed in The Stock Exchange of Hong Kong Limited. The market value of the Group's investment in Towngas China amounted to HK$10,371.5 million as at 31st December 2012 (2011: HK$6,838.3 million).

22 Associated companies

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
Investments in associated companies, including goodwill	**14,811.0**	12,517.1	**–**	–
Loans to associated companies – non-current	**1,496.1**	189.7	**–**	–
	16,307.1	12,706.8	**–**	–
Loan and other receivables from associated companies – current	**73.0**	73.3	**30.2**	29.5

Loan and other receivables from associated companies are analysed below:

(i) Loans to associated companies in mainland China of HK$367.1 million (2011: HK$220.5 million) with effective interest rates ranging from 1.13 per cent to 7.26 per cent per annum (2011: 0.78 per cent to 7.26 per cent per annum) are unsecured and fully repayable in 2013 to 2017 (2011: 2012 to 2017).

(ii) Loan to an associated company in Hong Kong of HK$1,162.5 million (2011: nil) with effective interest of 1.80 per cent per annum (2011: nil) is unsecured and fully repayable in 2015.

(iii) Remaining balance of HK$39.5 million (2011: HK$42.5 million) is unsecured, interest free and with no fixed terms of repayment.

(iv) Loan and other receivables from associated companies are neither past due nor impaired and there is no history of default.

(v) Loan and other receivables are denominated in the following currencies:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
HKD	**1,162.5**	0.3	**–**	–
USD	**333.9**	189.7	**30.2**	29.5
RMB	**72.7**	73.0	**–**	–
	1,569.1	263.0	**30.2**	29.5

22 Associated companies (Continued)

Particulars of the principal associated companies as at 31st December 2012 are listed below:

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Anhui Province Natural Gas Development Company Limited		RMB250.0 million	27.5	PRC	Mid-stream natural gas project
[1] China-Singapore Suzhou Industrial Park Broad Energy Services Co. Ltd.		RMB71.1 million	25	PRC	Cooling and heating system business
Dalian DETA ECO Environmental Energy Company Limited		RMB20.0 million	49	PRC	Vehicular fuel refilling station
Fengcheng Xingao Coking Co., Ltd.		RMB350.0 million	40	PRC	New Energy project
GH-Fusion Limited		200 shares of US$1 each	50	British Virgin Islands	Investment holding
Hebei Natural Gas Company Limited		RMB520.0 million	45	PRC	Mid-stream natural gas project
Lane Success Development Limited		10,000 shares of HK$1 each	45	Hong Kong	Property development
Central Waterfront Property Investment Holdings Limited	(i)	100 shares of US$1 each	15.8	British Virgin Islands/ Hong Kong	Investment holding
Shenzhen Gas Corporation Limited	(ii)	RMB1,980.5 million	26.8	PRC	Gas sales and related businesses
Jiangxi Feng Long Mining Company Limited		RMB236.1 million	25	PRC	Coal mining and related businesses
Hainan Petrochina Kunlun Hong Kong & China Gas Company Limited		RMB50.4 million	49	PRC	Gas sales and related businesses
Towngas DETA Telecom (Dalian) Co., Limited		RMB10.0 million	49	PRC	Telecommunications business
Shanxi Yuanping Guoxin Compressed Natural Gas Co. Limited		RMB20.0 million	42	PRC	Vehicular fuel refilling station
Suzhou Petrochina Kunlun Hong Kong and China Gas Company Limited		RMB40.0 million	29	PRC	Mid-stream natural gas project
杭州西園管道燃氣有限公司		RMB15.0 million	29.9	PRC	Investment holding
中新蘇州工業園區環保技術有限公司		RMB300.0 million	49	PRC	Water treatment project
[2] 河南省中原石油天然氣管網有限公司		RMB50.0 million	49	PRC	Mid-stream natural gas project

[1] Newly formed during the year
[2] Newly acquired during the year

22 Associated companies (Continued)

Particulars of the principal associated companies as at 31st December 2012 are listed below:

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Held by Towngas China					
Changchun Gas Company Limited		RMB802.4 million	26	PRC	Gas sales and related businesses
Dalian DETA Hong Kong and China Gas Co., Ltd.		RMB137.2 million	40	PRC	Gas sales and related businesses
Foshan Gas Group Ltd.		RMB500.0 million	43	PRC	Gas sales and related businesses
Fuzhou Fubei Natural Gas Co., Ltd.		RMB16.0 million	40	PRC	Gas sales and related businesses
Linqu Hong Kong & China Gas Company Limited		US$2.1 million	42.4	PRC	Gas sales and related businesses
Shandong Jihua Gas Co., Ltd.		RMB400.0 million	48	PRC	Gas sales and related businesses
Zibo Lubo Gas Company Ltd.		RMB100.0 million	27	PRC	Gas sales and related businesses

Notes

(i) The Group has an effective interest of approximately 15.8 per cent in the IFC complex through its interest in Central Waterfront Property Investment Holdings Limited ("CWPI"). With the Group's presence on the board of directors of CWPI and participation in the financial and operating policies of the IFC complex, the Group could exercise significant influence over CWPI and accordingly the investment is accounted for as an associated company.

(ii) On 25th December 2009, Shenzhen Gas Corporation Limited ("SGCL") was listed on the Shanghai Stock Exchange. As at 31st December 2012, the Group held 531,341,235 shares (2011: 354,227,490 shares) of SGCL or approximately 26.8 per cent equity interest of SGCL. The carrying value and the market value of the Group's investment as at 31st December 2012 in SGCL amounted to HK$1,452.2 million (2011: HK$1,337.0 million) and HK$6,245.0 million (2011: HK$4,851.3 million) respectively.

22 Associated companies (Continued)

The following amounts represent the Group's share of the assets and liabilities, and income and results of the associated companies and are included in the consolidated balance sheet and income statement:

	Group	
	2012 HK$'M	2011 HK$'M
Assets		
Non-current assets	**19,771.9**	16,568.7
Current assets	**3,658.9**	3,906.9
	23,430.8	20,475.6
Liabilities		
Non-current liabilities	**(5,902.6)**	(1,792.8)
Current liabilities	**(3,503.5)**	(6,757.9)
	(9,406.1)	(8,550.7)
Net assets	**14,024.7**	11,924.9
Income	**9,064.1**	7,139.0
Expenses, including taxation	**(6,608.7)**	(5,491.3)
Profit after taxation	**2,455.4**	1,647.7

23 Jointly controlled entities

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Investments in jointly controlled entities, including goodwill	**7,896.2**	7,627.7	**850.8**	850.8
Loans to jointly controlled entities – non-current	**1,207.4**	1,337.0	**82.6**	82.6
	9,103.6	8,964.7	**933.4**	933.4
Loan and other receivables from jointly controlled entities – current	**861.3**	468.1	**6.0**	4.5
Amounts due to jointly controlled entities – current	**(392.4)**	(31.7)	**(1.1)**	(1.9)

23 Jointly controlled entities (Continued)

Loan and other receivables from jointly controlled entities are analysed below:

(i) Loans to jointly controlled entities in mainland China of HK$1,346.7 million (2011: HK$1,477.1 million) with effective interest rates ranging from 2.88 per cent to 7.87 per cent per annum (2011: 2.88 per cent to 7.87 per cent per annum) are unsecured and fully repayable in 2013 to 2016 (2011: 2012 to 2016).

(ii) Loan to a jointly controlled entity in Hong Kong of HK$93.8 million (2011:Nil) with effective interest rate of 2.50 per cent per annum is unsecured and with no fixed terms of repayment.

(iii) Remaining balance of HK$628.2 million (2011: HK$328.0 million) is unsecured, interest free and with no fixed terms of repayment.

(iv) Loan and other receivables from jointly controlled entities are neither past due nor impaired and there is no history of default.

(v) Loans and other receivables are denominated in the following currencies:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
HKD	**176.3**	312.3	**88.6**	87.1
USD	**211.7**	411.3	**–**	–
RMB	**1,680.7**	1,081.5	**–**	–
	2,068.7	1,805.1	**88.6**	87.1

Amounts due to jointly controlled entities are analysed below:

(i) Amount due to a jointly controlled entity of HK$252.0 million (2011: nil) with effective interest rate of 6.67 per cent per annum is unsecured and repayable in 2013.

(ii) Amounts due to jointly controlled entities of HK$138.8 million (2011: nil) with effective interest rate of 3.60 per cent per annum are unsecured and with no fixed terms of repayment.

(iii) Remaining balance of HK$1.6 million (2011: HK$31.7 million) is unsecured, interest free and with no fixed terms of repayment.

(iv) Amounts due to jointly controlled entities are denominated in RMB (2011: denominated in RMB).

23 Jointly controlled entities (Continued)

Particulars of the principal jointly controlled entities as at 31st December 2012 are listed below:

Name	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
# Beijing Beiran & HKCG Gas Company Limited	RMB44.4 million	50	PRC	Gas sales and related businesses
Changzhou Hong Kong and China Gas Company Limited	RMB166.0 million	50	PRC	Gas sales and related businesses
Chongqing Energy ECO CBM Company Limited	RMB180.0 million	50	PRC	Coalbed methane project
Jilin Province Natural Gas Limited Company	RMB220.0 million	49	PRC	Mid-stream natural gas project
Jinan Hong Kong and China Gas Company Limited	RMB470.0 million	50	PRC	Gas sales and related businesses
Maanshan ECO Auto Fuel Company Limited	RMB10.5 million	30	PRC	Vehicular fuel refilling station
Nanjing Hong Kong and China Gas Company Limited	RMB600.0 million	50	PRC	Gas sales and related businesses
Suzhou Hong Kong and China Gas Company Limited	RMB200.0 million	55	PRC	Gas sales and related businesses
Suzhou Industrial Park Qingyuan Hong Kong & China Water Company Limited	RMB2,197.0 million	50	PRC	Water supply and sewage treatment

Direct jointly controlled entities of the Company

23 Jointly controlled entities (Continued)

Name	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
# Tongling Hong Kong and China Gas Company Limited	RMB100.0 million	70	PRC	Gas sales and related businesses
Wuhan Natural Gas Company Limited	RMB420.0 million	50	PRC	Gas sales and related businesses
# Xian Qinhua Natural Gas Company Limited	RMB1,000.0 million	49	PRC	Gas sales and related businesses
Yieldway International Limited	2 shares of HK$1 each	50	Hong Kong	Property development
Zhangjiagang Hong Kong and China Gas Company Limited	RMB100.0 million	50	PRC	Gas sales and related businesses
吉林天元石油有限公司	RMB5.0 million	50	PRC	Natural gas exploitation
Held by Towngas China				
Zibo Hong Kong and China Gas Company Limited	RMB56.0 million	50	PRC	Gas sales and related businesses
Weifang Hong Kong and China Gas Company Limited	US$16.9 million	50	PRC	Gas sales and related businesses
Weihai Hong Kong and China Gas Company Limited	RMB99.2 million	50	PRC	Gas sales and related businesses
Taian Taishan Hong Kong and China Gas Company Limited	RMB80.0 million	50	PRC	Gas sales and related businesses
Maanshan Hong Kong and China Gas Company Limited	US$13.0 million	50	PRC	Gas sales and related businesses
Anqing Hong Kong and China Gas Company Limited	RMB73.0 million	50	PRC	Gas sales and related businesses
Chongqing Hong Kong and China Gas Company Limited	RMB20.0 million	50	PRC	Gas sales and related businesses
Hangzhou Hong Kong and China Gas Company Limited	US$20.0 million	50	PRC	Gas sales and related businesses

Direct jointly controlled entities of the Company

23 Jointly controlled entities (Continued)

The following amounts represent the Group's share of the assets and liabilities, and income and results of the jointly controlled entities and are included in the consolidated balance sheet and income statement:

	Group	
	2012 HK$'M	2011 HK$'M
Assets		
Non-current assets	**12,366.7**	11,074.4
Current assets	**4,185.9**	4,073.8
	16,552.6	15,148.2
Liabilities		
Non-current liabilities	**(1,103.5)**	(1,104.8)
Current liabilities	**(8,116.7)**	(6,978.4)
	(9,220.2)	(8,083.2)
Net assets	**7,332.4**	7,065.0
Income	**9,763.2**	8,432.0
Expenses, including taxation	**(8,563.8)**	(7,523.3)
Profit after taxation	**1,199.4**	908.7

24 Available-for-sale financial assets

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Debt securities (Note (a))	**802.0**	969.1	**–**	–
Equity securities (Note (b))	**2,276.6**	2,141.5	**51.7**	42.7
	3,078.6	3,110.6	**51.7**	42.7
Market value of listed investments	**2,254.8**	2,271.1	**51.7**	42.7

24 Available-for-sale financial assets (Continued)

	Group 2012 HK$'M	Group 2011 HK$'M	Company 2012 HK$'M	Company 2011 HK$'M
Notes				
(a) Debt securities				
Listed – Hong Kong	**147.1**	96.1	**–**	–
Listed – overseas	**635.7**	820.4	**–**	–
Unlisted	**19.2**	52.6	**–**	–
	802.0	969.1	**–**	–
(b) Equity securities				
Listed – Hong Kong	**1,323.9**	1,169.2	**51.7**	42.7
Listed – overseas	**148.3**	185.4	**–**	–
Unlisted (Note (c))	**804.4**	786.9	**–**	–
	2,276.6	2,141.5	**51.7**	42.7

(c) Included in the unlisted equity securities of HK$502.2 million (2011: HK$526.9 million) are carried at cost less impairment as these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

(d) In 2008 under a rare circumstance, the Group reclassified debt and equity securities that are no longer held for the purpose of selling in the near term out of the financial assets at fair value through profit or loss category into available-for-sale category.

As at 31st December 2012, the fair values of debt and equity securities assets reclassified during 2008 are HK$76.8 million (2011: HK$89.0 million).

If the Group had not reclassified the debt and equity securities during 2008, fair value gain recognised for the year in the income statement will be increased by HK$10.8 million (2011: increased by HK$0.6 million).

(e) Available-for-sale financial assets are denominated in the following currencies:

	Group 2012 HK$'M	Group 2011 HK$'M	Company 2012 HK$'M	Company 2011 HK$'M
HKD	**1,338.8**	1,169.2	**51.7**	42.7
USD	**1,153.3**	1,273.1	**–**	–
RMB	**561.4**	579.5	**–**	–
Others	**25.1**	88.8	**–**	–
	3,078.6	3,110.6	**51.7**	42.7

25 Retirement benefit assets

	Group and Company	
	2012 HK$'M	2011 HK$'M
At 31st December	**86.5**	81.4

The Group operates a defined benefit retirement scheme in Hong Kong, namely the Workmen Retirement Scheme which is a final salary defined benefit scheme.

The amounts recognised on the balance sheet and the history of experience adjustments are shown as follows:

	Group and Company				
	2012 HK$'M	2011 HK$'M	2010 HK$'M	2009 HK$'M	2008 HK$'M
Fair value of plan assets	**508.0**	453.2	484.3	434.9	325.1
Present value of funded obligations	**(538.2)**	(429.9)	(331.6)	(332.4)	(394.5)
Present value of (underfunded)/ overfunded obligations	**(30.2)**	23.3	152.7	102.5	(69.4)
Unrecognised actuarial losses/(gains)	**116.7**	58.1	(84.4)	(43.2)	134.1
Assets on the balance sheet	**86.5**	81.4	68.3	59.3	64.7
Experience adjustments on plan liabilities – (losses)/gains	**(18.4)**	(7.1)	(4.6)	9.9	(6.9)
Experience adjustments on plan assets – gains/(losses)	**35.3**	(54.9)	22.6	94.5	(215.4)

The plan assets did not include any ordinary shares of the Company as at 31st December 2012 (2011: nil).

The amounts recognised in the income statement are as follows:

	Group and Company	
	2012 HK$'M	2011 HK$'M
Current service cost	**15.7**	12.5
Interest cost	**6.3**	9.6
Expected return on plan assets	**(23.3)**	(28.5)
Net actuarial losses/(gains) recognised for the year	**0.9**	(2.3)
Total (Note 11)	**(0.4)**	(8.7)

25 Retirement benefit assets (Continued)

The movements in the defined benefit obligations are as follows:

	Group and Company	
	2012 HK$'M	2011 HK$'M
At 1st January	**429.9**	331.6
Current service cost	**15.7**	12.5
Interest cost	**6.3**	9.6
Benefits paid	**(8.5)**	(9.1)
Actuarial losses	**94.8**	85.3
At 31st December	**538.2**	429.9

The movements in the fair value of plan assets are as follows:

	Group and Company	
	2012 HK$'M	2011 HK$'M
At 1st January	**453.2**	484.3
Expected return on plan assets	**23.3**	28.5
Actuarial gains/(losses)	**35.3**	(54.9)
Contribution paid	**4.7**	4.4
Benefits paid	**(8.5)**	(9.1)
At 31st December	**508.0**	453.2

The movements in the assets recognised on the balance sheet are as follows:

	Group and Company	
	2012 HK$'M	2011 HK$'M
At 1st January	**81.4**	68.3
Total income (Note 11)	**0.4**	8.7
Contribution paid	**4.7**	4.4
At 31st December	**86.5**	81.4

The actual returns on plan assets were HK$58.6 million (2011: losses of HK$26.4 million).

25 Retirement benefit assets (Continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	Group and Company	
	2012 **%**	2011 %
Equity securities	**67.0**	57.0
Debt securities	**27.0**	37.0
Cash	**6.0**	6.0

The principal actuarial assumptions used are as follows:

	Group and Company	
	2012 **%**	2011 %
Discount rate	**0.8**	1.5
Expected rate of future salary increases	**3.5**	3.5

Expected contributions to the scheme for the year ending 31st December 2013 are HK$4.6 million.

26 Other non-current assets

	Group	
	2012 **HK$'M**	2011 HK$'M
Second mortgage loans receivable (Note (a))	**15.3**	18.2
Deferred consideration receivable (Note (b))	**156.7**	203.7
Aviation fuel facility construction receivable (Note (c))	**2,015.2**	1,914.4
Other receivables	**142.4**	122.6
	2,329.6	2,258.9

Notes

(a) Balance represents non-current portion of second mortgage loans to buyers of the Grand Waterfront developed by the Group which are denominated in HKD. Second mortgage loans are secured by the mortgaged properties, bear interest at prime rate and are repayable by instalments in periods ranging from 15 to 25 years from the dates of drawdown.

26 Other non-current assets (Continued)

Notes (Continued)

(b) The balance represents consideration receivable in relation to disposal of certain subsidiaries of Towngas China in June 2009 for HK$379.0 million which is to be settled in cash by the purchaser under five annual instalments of HK$40.0 million each commencing from June 2010 for five years, and a balancing sum of HK$179.0 million in June 2015. The amount is secured against the entire share capital of the holding company of the disposed subsidiaries of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3.0 per cent per annum. The carrying value of the loan balance approximates the fair value as the impact of discount is not significant. The carrying amounts are analysed for reporting purpose as follows:

	2012 HK$'M	2011 HK$'M
Non-current assets	**156.7**	203.7
Current assets (included in trade and other receivables)	**39.3**	39.3
	196.0	243.0

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

(c) Aviation fuel facility construction receivable is denominated in HKD, unsecured and will be recovered by monthly instalments up to 2047.

27 Inventories

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Coal and oil	**234.7**	169.3	**–**	–
Stores and materials	**1,133.8**	1,043.4	**484.8**	480.3
Work in progress	**463.3**	409.7	**448.4**	397.6
	1,831.8	1,622.4	**933.2**	877.9

The Group wrote down the carrying value of inventories by HK$2.6 million (2011: wrote down by HK$2.7 million) to its net realisable value during the year.

28 Trade and other receivables

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
Trade receivables (Note (a))	**3,065.1**	2,851.2	**1,573.2**	1,430.2
Payments in advance (Note (b))	**1,496.9**	1,482.4	**1.0**	5.6
Other receivables	**1,160.2**	1,273.1	**144.2**	177.0
	5,722.2	5,606.7	**1,718.4**	1,612.8

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
RMB	**3,396.0**	3,393.0	**1.0**	1.8
HKD	**2,288.1**	2,079.9	**1,716.6**	1,609.9
USD	**35.8**	127.5	**0.6**	0.6
Others	**2.3**	6.3	**0.2**	0.5
	5,722.2	5,606.7	**1,718.4**	1,612.8

Notes

(a) The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 31st December 2012, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
0 – 30 days	**2,616.4**	2,599.5	**1,414.1**	1,273.1
31 – 60 days	**106.7**	63.0	**32.1**	43.1
61 – 90 days	**75.7**	27.6	**20.5**	18.3
Over 90 days	**266.3**	161.1	**106.5**	95.7
	3,065.1	2,851.2	**1,573.2**	1,430.2

(i) At 31st December 2012, trade receivables of the Group and the Company that were neither past due nor impaired amounted to HK$2,186.3 million (2011: HK$1,937.5 million) and HK$1,229.2 million (2011: HK$1,168.7 million) respectively. These balances mainly relate to individuals or companies that have been the Group's or the Company's customers for more than 6 months and with no history of default in the past.

28 Trade and other receivables (Continued)

Notes (Continued)

(a) (Continued)

(ii) Receivables that were past due but not impaired relate to a wide range of customers and management believes that no impairment provision is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The aging analysis of trade receivables that were past due but not impaired is as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
0 – 30 days	**430.1**	662.0	**184.9**	104.4
31 – 60 days	**106.7**	63.0	**32.1**	43.1
61 – 90 days	**75.7**	27.6	**20.5**	18.3
Over 90 days	**266.3**	161.1	**106.5**	95.7
	878.8	913.7	**344.0**	261.5

(iii) As at 31st December 2012, trade receivables of the Group and the Company amounting to HK$60.7 million (2011: HK$49.8 million) and HK$39.6 million (2011: HK$38.4 million) respectively were impaired, all of which are aged over 90 days. The individually impaired receivables mainly relate to customers that have either been placed under liquidation or in severe financial difficulties.

The movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
At 1st January	**49.8**	47.9	**38.4**	41.1
Impairment loss recognised	**21.1**	17.8	**11.2**	10.7
Uncollectible amounts written off	**(10.2)**	(16.4)	**(10.0)**	(13.4)
Exchange differences	**–**	0.5	**–**	–
At 31st December	**60.7**	49.8	**39.6**	38.4

(b) Balance mainly represents prepayment for purchase of material and services in relation to the Group's gas and New Energy businesses in Hong Kong and mainland China. As at 31st December 2012, the directors of the Company reviewed the composition of the balance and considered the amount is recoverable.

29 Financial assets at fair value through profit or loss

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Debt securities (Note (a))	**282.7**	273.7	**–**	–
Equity securities (Note (b))	**64.4**	39.6	**–**	1.8
	347.1	313.3	**–**	1.8
Market value of listed investments	**138.5**	121.0	**–**	1.8

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Notes				
(a) Debt securities				
Listed – Hong Kong	**74.1**	81.4	**–**	–
Unlisted	**208.6**	192.3	**–**	–
	282.7	273.7	**–**	–
(b) Equity securities				
Listed – Hong Kong	**63.2**	26.4	**–**	–
Listed – overseas	**1.2**	13.2	**–**	1.8
	64.4	39.6	**–**	1.8

Financial assets at fair value through profit or loss are denominated in the following currencies:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
USD	**209.8**	197.0	**–**	–
HKD	**137.3**	98.0	**–**	–
RMB	**–**	9.8	**–**	–
GBP	**–**	8.5	**–**	1.8
	347.1	313.3	**–**	1.8

30 Time deposits, cash and bank balances

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
Time deposits over three months	**261.3**	493.7	**–**	99.8
Time deposits up to three months	**5,148.7**	5,537.3	**1,762.2**	1,323.4
Cash and bank balances	**7,037.7**	5,704.9	**261.8**	158.0
	12,186.4	11,242.2	**2,024.0**	1,481.4

The effective interest rates on time deposits in Hong Kong and mainland China are 1.57 per cent and 2.17 per cent per annum respectively (2011: 1.81 per cent and 2.68 per cent per annum). These deposits have average maturity dates within 60 days (2011: 60 days).

Time deposits, cash and bank balances are denominated in the following currencies:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
HKD	**2,702.7**	3,894.0	**688.1**	642.8
USD	**2,461.6**	1,128.9	**292.6**	48.7
RMB	**7,176.1**	6,663.1	**983.2**	877.1
THB	**42.2**	–	**–**	–
EUR	**43.4**	2.5	**41.5**	1.2
Others	**21.7**	47.4	**18.6**	11.4
	12,447.7	11,735.9	**2,024.0**	1,581.2

31 Trade and other payables

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
Trade payables (Note (a))	**2,345.2**	1,736.7	**239.7**	122.4
Other payables and accruals (Note (b))	**6,984.2**	6,253.8	**623.2**	590.0
	9,329.4	7,990.5	**862.9**	712.4

Notes

(a) At 31st December 2012, the aging analysis of the trade payables is as follows:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
0 – 30 days	**1,144.4**	863.5	**238.7**	120.2
31 – 60 days	**222.4**	218.7	**1.0**	2.1
61 – 90 days	**81.3**	146.8	**–**	0.1
Over 90 days	**897.1**	507.7	**–**	–
	2,345.2	1,736.7	**239.7**	122.4

(b) The balance includes an amount of approximately HK$45.7 million (2011: HK$45.7 million) payable to Henderson Land Development Company Limited in relation to its entitlement to 27 per cent of the net sales proceeds generated from the sales of residential units of Grand Waterfront. Remaining balances mainly represents advance received from customers for construction works and accrual for services or goods received from suppliers.

(c) Trade and other payables are denominated in the following currencies:

	Group		Company	
	2012 **HK$'M**	2011 HK$'M	**2012** **HK$'M**	2011 HK$'M
HKD	**1,232.1**	1,124.1	**669.3**	616.3
USD	**209.1**	81.9	**167.6**	76.0
RMB	**7,850.1**	6,764.7	**11.3**	4.9
Others	**38.1**	19.8	**14.7**	15.2
	9,329.4	7,990.5	**862.9**	712.4

32 Asset Retirement Obligations

	Group	
	2012 HK$'M	2011 HK$'M
At 1st January	**–**	–
Acquisition of subsidiaries (note 46(a))	**69.9**	–
Liabilities incurred	**4.4**	–
Accretion expense	**1.4**	–
Exchange differences	**2.3**	–
At 31st December	**78.0**	–

Asset retirement obligations relate to oil properties (Note 2(x)).

33 Borrowings

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Non-current				
Bank and other loans	**7,532.7**	8,161.4	**300.0**	1,100.0
Guaranteed notes (Note (a))	**17,697.5**	13,467.0	**–**	–
	25,230.2	21,628.4	**300.0**	1,100.0
Current				
Bank and other loans	**6,490.8**	4,220.8	**800.0**	–
Total borrowings	**31,721.0**	25,849.2	**1,100.0**	1,100.0

Notes

(a) Guaranteed notes comprise:

(i) The US$1 billion guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, on 7th August 2008. The notes are unsecured and guaranteed by the Company as to repayment, carry a fixed coupon rate of 6.25 per cent per annum payable semi-annually in arrear and have a maturity term of 10 years. The notes are listed on The Stock Exchange of Hong Kong Limited. At 31st December 2012, notes with a principal amount of US$995.0 million (2011: US$995.0 million) are outstanding in the market and the market value of the notes was HK$9,320.9 million (2011: HK$8,996.0 million).

(ii) The HK$10,210.2 million (2011: HK$5,854.7 million) guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, between 2nd June 2009 and 28th September 2012. The notes are unsecured and guaranteed by the Company as to repayment, carry fixed coupon rates ranging from 1.19 per cent to 6.43 per cent per annum payable quarterly, half-yearly or annually in arrear and have maturity terms between 5 to 40 years.

33 Borrowings (Continued)

Notes (Continued)

(b) The maturity of borrowings is as follows:

	Group				Company	
	Bank and other loans		Guarantee notes		Bank loans	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Within 1 year	**6,490.8**	4,220.8	**–**	–	**800.0**	–
Between 1 and 2 years	**1,107.4**	1,719.8	**–**	–	**–**	800.0
Between 2 and 5 years	**6,386.1**	6,302.9	**1,223.9**	1,227.6	**300.0**	300.0
Wholly repayable within 5 years	**13,984.3**	12,243.5	**1,223.9**	1,227.6	**1,100.0**	1,100.0
Wholly repayable over 5 years	**39.2**	138.7	**16,473.6**	12,239.4	**–**	–

(c) The exposure of the Group's and Company's borrowings to interest rate changes and the contractual repricing dates are all within 6 months from the balance sheet date, except for guaranteed notes and some bank loans as they are subjected to fixed interest rate and with maturity date ranged from 2 to 40 years. The Company provided guarantees to the banks in respect of the banking facilities provided to certain subsidiaries of HK$6,932.2 million (2011: HK$6,558.7 million). The effective interest rates of the Group's borrowings at the balance sheet date are as follows:

	Group								
	2012					2011			
	HKD	**USD**	**RMB**	**AUD**	**JPY**	HKD	USD	RMB	AUD
Bank and other loans	**1.1%**	**0.9%**	**5.6%**	**N/A**	**1.2%**	1.0%	N/A	6.6%	N/A
Guaranteed notes	**3.9%**	**5.4%**	**1.6%**	**3.2%**	**3.4%**	4.2%	5.4%	1.6%	3.4%

(d) Saved as disclosed above, carrying value of borrowings approximate their fair value as the balances either at variable rates or the impact of discounting is not significant.

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
HKD	**15,164.3**	12,422.5	**1,100.0**	1,100.0
USD	**7,667.9**	7,659.7	**–**	–
RMB	**6,871.2**	5,332.2	**–**	–
AUD	**1,093.7**	396.0	**–**	–
JPY	**923.9**	38.8	**–**	–
	31,721.0	25,849.2	**1,100.0**	1,100.0

34 Customers' deposits

Customers' deposits mainly represent deposits received from customers pursuant to gas supply contracts agreed with customers and are repayable upon termination of gas supply contracts. The carrying values of the deposits approximate the fair value as the impact of discount is not significant.

The balances are denominated in HKD and bear interest at bank saving rate.

35 Deferred taxation

The movements in the deferred taxation are as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
At 1st January	**2,444.1**	2,017.5	**1,097.3**	1,074.9
Charged to income statement (Note 13)	**314.5**	229.9	**24.0**	22.4
Acquisition of subsidiaries (Note 46)	**1,702.9**	174.2	**–**	–
Disposal of a subsidiary (Note 45)	**(6.9)**	–	**–**	–
Withholding tax	**(62.1)**	(20.0)	**–**	–
Exchange differences	**53.7**	42.5	**–**	–
At 31st December	**4,446.2**	2,444.1	**1,121.3**	1,097.3

35 Deferred taxation (Continued)

Prior to offsetting of balances within the same taxation jurisdiction, the movements in deferred tax liabilities and assets during the year are as follows:

Group

Deferred tax liabilities	Accelerated tax depreciation 2012 HK$'M	Accelerated tax depreciation 2011 HK$'M	Mining and oil properties 2012 HK$'M	Mining and oil properties 2011 HK$'M	Others 2012 HK$'M	Others 2011 HK$'M	Total 2012 HK$'M	Total 2011 HK$'M
At 1st January	**1,511.3**	1,405.2	**500.3**	361.0	**451.6**	273.4	**2,463.2**	2,039.6
Charged to income statement	**185.0**	81.6	**10.1**	–	**119.4**	145.3	**314.5**	226.9
Acquisition of subsidiaries	**2.5**	8.0	**1,700.4**	122.6	**–**	43.6	**1,702.9**	174.2
Disposal of a subsidiary	**(6.9)**	–	**–**	–	**–**	–	**(6.9)**	–
Withholding tax	**–**	–	**–**	–	**(62.1)**	(20.0)	**(62.1)**	(20.0)
Exchange differences	**0.5**	16.5	**53.1**	16.7	**0.1**	9.3	**53.7**	42.5
At 31st December	**1,692.4**	1,511.3	**2,263.9**	500.3	**509.0**	451.6	**4,465.3**	2,463.2

Deferred tax assets	Provisions 2012 HK$'M	Provisions 2011 HK$'M	Tax losses 2012 HK$'M	Tax losses 2011 HK$'M	Total 2012 HK$'M	Total 2011 HK$'M
At 1st January	**(8.3)**	(8.3)	**(10.8)**	(13.8)	**(19.1)**	(22.1)
Charged to income statement	**–**	–	**–**	3.0	**–**	3.0
At 31st December	**(8.3)**	(8.3)	**(10.8)**	(10.8)	**(19.1)**	(19.1)
Net deferred tax liabilities at 31st December					**4,446.2**	2,444.1

Company

Deferred tax liabilities	Accelerated tax depreciation 2012 HK$'M	Accelerated tax depreciation 2011 HK$'M
At 1st January	**1,105.5**	1,083.1
Charged to income statement	**24.0**	22.4
At 31st December	**1,129.5**	1,105.5

Deferred tax assets	Provisions 2012 HK$'M	Provisions 2011 HK$'M
At 1st January and 31st December	**(8.2)**	(8.2)
Net deferred tax liabilities at 31st December	**1,121.3**	1,097.3

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$180.3 million (2011: HK$133.1 million) in respect of losses amounting to HK$845.6 million (2011: HK$648.9 million) that can be carried forward and set off against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$480.2 million (2011: HK$306.7 million) which will expire at various dates up to and including 2017 (2011: 2016).

36 Derivative financial instruments

	Group			
	2012		2011	
	HK$'M Assets	**HK$'M Liabilities**	HK$'M Assets	HK$'M Liabilities
Cross currency swap and interest rate swap contracts – cash flow hedges (Note)	**370.7**	**(218.2)**	452.3	(43.3)
Interest rate swap contracts – held-for-trading	**10.3**	**(86.9)**	–	(71.8)
	381.0	**(305.1)**	452.3	(115.1)

Note

The full fair values of hedging derivatives are classified as non-current assets or liabilities as the remaining maturity of the hedged items is more than 12 months.

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of HK$0.8 million (2011: HK$12.6 million) (Note 7).

The major terms of the outstanding cross currency swap and interest rate swap contracts are as follows:

Notional amount	Maturity	Forward contract rate	Interest rate (per annum)		Exchange frequency	
			Receive	Pay	Receive	Pay
Outstanding at 31st December 2012						
Cross currency swap contract						
RMB500 million	**2015**	**RMB1 to HKD1.21**	**2.20%**	**1.14%**	**Quarterly**	**Quarterly**
RMB1 billion	**2016**	**RMB1 to HKD1.21**	**1.40%**	**1.57% – 1.60%**	**Semi-annually**	**Semi-annually**
USD1 billion	**2018**	**USD1 to HKD7.8**	**6.25%**	**5.20% – 5.66%**	**Semi-annually**	**Quarterly or semi-annually**
AUD50 million	**2021**	**AUD1 to HKD7.78**	**6.43%**	**3.42%**	**Semi-annually**	**Semi-annually**
AUD86 million	**2022**	**AUD1 to HKD7.90 – HKD8.21**	**5.37% – 5.85%**	**2.75% – 3.42%**	**Semi-annually or annually**	**Semi-annually or annually**
JPY10 billion	**2022**	**JPY100 to HKD9.705 – HKD9.897**	**1.19% – 1.36%**	**3.33% – 3.46%**	**Semi-annually**	**Semi-annually**
Interest rate swap contract						
HKD350 million	**2016**	**N/A**	**HIBOR**	**1.98%**	**Quarterly**	**Quarterly**
Outstanding at 31st December 2011						
Cross currency swap contract						
RMB1 billion	2016	RMB1 to HKD1.21	1.40%	1.57% – 1.60%	Semi-annually	Semi-annually
USD1 billion	2018	USD1 to HKD7.8	6.25%	5.20% – 5.66%	Semi-annually	Quarterly or semi-annually
AUD50 million	2021	AUD1 to HKD7.78	6.43%	3.42%	Semi-annually	Semi-annually
Interest rate swap contract						
HKD350 million	2016	N/A	HIBOR	1.98%	Quarterly	Quarterly

36 Derivative financial instruments (Continued)

Gains and losses recognised in the hedging reserve in equity (Note 39) on the swaps as of 31st December 2012 will be continuously released to the income statement until the repayment of relevant borrowings.

37 Share capital

	Group and Company Ordinary shares of HK$0.25 each			
	Number of shares		Nominal value	
	2012	2011	**2012 HK$'M**	2011 HK$'M
Authorised:				
At 1st January and at 31st December	**10,000,000,000**	10,000,000,000	**2,500.0**	2,500.0
Issued and fully paid:				
At 1st January	**7,900,554,136**	7,182,321,942	**1,975.1**	1,795.6
Bonus issue	**790,055,413**	718,232,194	**197.5**	179.5
At 31st December	**8,690,609,549**	7,900,554,136	**2,172.6**	1,975.1

By an ordinary resolution passed on 5th June 2012, the issued share capital was increased by way of a bonus issue by applying HK$197.5 million to the share premium account towards payment in full at par of 790,055,413 shares of HK$0.25 each on the basis of one new share for every ten shares held on 5th June 2012. These shares rank pari passu with the existing ordinary shares.

38 Share premium

	Group and Company	
	2012 HK$'M	2011 HK$'M
At 1st January	**3,275.8**	3,455.3
Less: Bonus issue	**(197.5)**	(179.5)
At 31st December	**3,078.3**	3,275.8

39 Reserves

	Investment revaluation reserve HK$'M	Capital redemption reserve HK$'M	Hedging reserve HK$'M	Capital reserve HK$'M	Other reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group								
At 1st January 2012	181.3	223.8	378.9	155.5	(12.1)	3,007.7	29,198.4	33,133.5
Profit attributable to shareholders	–	–	–	–	–	–	7,727.9	7,727.9
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	280.3	–	–	–	–	–	–	280.3
Impairment loss on available-for-sale financial assets transferred to income statement	17.8	–	–	–	–	–	–	17.8
Change in fair value of cash flow hedges	–	–	(150.5)	–	–	–	–	(150.5)
Recognition of exchange reserve upon disposal of a subsidiary	–	–	–	–	–	(17.8)	–	(17.8)
Exchange differences	–	–	–	–	–	142.8	–	142.8
Total comprehensive income for the year	298.1	–	(150.5)	–	–	125.0	7,727.9	8,000.5
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
2011 final and special dividend paid	–	–	–	–	–	–	(3,199.7)	(3,199.7)
2012 interim dividend paid	–	–	–	–	–	–	(1,042.9)	(1,042.9)
Further acquisition of subsidiaries	–	–	–	–	–	–	(23.5)	(23.5)
At 31st December 2012	479.4	223.8	228.4	155.5	(12.1)	3,132.7	35,859.9	40,067.6
Company and subsidiaries	479.4	223.8	228.4	155.5	(12.1)	1,454.1	15,747.0	18,276.1
Associated companies	–	–	–	–	–	477.1	12,575.9	13,053.0
Jointly controlled entities	–	–	–	–	–	1,201.5	7,537.0	8,738.5
	479.4	223.8	228.4	155.5	(12.1)	3,132.7	35,859.9	40,067.6
Balance after 2012 final dividend proposed	479.4	223.8	228.4	155.5	(12.1)	3,132.7	33,861.1	38,068.8
2012 final dividend proposed	–	–	–	–	–	–	1,998.8	1,998.8
	479.4	223.8	228.4	155.5	(12.1)	3,132.7	35,859.9	40,067.6
Company								
At 1st January 2012	2.5	223.8	–	–	–	–	8,395.3	8,621.6
Profit attributable to shareholders	–	–	–	–	–	–	3,163.3	3,163.3
Other comprehensive income:								
Revaluation surplus of available-for-sale financial assets transferred to equity	8.9	–	–	–	–	–	–	8.9
Total comprehensive income for the year	8.9	–	–	–	–	–	3,163.3	3,172.2
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
2011 final and special dividend paid	–	–	–	–	–	–	(3,199.7)	(3,199.7)
2012 interim dividend paid	–	–	–	–	–	–	(1,042.9)	(1,042.9)
At 31st December 2012	11.4	223.8	–	–	–	–	10,515.7	10,750.9
Balance after 2012 final dividend proposed	11.4	223.8	–	–	–	–	8,516.9	8,752.1
2012 final dividend proposed	–	–	–	–	–	–	1,998.8	1,998.8
	11.4	223.8	–	–	–	–	10,515.7	10,750.9

39 Reserves (Continued)

	Investment revaluation reserve HK$'M	Capital redemption reserve HK$'M	Hedging reserve HK$'M	Capital reserve HK$'M	Other reserve HK$'M	Exchange reserve HK$'M	Unappropriated profits HK$'M	Total HK$'M
Group								
At 1st January 2011	504.0	223.8	338.3	155.5	(0.8)	2,148.8	27,191.7	30,561.3
Profit attributable to shareholders	–	–	–	–	–	–	6,149.6	6,149.6
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(401.0)	–	–	–	–	–	–	(401.0)
Impairment loss on available-for-sale financial assets transferred to income statement	78.3	–	–	–	–	–	–	78.3
Change in fair value of cash flow hedges	–	–	40.6	–	–	–	–	40.6
Exchange differences	–	–	–	–	–	858.9	–	858.9
Total comprehensive income for the year	(322.7)	–	40.6	–	–	858.9	6,149.6	6,726.4
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
2010 final dividend paid	–	–	–	–	–	–	(1,651.9)	(1,651.9)
2011 interim dividend paid	–	–	–	–	–	–	(948.1)	(948.1)
Further acquisition of subsidiaries	–	–	–	–	–	–	4.9	4.9
Issue of shares of a subsidiary under share option schemes	–	–	–	–	(11.3)	–	–	(11.3)
At 31st December 2011	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Company and subsidiaries	181.3	223.8	378.9	155.5	(12.1)	1,385.0	15,940.0	18,252.4
Associated companies	–	–	–	–	–	437.3	10,120.5	10,557.8
Jointly controlled entities	–	–	–	–	–	1,185.4	6,337.6	7,523.0
	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Balance after 2011 final and special dividend proposed	181.3	223.8	378.9	155.5	(12.1)	3,007.7	29,198.4	33,133.5
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
	181.3	223.8	378.9	155.5	(12.1)	3,007.7	32,398.1	36,333.2
Company								
At 1st January 2011	18.6	223.8	–	–	–	–	3,463.8	3,706.2
Profit attributable to shareholders	–	–	–	–	–	–	9,079.3	9,079.3
Other comprehensive income:								
Revaluation deficit of available-for-sale financial assets transferred to equity	(16.1)	–	–	–	–	–	–	(16.1)
Total comprehensive income for the year	(16.1)	–	–	–	–	–	9,079.3	9,063.2
2010 final dividend proposed	–	–	–	–	–	–	1,651.9	1,651.9
2010 final dividend paid	–	–	–	–	–	–	(1,651.9)	(1,651.9)
2011 interim dividend paid	–	–	–	–	–	–	(948.1)	(948.1)
At 31st December 2011	2.5	223.8	–	–	–	–	11,595.0	11,821.3
Balance after 2011 final and special dividend proposed	2.5	223.8	–	–	–	–	8,395.3	8,621.6
2011 final and special dividend proposed	–	–	–	–	–	–	3,199.7	3,199.7
	2.5	223.8	–	–	–	–	11,595.0	11,821.3

40 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2012.

41 Commitments

(a) Capital expenditures for property, plant and equipment

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Authorised but not brought into the accounts at 31st December	**3,143.0**	3,092.8	**607.8**	640.5
Of which, contracts had been entered into at 31st December	**3,063.4**	2,751.0	**607.8**	640.5

(b) Share of capital expenditures for property, plant and equipment of jointly controlled entities

	Group	
	2012 HK$'M	2011 HK$'M
Authorised but not brought into the accounts at 31st December	**2,696.5**	3,016.8
Of which, contracts had been entered into at 31st December	**2,097.7**	2,050.4

(c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to certain joint ventures under various joint venture contracts to finance relevant gas and New Energy projects in mainland China. The directors of the Company estimate that as at 31st December 2012, the Group's commitments to these projects were approximately HK$1,275.4 million (2011: HK$1,180.3 million).

(d) Lease commitments

Lessee

At 31st December 2012, future aggregate minimum lease payments of land, buildings, plant and equipment under non-cancellable operating leases are as follows:

	Group		Company	
	2012 HK$'M	2011 HK$'M	**2012 HK$'M**	2011 HK$'M
Not later than 1 year	**95.3**	66.7	**18.9**	15.3
Later than 1 year and not later than 5 years	**152.0**	114.9	**48.7**	39.9
Later than 5 years	**195.4**	209.6	**133.3**	142.6
	442.7	391.2	**200.9**	197.8

41 Commitments (Continued)

(d) Lease commitments (Continued)

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront and rental of server and equipment under operating leases. Except for certain car parks rented out on an hourly or a monthly basis, these leases typically run for an initial period of 2 to 3 years. Further details of the carrying value of the property are contained in Note 18. At 31st December 2012, future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2012 HK$'M	2011 HK$'M
Not later than 1 year	**31.8**	14.2
Later than 1 year and not later than 5 years	**21.6**	10.9
	53.4	25.1

42 Related party transactions

Henderson Land Development Company Limited ("Henderson") is a related party of the Group by virtue of its significant interest in and influence over the Group. Other related parties include subsidiaries of Henderson and two banks with common directors with the Company during the year. During the year, the transactions carried out and year end balances with the associated companies, jointly controlled entities and other related parties are shown as follows:

(a) Interest income and sales of goods and services

	Group	
	2012 HK$'M	2011 HK$'M
Associated companies		
Sale of goods and services (Note (i))	**3.1**	3.4
Loan interest income (Note (ii))	**43.0**	3.8
Jointly controlled entities		
Sale of goods and services (Note (i))	**29.5**	18.6
Loan interest income (Note (ii))	**60.2**	46.3
Other related parties		
Sale of goods and services (Note (i))	**69.1**	6.9
Interest income from bank deposits (Note (i))	**14.0**	11.6

42 Related party transactions (Continued)

(b) Interest expense and purchase of goods and services

	Group	
	2012 **HK$'M**	2011 HK$'M
Associated companies		
Purchase of goods and services (Note (i))	**101.6**	80.1
Jointly controlled entities		
Purchase of goods and services (Note (i))	**18.5**	15.0
Other related parties		
Purchase of goods and services (Note (i))	**27.6**	15.1
Interest expense on bank loans (Note (i))	**75.5**	74.8

Notes

(i) These related party transactions were conducted at prices and terms as agreed by parties involved.

(ii) For the terms of loans, please refer to Notes 22 and 23.

(c) Year end balances arising from interest income, interest expense and sale or purchase of goods and services

	Group	
	2012 **HK$'M**	2011 HK$'M
Loans and interest receivables from:		
Associated companies	**1,569.1**	262.8
Jointly controlled entities	**1,743.5**	1,773.5
Time deposits and interest receivable from:		
Other related parties	**920.6**	271.6
Bank loans and interest payable to:		
Other related parties	**1,529.7**	1,134.9
Trade receivables from:		
Associated companies	**0.5**	–
Jointly controlled entities	**9.5**	1.6
Other related parties	**36.2**	2.3
Trade payables to:		
Associated companies	**5.3**	3.2
Jointly controlled entities	**1.0**	–
Other related parties	**1.1**	0.2

(d) Other related party transactions are also disclosed in Notes 12, 22, 23, 28 and 31.

43 Notes to consolidated cash flow statement

Reconciliation of profit before taxation to net cash from operating activities

	Group	
	2012 **HK$'M**	2011 HK$'M
Profit before taxation	**9,901.4**	8,068.7
Share of results of associated companies	**(2,455.4)**	(1,647.7)
Share of results of jointly controlled entities	**(1,199.4)**	(908.7)
Net gain on acquisition of subsidiaries	**(598.1)**	(124.6)
Gain on disposal of a subsidiary	**(66.3)**	–
Fair value gain on investment property	**(22.0)**	(17.0)
Provision for other receivables	**100.3**	–
Provision for investment in a jointly controlled entity	**20.0**	–
Ineffective portion on cash flow hedges	**(0.8)**	(12.6)
Interest income	**(315.0)**	(264.9)
Interest expense	**863.8**	752.0
Dividend income from investments in securities	**(183.8)**	(178.4)
Depreciation and amortisation	**1,465.1**	1,311.0
Loss on disposal/write off of property, plant and equipment	**26.0**	34.1
Gain on disposal of leasehold land	**(6.6)**	(11.3)
Gain on disposal of available-for-sale financial assets	**(18.2)**	(19.1)
Net realised and unrealised (gains)/losses on investments in financial assets at fair value through profit or loss and derivative financial instruments	**(54.3)**	144.7
Tax paid	**(1,323.2)**	(960.6)
Exchange differences	**13.4**	(115.6)
Changes in working capital		
Increase in customers' deposits	**39.4**	31.8
Increase in inventories	**(150.8)**	(284.6)
Increase in trade and other receivables	**(378.1)**	(1,728.3)
Increase in trade and other payables	**1,007.6**	901.5
Increase in asset retirement obligations	**5.8**	–
Increase in retirement benefit assets	**(5.1)**	(13.1)
Net cash from operating activities	**6,665.7**	4,957.3

44 Share option schemes

Pursuant to share option scheme (the "Share Option Scheme") adopted by shareholders of Towngas China on 4th April 2001, 26th April 2005 and 28th November 2005, Towngas China may grant options to employees of Towngas China and its subsidiaries for the recognition of their contributions to the Towngas China. Share options granted must be taken up within 28 days from the date of grant, upon payment of HK$1 per option and the vesting period of share options is from the date of grant until the commencement of the exercisable period. Share options granted are exercisable in accordance with the terms of the Share Option Scheme at any time for a period to be determined by the directors of Towngas China, which shall not be more than 10 years after the date of grant.

As at 31st December 2012, total number of outstanding and exercisable share options is 16,240,800. The weighted average exercise price for the outstanding and exercisable share options is HK$3.7. Had all the outstanding vested share options been exercised on 31st December 2012, the Group would have received cash proceeds of approximately HK$60.3 million.

45 Disposal of a subsidiary

On 6th January 2012, the Group disposed its 60 per cent equity interest in Shunde Hong Kong and China Gas Company Limited ("Shunde") to an associated company of the Group for cash consideration of HK$201.4 million. Since the Group lost control on Shunde, relevant assets and liabilities are deconsolidated from the Group's financial statements.

The assets and liabilities disposed of are as follows:

	HK$'M
Property, plant and equipment (Note 17)	537.8
Leasehold land (Note 19)	29.9
Available-for-sale investment	24.7
Inventories	4.0
Trade and other receivables	59.5
Bank balances and cash	9.0
Trade and other payables	(184.0)
Bank borrowings	(271.2)
Provision for taxation	(0.6)
Deferred taxation	(6.9)
Net assets	202.2
Non-controlling interests	(80.9)
	121.3
Gain on revaluation of effective retained interest	19.3
Recognition of exchange reserve upon disposal	(17.8)
Transaction related costs	12.3
Gain on disposal (Note 7)	66.3
Consideration	201.4

Analysis of net cash inflow of cash and cash equivalents in respect of disposal of a subsidiary:

	HK$'M
Cash consideration, net received	189.1
Cash and cash equivalents disposed	(9.0)
	180.1

46 Business combinations

(a) Business combinations under the Group's New Energy segment

In June 2012, the Group acquired 100 per cent of ECO Orient Energy (Thailand) Ltd. (formerly known as Pan Orient Energy (Thailand) Ltd.) and its subsidiary, Pan Orient Resources (Thailand) Ltd. ("Pan Orient Companies"), the companies were incorporated in Bermuda and Thailand respectively, for cash consideration of approximately HK$1,403.8 million. The Pan Orient Companies are engaged in the exploration, production and sale of crude oil, which own 60 per cent participating interest of several petroleum concession rights of 20-year production period from July 2012 in Wichianburi of Thailand.

The inclusion of the acquired businesses does not have a significant impact of the Group's turnover and profit for the year.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	HK$'M
Purchase consideration	1,403.8
Fair value of net identifiable assets acquired (see below)	(2,029.0)
Negative goodwill	(625.2)
Less: acquisition related cost	27.1
Net gain arising from the acquisition of Pan Orient Companies (Note 7)	(598.1)

The fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value at acquisition date HK$'M
Property, plant and equipment and oil properties (Note 17)	3,696.9
Inventories	58.1
Trade and other receivables	28.4
Bank balances and cash	59.2
Time deposits over three months	5.9
Trade and other payables	(21.4)
Provision for taxation	(27.8)
Asset retirement obligations	(69.9)
Deferred taxation	(1,700.4)
Net identifiable assets acquired	2,029.0

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	1,367.3
Cash and cash equivalents in subsidiaries acquired	(59.2)
Cash outflow on acquisition of subsidiaries	1,308.1

As at 31st December 2012, purchase consideration of HK$36.5 million for Pan Orient Companies remained unpaid and included in trade and other payables.

46 Business combinations (Continued)

(a) Business combinations under the Group's New Energy segment (Continued)

The negative goodwill of HK$625.2 million arising from the acquisition of Pan Orient Companies is mainly due to the recognition of fair value of oil reserve.

The reserve levels and its valuation have been assessed and confirmed by international professional petroleum technical expert consultants. The valuation is based on 10 million barrels of 1P oil reserve and 30 million barrels of 2P oil reserve, referenced to probabilistic approach in recommended evaluation practices issued by the Society of Petroleum Evaluation Engineers. Other key assumptions used for the valuation of the oil properties are as follows:

– Price of crude oil sold for 2012 – 2017 per barrel	US$84-93
– Discount rate	15%

(b) Business combinations under Towngas China

In 2012, Towngas China acquired the following businesses and subsidiaries:

	Percentage of registered capital acquired	Purchase consideration HK$'M
Business combinations in:		
Benxi Hong Kong and China Gas Co., Ltd. ("Benxi")	–	73.6
Yifeng Hong Kong and China Gas Co., Ltd. ("Yifeng")	–	33.6
Pingyin Hong Kong and China Gas Co., Ltd. ("Pingyin")	–	119.4
Subsidiaries acquired:		
Changting Hong Kong and China Gas Co., Ltd. ("Changting")	90	64.2
Xinqiu Hong Kong and China Gas Co., Ltd. ("Xinqiu")	100	162.9
Fuxin Dali Gas Company Limited ("Dali")	100	46.7
Qinhuangdao Hong Kong and China Gas Co., Ltd. ("Qinhuangdao")	51	61.5

The inclusion of the acquired businesses and subsidiaries does not have a significant impact of the Group's turnover and profit for the year.

46 Business combinations (Continued)

(b) Business combinations under Towngas China (Continued)

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	Benxi HK$'M	Yifeng HK$'M	Pingyin HK$'M	Changting HK$'M	Xinqiu HK$'M	Dali HK$'M	Qin-huang-dao HK$'M	Total HK$'M
Purchase consideration	73.6	33.6	119.4	64.2	162.9	46.7	61.5	561.9
Fair value of net identifiable assets acquired (see below)	(48.9)	(33.6)	(21.9)	(6.0)	(22.7)	(23.5)	(2.3)	(158.9)
Goodwill	24.7	–	97.5	58.2	140.2	23.2	59.2	403.0

The goodwill is attributable to the future profitability of the acquired businesses of Benxi, Pingyin, Changting, Xinqiu, Dali and Qinhuangdao and the synergies expected to arise after the Group's acquisitions.

The identifiable assets and liabilities arising from the acquisitions are as follows:

	Fair value at acquisition date HK$'M
Property, plant and equipment (Note 17)	136.4
Leasehold land (Note 19)	12.4
Inventories	3.5
Trade and other receivables	26.0
Cash and bank balances	10.6
Trade and other payables	(24.7)
Deferred taxation	(2.5)
Net Assets	161.7
Non-controlling interests	(2.8)
Net identifiable assets acquired	158.9

	HK$'M
Purchase consideration for acquisition of subsidiaries, settled in cash	188.3
Cash and cash equivalents in subsidiaries acquired	(10.6)
Cash outflow on acquisition of subsidiaries	177.7

As at 31st December 2012, purchase consideration of HK$49.1 million, HK$7.9 million, HK$119.4 million, HK$80.4 million and HK$28.3 million for Benxi, Yifeng, Pingyin, Xinqiu and Dali respectively remained unpaid and included in trade and other payables.

In addition, purchase consideration of HK$57.8 million and HK$30.7 million for Changting and Qinhuangdao respectively remained unpaid and included in loan and other payables to non-controlling shareholders.

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2012:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Apex Time Holdings Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Barnaby Assets Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Securities investment
Danetop Services Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Securities investment
# Eagle Legend International Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
ECO Aviation Fuel Development Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Aviation fuel facility construction
ECO Aviation Fuel Services Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Aviation fuel facility operation
ECO Environmental Investments Limited	2 ordinary shares of HK$1 each	100	Hong Kong	LPG filling stations
ECO Environmental Investments (China) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
ECO Landfill Gas (NENT) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Landfill gas project
ECO Natural Gas (China) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
ECO Natural Gas (Xian) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
[2] ECO Orient Energy (Thailand) Ltd. (formerly known as Pan Orient Energy (Thailand) Ltd.)	US$12,000 divided into 12,000 ordinary shares of US$1 each	100	Bermuda	Investment holding
Fanico Investments Limited	1 ordinary share of HK$1	100	Hong Kong	Investment holding
[1] G-Tech Piping Company Limited	100 shares of HK$1 each	100	Hong Kong	Trading of resin and pipes
[1] G-Tech Piping Technologies Limited	100 shares of HK$1 each	100	Hong Kong	Investment holding
HDC Data Centre Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Data centre operation
HKCG (Finance) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Financing
Hong Kong & China Gas (Anhui) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Changzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Chaozhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (China) Limited	10,000 ordinary shares of HK$1 each	100	British Virgin Islands	Investment holding

Direct subsidiaries of the Company
[1] Newly formed during the year
[2] Newly acquired during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2012:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Hong Kong & China Gas (Danyang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Fengcheng) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Guangzhou Science City) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Guangzhou) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Hebei) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jilin Province) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jinan) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jintan) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Nanjing) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Panyu) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Suzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Taizhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wuhan) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wujiang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Xuzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yixing) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhangjiagang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
[1] Hong Kong and China Gas (Zhengzhou) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong & China Gas (Zhongshan) Limited	1,000 ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
[1] Hong Kong & China Water (Maanshan) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong & China Water (Suzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water (Wujiang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding

[1] Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2012:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Hong Kong & China Water Limited	1 ordinary share of US$1	100	British Virgin Islands	Investment holding
Hong Kong and China Gas (Hainan) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Jiangxi) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Jingxian) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Xinmi) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong and China Gas (Zhangshu) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Investstar Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Securities investment
Monarch Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
M-Tech Instrument Corporation (Holding) Limited	119 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
[2] Pan Orient Resources (Thailand) Ltd.	THB425,000,000 divided into 17,000,000 shares of THB25 each	100	Thailand	Investment holding
Pathview Properties Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Prominence Properties Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
# P-Tech Engineering Company Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Engineering, and production of industrial gas
# Quality Testing Services Limited	10,000 ordinary shares of HK$1 each	100	Hong Kong	Appliance testing
Sky Global Limited	100 ordinary shares of US$1 each	100	British Virgin Islands/ Hong Kong	Investment holding
Starmax Assets Limited	90 million ordinary shares of HK$1 each	100	British Virgin Islands/ Hong Kong	Property development
Summit Result Developments Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Superfun Enterprises Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Securities investment
[1] TGT Peixian Company Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Towngas China Company Limited	2,460,344,830 shares of HK$0.1 each	66.2	Cayman Island/ PRC	Investment holding
Towngas Enterprise Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Café, restaurant and retail sales

Direct subsidiaries of the Company
[1] Newly formed during the year
[2] Newly acquired during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2012:

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
# Towngas International Company Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
# Towngas Investment Company Limited	2 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Towngas Telecommunications Fixed Network Limited	35,000,000 ordinary shares of HK$1 each	100	Hong Kong	Telecommunications business
Upwind International Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Securities investment
U-Tech Engineering Company Limited	12,600,000 ordinary shares of HK$1 each	100	Hong Kong	Engineering and related businesses
Uticom Limited	100 ordinary shares of HK$1 each	60	Hong Kong	Development of automatic meter reading system
Held by Towngas China				
China Overlink Holdings Co., Limited	1 ordinary share of US$1	100	British Virgin Islands	Investment holding
Hong Kong & China Gas (Anqing) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Dalian) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Huzhou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Maanshan) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Qingdao) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Taian) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Weifang) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Weihai) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yantai) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yingkou) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zibo) Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhumadian) Limited	100 ordinary shares of HK$1 each	100	Hong Kong	Investment holding
TCCL (Finance) Limited	1 ordinary share of HK$1	100	Hong Kong	Financing
Towngas (BVI) Holdings Limited	1 ordinary share of US$1	100	British Virgin Islands	Investment holding
Towngas China Group Limited	12,821 ordinary shares of US$1 each	100	British Virgin Islands	Investment holding

Direct subsidiaries of the Company

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
[1] Anyang ECO Clean Energy Co., Ltd.	RMB2.25 million	100	PRC	Vehicular fuel refilling station
Chaozhou Hong Kong and China Gas Company Limited	HK$100.0 million	60	PRC	Gas sales and related businesses
Chiping ECO Yi Yun Gas Co. Ltd.	RMB15.0 million	70	PRC	Vehicular fuel refilling station
Dandong YiYuan Trade Co., Ltd.	US$20.0 million	100	PRC	Coal trading
Danyang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses
Dong Ping ECO Energy Co. Ltd.	RMB25.5 million	91	PRC	Vehicular fuel refilling station
† ECO Environmental Energy Investment Limited	US$100.0 million	100	PRC	Chinese holding company
† ECO Environmental Resources Investments Limited	US$299.0 million	100	PRC	Chinese holding company
† ECO Services Management Company Limited	RMB50.0 million	100	PRC	Project management
Fengcheng Hong Kong and China Gas Company Limited	RMB88.0 million	55	PRC	Gas sales and related businesses
Guangzhou Dongyong Hong Kong & China Gas Limited	HK$71.3 million	82.6	PRC	Gas sales and related businesses
Guangzhou Hong Kong and China Gas Company Limited	RMB105.0 million	80	PRC	Gas sales and related businesses
† Henan ECO Clean Energy Co. Ltd.	US$2.22 million	100	PRC	Vehicular fuel refilling station
† Hong Kong & China Gas Investment Limited	US$75.0 million	100	PRC	Investment holding
Hong Kong and China Technology (Wuhan) Company Limited	RMB21.21 million	90.1	PRC	Development and sales of application software, etc.
Inner Mongolia ECO Ke Jian Coal Company Limited	RMB150.0 million	100	PRC	Coal mining and related businesses
Inner Mongolia SanWei Coal Chemical Technology Company Limited	RMB400.0 million	70.1	PRC	Coal-based chemical and related businesses
Inner Mongolia SanWei Resource Group Xiao Yu Gou Coal Company Limited	RMB120.0 million	70.1	PRC	Coal mining and related businesses
[1] Jiaxiang ECO Energy Co. Ltd.	RMB28.0 million	70	PRC	Vehicular fuel refilling station
Jilin Hong Kong and China Gas Company Limited	RMB100.0 million	63	PRC	Gas sales and related businesses
Jining Jikuang ECO New Energy Co., Ltd.	RMB15.0 million	51	PRC	Vehicular fuel refilling station

† Wholly foreign-owned enterprises
[1] Newly formed during the year

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
Jintan Hong Kong and China Gas Company Limited	RMB60.0 million	60	PRC	Gas sales and related businesses
Pingxiang Hong Kong & China Gas Company Limited	US$5.1 million	100	PRC	Gas sales and related businesses
Qinhuangdao YiTeng Trade Co. Ltd.	US$1.5 million	100	PRC	Coal trading
陝西易高匯泰清潔能源有限公司	RMB27.0 million	60	PRC	Vehicular fuel refilling station
Shanxi ECO Coalbed Methane Co. Ltd.	RMB200.0 million	70	PRC	Coalbed gas project
† Suining Hong Kong and China Gas Company Limited	US$5.0 million	100	PRC	Gas sales and related businesses
Taizhou Hong Kong and China Gas Company Limited	RMB83.0 million	65	PRC	Gas sales and related businesses
Taizhou Yongan Hong Kong & China Gas Co., Ltd.	US$10.0 million	93.9	PRC	Gas sales and related businesses
Towngas Chibo Data Service (Jinan) Co., Ltd.	RMB68.0 million	65	PRC	Data outsourcing project
Towngas Telecom (Shandong) Company Limited	RMB40.0 million	90.1	PRC	Telecommunication pipe-laying project
[1] Towngas Telecom (Peixian) Company Limited	RMB9.0 million	100	PRC	Telecommunications project
† Towngas Telecommunications (Shenzhen) Limited	RMB6.0 million	100	PRC	Telecom businesses
# Wuhu Hong Kong and China Water Company Limited	RMB400.0 million	75	PRC	Water supply and related businesses
Wujiang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses
Wujiang Hong Kong and China Water Company Limited	RMB860.0 million	80	PRC	Water supply and related businesses
Xian ECO Yida Clean Energy Co., Ltd.	RMB12.0 million	100	PRC	Vehicular fuel refilling station
† Xinmi Hong Kong and China Gas Company Limited	US$12.5 million	100	PRC	Gas sales and related businesses
Xuzhou Hong Kong and China Gas Company Limited	RMB125.0 million	80	PRC	Gas sales and related businesses
Yixing Hong Kong and China Gas Company Limited	RMB124.0 million	80	PRC	Gas sales and related businesses
† Zhang Shu Hong Kong & China Gas Company Limited	US$5.01 million	100	PRC	Gas sales and related businesses
Zhongshan Hong Kong and China Gas Limited	RMB96.0 million	70	PRC	Gas sales and related businesses

Direct subsidiaries of the Company
† Wholly foreign-owned enterprises
[1] Newly formed during the year

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
Jiangxi Hong Kong and China Gas Company Limited	RMB25.9 million	56	PRC	Gas sales and related businesses
† 豐縣港華燃氣有限公司	US$4.5 million	100	PRC	Gas sales and related businesses
饒平港華燃氣有限公司	HK$126.0 million	60	PRC	Gas sales and related businesses
† 卓度計量技術（深圳）有限公司	RMB14.0 million	100	PRC	Gas meter and related businesses
† 卓度計量技術（成都）有限公司	RMB2.8 million	100	PRC	Gas meter and related businesses
[1]† 卓通管道系統（中山）有限公司	RMB13.5million	100	PRC	Gas meter and related business
景縣港華燃氣有限公司	RMB79.0 million	81	PRC	Gas sales and related businesses
大連億達名氣通數據有限公司	RMB76.0 million	90	PRC	Telecommunication project
萊陽名氣通電訊有限公司	RMB10.0 million	90	PRC	Telecommunication project
嘉祥縣恒生貿易有限公司	RMB180.0 million	55	PRC	Port logistics project
西安易高運輸服務有限公司	RMB20.0 million	100	PRC	Logistics businesses
Held by Towngas China				
† An Shan Hong Kong and China Gas Company Limited	US$20.0 million	100	PRC	Gas sales and related businesses
Beipiao Hong Kong and China Gas Company Limited	RMB56.0 million	80	PRC	Gas sales and related businesses
Benxi Hong Kong and China Gas Company Limited	RMB210.0 million	80	PRC	Gas sales and related businesses
† Cangxi Hong Kong and China Gas Company Limited	RMB10.0 million	100	PRC	Gas sales and related businesses
[2] Changting Hong Kong and China Gas Company Limited	RMB22.0 million	90	PRC	Gas sales and related businesses
Chaoyang Hong Kong and China Gas Co., Ltd.	US$10.8 million	90	PRC	Gas sales and related businesses
Chi Ping Hong Kong & China Gas Co., Ltd.	RMB40.0 million	85	PRC	Gas sales and related businesses
† Chizhou Hong Kong and China Gas Company Limited	RMB20.0 million	100	PRC	Gas sales and related businesses
† Dalian Changxing Hong Kong and China Gas Co., Ltd.	US$14.0 million	100	PRC	Gas sales and related businesses
† Dalian Lvshun Hong Kong and China Gas Co., Ltd.	US$15.0 million	100	PRC	Gas sales and related businesses

† Wholly foreign-owned enterprises
[1] Newly formed during the year
[2] Newly acquired during the year

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
Held by Towngas China (Continued)				
[1] 大連瓦房店金宇港華燃氣有限公司	RMB40.0 million	60	PRC	Gas sales and related businesses
† Dayi Hong Kong and China Gas Co., Ltd.	RMB10.0 million	100	PRC	Gas sales and related businesses
Fuxin Hong Kong and China Gas Company Limited	RMB77.2 million	90	PRC	Gas sales and related businesses
[2]† Fuxin Dali Gas Company Limited	RMB13.9 million	100	PRC	Gas sales and related businesses
[2]† Fuxin Xinqiu Hong Kong and China Gas Company Limited	RMB34.0 million	100	PRC	Gas sales and related businesses
† Gao Chun Hong Kong and China Gas Co., Ltd.	US$4.0 million	100	PRC	Gas sales and related businesses
† Gongzhuling Towngas Limited	RMB53.0 million	100	PRC	Gas sales and related businesses
Guilin Hong Kong and China Gas Co., Ltd.	RMB30.0 million	100	PRC	Gas sales and related businesses
† Huangshan Hong Kong and China Gas Co., Ltd.	RMB40.0 million	100	PRC	Gas sales and related businesses
† Huangshan Huizhou Hong Kong and China Gas Co., Ltd.	US$2.1 million	100	PRC	Gas sales and related businesses
† Huangshan Taiping Hong Kong and China Gas Co., Ltd.	US$3.5 million	100	PRC	Gas sales and related businesses
Huzhou Hong Kong and China Gas Company Limited	US$10.5 million	98.9	PRC	Gas sales and related businesses
Jianyang Hong Kong and China Gas Company Limited	RMB10.0 million	100	PRC	Gas sales and related businesses
Jinan Jihua Gas Co., Ltd	RMB100.0 million	51	PRC	Gas sales and related businesses
[2]† Jinan Pingyin Hong Kong and China Gas Company Limited	RMB65.0 million	100	PRC	Gas sales and related businesses
Jiujiang Hong Kong and China Gas Co., Ltd.	RMB10.0 million	60	PRC	Gas sales and related businesses
† Kazuo Hong Kong and China Gas Co., Ltd.	US$6.4 million	100	PRC	Gas sales and related businesses
† Laiyang Hong Kong and China Gas Co., Ltd	US$5.4 million	100	PRC	Gas sales and related businesses
† Lezhi Hong Kong and China Gas Company Limited	RMB10.0 million	100	PRC	Gas sales and related businesses
† Longkou Hong Kong and China Gas Co., Ltd.	US$7.1 million	100	PRC	Gas sales and related businesses

† Wholly foreign-owned enterprises
[1] Newly formed during the year
[2] Newly acquired during the year

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
Held by Towngas China (Continued)				
Maanshan Bowang Hong Kong and China Gas Co., Ltd.	US$10.0 million	75.1	PRC	Gas sales and related businesses
† Mianyang Hong Kong and China Gas Company Limited	RMB90.0 million	100	PRC	Gas sales and related businesses
Miluo Red-Horse Natural Gas Development Company Limited	RMB50.0 million	70	PRC	Gas sales and related businesses
Pengshan Hong Kong and China Gas Company Limited	RMB10.0 million	70	PRC	Gas sales and related businesses
Pengxi Hong Kong and China Gas Company Limited	RMB3.6 million	100	PRC	Gas sales and related businesses
Pingchang Hong Kong and China Gas Company Limited	RMB10.0 million	90	PRC	Gas sales and related businesses
Qingdao Dong Yi Hong Kong and China Gas Co., Ltd.	RMB30.0 million	60	PRC	Gas sales and related businesses
Qingdao Zhongji Hong Kong and China Gas Co., Ltd.	RMB73.5 million	90	PRC	Gas sales and related businesses
Qing Yuan Hong Kong and China Gas Company Limited	RMB10.0 million	80	PRC	Gas sales and related businesses
[2] Qinhuangdao Hong Kong and China Gas Co., Ltd.	RMB15.0 million	51	PRC	Gas sales and related businesses
Qiqihar Hong Kong and China Gas Company Limited	RMB128.6 million	61.7	PRC	Gas sales and related businesses
Shao Guan Hong Kong and China Gas Co., Ltd.	RMB20.0 million	100	PRC	Gas sales and related businesses
† Shenyang Hong Kong and China Gas Co., Ltd.	US$17.5 million	100	PRC	Gas sales and related businesses
Tieling Hong Kong and China Gas Company Limited	RMB233.0 million	80	PRC	Gas sales and related businesses
Tongxiang Hong Kong and China Gas Company Limited	US$7.0 million	76	PRC	Gas sales and related businesses
† Towngas Investments Limited	US$200.0 million	100	PRC	Investment holding

† Wholly foreign-owned enterprises
[2] Newly acquired during the year

Subsidiaries (Continued)

The following is a list of project companies in mainland China which are sino-foreign equity joint ventures or wholly foreign-owned enterprises and are accounted for as subsidiaries as at 31st December 2012:

Name	Registered capital	Percentage of registered capital held	Place of incorporation/ operation	Principal activity
Held by Towngas China (Continued)				
Weiyuan Hong Kong and China Gas Company Limited	RMB10.0 million	100	PRC	Gas sales and related businesses
Wuning Hong Kong and China Gas Company Limited	RMB25.0 million	100	PRC	Gas sales and related businesses
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	RMB22.0 million	100	PRC	Gas sales and related businesses
Xin Jin Hong Kong and China Gas Company Limited	RMB12.0 million	60	PRC	Gas sales and related businesses
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited	RMB11.5 million	60	PRC	Gas sales and related businesses
Xiushui Hong Kong and China Gas Company Limited	RMB30.0 million	80	PRC	Gas sales and related businesses
† Yang Jiang Hong Kong and China Gas Company Limited	RMB50.0 million	100	PRC	Gas sales and related businesses
2† Yifeng Hong Kong and China Gas Co., Ltd.	RMB32.0 million	100	PRC	Gas sales and related businesses
† Yingkou Hong Kong and China Gas Company Limited	US$9.4 million	100	PRC	Gas sales and related businesses
Yuechi Hong Kong and China Gas Company Limited	RMB12.5 million	90	PRC	Gas sales and related businesses
1† Zhaoyuan Hong Kong and China Gas Company Limited	RMB22.0 million	100	PRC	Gas sales and related businesses
† Zhongjiang Hong Kong and China Gas Company Limited	RMB18.8 million	100	PRC	Gas sales and related businesses
Ziyang Hong Kong and China Gas Company Limited	RMB18.9 million	90	PRC	Gas sales and related businesses

† Wholly foreign-owned enterprises
1 Newly formed during the year
2 Newly acquired during the year

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

CORPORATE INFORMATION

Chairman

LEE Shau Kee

Directors

LEUNG Hay Man*
Colin LAM Ko Yin
David LI Kwok Po*
LEE Ka Kit
Alfred CHAN Wing Kin
James KWAN Yuk Choi
(retired on 1st February 2013)
LEE Ka Shing
POON Chung Kwong*
Peter WONG Wai Yee
(appointed on 1st February 2013)

* Independent Non-executive Director

Managing Director

Alfred CHAN Wing Kin

Executive Director and Chief Operating Officer – Utilities Business

Peter WONG Wai Yee
(appointed on 1st February 2013)

Chief Financial Officer and Company Secretary

John HO Hon Ming

Registered Office

23rd Floor, 363 Java Road,
North Point, Hong Kong

Company's Website

www.towngas.com

Share Registrar

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong
Tel: 2862 8555
Fax: 2865 0990

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building,
Central,
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central,
Hong Kong

The Bank of East Asia, Limited
10 Des Voeux Road Central,
Hong Kong

Investor Relations

Corporate Investment and Investor
Relations Department
Tel: 2963 3189
Fax: 2911 9005
e-mail: invrelation@towngas.com

Corporate Communications
Department
Tel: 2963 3493
Fax: 2516 7368
e-mail: ccd@towngas.com

Company Secretarial Department
Tel: 2963 3292
Fax: 2562 6682
e-mail: compsec@towngas.com

FINANCIAL CALENDAR

Half-Year Results	Announced on Tuesday, 21st August 2012
Full-Year Results	Announced on Monday, 18th March 2013
Annual Report	Posted to Shareholders on Tuesday, 23rd April 2013
Register of Shareholders	(i) To be closed on Monday, 3rd June 2013 to Wednesday, 5th June 2013, for the purpose of determining entitlement of Shareholders to the right to attend and vote at the Annual General Meeting (ii) To be closed on Tuesday, 11th June 2013 to Friday, 14th June 2013, for the purpose of determining Shareholders who qualify for the proposed issue of bonus shares and final dividend
Annual General Meeting	To be held on Wednesday, 5th June 2013
Dividends – Interim	HK12 cents – Paid on Wednesday, 3rd October 2012
– Final (Proposed)	HK23 cents – Payable on Monday, 24th June 2013
Bonus Issue of Shares (Proposed)	Share certificates to be posted to Shareholders on Monday, 24th June 2013

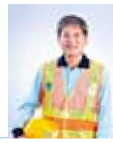
Both printed English and Chinese versions of this Annual Report are available upon request from the Company and the Company's share registrar free of charge. The website version of this Annual Report is also available on the Company's website.













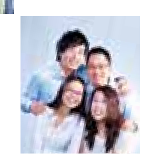




The Hong Kong and China Gas Company Limited

23rd Floor, 363 Java Road, North Point, Hong Kong

www.towngas.com





MIX
Paper from responsible sources
FSC™ C023053
FSC
www.fsc.org