10載跨越

FLAMING OVER A DECADE

中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED
(Stock Code 股份代號: 3633)

2013
ANNUAL REPORT 年報

Summary

Zhongyu Gas Holdings Limited (the "Company") is a gas service operator which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 3633). The Company, undertaking the mission of "develop green energy and achieve a good life" and by virtue of the advanced managing pattern and operation ideas, has been focusing on the investment and operation of gas pipeline infrastructure, distribution of piped gas to customers and the construction and operation of compressed natural gas or liquefied nature gas filling stations.

In 2003, the Company entered the field of urban gas operation with a solid financing advantage which was supported by the international capital market, intending to optimize the regional energy operational structure and facilitate the construction of a conservation-oriented and environment-friendly society. In 2007, the Company commenced CNG filling stations business and expanded its business to the exploration and utilization of coalbed methane (CBM).

So far, Zhongyu Gas Holdings Limited has invested in 29 gas projects in Henan, Shandong, Jiangsu, Fujian and Heilongjiang Province. The length of existing intermediate and main pipeline laid by the Company has amounted to a length of more than 3,000 km and can annually supply over 3.5 billion m^3 gas every year, providing the clean energy products and services which are both safe and stable to about 800,000 residential households and more than 3,000 industrial and commercial customers.

概述

中裕燃氣控股有限公司(「本公司」)是一家在香港聯合交易所有限公司(「聯交所」)主板上市(股份代號：3633)的燃氣服務運營商。本公司秉承「發展清潔能源、成就美好生活」的理念，通過引入先進的管理模式和經營理念，致力於投資及營運燃氣管道基建設施，向客戶分銷管道燃氣以及建設及經營壓縮天然氣或液化天然氣加氣站。

二零零三年，本公司依托強大的國際資本市場，憑藉雄厚的資金優勢進入城市燃氣業務領域，通過優化區域能源經營結構，促進資源節約型、環境友好型社會建設。二零零七年，本公司展開壓縮天然氣加氣站業務，並將業務範疇擴展至煤層氣的勘探開採和利用。

目前，中裕燃氣控股有限公司在河南、山東、江蘇、福建及黑龍江省已投資29個燃氣項目。本公司鋪設之現有中輸及主幹管道長度逾3,000公里，年供氣能力逾35億立方米，為約800,000戶居民及逾3,000戶工商業用戶提供安全、穩定的清潔能源產品與服務。

2003

The basic framework of future development was formed.

未來發展之基本框架已形成。

2004

The name of the Company was changed to Zhongyu Gas Holdings Limited and started pipeline natural gas business.

本公司更名為中裕燃氣控股有限公司，並開展管道天然氣業務。

2005

Project constructions were under progress in full swing.

全面開展項目建設。

2007

Commenced CNG filling stations business and tapped into the upstream CBM market in the PRC.

開展壓縮天然氣加氣站業務並進軍中國逆流煤層氣市場。

2008

Natural gas sales volume reached approximately 170,778,000 m^3. Number of CNG filling stations reached 2.

天然氣銷量約達170,778,000立方米。壓縮天然氣加氣站數目為兩個。

2009

Introduced modern management tools and optimized business structure.

引入現代管理工具並優化業務結構。

2011

Downstream gas sales volume reached 574,468,000 m^3. Number of CNG filling stations reached 9.

順流燃氣銷量達574,468,000立方米。壓縮天然氣加氣站數目為九個。

2012

The Company successfully transferred its listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange under the new stock code "3633" on 11th July, 2012.

The Company was awarded "The Excellent Enterprise Awards 2012" presented by "Capital Weekly".

於二零一二年七月十一日，本公司成功從聯交所創業板轉至聯交所主板上市，新股份代號為「3633」。

本公司榮獲「資本壹週」頒發之「傑出企業大獎2012」。

2013

The Company entered into its 10th anniversary. Downstream gas sales volume reached 875,160,000 m^3. Number of CNG filling stations reached 27.

本公司成立十週年。順流燃氣銷量達875,160,000立方米。壓縮天然氣加氣站數目達27個。

Our Mission
我們的使命

Develop green energy and achieve a good life.

發展清潔能源　成就美好生活。

Our Vision
我們的願景

To capture the ample growth brought by the surging demand of clean energy in China and achieve long-term sustainable development.

把握中國市場對清潔能源不斷上升的需求，實現業務長遠持續發展。

Our Core Values
我們的核心價值觀

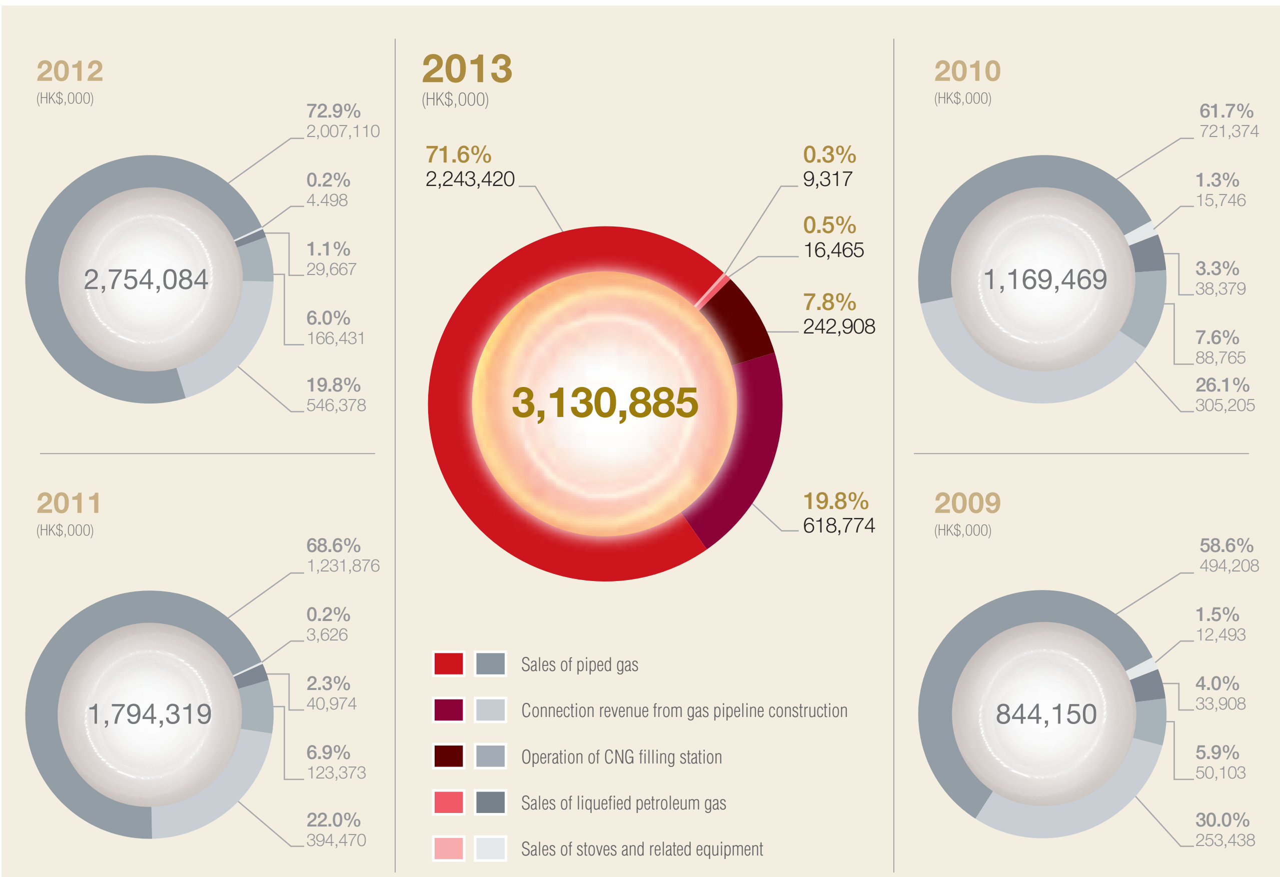
Satisfy the customers, assure the government, achieve business development and benefit the employees.

客戶滿意、政府放心、企業發展、員工受益。

CONTENTS

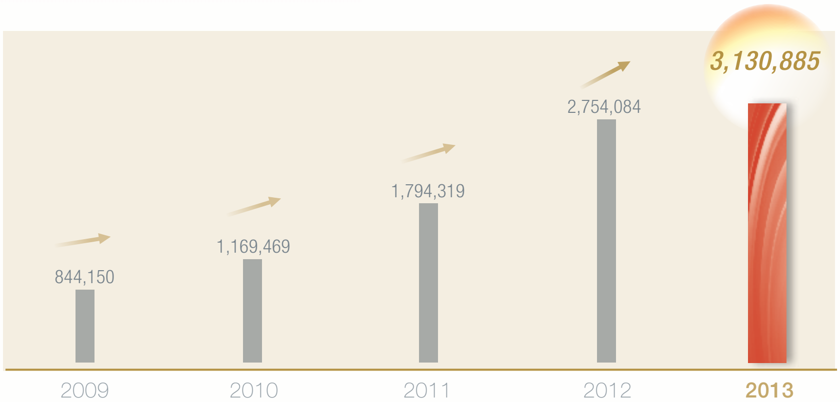
Financial Highlights

	Year ended 31st December		
	2013 HK$'000	2012 HK$'000	% of changes
Turnover	**3,130,885**	2,754,084	13.7%
Sales of piped gas	**2,243,421**	2,007,110	11.8%
Connection revenue from gas pipeline construction	**618,774**	546,378	13.3%
Operation of CNG/LNG filling stations	**242,908**	166,431	46.0%
Gross profit	**745,675**	648,612	15.0%
(Gross margin)	**(23.8%)**	(23.6%)	(+0.2%)
Profit attributable to owners of the Company	**262,248**	226,021	16.0%
(Net profit margin)	**(8.4%)**	(8.2%)	(+0.2%)
Earnings per share			
Basic	**HK10.39 cents**	HK9.05 cents	14.8%
Diluted	**HK10.38 cents**	HK9.01 cents	15.2%
EBITDA	**602,789**	523,821	15.1%
Net assets value per share	**HK$0.7**	HK$0.6	16.7%

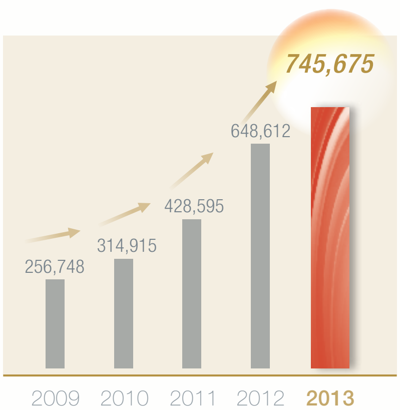


Financial Highlights

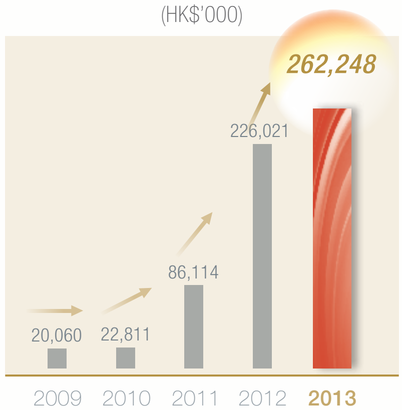
Turnover
(HK$,000)



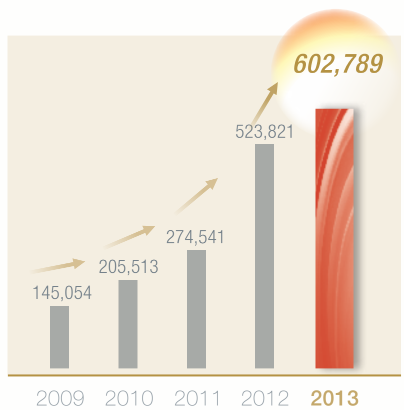
Gross Profit
(HK$'000)



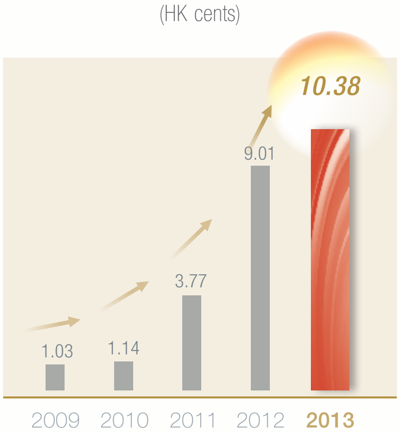
Profit attributable to owners of the Company
(HK$'000)



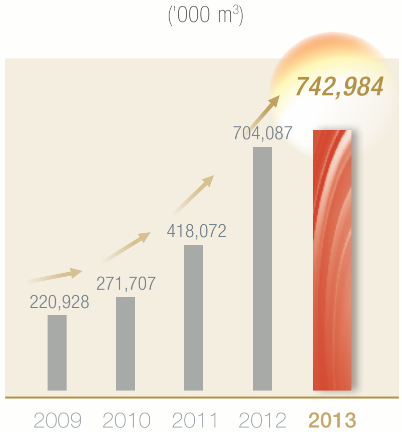
EBITDA
(HK$'000)



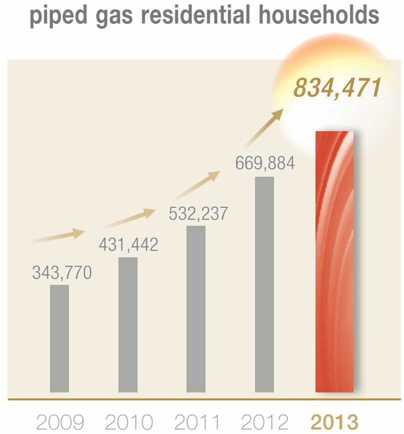
Earning per share - Diluted
(HK cents)



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



Accumulated number of connected piped gas residential households



CORPORATE INFORMATION

Executive Directors

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

Non-executive Directors

Mr. Xu Yongxuan *(Vice Chairman)*

Independent Non-executive Directors

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

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Hong Kong Legal Advisors

Reed Smith Richards Butler

Auditor

Deloitte Touche Tohmatsu

Corporate Website

www.zhongyugas.com

Stock Code

3633

Registered Office

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Units 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

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

CHAIRMAN'S STATEMENT

Wang Wenliang
Chairman

Dear Shareholders,

On behalf of the Board of Directors of Zhongyu Gas Holdings Limited, I am pleased to announce that the Group recorded overall encouraging annual results for the year ended 31st December, 2013 (the "Year"). The Group's natural gas operations continued to develop steadily during the Year. Turnover amounted to approximately HK$3,130,885,000 in 2013, representing a growth of 13.7% as compared to HK$2,754,084,000 in 2012. The revenue growth was mainly attributable to the continuous expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of piped gas, connection revenue from gas pipeline construction and operation of compressed natural gas or liquefied natural gas ("CNG/LNG") filling stations.

10th Anniversary

2013 marked the 10th anniversary of the Group. As an early mover in the natural gas development sector and a successful developer of vertically integrated gas operations in China, the Group has grasped the opportunities arising from favourable natural gas policies of the PRC Government and achieved remarkable success in the past decade. Together with the expansion of gas project networks across China, the Group provides an increasing number of household, industrial and commercial users with clean energy, which lays a solid foundation to boost the Group's long-term steady growth. In the next decade, the Group will continue to devote resources to further expand our downstream distribution and increase the penetration rate, ultimately achieving sustainable growth and enhancing shareholder value in the long run.

Chairman's Statement

Business Review

2013 was a challenging but fruitful period. During the Year, the PRC witnessed export and economic slowdown as the world economy underwent a period of change and adjustment. However, progressing urbanization and growing domestic consumption in the PRC have increase the demand of natural gas for both residential households and commercial customers. In addition, air pollution and environmental issues have attracted widespread attention and become a leading problem for the PRC government. In August 2013, an environmental initiative was introduced by the PRC government to reduce the number of newly built coal-fired power plants, as well as to tackle pollution problems by spending approximately US$275 billion. Against this backdrop, clean energies such as natural gas experienced rapid development during the Year. Along with the increasing demand in natural gas, the rationalization of gas prices and the growing pace of pipeline construction, the domestic natural gas market is expected to achieve significant growth in the coming years. This is in line with the PRC government's determination to increase natural gas consumption and supply as stated in The 12th Five-year Plan (2011-2015) For Natural Gas Development.

On 10th July, 2013, the National Development and Reform Commission of the PRC adjusted the natural gas price of non-residential gate stations. The national average gate station price has increased by 15% to RMB1.95 per cubic meter from RMB1.69 per cubic meter. The natural gas price of residential gate stations has not yet been adjusted. On 15th August and 1st September, 2013, the Group received the Notice on the Adjustment of Natural Gas Prices for non-residential users and Vehicles Natural Gas Prices in Linyi City (關於調整臨沂市非居民用天然氣和車用天然氣銷售價格的通知) issued by the Bureau of Commodity Prices in Linyi City and the Notice on the Adjustment of Natural Gas Prices for non-residential users in Henan Province (關於調整河南省非居民用天然氣銷售價格的通知) (together the "Notices") issued by the Henan Province Development and Reform Commission respectively. Pursuant to the Notices, the selling price of natural gas for non-residential users and motor vehicles of the Group's subsidiaries in Linyi City, and the selling price of natural gas for non-residential users in Jiaozuo City, Luohe City, Jiyuan City, Yanshi City and Xinmi City were increased during the Year.

Subsequent to the commencement of large scale gas supply from the main pipeline of the Second West-East Gas Pipeline in July 2011, piped gas supply for the Group's projects located in various cities has increased significantly. Moreover, the connection and supply of gas to Yanshi City and Xinmi City from the sub-pipeline of the Second West-East Gas Pipeline has also completed and supply commenced in October 2012 and March 2013 respectively, resulting in significant sales growth of piped gas to Yanshi City and Xinmi City during the Year. As a result, most of the gas projects of the Group, with the exception of projects in Yongcheng City, Nanjing City, Shaowu City and Tieli City, are connected and supplied through the First and Second West-East Gas Pipelines, enabling the Group to connect with more end users, increasing the Group's turnover and in turn, enhancing its earnings base.

The growth of domestic consumption and household disposable income has correspondingly boosted the sales of piped gas. Due to continued urbanization and relatively robust economic performance in Henan and Shandong Provinces of the PRC, demand for natural gas from residential households as well as industrial customers also realized steady growth during the Year. As a result, the downstream gas sales volume reached 875,160,000 m^3 in 2013, an increase of 4.1% over 841,054,000 m^3 in 2012.

During the Year, the Group progressively expanded its market share to boost future growth. In June 2013, Linyi Zhongyu Energy Company Limited ("Linyi Zhongyu Energy"), a non-wholly-owned subsidiary of the Company, established a company namely 東海縣中裕燃氣有限公司 (Donghai County Zhongyu Gas Company Limited) ("Donghai County Zhongyu") with two individual parties in Donghai County, Lianyungang City, Jiangsu Province, the PRC. Linyi Zhongyu Energy currently owns 67% equity interests of Donghai County Zhongyu, which is principally engaged in the construction and operation of piped natural gas projects in Shilianghe Town of Donghai County.

In September and November 2013, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company further expanded its footprints in Wuzhi County, Henan Province, Tieli City and Heilongjiang

Chairman's Statement

Province to develop the business of constructing natural gas reserves and related pipeline infrastructure projects as well as operation of CNG filling station though the acquisition of 100% equity interests in Wuzhi County Gaoyuan Natural Gas Company Limited and Tieli City Jianhua Gas Company Limited respectively.

In addition, Lingbao Zhongyu Gas Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement with the Housing and Urban-Rural Development Bureau of Lingbao City in December 2013 to obtain a right for constructing and operating of piped natural gas projects on an exclusive basis in a new development district located in Sanmenxia City, Henan Province.

The Chinese automobile market has been the world's largest since 2009. The steady growth of automobile consumption in the PRC generated demand for natural gas and CNG/LNG filling stations. During the Year, 15 new CNG/LNG filling stations of the Group, including fourteen newly established and one newly acquired, have come into operation, bringing the total number of the Group's CNG/LNG filling stations to 27. The Group believes that the construction of CNG/LNG filling stations will provide a solid foundation for further development of its vertically integrated value chain, and expects additional investment in this area in the coming years. As at 31st December, 2013, the Group had 12 CNG/LNG filling stations under construction, among which, the Group has planned to complete construction of 9 CNG/LNG filling stations in 2014 in order to increase its market share to further enhance its revenue base and profit growth.

During the Year, the Group disposed part of its liquefied petroleum gas ("LPG") business in Sanmenxia City and Jiaozuo City in order to focus the Group's resources on other businesses. The Company believes the aforementioned acquisitions or projects will continue to fuel the Group's business growth in the domestic gas distribution market in the PRC.

Prospects

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

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

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

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

Wang Wenliang
Chairman
Hong Kong
13th March, 2014

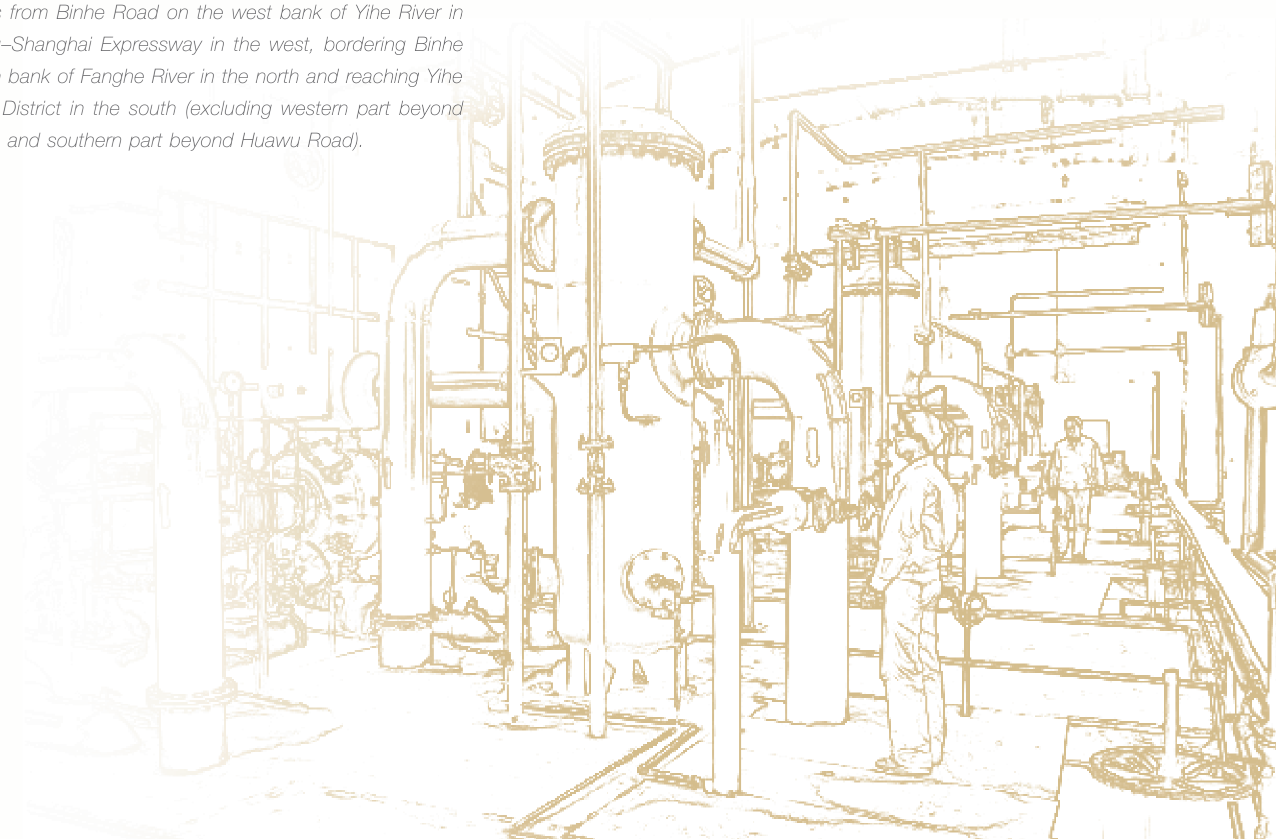
Operational Statistics

As at 31 December 2013								
Province	Operational location	Connectable Urban Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Filling Stations
Henan	Jiaozuo City	800,000	228,571	192,762	56	561	333	3
	Qinyang City	130,000	37,143	11,766	12	55	71	–
	Wuzhi County	520,000	148,571	12,000	–	–	–	–
	Xiuwu County	90,000	25,714	4,187	22	20	136	2
	Luohe City	600,000	171,429	142,683	20	418	592	2
	Light Food Industrial Park in Luohe Economic Development District	–	–	–	10	–	–	–
	Luohe Shaoling District	–	–	–	18	–	–	–
	Luohe Songjiang Industrial Zone	–	–	–	15	–	–	–
	Luohe Houxie Village Industrial Zone	–	–	–	–	–	–	–
	Luohe West Industrial Zone	–	–	–	–	–	–	–
	Venture Center in Luohe Economic Development District	–	–	–	15	–	–	–
	Xiping County	32,800	9,371	–	–	–	–	–
	Jiyuan City	400,000	114,286	79,284	109	570	461	1
	Sanmenxia City	390,000	111,429	51,489	13	170	260	2
	Shanxian County	53,000	15,143	–	0	–	–	–
	Sanmenxia Industrial Park	–	–	–	7	–	–	–
	Lingbao City	120,000	34,286	–	–	–	–	–
	Yanshi City	150,000	42,857	18,688	50	60	204	1
	Yongcheng City	400,000	114,286	32,776	1	80	248	1
	Yongcheng Industrial Zone	35,000	10,000	0	1	0	–	–
	Xinmi City	250,000	71,429	20,975	15	85	296	2

Operational Statistics

As at 31 December 2013								
Province	**Operational location**	**Connectable Urban Population**	**Connectable Residential Households**	**Accumulated Connected Residential Households**	**Accumulated Connected Industrial Customers**	**Accumulated Connected Commercial Customers**	**Length of Existing Intermediate and Main Pipelines (km)**	**Number of CNG/LNG Filling Stations**
Shandong	Linyi City (Note)	1,280,000	365,714	229,084	30	678	260	11
	Linyi Economic Development District	167,000	47,714	36,757	73	50	343	1
	Linshu County	9,000	2,571	–	37	2	–	–
	Dezhou Tianqu Industrial Park	–	–	–	–	–	–	–
Jiangsu	Jingqiao Town, Nanjing City	48,000	13,714	–	2	0	–	–
	Donghai County	53,000	15,143	–	–	–	–	–
	Nanjing City	–	–	–	–	–	–	1
Fujian	Shaowu City	165,000	47,143	0	–	–	–	–
Heilongjiang	Chengguan Town, Tieli City	198,000	56,571	2,020	–	–	–	–
		5,890,800	1,683,085	834,471	506	2,749	3,204	27

Note: The operational location covers the administrative jurisdiction of Linyi City, which is from Binhe Road on the west bank of Yihe River in the east to Beijing–Shanghai Expressway in the west, bordering Binhe Road on the south bank of Fanghe River in the north and reaching Yihe Road, Luozhuang District in the south (excluding western part beyond Mengshan Avenue and southern part beyond Huawu Road).



Management Discussion & Analysis

Business Review

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

Downstream Piped Gas Distribution

Gas Sources from the West-East Gas Pipeline

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

The connection and supply of gas to Yanshi City and Xinmi City from the sub-pipeline of the Second West-East Gas Pipeline has completed and supply commenced in October 2012 and March 2013 respectively. As a result, the sales of piped gas to Yanshi City and Xinmi City has greatly increased. The gas in most of the gas projects of the Group except the gas projects in Yongcheng City, Nanjing City Shaowu City and Tieli City, are connected and supplied through the First and Second West-East Gas Pipelines.

New Gas Projects Expansion

During the financial year, the Group secured 5 additional gas projects with exclusive rights, including Wuzhi County and Lingbao City of Henan Province, Donghai County of Jiangsu Province, Tieli City of Heilongjiang Province and Dezhou City of Shandong Province. As a result, the number of projects secured by the Group in PRC increased to 29, and the total connectable urban population coverage increased by 1.58 million to 5.89 million.

Donghai County Project

On 4th June, 2013, Linyi Zhongyu Energy Company Limited ("Linyi Zhongyu Energy"), a non-wholly-owned subsidiary of the Company, established a company, namely 東海縣中裕燃氣有限公司 (Donghai County Zhongyu Gas Company Limited) ("Donghai County Zhongyu") with two individual parties in Donghai County, Lianyungang City, Jiangsu Province, the PRC. To the best of Directors' knowledge, information and belief having made all reasonable enquiries, such two individual parties are third parties independent of the Company and its connected persons ("Independent Third Parties").

Donghai County Zhongyu is owned as to 67% by Linyi Zhongyu Energy and the remaining 33% by the aforesaid Independent Third Parties. The registered capital of Donghai County Zhongyu is RMB10,000,000 and is contributed as to RMB6,700,000 by Linyi Zhongyu Energy in cash and the remaining RMB3,300,000 by the aforesaid Independent Third Parties in cash. Upon establishment, Donghai County Zhongyu becomes an indirect non-wholly-owned subsidiary of the Company. Donghai County Zhongyu is engaged principally in the construction and operation of piped natural gas projects on an exclusive basis for 30 years in Shilianghe Town of Donghai County, Lianyungang City, Jiangsu Province, the PRC since 11th April, 2013. Shilianghe Town is an industrial zone.

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

Wuzhi County Project

On 1st September, 2013, 孟州高遠天然氣有限公司 Mengzhou Gaoyuan Natural Gas Company Limited ("Mengzhou Gaoyuan") as transferor, and Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly owned subsidiary of the Company, as transferee, entered into an equity transfer agreement pursuant to which Mengzhou Gaoyuan agreed to transfer to Zhongyu Henan 100% of the equity interest in 武陟縣高遠天然氣有限公司 Wuzhi County Gaoyuan Natural Gas Company Limited ("Wuzhi Gaoyuan") held by it.

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

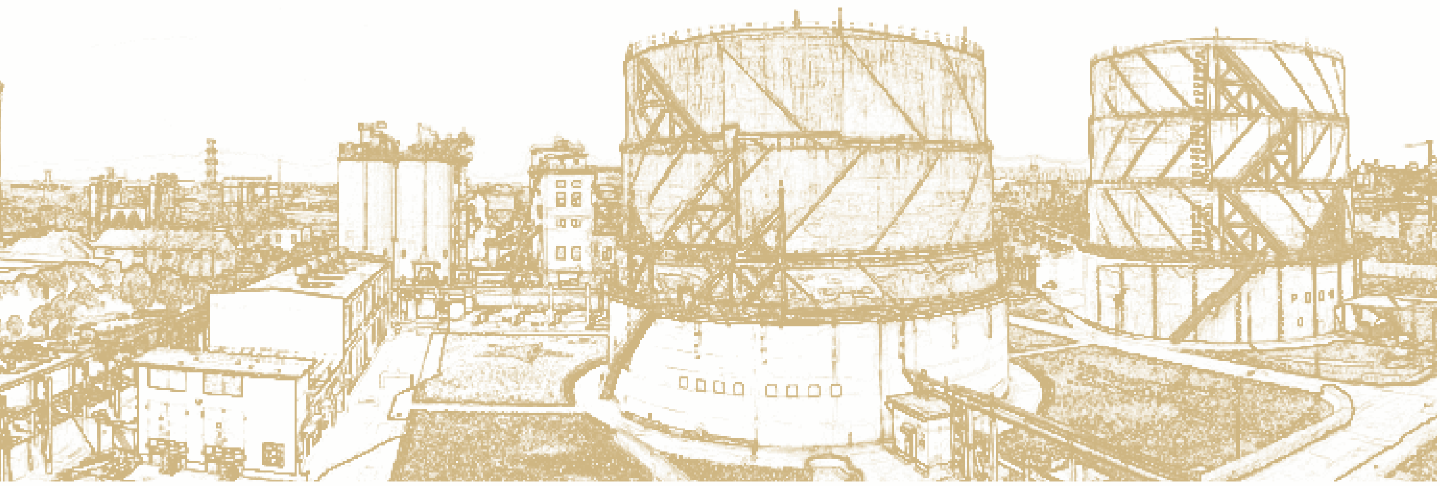
Wuzhi Gaoyuan was established in 2006 in Wuzhi County, the PRC with limited liability. It is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects as well as operation of CNG filling stations in Wuzhi County, the PRC. Wuzhi Gaoyuan obtained the concession right from local authorities of Wuzhi

County, the PRC, to operate the sales and distribution of natural gas in Wuzhi County, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 27th November, 2013.

Wuzhi County is located in Jiaozuo City, Henan Province, the PRC. The total area and population of the county is 805 square kilometers and 740,000 respectively. The business sector in Wuzhi County has developed rapidly and its comprehensive economic strength keeps growing. There are over 195 industrial large scale enterprises in the County with gross domestic product in Wuzhi County of 18 billion yuan.

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

The consideration of RMB51 million (equivalent to approximately HK$65 million) was determined after arm's length negotiation between the parties to the equity transfer agreement with reference to the potential economic benefit which Wuzhi



Gaoyuan could bring into the Group and its business prospects. As at 31st December, 2013, the consideration was paid by Zhongyu Henan to Mengzhou Gaoyuan and the acquisition was completed. The consideration paid under the equity transfer agreement was funded by bank borrowings.

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

Tieli City Project

On 18th November, 2013, 鄭州康玲商貿有限公司 Zhengzhou Kangling Trading Company Limited ("Zhengzhou Kangling") as transferor, and Zhongyu Henan, a wholly owned subsidiary of the Company, as transferee, entered into an equity transfer agreement pursuant to which Zhengzhou Kangling agreed to transfer to Zhongyu Henan 100% of the equity interest in 鐵力市嘉華燃氣有限公司 Tieli City Jiahua Gas Company Limited held by it. The company name was changed to 鐵力中裕燃氣有限公司 Tieli Zhongyu Gas Company Limited ("Tieli Zhongyu Gas") after acquisition.

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

Tieli Zhongyu Gas was established in 2010 in Heilongjiang Province, the PRC with limited liability. It is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects in Chengguan Town of Tieli City, Heilongjiang Province, the PRC. Tieli Zhongyu Gas obtained the concession right from local authorities of Tieli City, Heilongjiang Province, the PRC, to operate the sales and distribution of natural gas in Chengguan Town, Tieli City, Heilongjiang Province, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 15th June, 2009. The economy in Tieli City is sustainable and has developed rapidly. The gross domestic product in Tieli City has substantially increased in recent years.

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

The consideration of RMB145 million (equivalent to approximately HK$185 million) was determined after arm's length negotiation between the parties to the equity transfer agreement with reference to the potential economic benefit which Tieli Zhongyu Gas could bring into the Group and its business prospects. The acquisition was completed on 29th November, 2013 and on that date control in Tieli Zhongyu Gas was passed to the Group. The consideration paid under the equity transfer agreement was funded by internally generated resources and bank borrowings.

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

Lingbao Zhongyu Project

On 24th December, 2013, 靈寶中裕燃氣有限公司 Lingbao Zhongyu Gas Company Limited ("Lingbao Zhongyu"), a wholly owned subsidiary of the Company, entered into an agreement with 靈寶市住房和城鄉建設局 The Housing and Urban-Rural Development Bureau of Lingbao City to obtain a right for constructing and operating piped natural gas projects on an exclusive basis in a new development district located in Sanmenxia City, Henan Province, the PRC.

Lingbao Zhongyu is a limited liability company established in Lingbao City on 23rd December, 2013 and the registered capital of Lingbao Zhongyu is RMB20,000,000. The concession right is for a period of 30 years and has been granted for exclusive operations since 24th December, 2013. The Directors are of the view that the entering into of the agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations.

Dezhou Wangyuan Projects

On 6th December, 2013, Zhongyu Henan a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with independent third parties to acquire 100% equity interest in 德州旺源燃氣有限公司 Dezhou Wangyuan Gas Company Limited ("Dezhou Wangyuan") at a total

cash consideration of RMB81,000,000 (equivalent to HK$103,673,000). Dezhou Wangyuan is principally engaged in sales of piped gas in Tianqu industrial zone of Dezhou City, Shangdong Province, the PRC. A deposit of RMB8,100,000 (equivalent to HK$10,367,000) was paid during the year ended 31st December, 2013. The acquisition is subject to certain conditions which are not yet satisfied at the end of the reporting period.

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

Adjustment for the non-residential natural gas price of gate stations

The National Development and Reform Commission of the PRC has adjusted the non-residential natural gas price of gate stations since 10th July, 2013. The national average gate station price has increased by 15% to RMB1.95 per cubic meter from RMB1.69 per cubic meter. The residential natural gas price of gate stations has not been adjusted.

On 15th August, 2013, the Group received the Notice on the Adjustment of Natural Gas Prices for non-residential users and Vehicles Natural Gas Prices in Linyi City（關於調整臨沂市非居民用天然氣和車用天然氣銷售價格的通知）(the "Notice in Linyi"), which was issued by the Bureau of Commodity Prices in Linyi City. Pursuant to the Notice in Linyi, the selling price of natural gas for non-residential users and motor vehicles of the Group's subsidiaries in Linyi City was increased during the Year.

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On 1st September, 2013, the Group received the Notice on the Adjustment of Natural Gas Prices for non-residential users in Henan Province（關於調整河南省非居民用天然氣銷售價格的通知）(the "Notice in Henan"), which was issued by the Henan Province Development and Reform Commission ("Henan DRC"). Pursuant to the Notice in Henan, the selling price of natural gas for non-residential users of the Group's subsidiaries in Jiaozuo City, Luohe City, Jiyuan City, Yanshi City and Xinmi City was increased during the Year.

New CNG/LNG Filling Stations Expansion

Newly established CNG/LNG filling stations

The Group continued to develop vehicles natural gas refueling station business actively. During the financial year, 14 vehicle CNG/LNG refilling stations were built and put into operation.

Newly acquired CNG filling station

During the financial year, the Group acquired a new vehicle CNG refilling station in Jiaozuo City, Henan Province, the PRC.

During the year, Zhongyu Henan acquired 100% of the issued share capital 焦作中裕壓縮氣有限公司 Jiaozuo Zhongyu Compressed Gas Company Limited ("Jiaozuo Compressed Gas") for a consideration of RMB26.3 million (equivalent to HK33.5 million) from an independent third party. The acquisition was completed on 30th November, 2013 and on that date control in Jiaozuo Compressed Gas passed to the Group. Jiaozuo Compressed Gas is currently operating a CNG filling station in Jiaozuo. The Directors are of the view that the acquisition can continue to expand the Group's business in operating CNG/LNG filling stations.

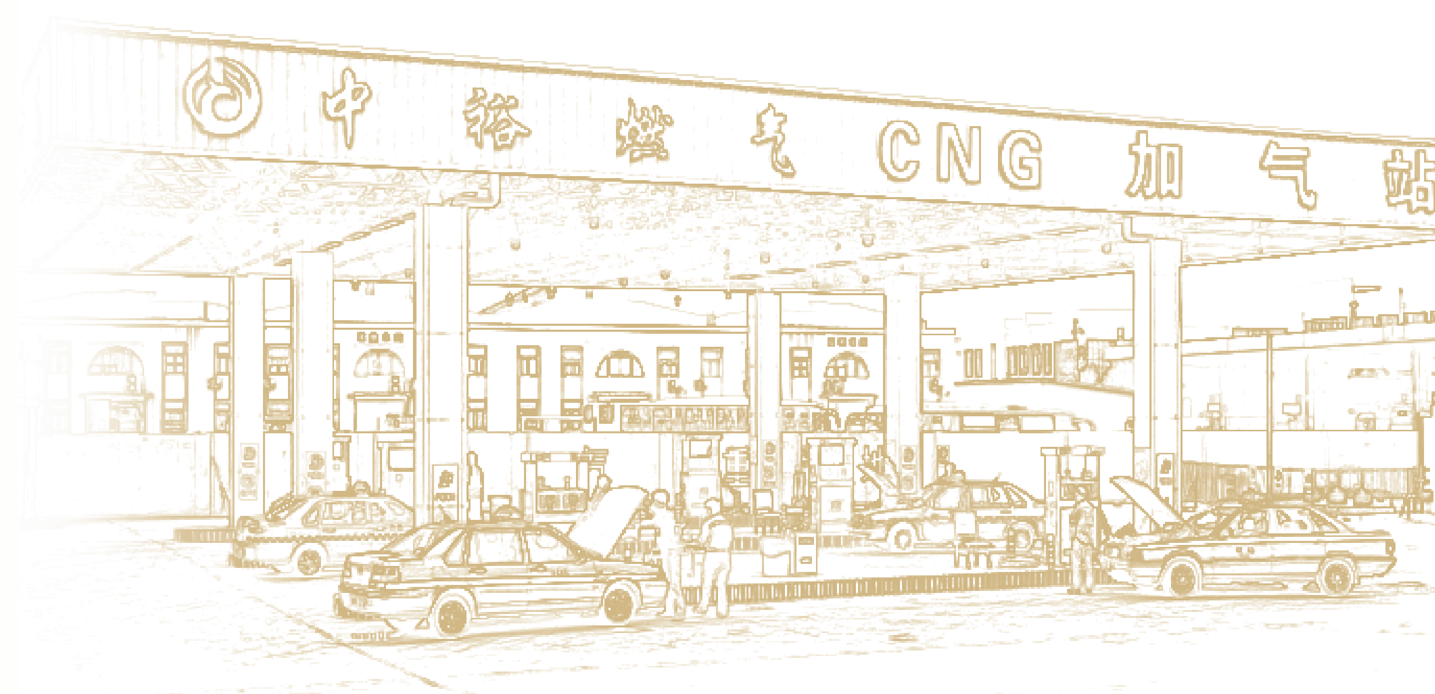
As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

Disposal of part of a liquefied petroleum gas business

During the period under review, the Group disposed part of its liquefied petroleum gas business in Sanmenxia City and Jiaozuo City in order to focus the Group's resources on other businesses. As a result, the sales of liquefied petroleum gas has decreased greatly by 44.5%. As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

Major Operational Data

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



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

	2013	2012	Increase/ (Decrease)
Number of operational locations (Note a)	**29**	24	5
– Henan Province	**21**	19	2
– Shandong Province	**4**	3	1
– Jiangsu Province	**2**	1	1
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	0	1
Connectable urban population ('000) (Note b)	**5,891**	4,308	36.7%
Connectable residential households ('000)	**1,683**	1,231	36.7%
New piped gas connections made during the year			
– Residential households	**164,587**	137,647	19.6%
– Industrial customers	**84**	77	9.1%
– Commercial customers	**515**	450	14.4%
Accumulated number of connected piped gas customers			
– Residential households	**834,471**	669,884	24.6%
– Industrial customers	**506**	422	19.9%
– Commercial customers	**2,749**	2,234	23.1%
Penetration rate of residential pipeline connection (Note c)	**49.6%**	54.4%	(4.8)%
Unit of piped natural gas sold ('000 m^3)	**742,984**	704,087	5.5%
– Residential households	**103,715**	80,711	28.5%
– Industrial customers	**564,685**	551,519	2.4%
– Commercial customers	**61,357**	55,086	11.4%
– Wholesale customers	**13,227**	16,771	(21.1)%
The piped natural gas usage per day ('000 m^3)			
– Residential households	**284**	221	28.5%
– Industrial customers	**1,547**	1,398	10.7%
– Commercial customers	**168**	151	11.3%
– Wholesale customers	**36**	46	(21.7)%
Unit of piped mixed gas sold ('000 m^3)	**36,351**	37,008	(1.8)%

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	2013	2012	Increase/ (Decrease)
Unit of piped coal gas sold ('000 m^3)	**41,025**	60,473	(32.2)%
Number of CNG/LNG Filling Stations			
– Accumulated	**27**	12	15
– Under construction	**12**	8	4
Unit of natural gas sold to vehicles ('000 m^3)	**54,800**	39,486	38.8%
The natural gas usage per station ('000 m^3)	**3,131**	2,632	19.0%
Unit of bottle LPG sold (ton)	**2,117**	3,840	(44.9)%
Total length of existing intermediate and main pipelines (km)	**3,204**	2,509	27.7%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**1.95**	1.95	–
– Industrial customers	**2.35**	2.21	6.3%
– Commercial customers	**2.68**	2.50	7.2%
– Whole sale customers	**1.94**	1.93	0.5%
– CNG/LNG filling stations	**3.51**	3.43	2.3%
Average cost of natural gas (RMB per m^3)	**2.01**	1.90	5.8%

Note a: The number of operational locations represents the gas projects with exclusive rights are operated in different cities and regions in Mainland China. Some operational locations are operated by one subsidiary.

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

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

Upstream CBM Exploration

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

As at 31st December, 2013, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM. The Group will continue to update investors on the latest exploration progress.

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Overall

The Group's results for the year ended 31st December, 2013 was mainly driven by organic growth of the businesses. The Group's profit attributable to owners of the Company reached

HK$262,248,000

(2012: HK$226,021,000).

Turnover

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

	Year ended 31st December,				
	2013 HK$'000	**% of total**	2012 HK$'000	% of total	Increase/ (Decrease)
Sales of Piped Gas	**2,243,421**	**71.6%**	2,007,110	72.9%	11.8%
Connection revenue from Gas Pipeline Construction	**618,774**	**19.8%**	546,378	19.8%	13.3%
Operation of CNG/LNG Filling Stations	**242,908**	**7.8%**	166,431	6.0%	46.0%
Sales of Stoves and Related Equipment	**9,317**	**0.3%**	4,498	0.2%	107.1%
Sub-total	**3,114,420**	**99.5%**	2,724,417	98.9%	14.3%
Sales of Liquefied Petroleum Gas	**16,465**	**0.5%**	29,667	1.1%	(44.5)%
Total	**3,130,885**	**100%**	2,754,084	100%	13.7%

The turnover for the year increased by 13.7% to approximately HK$3,130,885,000 from approximately HK$2,754,084,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas to industrial and residential customers as well as connection revenue from gas pipeline construction for residential customers.

Sales of Piped Gas

Sales of piped gas for the year ended 31st December, 2013 amounted to approximately HK$2,243,421,000, representing an increase of approximately 11.8% over the corresponding period last year.

Nearly 97% of the total sales of piped gas was derived from the provision of natural gas. The rapid growth in sales of piped gas was mainly attributable to the increase in gas sales volume by 5.5% to 742,984,000 m^3 from 704,087,000 m^3.

Sales of piped gas for the year contributed approximately 71.6% of the total turnover of the Group. As compared with the percentage of approximately 72.9% during the corresponding period last year, sales of piped gas continued to be the major source of turnover of the Group.

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Residential households

The growth in sales of piped gas to residential households was supported by the Group's organic growth in population due to urbanization in its existing project cities in China. The Group provided new natural gas connections for 164,587 residential households, up 19.6% as compared with the number of new connections recorded last year. During the year, the piped natural gas usage per day provided by the Group to residential households was approximately 284,000 m^3 (2012: 221,000 m^3).

Industrial customers

The PRC Government has continued to encourage industrial customers with high energy consumption to gradually adopt clean energy such as natural gas to replace highly polluting coal and oil with a view to facilitating energy conservation and emission reduction. The increase in gas consumption of industrial customers drove the piped gas sales increment.

The connection and supply of gas to Yanshi City from the sub-pipeline of Second West-East Gas Pipeline was completed and supply commenced in October 2012. As a result, piped gas supply for the Group's project located in the Yanshi City has increased greatly, which allows the Group to connect to more industrial users in order to increase the Group's turnover.

The average selling price of natural gas for industrial customers was increased by 6.3% when compared to the corresponding period last year, which pushed up the sales during the year. During the year, the piped natural gas usage per day provided by the Group to its industrial customers was approximately 1,547,000 m^3 (2012: 1,398,000 m^3).

Commercial customers

As such, in addition to fulfilling the demand of residential customers for natural gas, the Group stepped up gas connection for industrial and commercial customers. During the year, the Group connected 515 commercial customers. As at 31st December, 2013, the number of commercial customers of the Group reached 2,749, representing an increase of approximately 23.1% respectively as compared with the same period last year.

The average selling price of natural gas for commercial customers increased by 7.2% when compared to the corresponding period last year, which pushed up the sales during the year. During the year, the piped natural gas usage per day provided by the Group to its commercial customers was approximately 168,000 m^3 (2012: 151,000 m^3).

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the year ended 31st December, 2013 amounted to approximately HK$618,774,000, representing an increase of approximately 13.3% over the corresponding period last year. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work for gas pipeline connection completed for residential households to 164,587 from 137,647.

For the year, the average connection fee for residential households was RMB2,760 (2012: RMB2,700) which was a slight increase when compared to the corresponding period last year. The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis.

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During the year, the connection revenue from gas pipeline construction contributed approximately 19.8% of the total turnover of the Group, which was approximately the same as that for the corresponding period last year. The connection revenue from gas pipeline construction continued to be one of the major sources of turnover for the Group.

As at 31st December, 2013, the Group's penetration rates of residential pipeline connection reached 49.6% (2012: 54.4%) (represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions).

Operation of CNG/LNG Filling Station

Revenue from operating CNG/LNG filling stations for the year ended 31st December, 2013 amounted to approximately HK$242,908,000, representing an increase of approximately 46.0% over the corresponding period last year. The increase was mainly due to an increase in the number of CNG/LNG filling stations from twelve to twenty-seven stations. The natural gas usage per station increased by 19.0% to approximately 3,131,000 m^3 for the year ended 31st December, 2013 from approximately 2,632,000 m^3 for the corresponding period last year.

During the year, the turnover derived from operating CNG/LNG filling stations accounted for approximately 7.8% of the total turnover of the Group. In addition, the Group commenced building an additional twelve CNG/LNG refilling stations in the PRC. It is targeted that the nine new CNG/LNG refilling stations will complete construction in 2014. The remaining new CNG/LNG refilling station is expected to complete construction in the first half of 2015.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2013 was approximately 23.8% (2012: 23.6%). The gross profit margin for the sales of piped natural gas was 15.2% (2012: 15.3%); for the gas pipeline construction was 61.8% (2012: 64.3%); and for the operation of CNG/LNG filling stations was 22.6% (2012: 21.7%).

During the year, the National Development and Reform Commission of the PRC has adjusted the non-residential natural gas price of gate stations and the Group has also obtained Notice in Linyi and Notice in Henan. The cost increase from upstream natural gas price can be transferred to non-residential customers, thus the gross profit margin for the sales of piped gas slightly decrease.

The slight decrease in the gross profit margin of connection revenue from gas pipeline construction resulted from the increase in material cost and labour cost. The slight increase in the gross profit margin of operation of CNG/LNG filling station resulted from the increase in average selling price of natural gas for CNG/LNG filling stations and the increase in the cost of natural gas for natural gas for CNG/LNG filling stations is relatively less.

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Other gains and losses

Other gains increased by 9.0% to approximately HK$7,688,000 in 2013 from other gains approximately HK$7,050,000 in 2012. Other gains for the year includes: (i) allowance for doubtful debts in trade and other receivables of approximately HK$798,000 (2012: net reversal of allowance for doubtful debts in trade and other receivables: HK$134,000); (ii) increase in fair value of investment properties of approximately HK$1,204,000 (2012: HK$935,000); (iii) net reversal of impairment loss recognised on amounts due from customers for contract work of approximately HK$2,739,000 (2012: HK$3,083,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be impaired if those respective contract works are not completed within one year; (iv) net loss on disposal/written off of property, plant and equipment of approximately HK$1,921,000 (2012: net gain on disposal/written-off of property, plant and equipment: HK$2,898,000); (vi) foreign exchange gain generated from the bank borrowings denominated in United States dollars of approximately HK$6,404,000 (2012: nil).

Other income

Other income slightly decreased to approximately HK$21,611,000 in 2013 from approximately HK$22,180,000 in 2012. The 2013 balance represented the bank interest income of approximately HK$3,247,000 (2012: HK$3,125,000), government subsidies of approximately HK$9,454,000 (2012: HK$9,102,000) and sundry income of approximately HK$8,910,000 (2012: HK$9,953,000).

Selling and distribution costs

Selling and distribution costs increased by 31.2% to approximately HK$60,348,000 in 2013 from approximately HK$45,990,000 in 2012. The increase was mainly attributable to (i) the staff costs and related expenses, which increased by 28.6% to approximately HK$37,984,000 from approximately HK$29,547,000 as a result of increased salary and bonus for PRC subsidiaries; (ii) the repair and maintenance expenses, which increased by 49.4% to approximately HK$7,598,000 from approximately HK$5,085,000 resulting from the reformation of gas meter; (iii) the advertising expenses, which increased by 67.7% to approximately HK$1,664,000 from approximately HK$992,000 for promoting the use of natural gas.

Administrative expenses

Administrative expenses increased by 8.1% to approximately HK$202,695,000 in 2013 from approximately HK$187,484,000 in 2012. The increase was mainly attributable to (i) staff costs and related expenses, which increased by 11.4% to approximately HK$88,714,000 in 2013 from approximately HK$79,636,000 in 2012 resulting from the increase in headcount for managerial grade of the Group's subsidiaries as well as salary increment; (ii) director emoluments, which increased by 123.7% to approximately HK$18,713,000 in 2013 from approximately HK$8,365,000 in 2012 resulting from the director bonus of approximately HK$9,040,000; which was set off by (iii) the decrease in donation to The Community Chest of Hong Kong of HK$1,000,000; and (iv) the decrease in professional fee of 71.7% to approximately HK$699,000 in 2013 from approximately HK$2,467,000 in 2012 as the professional fee in 2012 was paid for transferring the Company's listing from the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange.

Research and development costs

The research and development costs represented development costs incurred for exploration of CBM in the PRC. It decreased to approximately HK$1,287,000 in 2013 from approximately HK$1,288,000 in 2012. Such development costs mainly include the cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

Finance costs

Finance costs increased by 36.8% to approximately HK$44,465,000 in 2013 from approximately HK$32,513,000 in 2012. The increase was mainly attributable to the increase in average bank borrowings.

Income tax expenses

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2013, withholding tax amounting to HK$3,840,000 (2012: HK$8,334,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2013 amounted to approximately HK$141,362,000 (2012: HK$129,013,000).

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

The Group's EBITDA was approximately HK$602,789,000 in 2013, representing an increase of 15.1% as compared with that of approximately HK$523,821,000 in 2012.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK$262,248,000 in 2013, representing an increase of 16.0% as compared with that of approximately HK$226,021,000 in 2012.

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Net Profit Margin

As at 31st December, 2013, the net profit margin, represented a ratio of profit attributable to owners of the Company to turnover, was approximately 8.4% (2012: 8.2%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK10.39 cents and HK10.38 cents respectively in 2013, as compared with that of HK9.05 cents and HK9.01 cents respectively in 2012.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$0.7 in 2013, representing an increase of 16.7% as compared with that of HK$0.6 in 2012.

The net assets value represents total assets minus total liabilities.

Liquidity, Financial Resources and Working Capital

Liquidity

As at 31st December, 2013, the Group's net current liabilities decreased by approximately HK$110,008,000 or 16.0% to approximately HK$576,834,000 (2012: HK$686,842,000).

The decrease was mainly attributable to (i) decline in the carrying amount of bank borrowings repayable within one year from approximately HK$660,852,000 in 2012 to HK$528,215,000 in 2013; (ii) the increase of 53.1% in deposits, prepayments and other receivables to approximately HK$174,769,000 in 2013 from approximately HK$114,170,000 in 2012; (iii) the increase of 23.2% in bank balances and cash to approximately HK$429,546,000 in 2013 from approximately HK$348,570,000 in 2012; which was offset by (iv) the increase of 29.5% in the current portion of deferred income and advance received to approximately HK$314,662,000 in 2013 from approximately HK$242,951,000 in 2012; and (v) the increase of 27.6% trade payables to approximately HK$317,007,000 in 2013 from approximately HK$248,517,000 in 2012.

As at 31st December, 2013, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2012: 0.5).

As at 31st December, 2013, the total assets increased by approximately HK$1,150,213,000 or 32.4% to HK$4,698,914,000 (2012: HK$3,548,701,000).

As at 31st December, 2013, the total bank borrowings increased by approximately HK$623,085,000 or 52.5% to HK$1,809,118,000 (2012: HK$1,186,033,000).

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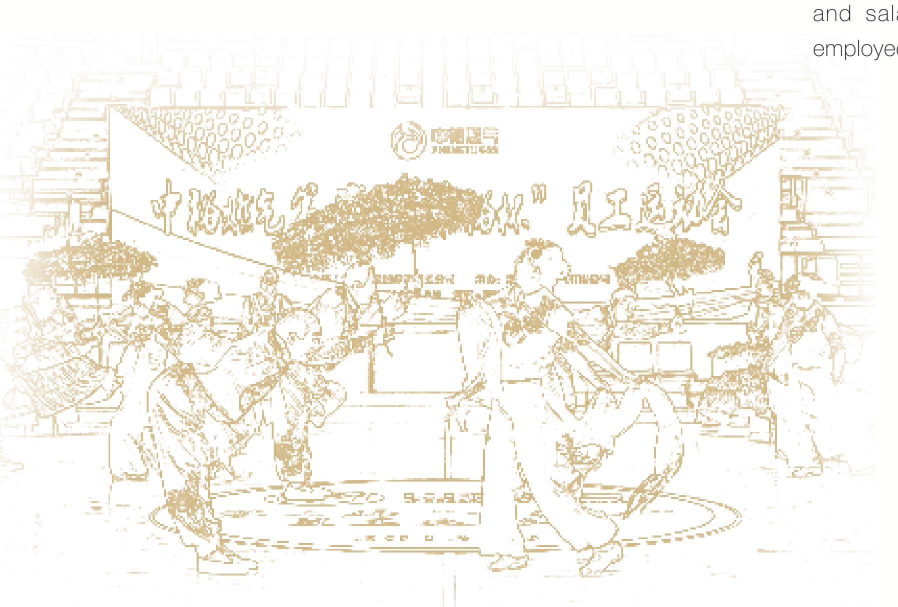
As at 31st December, 2013, the Group had total net debts of approximately HK$1,379,572,000 (2012: HK$837,463,000), measured as total bank borrowings minus the bank balances and cash. As at 31st December, 2013, the Group had net gearing ratio of approximately 71.5% (2012: 53.6%), measured as total net debts to total equity of approximately HK$1,928,674,000 (2012: HK$1,561,462,000).

Financial resources

On 26th April, 2013, the Company entered into a loan agreement in Hong Kong with a bank based in Taiwan (the "Bank"), pursuant to which the Bank made available to the Company a loan facility of up to US$15,000,000. The Company had made the full drawing of US$15,000,000 as at 31st December, 2013.

On 5th June, 2013, the Company entered into a syndicated loan agreement with seven banks based in Taiwan and one bank based in China (the "Lenders") in Hong Kong, pursuant to which the Lenders made available to the Company a loan facility of up to US$72,000,000. The Company had made the full drawing of US$72,000,000 as at 31st December, 2013.

During the year ended 31st December, 2013, the Group generally financed its operations with internally generated resources and bank borrowings. As at 31st December, 2013, all of the bank borrowings were secured or unsecured and on normal commercial basis.



Working capital

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

Exposure to Exchange Rate Fluctuations

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

Employee Information

As at 31st December, 2013, the Group had a total of 2,137 employees (2012: 2,272) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK$180,091,000 (2012: HK$151,359,000). The increase was mainly due to (i) the increase in the salary expenses in production cost resulting from turnover increase; (ii) the increase in the number of headcount for managerial grade of the Group's subsidiaries and salary increment. More than 99.7% of the Group's employees are located in the PRC.

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

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

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Options Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

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

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of share options granted was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. 3,000,000 number of share options granted under the Old Share Option Scheme are still outstanding as at 31st December, 2012 and 2013. No share options were exercised during the year. No options have yet been granted under the New Share Option Scheme.

Charge on the Group's Assets

As at 31st December, 2013, the Group has pledged certain buildings in the PRC having carrying value of HK$5,943,000 to secure certain bank borrowings granted to the Group.

As at 31st December 2012, the Group has pledged certain buildings and pipelines in the PRC having carrying value of HK$29,469,000 and HK$385,659,000 respectively, to secure certain bank borrowings granted to the Group.

As at 31st December, 2013, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$11,363,000 (2012: HK$14,756,000) to secure certain bank borrowings granted to the Group.

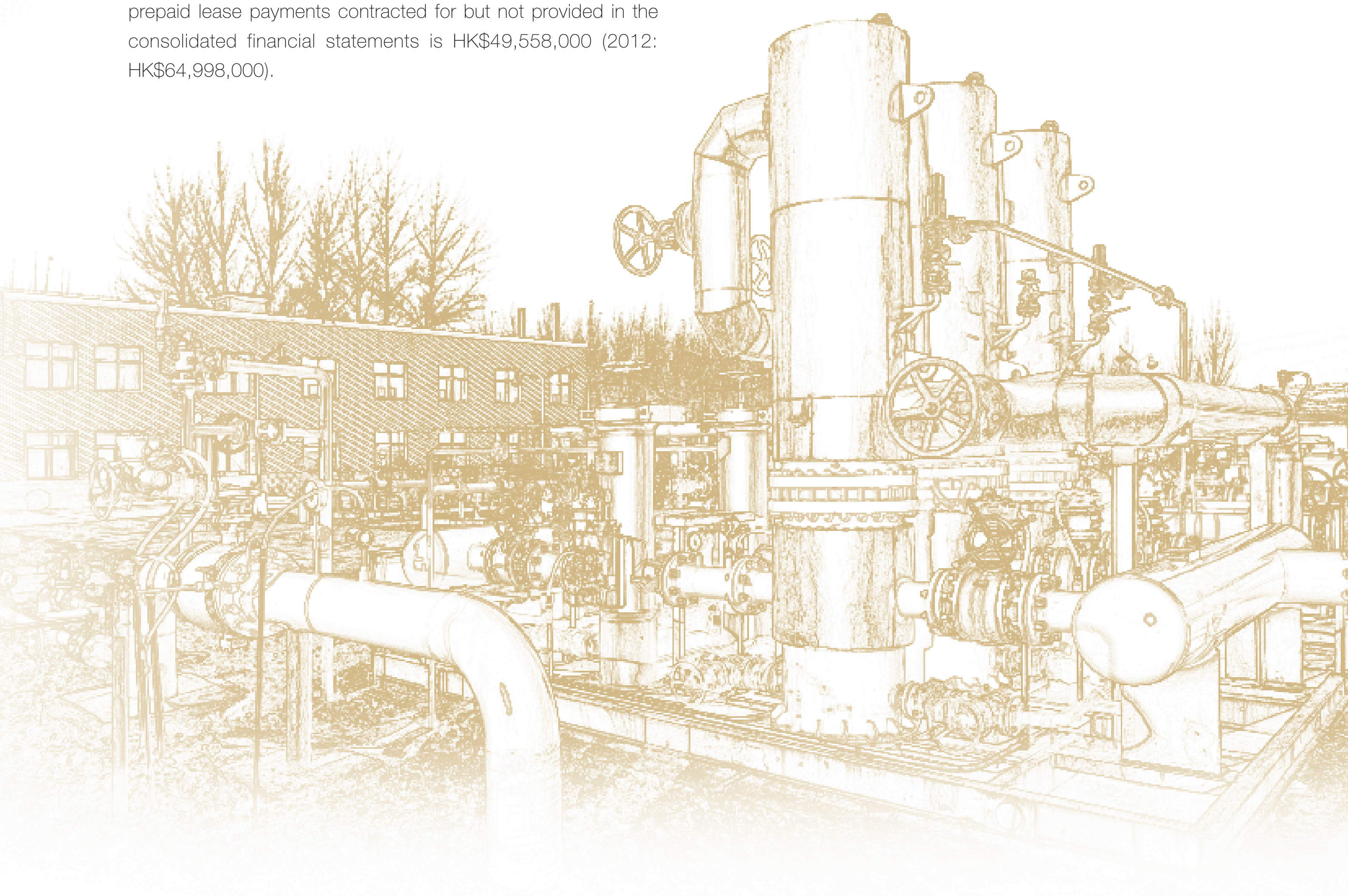
As at 31st December, 2013, pursuant to letters of undertaking, the Group is required to maintain deposits of RMB1,283,000 (equivalent to HK$1,643,000) and USD1,000,000 (equivalent to HK$7,754,000) (2012: RMB15,000,000 (equivalent to HK$18,689,000)) with banks as a condition precedent to the supply of natural gas from its suppliers and a bank borrowing (2012: a bank borrowing).

Details of Future Plans for Material Investment or Capital Assets

As at 31st December, 2013, the Board did not have any specific plans for material investment or capital assets.

Capital Commitments

As at 31st December, 2013, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$49,558,000 (2012: HK$64,998,000).



Biographical Information of Directors

Executive Directors

Mr. Wang Wenliang, aged 43, is the Chairman and the Joint Managing Director of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang was an executive director of China Gas between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Lui Siu Keung, aged 42, is the Joint Managing Director, the Chief Financial Officer and Company Secretary of the Company. He was appointed as an Executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the financial, financing and investor relations activities of the Group. Mr. Lui has approximately eighteen years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui is an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707).

Mr. Lu Zhaoheng, aged 49, is the executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu is the National Registered Public Facilities Engineer and the member of China City Gas Council. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in July 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about twenty-nine years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究院 (The City Planning Design Institute of Henan Province) and was mainly responsible for the planning, design and consultation regarding natural gas projects.

Biographical Information of Directors

Non-executive Directors

Mr. Xu Yongxuan, aged 68, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

Independent Non-executive Directors

Mr. Li Chunyan, aged 50, is an independent non-executive Director, Chairman of Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He is currently a registered lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the PRC. Mr. Li acted as legal adviser or independent non-executive director to the Henan Provincial People's Hospital, the Henan Province Television Station and other listed companies listed in the PRC and overseas. He was the independent non-executive director of Henan Pinggao Electric Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600312) from March 2008 to the present. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

Dr. Luo Yongtai, aged 67, is an independent non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor in management of Tianjin University of Finance and Economics, a counselor of the Tianjin City People's Government Counselors' Office, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Dr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Dr. Luo is also an independent director of Sichuan Datong Gas Development Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000593) from November 2008 to the present and an independent non-executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited, a company listed on the GEM (stock code: 8348) from September 2006 to the present.

Mr. Hung, Randy King Kuen, aged 48, is an independent non-executive Director and a member of the Audit Committee and Remuneration Committee of the Company. He was appointed as an independent non-executive Director on 30 September 2004. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director and Chief Financial Officer of China Fiber Optic Network System Group Limited (Stock Code: 3777) and an independent non-executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877). Mr. Hung is also serving as a council member of the Hong Kong Institute of Directors, and Vice Chairman of the Hong Kong Investor Relations Association. Mr. Hung obtained an MBA degree in international management from the University of London and a bachelor's degree of accounting and a certificate in programming and data processing from the University of Southern California, a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance.

Corporate Governance Report

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

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code") for the year ended 31st December, 2013. The following summarizes the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

A. Board of Directors

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

A.1 Board composition

As at 31st December, 2013, the Board included seven Directors, of which three are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

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

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

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

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 29 and 30 in this report.

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

A.2 Board meetings and information supply

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

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

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

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

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

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

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

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

Corporate Governance Report

For the year ended 31st December, 2013, the Board held fourteen board meetings. The attendance records of all board meetings are set out below:

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

A.3 Chairman and chief executive

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

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

The Chairman of the Company is Mr. Wang Wenliang and the Joint Managing Directors (who have similar roles and responsibilities as those of a chief executive) consist of Mr. Wang Wenliang and Mr. Lui Siu Keung. As a result, the dual role that Mr. Wang Wenliang has as the Chairman and a Joint Managing Director may constitute a deviation from the CG Code Provision A2.1.

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

Mr. Wang Wenliang is one of the largest shareholder of the Company who is deemed to hold approximately 22.95% of the total issued shares of the Company as at 31 December 2013. He is in charge of the Group's overall strategic decisions and has played a vital role in developing the business of the Group.

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

A.4 Appointments and re-election

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

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

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

At the 2012 AGM, Mr. Wang Wenliang, Mr. Li Chunyan, and Dr. Luo Yongtai, three of the seven Directors subject to retirement by rotation, retired and were re-elected to the Board by the shareholders of the Company.

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

A.5 Responsibilities of directors

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

A.6 Directors' securities transaction

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they all confirmed having complied with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company.

A.7 Directors and Officers' Liabilities Insurance

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

A.8 Corporate Governance Functions

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

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2013 according to the records provided by the Directors is as follows:

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

B. Remuneration Matters

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

One remuneration meeting was held on 15th May, 2013 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

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

C. Accountability and Audit

C.1 Financial reporting

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

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

C.2 Internal controls

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

Corporate Governance Report

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

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

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

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

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

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

In 2013, after reviewing the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the CG Code.

C.3 Audit committee

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

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2013, the Audit Committee held three meetings to check the effectiveness of the internal control system; to review all draft annual, quarterly and interim financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the Audit Fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	3	100%
Dr. Luo Yongtai	3	100%
Mr. Hung, Randy King Kuen	3	100%

C.4 Auditor's remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2013 amounted to HK$2,015,000.

D. Nomination Committee

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

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

For the year ended 31st December, 2013, Mr. Li Chunyan, an Independent Non-executive Director, acted as the Chairman of the Nomination Committee and Dr. Luo Yongtai and Mr. Hung, Randy King Kuen were members, both of whom were also Independent Non-executive Directors.

The Nomination Committee held two meeting during the year ended 31st December, 2013 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Company is in the process of developing measurable objectives for implementing and achieving diversity on the Board. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	2	100%

E. Shareholders' Rights

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

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Joint Managing Directors of the Company.

Directors' Report

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2013.

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 40 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 48.

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

Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK$1,204,000.

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

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2013, the Company's reserves available for distribution amounted to HK$915,622,000 which consisted of share premium of HK$895,054,000 and accumulated profits of HK$20,568,000.

Purchase, Sale or Redemption of Shares

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

Directors

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

Executive Directors

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

Non-executive Directors

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent non-executive Directors

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

In accordance with the provisions of the Company's Articles of Association, Mr. Lui Siu Keung, Mr. Xu Yongxuan and Mr. Hung, Randy King Kuen will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election. The re-election of Mr. Hung, Randy King Kuen will also be subject to approval by the shareholders as he has served as an independent non-executive director for over nine years.

Directors Service Contracts

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

Directors' Interests in Contracts of Significance

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

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2013, the interests and short positions of the Directors and the Joint Managing Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	579,259,542	Beneficial and interest in controlled corporation	22.95%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	2	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	2	1,000,000	Beneficial	0.04%

Notes:

1. *Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 11,806,000 Shares are directly held by Mr. Wang Wenliang.*

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

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

4. *As at 31st December, 2013, the total issued share capital of the Company was 2,524,007,684.*

Save as disclosed above, as at 31st December, 2013, none of the Directors nor the Joint Managing Directors of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2013, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the Shares of the Company

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

Notes:

1. *According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2013, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.*

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

3. *As at 31st December, 2013, the total issued share capital of the Company was 2,524,007,684.*

Save as disclosed above, as at 31st December, 2013, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Options

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

No share option has been granted since the adoption of the New Share Option Scheme on 3rd May, 2013. The New Share Option Scheme shall remain valid until 2nd May, 2023.

The following table discloses movements in the Company's share options granted under the old Share Option Scheme. Share Options granted must be taken up within 28 days of the date of grant. A nominal consideration of HKD1.00 is payable on acceptance of the grant of an option. There is no vesting period or minimum holding period before an option can be exercised for the share options granted on 11th April, 2011.

				Number of share options				
Name and status of participants	Date of grant	Exercise period	Exercise price HK$	As at 1st January, 2013	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 31st December, 2013
Directors, joint managing director/chief executives and substantial shareholders and their respective connected persons								
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Li Chunyan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
				3,000,000	–	–	–	3,000,000
Exercisable at the end of the year								3,000,000
Weighted average exercise price				HK$0.49	–	–	–	HK$0.49

The closing price of the Shares on 8th April, 2011 was HK$0.48, which was the date immediately before the date on which the Share Options were granted on 11th April, 2011. The exercise price per share complied with the Listing Rules and was determined in accordance with the average closing price of the share of the Company quoted on the daily quotation sheet published by the Stock Exchange for the five business days immediately before the date the Share Options were granted.

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

Major Customers and Suppliers

For the year ended 31st December, 2013, our five largest suppliers comprised 83.1% of our total purchase for the year. The Group's largest supplier accounted for 38.4% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 21.0% of total turnover for the year. The Group's largest customer accounted for 9.4% of the total sales for the year.

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

Directors' Report

Pre-emptive Rights

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

Appointment of Independent Non-executive Directors

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

Emolument Policy

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the consolidated financial statements.

Competing Business

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

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2013.

Auditor

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

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
13th March, 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 129, which comprise the consolidated statement of financial position as at 31st December, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13th March, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2013

	NOTES	2013 HK$'000	2012 HK$'000
Turnover	6	**3,130,885**	2,754,084
Cost of sales		**(2,385,210)**	(2,105,472)
Gross profit		**745,675**	648,612
Other gains and losses	8	**7,688**	7,050
Other income	9	**21,611**	22,180
Selling and distribution costs		**(60,348)**	(45,990)
Administrative expenses		**(202,695)**	(187,484)
Research and development costs		**(1,287)**	(1,288)
Finance costs	10	**(44,465)**	(32,513)
Profit before tax		**466,179**	410,567
Income tax expenses	11	**(141,362)**	(129,013)
Profit for the year	12	**324,817**	281,554
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**44,006**	14,388
Total comprehensive income for the year		**368,823**	295,942
Profit for the year attributable to:			
Owners of the Company		**262,248**	226,021
Non-controlling interests		**62,569**	55,533
		324,817	281,554
Total comprehensive income attributable to:			
Owners of the Company		**302,245**	240,152
Non-controlling interests		**66,578**	55,790
		368,823	295,942
Earnings per share	15		
Basic		**HK10.39 cents**	HK9.05 cents
Diluted		**HK10.38 cents**	HK9.01 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2013

	NOTES	2013 HK$'000	2012 HK$'000
Non-current assets			
Investment properties	16	**9,016**	7,589
Property, plant and equipment	17	**2,559,305**	1,955,577
Goodwill	18	**122,001**	110,261
Other intangible assets	19	**695,003**	478,521
Deposit paid for acquisition of a subsidiary	20	**10,367**	–
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments	21	**133,446**	84,080
Prepaid lease payments	22	**283,994**	178,072
Available-for-sale investment	23	**3,840**	3,738
		3,816,972	2,817,838
Current assets			
Inventories	24	**81,468**	74,409
Trade and bills receivables	25	**178,542**	155,990
Deposits, prepayments and other receivables	25	**174,769**	114,170
Prepaid lease payments	22	**8,220**	5,473
Amounts due from customers for contract work	26	**–**	13,562
Pledged bank deposits	27	**9,397**	18,689
Bank balances and cash	27	**429,546**	348,570
		881,942	730,863
Current liabilities			
Deferred income and advance received	28	**314,662**	242,951
Trade payables	28	**317,007**	248,517
Other payables and accrued charges	28	**213,551**	203,369
Amounts due to customers for contract work	26	**23,347**	10,369
Bank borrowings	29	**528,215**	660,852
Tax payables		**61,994**	51,647
		1,458,776	1,417,705
Net current liabilities		**(576,834)**	(686,842)
Total assets less current liabilities		**3,240,138**	2,130,996

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2013

	NOTES	2013 HK$'000	2012 HK$'000
Capital and reserves			
Share capital	30	**25,240**	25,240
Reserves		**1,667,240**	1,364,995
Equity attributable to owners of the Company		**1,692,480**	1,390,235
Non-controlling interests	41	**236,194**	171,227
Total equity		**1,928,674**	1,561,462
Non-current liabilities			
Deferred income and advance received	28	**6,851**	25,372
Bank borrowings	29	**1,280,903**	525,181
Deferred taxation	31	**23,710**	18,981
		1,311,464	569,534
		3,240,138	2,130,996

The consolidated financial statements on pages 48 to 129 were approved and authorised for issue by the Board of Directors on 13th March, 2014 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2013

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000	Statutory surplus reserve HK$'000 (Note)	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2012	23,982	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,088,441	140,699	1,229,140
Profit for the year	–	–	–	–	–	–	–	226,021	226,021	55,533	281,554
Other comprehensive income for the year	–	–	–	–	–	–	14,131	–	14,131	257	14,388
Total comprehensive income for the year	–	–	–	–	–	–	14,131	226,021	240,152	55,790	295,942
Transfer to statutory surplus reserve	–	–	–	–	–	13,284	–	(13,284)	–	–	–
Exercise of share options	1,258	79,007	(18,623)	–	–	–	–	–	61,642	–	61,642
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(25,262)	(25,262)
At 31st December, 2012	25,240	895,054	520	1,128	1,049	55,746	197,106	214,392	1,390,235	171,227	1,561,462
Profit for the year	–	–	–	–	–	–	–	262,248	262,248	62,569	324,817
Other comprehensive income for the year	–	–	–	–	–	–	39,997	–	39,997	4,009	44,006
Total comprehensive income for the year	–	–	–	–	–	–	39,997	262,248	302,245	66,578	368,823
Transfer to statutory surplus reserve	–	–	–	–	–	6,159	–	(6,159)	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(5,835)	(5,835)
Capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	4,224	4,224
At 31st December, 2013	25,240	895,054	520	1,128	1,049	61,905	237,103	470,481	1,692,480	236,194	1,928,674

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2013

	NOTE	2013 HK$'000	2012 HK$'000
Operating activities			
Profit before tax		**466,179**	410,567
Adjustments for:			
Depreciation of property, plant and equipment		**80,834**	65,774
Amortisation of other intangible assets		**6,734**	10,187
Amortisation of prepaid lease payments		**4,577**	4,780
Net loss (gain) on disposal/written-off of property, plant and equipment		**1,921**	(2,898)
Net allowance (reversal of allowance) for doubtful debts			
– trade receivables		**148**	58
– other receivables		**650**	(192)
Net reversal of impairment loss recognised on amounts due from customers for contract work		**(2,739)**	(3,083)
Interest income		**(3,247)**	(3,125)
Finance costs		**44,465**	32,513
Increase in fair value of investment properties		**(1,204)**	(935)
Operating cash flows before movements in working capital		**598,318**	513,646
Increase in inventories		**(5,828)**	(8,542)
Increase in trade and bills receivables		**(22,673)**	(14,667)
(Increase) decrease in deposits, prepayments and other receivables		**(54,401)**	95
Decrease (increase) in amounts due from customers for contract work		**16,301**	(10,479)
Increase in deferred income and advance received	39	**70,404**	43,981
Increase (decrease) in trade payables		**68,084**	(27,194)
(Decrease) increase in other payables and accrued charges		**(64,860)**	30,785
Increase (decrease) in amounts due to customers for contract work		**12,978**	(3,492)
Cash generated from operations		**618,323**	524,133
Interest received		**3,247**	3,125
Income taxes paid		**(131,579)**	(102,952)
Withholding tax paid		**(3,840)**	(8,334)
Net cash from operating activities		**486,151**	415,972

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2013

	NOTES	2013 HK$'000	2012 HK$'000
Investing activities			
Purchases of property, plant and equipment		(473,284)	(188,325)
Proceeds from disposal of property, plant and equipment		10,568	3,621
Proceed from disposal of prepaid lease payment		–	3,119
Withdrawal of pledged bank deposits		18,689	15,893
Placement of pledged bank deposits		(9,397)	–
Acquisition of subsidiary and business	33	(91,138)	–
Addition of prepaid lease payments		(83,400)	(38,477)
Acquisition of assets and liabilities through acquisitions of subsidiaries	34	(138,068)	(331,144)
Deposit paid for acquisition of a subsidiary	20	(10,367)	–
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		(133,446)	(158,598)
Purchase of intangible assets		(1,264)	(9,282)
Decrease in loan receivables		–	19,888
Net cash used in investing activities		(911,107)	(683,305)
Financing activities			
Interest paid		(83,962)	(72,479)
New borrowings raised		1,397,752	776,601
Repayments of borrowings		(807,001)	(476,203)
Proceeds from issue of shares upon exercise of share options		–	61,642
Dividend paid by subsidiaries to non-controlling interests		(5,835)	(25,262)
Capital contribution from non-controlling interest of a subsidiary		4,224	–
Net cash from financing activities		505,178	264,299
Net increase (decrease) in cash and cash equivalents		80,222	(3,034)
Cash and cash equivalents at 1st January		348,570	351,275
Effect of foreign exchange rate changes		754	329
Cash and cash equivalents at 31st December, represented by bank balances and cash		429,546	348,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas and coalbed gas projects in the PRC.

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

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

HKFRS 13 Fair value measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 16 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[2]
HKFRS 9	Financial instruments[3]
HK(IFRIC) – INT 21	Levies[1]

[1] Effective for annual periods beginning on or after 1st January, 2014

[2] Effective for annual periods beginning on or after 1st July, 2014

[3] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

[4] Effective for annual periods beginning on or after 1st July, 2014, with limited exceptions

Amendments to HKAS 36 Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Directors anticipate that the application of these amendments to HKAS 36 will result in more extensive disclosures in the Group's consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

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

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

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

Construction contracts

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

Borrowing costs

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

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

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

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

Retirement benefits costs and termination benefits

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

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

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

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

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

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

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

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2013, the carrying value of property, plant and equipment is HK$2,559,305,000 (2012: HK$1,955,577,000).

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

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

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

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

Categories of financial instruments

	2013	2012
	HK$'000	HK$'000
Financial assets		
Available-for-sale investment	**3,840**	3,738
Loans and receivables (including cash and cash equivalents)	**674,823**	545,573
Financial liabilities		
Amortised cost	**2,314,957**	1,615,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

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

Market risk

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

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

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2012: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$3,512,000 (2012: decrease/increase HK$1,242,000).

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

***Market risk** (Continued)*

Foreign currency risk

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

	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**18,680**	752	**674,598**	–
HKD	**6,125**	18,290	**–**	–
	24,805	19,042	**674,598**	–

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

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against USD or HKD. 5% (2012: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective USD and HKD bank balances and bank borrowings, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates decrease in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in USD and HKD, there would be an equal and opposite impact on the profit or loss.

	2013	2012
	HK$'000	HK$'000
USD	**(27,384)**	31
HKD	**256**	764

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2013 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

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

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

As at 31st December, 2013 the Group had net current liabilities of approximately HK$576,834,000 (2012: HK$686,842,000). The Directors expect bank borrowings of HK$339,178,000, which are due within one year after the end of the reporting period, could be renewed to 2015, based on their experience. In addition, included in the Group's current liabilities at 31st December, 2013 are deferred income and advance received amounting to HK$314,662,000 (2012: HK$242,951,000), which the Directors do not expect to have a cash outflow impact, other than the related costs associated with the fulfilment of respective construction contracts, which in the opinion of the Directors, the Group should have sufficient financial resources including expected cash inflows from operations to settle such costs. The Directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account these factors and future cash inflows from operations and accordingly, have prepared the consolidated financial statements on a going concern basis.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average effective interest rate	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 - 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2013 HK$'000
2013							
Non-derivative financial liabilities							
Trade payables	–	272,020	44,987	–	–	317,007	317,007
Other payables and accrued charges	–	188,832	–	–	–	188,832	188,832
Bank borrowings							
– fixed rate	6.82%	247,420	143,666	397,038	–	788,124	697,555
– variable rate	4.59%	–	159,319	1,035,606	68,747	1,263,672	1,111,563
		708,272	347,972	1,432,644	68,747	2,557,635	2,314,957

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

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

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Fair value

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

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

6. TURNOVER

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

	2013 **HK$'000**	2012 HK$'000
Sales of piped gas	**2,243,421**	2,007,110
Connection revenue from gas pipeline construction	**618,774**	546,378
Operation of CNG/LNG filling stations	**242,908**	166,431
Sales of liquefied petroleum gas	**16,465**	29,667
Sales of stoves and related equipment	**9,317**	4,498
	3,130,885	2,754,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

7. SEGMENT INFORMATION

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

(a) sales of piped gas;

(b) connection revenue from gas pipeline construction;

(c) operation of CNG/LNG filling stations;

(d) sales of liquefied petroleum gas;

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

(f) sales of stoves and related equipment.

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31st December, 2013

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG/LNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	2,243,421	618,774	242,908	16,465	–	9,317	3,130,885
Segment profit (loss)	219,319	313,627	33,188	2,232	(8,316)	4,072	564,122
Interest income and other gains							10,930
Central corporate expenses							(64,408)
Finance costs							(44,465)
Profit before tax							466,179

For the year ended 31st December, 2012

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

Segment assets and liabilities

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

As at 31st December, 2013

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG/LNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	3,734,013	175,635	238,998	2,396	2,251	1,277	4,154,570
Investment properties							9,016
Available-for-sale investment							3,840
Property, plant and equipment for corporate use							50,612
Prepaid lease payments for corporate use							3,686
Pledged bank deposits							9,397
Bank balances and cash							429,546
Other assets							38,247
Consolidated assets							4,698,914
LIABILITIES							
Segment liabilities	616,566	222,526	20,739	3,917	–	3,422	867,170
Tax payables							61,994
Bank borrowings							1,809,118
Deferred tax liabilities							23,710
Other liabilities							8,248
Consolidated liabilities							2,770,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31st December, 2012

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

7. SEGMENT INFORMATION *(Continued)*

Other segment information

2013

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG/LNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	618,873	-	61,115	133	1,425	-	681,546	15,545	697,091
Loss (gain) on disposal/written-off of property, plant and equipment	1,986	66	-	-	(131)	-	1,921	-	1,921
Amortisation of prepaid lease payments	3,964	-	613	-	-	-	4,577	-	4,577
Depreciation of property, plant and equipment	71,982	-	3,338	61	917	-	76,298	4,536	80,834
Amortisation of other intangible assets	4,339	-	2,395	-	-	-	6,734	-	6,734
Net reversal of impairment loss recognised on amounts due from customers for contract work	-	(2,739)	-	-	-	-	(2,739)	-	(2,739)
Net allowance for doubtful debts	148	-	-	-	-	-	148	650	798
Research and development costs	-	-	-	-	1,287	-	1,287	-	1,287
Amounts regularly provided to the chief operating decision makers but not included in the measure of segment profits or loss:									
Income tax expenses	-	-	-	-	-	-	-	141,362	141,362

7. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2012

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

Geographical information

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

All the non-current assets of the Group for both years are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

7. SEGMENT INFORMATION *(Continued)*

Information about major customer

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

	2013 HK$'000	2012 HK$'000
Customer A[1]	N/A[2]	326,895

[1] Revenue from sales of piped gas.

[2] The corresponding revenue did not contribute over 10% of the total sales of the Group. None of the customers contributed over 10% of total revenue of the Group for the current year.

8. OTHER GAINS AND LOSSES

	2013 HK$'000	2012 HK$'000
Net (allowance) reversal of allowance for doubtful debts		
– trade receivables	(148)	(58)
– other receivables	(650)	192
Net foreign exchange gain	6,464	–
Increase in fair value of investment properties	1,204	935
Net reversal of impairment loss recognised on amounts due from customers for contract work (Note)	2,739	3,083
Net (loss) gain on disposal/written-off of property, plant and equipment	(1,921)	2,898
	7,688	7,050

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

9. OTHER INCOME

	2013	2012
	HK$'000	HK$'000
Bank interest income	**3,247**	3,125
Government subsidies (Note)	**9,454**	9,102
Sundry income	**8,910**	9,953
	21,611	22,180

Note: During the year ended 31st December, 2013, the Group has received subsidies of HK$9,454,000 (2012: HK$9,102,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

10. FINANCE COSTS

	2013	2012
	HK$'000	HK$'000
Interests on bank borrowings:		
– wholly repayable within five years	**80,489**	62,880
– over five years	**3,473**	9,599
Total borrowing costs	**83,962**	72,479
Less: Amounts capitalised in construction in progress	**(39,497)**	(39,966)
	44,465	32,513

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.16% (2012: 7.77%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

11. INCOME TAX EXPENSES

	2013 HK$'000	2012 HK$'000
PRC Enterprise Income Tax:		
Current tax	134,958	115,320
Underprovision in prior years	6,968	1,552
Withholding tax levied on dividends paid previously not recognised	–	4,252
	141,926	121,124
Deferred tax (note 31):		
Current year	(564)	7,889
	141,362	129,013

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2013, withholding tax amounting to HK$3,840,000 (2012: HK$8,334,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

11. INCOME TAX EXPENSES *(Continued)*

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

	2013	2012
	HK$	HK$
Profit before tax	**466,179**	410,567
Tax at the domestic income tax rate of 25% (2012: 25%) (Note)	**116,545**	102,642
Tax effect of expenses not deductible for tax purpose	**11,300**	4,381
Tax effect of income not taxable for tax purpose	**(4,881)**	(1,804)
Underprovision in respect of prior years	**6,968**	1,552
Tax effect of estimated tax losses not recognised	**9,720**	8,022
Utilisation of estimated tax losses previously not recognised	**(1,288)**	(417)
Effect of different tax rates of group entities operating in other jurisdictions	**2,998**	1,887
Withholding tax levied on dividends paid previously not recognised	**–**	4,252
Deferred tax on undistributed earnings of subsidiaries (note 31)	**–**	8,498
Tax charge for the year	**141,362**	129,013

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

12. PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2,015	1,804
Amortisation of other intangible assets (included in cost of sales)	6,734	10,187
Amortisation of prepaid lease payments	4,577	4,780
Depreciation of property, plant and equipment	80,834	65,774
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$27,222,000 (2012: HK$25,683,000))	180,091	151,359
Operating lease rentals in respect of rented premises	5,566	3,598
Cost of inventories recognised as expenses in respect of:		
Contract cost for gas pipeline construction	236,225	171,568
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	1,789,513	1,634,658
	2,025,738	1,806,226
Gross rental income from investment properties with minimal outgoings	(627)	(610)
Gross rental income from equipment with minimal outgoings	(345)	(444)

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

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

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

	2013 HK$'000	2012 HK$'000
Fees	780	780
Other emoluments:		
– Salaries and other benefits	17,877	7,532
– Contributions to retirement benefits scheme	56	53
Total emoluments	18,713	8,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

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

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

	2013				2012			
	Salaries and other benefits	Fees	Contributions to retirement benefits scheme	Total	Salaries and other benefits	Fees	Contributions to retirement benefits scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Wang Wenliang (note i)	10,330	–	–	10,330	3,688	–	–	3,688
Mr. Lui Siu Keung (note ii)	6,390	–	15	6,405	2,684	–	14	2,698
Mr. Lu Zhaoheng	1,157	–	41	1,198	1,160	–	39	1,199
Mr. Xu Yongxuan	–	240	–	240	–	240	–	240
Mr. Li Chun Yan	–	180	–	180	–	180	–	180
Dr. Luo Yongtai	–	180	–	180	–	180	–	180
Mr. Hung, Randy King Kuen	–	180	–	180	–	180	–	180
	17,877	780	56	18,713	7,532	780	53	8,365

Notes:

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

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

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

Neither chief executive nor any of the Directors waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: three) were Directors and the joint managing directors/chief executive of the Company whose emoluments are disclosed above. The emoluments of the remaining two (2012: two) individuals was as follows:

	2013	2012
	HK$'000	HK$'000
Salaries and other benefits	**1,716**	1,136
Contributions to retirement benefits scheme	**25**	53
	1,741	1,189

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

14. DIVIDENDS

No dividend was paid or proposed during 2013, nor has any dividend been proposed since the end of the reporting period (2012: nil).

15. EARNINGS PER SHARE

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

	2013	2012
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**262,248**	226,021

15. EARNINGS PER SHARE *(Continued)*

	2013 '000	2012 '000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,524,008**	2,498,246
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (Note)	**2,265**	9,380
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,526,273**	2,507,626

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

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2012	6,570
Exchange adjustments	84
Increase in fair value recognised in profit or loss	935
At 31st December, 2012	7,589
Exchange adjustments	223
Increase in fair value recognised in profit or loss	1,204
At 31st December, 2013	9,016

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

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

The fair value of the Group's investment properties at 31st December, 2013 and 2012 has been arrived at on the basis of a valuation carried out on the respective dates by 河南九鼎資產評估有限公司, independent qualified professional valuer not connected to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

16. INVESTMENT PROPERTIES *(Continued)*

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31st December, 2013 are as follows. One of the key inputs used in valuing the investment properties was the discount rates used, which ranged from 8.64% to 8.66%. An increase in the discount rate used would result in a decrease in fair value measurement of the investment properties, and vice versa.

	Fair value hierarchy	Fair value
		HK$'000
Commercial property units located in the PRC	Level 3	9,016

There were no transfers into or out of Level 3 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Pipelines HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1st January, 2012	125,053	189,285	15,848	1,100,112	189,888	7,209	65,108	1,692,503
Exchange adjustments	2,325	4,701	165	13,809	2,942	101	816	24,859
Acquisition of assets through acquisitions of subsidiaries (note 34)	–	1,650	–	–	105	–	202	1,957
Additions	2,874	444,450	259	5,705	19,563	910	9,939	483,700
Disposals/written-off	–	–	–	(84)	–	(6)	(3,352)	(3,442)
Transfer	65,610	(232,809)	–	129,705	37,494	–	–	–
At 31st December, 2012	195,862	407,277	16,272	1,249,247	249,992	8,214	72,713	2,199,577
Exchange adjustments	6,114	13,079	412	38,274	7,446	272	2,327	67,924
Acquisition of subsidiary and business (note 33)	10,760	71	–	26,283	7,462	129	129	44,834
Acquisition of assets through acquisitions of subsidiaries (note 34)	–	11,380	–	–	140	5	3,694	15,219
Additions	9,084	541,690	14	16,656	13,510	1,194	30,279	612,427
Disposals/written-off	(1,950)	–	–	(43,524)	(10,677)	(443)	(7,521)	(64,115)
Transfer	31,982	(397,943)	–	348,557	16,506	898	–	–
At 31st December, 2013	251,852	575,554	16,698	1,635,493	284,379	10,269	101,621	2,875,866
DEPRECIATION								
At 1st January, 2012	20,882	–	2,690	82,830	41,201	3,534	26,565	177,702
Exchange adjustments	417	–	19	1,587	770	60	390	3,243
Provided for the year	8,295	–	138	34,438	13,972	890	8,041	65,774
Eliminated on disposals/written-off	–	–	–	(7)	–	(3)	(2,709)	(2,719)
At 31st December, 2012	29,594	–	2,847	118,848	55,943	4,481	32,287	244,000
Exchange adjustments	1,128	–	47	4,272	2,061	159	1,027	8,694
Provided for the year	9,660	–	–	43,122	17,229	1,288	9,535	80,834
Eliminated on disposals/written-off	(853)	–	–	(8,866)	(2,955)	(326)	(3,967)	(16,967)
At 31st December, 2013	39,529	–	2,894	157,376	72,278`	5,602	38,882	316,561
CARRYING VALUES								
At 31st December, 2013	212,323	575,554	13,804	1,478,117	212,101	4,667	62,739	2,559,305
At 31st December, 2012	166,268	407,277	13,425	1,130,399	194,049	3,733	40,426	1,955,577

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

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

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

As at 31st December, 2013, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$31,399,000 (2012: HK$20,201,688). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

As at 31st December, 2013, the Group has pledged certain buildings in the PRC having carrying value of HK$5,943,000 to secure certain bank borrowings granted to the Group.

As at 31st December, 2012, the Group has pledged certain buildings and pipelines in the PRC having carrying value of HK$29,469,000 and HK$385,659,000 respectively, to secure certain bank borrowings granted to the Group.

18. GOODWILL

	2013	2012
	HK$'000	HK$'000
Cost and carrying amount		
At 1st January	**110,261**	109,066
Exchange adjustments	**3,042**	1,195
Arising on acquisition of a subsidiary (note 33(i))	**8,698**	–
At 31st December	**122,001**	110,261

18. GOODWILL *(Continued)*

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

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to individual cash generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$64,565,000 in aggregate (2012: HK$54,349,000) and connection of pipeline constructions ("Unit B") amounting to HK$57,436,000 in aggregate (2012: HK$55,912,000).

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

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

Unit B consisted of several CGUs which represent individual operation of certain subsidiaries engaging in the connection of pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of respective CGU. The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 5-year period (2012: 5-year period) at a discount rate of 13.00% (2012: 13.00%) was used. The cash flows of each CGU engaged in Unit B beyond the 5-year period (2012: 5-year period) of the financial budgets are extrapolated using a steady 2% (2012: 2%) growth rate for a number of years based on the useful life of the majority assets of each CGU. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGUs engaged in Unit B and management's expectations for the market development. At the end of the reporting period, the recoverable amounts of each CGU engaged in Unit B exceeded its carrying amount, therefore, no impairment loss is considered necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

19. OTHER INTANGIBLE ASSETS

	Development costs HK$'000	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Total HK$'000
COST				
At 1st January, 2012	45,970	109,311	178,109	333,390
Exchange adjustments	504	2,400	2,087	4,991
Additions	–	9,282	–	9,282
Acquisition of assets through acquisitions of subsidiaries (note 34)	–	329,371	–	329,371
At 31st December, 2012	46,474	450,364	180,196	677,034
Exchange adjustments	1,267	11,205	5,149	17,621
Additions	–	1,264	–	1,264
Acquisition of subsidiary and business (note 33)	–	48,582	–	48,582
Acquisition of assets through acquisitions of subsidiaries (note 34)	–	162,555	–	162,555
At 31st December, 2013	47,741	673,970	185,345	907,056
AMORTISATION AND IMPAIRMENT				
At 1st January, 2012	45,970	19,134	121,614	186,718
Exchange adjustments	504	236	868	1,608
Charged for the year	–	7,829	2,358	10,187
At 31st December, 2012	46,474	27,199	124,840	198,513
Exchange adjustments	1,267	1,115	4,424	6,806
Charged for the year	–	4,339	2,395	6,734
At 31st December, 2013	47,741	32,653	131,659	212,053
CARRYING VALUES				
At 31st December, 2013	–	641,317	53,686	695,003
At 31st December, 2012	–	423,165	55,356	478,521

19. OTHER INTANGIBLE ASSETS *(Continued)*

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

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian, Jiangsu and Heilongjiang provinces and are amortised on a straight-line method over the period of a range of 26 to 30 years, which is the period being granted for exclusive operations in the relevant cities.

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

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

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

	2013 **HK$'000**	2012 HK$'000
Sales of piped gas ("Unit A")	**641,317**	423,165
Operation of CNG filling stations ("Unit C")	**53,686**	55,356
Sales of CBM ("Unit D")	**Nil**	Nil

Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of piped gas. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise intangible assets of HK$641,317,000 (2012: HK$423,165,000), goodwill of HK$64,565,000 (2012: HK$54,349,000), property, plant and equipment of HK$1,682,029,000 (2012: HK$1,169,571,000) and prepaid lease payments of HK$105,285,000 (2012: HK$99,761,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2013 and 2012:

Period of cash flow projections	5 years (2012: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	0.95% – 5.15% (2012: 0.17% – 2.28%)
Discount rates	13.00% – 13.60% (2012: 13.00% – 13.60%)

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For the year ended 31st December, 2013

19. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment testing on Unit A *(Continued)*

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

Impairment testing on Unit C

Unit C consists of several CGUs which represent the operation of different subsidiaries engaging in the operation of CNG filling stations. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise intangible assets of HK$53,686,000 (2012: HK$55,356,000), property, plant and equipment of HK$46,433,000 (2012: HK$39,284,000) and prepaid lease payments of HK$51,901,000 (2012: HK$11,421,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2013 and 2012:

Period of cash flow projections	5 years (2012: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0% (2012: 0%)
Discount rate	15.00% (2012: 16.00%)

There is no growth rate expected based on historical data. A key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. At the end of the reporting period, the recoverable amount of each CGU of Unit C approximates its carrying amount and no impairment loss or reversal of impairment loss is considered necessary.

Impairment testing on Unit D

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

During the year ended 31st December, 2013, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$1,287,000 (2012: HK$1,288,000) was charged to profit or loss as research and development costs.

20. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

On 6th December, 2013, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with independent third parties to acquire 100% equity interest in 德州旺源燃氣有限公司 Dezhou Wangyuan Gas Company Limited ("Dezhou Wangyuan") at a total cash consideration of RMB81,000,000 (equivalent to HK$103,673,000). Dezhou Wangyuan is principally engaged in sales of piped gas in the PRC. A deposit of RMB8,100,000 (equivalent to HK$10,367,000) was paid during the year ended 31st December, 2013. The acquisition is subject to certain conditions which are not yet satisfied at the end of the reporting period.

21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

As at 31st December, 2013, deposit of RMB39,316,000 (2012: RMB32,460,000) (equivalent to HK$50,322,000 (2012: HK$40,443,000)) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

22. PREPAID LEASE PAYMENTS

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

At 31st December, 2013, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK$100,400,000 (2012: HK$122,818,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

The Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$11,363,000 (2012: HK$14,756,000) to secure certain bank borrowings granted to the Group.

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For the year ended 31st December, 2013

23. AVAILABLE-FOR-SALE INVESTMENT

	2013 HK$'000	2012 HK$'000
Available-for-sale investment comprises of unlisted equity security at cost less impairment		
At 1st January	3,738	3,697
Exchange adjustments	102	41
At 31st December	3,840	3,738

The above unlisted investment represents 10% (2012: 10%) in equity interest of Linyi Gas Pipeline Transport Company Limited (臨沂管道燃氣輸配有限公司). It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.

24. INVENTORIES

	2013 HK$'000	2012 HK$'000
Construction materials	78,001	68,849
Finished goods	3,467	5,560
	81,468	74,409

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

The Group allows an average credit period of 30 days (2012: 30 days) to its trade customers. The bills receivables are matured within the range of 30 days to 180 days (2012: 60 days to 180 days) for the year ended 31st December, 2013. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of piped gas and the billing dates for work performed for construction contracts:

	2013	2012
	HK$'000	HK$'000
0 – 30 days	**136,886**	136,360
31 – 90 days	**331**	186
91 – 180 days	**1,121**	1
181 – 360 days	**50**	547
Trade receivables	**138,388**	137,094
0 – 90 days	**30,287**	18,585
91 – 180 days	**9,867**	311
Bills receivables	**40,154**	18,896
Trade and bills receivables	**178,542**	155,990

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials for customers' gas pipeline construction amounting to HK$79,996,000 (2012: HK$56,383,000).

Trade receivables of HK$136,886,000 (2012: HK$136,360,000) and bills receivables of HK$40,154,000 (2012: HK$18,896,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in Henan and Shangdong provinces and no significant counterparty default was noted in the past.

As at 31st December, 2013, trade receivables of HK$1,502,000 (2012: HK$734,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 120 days (2012: 210 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

Ageing of trade receivables which are past due but not impaired

	2013 HK$'000	2012 HK$'000
31 – 90 days	331	186
91 – 180 days	1,121	1
181 – 360 days	50	547
	1,502	734

Movement in the allowance for doubtful debts

Trade receivables

	2013 HK$'000	2012 HK$'000
At 1st January	2,936	2,878
Increase in allowance recognised in profit or loss	148	58
At 31st December	3,084	2,936

Other receivables

	2013 HK$'000	2012 HK$'000
At 1st January	6,404	6,596
Increase (decrease) in allowance recognised in profit or loss	650	(192)
At 31st December	7,054	6,404

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

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

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

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

	2013	2012
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**180,272**	213,920
Less: Progress billings	**(184,174)**	(188,543)
Less: Impairment losses recognised (Note)	**(19,445)**	(22,184)
	(23,347)	3,193
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**–**	13,562
Amounts due to customers for contract work	**(23,347)**	(10,369)
	(23,347)	3,193

At 31st December, 2013, advances received from customers before the contract work is performed amounted to HK$155,514,000 (2012: HK$138,037,000) and were included in deferred income and advance received classified as current liabilities.

Note: The Directors reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the Directors, for amounts that recoverability is uncertain, impairment losses were recognised in full. For those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2013, the Group recognised a net reversal of impairment loss of HK$2,739,000 (2012: HK$3,083,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.35% to 3.00% (2012: 0.40% to 3.25%) per annum for the year ended 31st December, 2013. At 31st December, 2013, the bank balances and cash of HK$412,495,000 (2012: HK$329,528,000) were denominated in RMB which are not freely convertible into other currencies in the PRC environment.

As at 31st December, 2013, the bank balances and cash consisted of HK$10,926,000 and HK$6,125,000 (2012: HK$752,000 and HK$18,290,000) denominated in USD and HKD respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2013, pursuant to letters of undertaking, the Group is required to maintain deposits of RMB1,283,000 (equivalent to HK$1,643,000) and USD1,000,000 (equivalent to HK$7,754,000) (2012: RMB15,000,000 (equivalent to HK$18,689,000)) with respective banks as a condition precedent to the supply of natural gas from its suppliers and a bank borrowing (2012: a bank borrowing). The pledged bank deposits carry interest at average market rate of 0.35% (2012: 3.00%) per annum.

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

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

	2013 **HK$'000**	2012 HK$'000
0 – 30 days	**238,521**	194,328
31 – 90 days	**33,499**	31,313
91 – 180 days	**7,399**	4,602
Over 180 days	**37,588**	18,274
Trade payables	**317,007**	248,517

The average credit period on purchase of goods is 90 days (2012: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Deferred income and advance received classified as current liabilities represent the amounts received from customers before the contract work is performed and advance payments from customers for natural gas. Deferred income and advance received classified as non-current liabilities are government grants of HK$6,851,000 (2012: HK$25,372,000). Due to redevelopment of Jiaozuo City, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo City. During the year ended 31st December, 2013, advance received amounting to HK$19,092,000 has been derecognised upon relocation of the pipelines, as disclosed in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$36,165,000 (2012: HK$58,007,000), accrued expenses of HK$24,719,000 (2012: HK$22,023,000) and unsettled consideration for the acquisition of assets and liabilities through acquisition of a subsidiary of HK$45,437,000 (2012: nil) as disclosed in note 34(i).

29. BANK BORROWINGS

	2013	2012
	HK$'000	HK$'000
Bank loans		
Secured	**395,354**	356,965
Unsecured	**1,413,764**	829,068
	1,809,118	1,186,033
Carrying amount repayable*:		
Within one year	**528,215**	660,852
More than one year, but not exceeding two years	**791,680**	69,649
More than two years but not exceeding five years	**443,466**	368,752
More than five years	**45,757**	86,780
	1,809,118	1,186,033
Less: Amounts due within one year shown under current liabilities	**(528,215)**	(660,852)
	1,280,903	525,181

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

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For the year ended 31st December, 2013

29. BANK BORROWINGS *(Continued)*

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

	2013	2012
Effective interest rate:		
Fixed-rate borrowings	**6.46% – 7.21%**	6.40% – 8.26%
Variable-rate borrowings	**3.24% – 8.81%**	5.94% – 8.81%

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

As at 31st December, 2013, the bank borrowing balances consisted of HK$674,598,000 (2012: nil) denominated in USD, which is foreign currency of the respective group entity. Interest of LIBOR plus a premium ranging from 3% to 3.5% per annum is charged on outstanding loan balances.

As at 31st December, 2013, certain bank borrowings were secured by the Group's prepaid lease payments, buildings, pipelines and pledged bank deposits with the aggregate carrying amounts of HK$11,363,000 (2012: HK$14,756,000), HK$5,943,000 (2012: HK$29,469,000), nil (2012: HK$385,659,000) and HK$7,754,000 (2012: HK$18,689,000) respectively.

30. SHARE CAPITAL

	Number of shares		**Amount**	
	2013	2012	**2013**	2012
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At 1st January	**2,524,008**	2,398,208	**25,240**	23,982
Exercise of share options (note 32)	**–**	125,800	**–**	1,258
At 31st December	**2,524,008**	2,524,008	**25,240**	25,240

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

31. DEFERRED TAXATION

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

	Revaluation of investment properties HK$'000	Other intangible assets HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1st January, 2012	974	9,952	4,082	15,008
Exchange adjustments	11	110	45	166
Charge (credit) to profit or loss (note 11)	238	(847)	8,498	7,889
Release of previously provided deferred tax upon payment	–	–	(4,082)	(4,082)
At 31st December, 2012	1,223	9,215	8,543	18,981
Exchange adjustments	33	288	234	555
Acquisition of a subsidiary (note 33(i))	–	8,578	–	8,578
Charge (credit) to profit or loss (note 11)	305	(869)	–	(564)
Release of previously provided deferred tax upon payment	–	–	(3,840)	(3,840)
At 31st December, 2013	1,561	17,212	4,937	23,710

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of certain PRC subsidiaries amounting to HK$640,480,000 (2012: HK$336,483,000) as the Group is able to control the timing of the reversal of the temporary differences for these subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2013, the Group had unused estimated tax losses of HK$262,918,000 (2012: HK$265,926,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$213,305,000 (2012: HK$217,792,000) that will expire in various dates up to 2018 (2012: 2017). Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

32. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

No share option has been granted since the adoption of the New Share Option Scheme on 3rd May, 2013.

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For the year ended 31st December, 2013

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

Equity-settled share option schemes *(Continued)*

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

Category of grantee	**Exercise price per share** HK$	**Date of grant**	**Exercisable period**	**Number of share options At 1st January, 2013 and at 31st December, 2013**
Directors	0.49	11th April, 2011	11th April, 2011 to 10th April, 2021	**3,000,000**
Exercisable at the end of the year				**3,000,000**
Weighted average exercise price				**HK$0.49**

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options At 1st January, 2012	Exercised during the year (Note)	At 31st December, 2012
Directors	0.49	11th April, 2011	11th April, 2011 to 10th April, 2021	20,000,000	(17,000,000)	3,000,000
Employees	0.49	11th April, 2011	11th April, 2011 to 10th April, 2021	108,800,000	(108,800,000)	–
				128,800,000	(125,800,000)	3,000,000
Exercisable at the end of the year						3,000,000
Weighted average exercise price					HK$0.49	HK$0.49

Note: In respect of the share options exercised during the year ended 31st December, 2012, the weighted average closing share price immediately before the date of exercise is HK$0.71.

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For the year ended 31st December, 2013

33. ACQUISITION OF SUBSIDIARY AND BUSINESS

(i) Acquisition of subsidiary

On 31st October, 2013, the Group acquired 100% of the registered share capital of 武陟縣高遠天然氣有限公司 Wuzhi County Gaoyuan Natural Gas Company Limited ("Wuzhi County Gaoyuan") for consideration of RMB51,377,000 (equivalent to HK$65,482,000) from an independent third party. The acquisition was completed on 31st October, 2013 and on that date control in Wuzhi County Gaoyuan was passed to the Group. This acquisition has been accounted for using the purchase method. Wuzhi County Gaoyuan is principally engaged in the sales of piped gas, gas pipeline construction and operation of CNG filling stations. Wuzhi County Gaoyuan was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK$'000
Cash	65,482

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

	HK$'000
Property, plant and equipment	38,694
Other intangible asset – exclusive right of operation	48,582
Inventories	688
Trade and bills receivables	27
Deposits, prepayments and other receivables	950
Bank balances and cash	1,726
Trade payables	(406)
Other payables and accrued charges	(24,899)
Deferred tax liability	(8,578)
	56,784

33. ACQUISITION OF SUBSIDIARY AND BUSINESS *(Continued)*

(i) Acquisition of subsidiary *(Continued)*

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	65,482
Less: Net assets acquired	(56,784)
	8,698

The goodwill arising on the acquisition is not expected to be deductible for fax purpose.

Net cash outflow on acquisition of Wuzhi County Gaoyuan:

	HK$'000
Cash consideration paid	65,482
Less: Cash and cash equivalents acquired	(1,726)
	63,756

Included in the profit for the year is profit of HK$20,000 attributable to the additional business generated by Wuzhi County Gaoyuan. Revenue for the year includes HK$5,040,000 generated from Wuzhi County Gaoyuan.

(ii) Acquisition of business

On 16th August, 2013, 焦作中裕壓縮氣有限公司 Jiaozuo Zhongyu Compressed Gas Company Limited ("Jiaozuo Compressed Gas") was incorporated and owned as to 32% by the Group and 68% by another two independent third parties ("Other Parties") for the purpose of acquiring a business of CNG filling stations owned by Other Parties. Upon the incorporation, the Group and Other Parties contributed capital in form of cash of RMB4,800,000 (equivalent to HK$6,113,000) and business of CNG filling stations comprising certain equipment and leasehold lands respectively. On 18th November, 2013, the Group acquired the 68% interest owned by Other Parties for a consideration of RMB21,500,000 (equivalent to HK$27,382,000). The acquisition was completed on 30th November, 2013 and on that date control in Jiaozuo Compressed Gas was passed to the Group. This acquisition has been accounted for using the purchase method.

Consideration transferred:

	HK$'000
Cash	33,495

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33. ACQUISITION OF SUBSIDIARY AND BUSINESS *(Continued)*

(ii) Acquisition of business *(Continued)*

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

	HK$'000
Property, plant and equipment	6,140
Prepaid lease payments	21,242
Bank balances and cash	6,113
	33,495

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	33,495
Less: Net assets acquired	(33,495)
	–

Net cash outflow on acquisition of Jiaozuo Compressed Gas:

	HK$'000
Cash consideration paid	33,495
Less: Cash and cash equivalents acquired	(6,113)
	27,382

Included in the profit for the year is loss of HK$21,000 incurred by the additional business generated by Jiaozuo Compressed Gas. No revenue for the year is generated from Jiaozuo Compressed Gas.

Had the acquisitions been completed on 1st January, 2013, total group revenue for the year would have been HK$3,175,105,000, and profit for the year would have been HK$331,616,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2013, nor is it intended to be a projection of future results.

34. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITIONS OF SUBSIDIARIES

(i) On 29th November, 2013, Zhongyu Henan acquired 100% equity interest in 鐵力市嘉華燃氣有限公司 Tieli City Jiahua Gas Company Limited for RMB145,000,000 (equivalent to HK$184,666,000) from an independent third party. The company name was changed to 鐵力中裕燃氣有限公司 Tieli Zhongyu Gas Company Limited ("Tieli Zhongyu") after acquisition. The principal asset of Tieli Zhongyu is an exclusive right of selling and distributing piped gas in Tieli City. Tieli Zhongyu has not commenced business at the date of acquisition.

	HK$'000
Net assets acquired	
Property, plant and equipment	15,219
Other intangible asset – exclusive right of operation	162,555
Prepaid lease payments	2,415
Inventories	543
Prepayments and other receivables	5,898
Bank balances and cash	1,161
Other payables	(3,125)
	184,666
Net cash outflow arising on acquisition	
Cash consideration paid	184,666
Less: Cash and cash equivalents acquired	(1,161)
Less: Unsettled consideration (included in other payables and accrued charges)	(45,437)
	138,068

Tieli Zhongyu possesses an exclusive right of selling and distributing piped gas in Tieli City. Pursuant to terms of exclusive right granted by the People's Government of Tieli Municipality ("Government"), modifications of shareholding of Tieli Zhongyu requires filing with the Government whenever there is change in shareholder. Based on a legal opinion issued by a PRC registered lawyer in relation to the aforesaid acquisition, such change in shareholding neither affect the legitimacy of the exclusive right possessed by Tieli Zhongyu, nor require approval by the Government. The filing of change of shareholders of Tieli Zhongyu is solely served for administrative purpose. The Directors expect the filing will be completed in 2014.

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

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

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

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

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

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

In the opinion of the Directors, the above acquisitions did not constitute a business combination in accordance with HKFRS 3 "Business combination" as Tieli Zhongyu, Nanjing Jingqiao and Shanghai Xuanmin have not commenced business at the dates of acquisition. All acquisitions have been accounted for as acquisition of assets and liabilities through acquisitions of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

35. OPERATING LEASES

The Group as lessee

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

	2013 HK$'000	2012 HK$'000
Within one year	1,973	1,282
In the second to fifth year inclusive	4,033	1,738
Over five years	5,366	1,448
	11,372	4,468

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

The Group as lessor

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

	2013 HK$'000	2012 HK$'000
Within one year	698	706
In the second to fifth year inclusive	2,218	2,387
Over five years	76	58
	2,992	3,151

Leases are negotiated for an average term of five years.

The Group's investment properties with a carrying amount of HK$9,016,000 (2012: HK$7,589,000) are held for rental purposes. All of the properties held have committed tenants for the next four to nine years.

36. RETIREMENT BENEFITS PLANS

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

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

37. RELATED PARTY TRANSACTION

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

38. CAPITAL COMMITMENTS

As at 31st December, 2013, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$49,558,000 (2012: HK$64,998,000).

39. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2013, the Group has derecognised certain pipelines of HK$34,658,000 due to redevelopment of Jiaozuo City, and corresponding advance received of HK$19,092,000 in the form of government subsidy has been utilised in such relocation of pipelines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31st December, 2013 and 2012

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2013 %	2012 %	Principal activities
China Gas Construction Expansion Company Limited###	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	**99.89##**	99.89##	Investment holding
Linyi Zhongyu Energy Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	**99.89##**	99.89##	Trading of natural gas and gas pipeline construction
Linshu Zhongyu Gas Co., Ltd.	PRC	Limited liability company	Registered capital RMB15,160,000	**99.89##**	99.89##	Trading of natural gas and gas pipeline construction
Linyi Zhongyu Gas Co., Ltd ("Linyi Zhongyu")	PRC	Sino-foreign joint venture	Registered capital HK$42,000,000	**51#**	51#	Trading of natural gas and gas pipeline construction
Sanmenxia Zhongyu Gas Co., Ltd	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	**90##**	90##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Xinmi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	**97##**	97##	Trading of natural gas and gas pipeline construction
Yanshi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	**95##**	95##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Yongcheng Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$30,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
Jiyuan Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$40,280,000	**92.9##**	92.9##	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Co., Ltd. ("Luohe Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	**77.3##**	77.3##	Trading of natural gas and gas pipeline construction

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

As at 31st December, 2013 and 2012 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2013 %	2012 %	Principal activities
Luohe Zhongyu Gas Project Install Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	**73.4##**	73.4##	Gas pipeline construction
Jiaozuo Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$84,800,000	**93.2##**	93.2##	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
Jiaozuo Zhongyu Gas Project Installation Co., Ltd.	PRC	Limited liability company	Registered capital RMB25,000,000	**88.54##**	88.54##	Gas pipeline construction
Xiuwu Zhongyu Gas Development Co., Ltd.	PRC	Other limited liability company	Registered capital RMB8,000,000	**55.9##**	55.9##	Trading of natural gas and gas pipeline construction
Zhongyu Henan	PRC	Wholly-foreign owned enterprises	Registered capital HK$600,000,000	**100#**	100#	Investment holding
Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd.	PRC	Limited liability company	Registered capital RMB165,000,000	**75##**	75##	Exploration, development and production of coalbed methane
Zhongyu Jiaozuo CBM Development and Utilization Co. Ltd.	PRC	Limited liability company	Registered capital RMB150,000,000	**71.25##**	71.25##	Exploration, development and production of coalbed methane
JYCG	PRC	Limited liability company	Registered capital RMB5,000,000	**100##**	100##	Operation of CNG filling stations
LZCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	**100##**	100##	Operation of CNG filling stations
SZCG	PRC	Limited liability company	Registered capital RMB1,000,000	**100##**	100##	Operation of CNG filling stations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

As at 31st December, 2013 and 2012 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2013 %	2012 %	Principal activities
NZCG	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Operation of CNG filling stations
Nanjing Zhongyu Natural Gas Filling Co., Ltd.	PRC	Limited liability company	Registered capital RMB7,000,000	**70##**	70##	Operation of CNG filling stations
Nanjing Jingqiao	PRC	Limited liability company	Registered capital RMB2,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
Shaowu Zhongyu Compressed Gas Company Limited	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
Tieli Zhongyu	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction

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

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

The place of operation of the Company is Hong Kong.

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

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

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income attributable to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
				HK$'000	HK$'000	**HK$'000**	HK$'000
Linyi Zhongyu	PRC – Shangdong province	**49%**	49%	**37,097**	31,230	**108,962**	71,865
Luohe Zhongyu	PRC – Henan province	**22.7%**	22.7%	**13,770**	11,066	**53,021**	44,331
Individually immaterial subsidiaries with non-controlling interests						**74,211**	55,031
						236,194	171,227

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

(i) Linyi Zhongyu

	2013	2012
	HK$'000	HK$'000
Current assets	**137,215**	99,140
Non-current assets	**311,100**	237,073
Current liabilities	**(225,944)**	(189,550)
Equity attributable to owners of the Company	**113,409**	74,798
Non-controlling interests	**108,962**	71,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(i) Linyi Zhongyu *(Continued)*

	2013 HK$'000	2012 HK$'000
Revenue	**420,232**	331,053
Expenses	**(347,781)**	(268,777)
Profit for the year	**72,451**	62,276
Profit attributable to owners of the Company	**36,950**	31,761
Profit attributable to the non-controlling interests	**35,501**	30,515
Profit for the year	**72,451**	62,276
Other comprehensive income attributable to owners of the Company	**1,661**	743
Other comprehensive income attributable to the non-controlling interests	**1,596**	715
Other comprehensive income for the year	**3,257**	1,458
Total comprehensive income attributable to owners of the Company	**38,611**	32,504
Total comprehensive income attributable to the non-controlling interests	**37,097**	31,230
Total comprehensive income for the year	**75,708**	63,734
Dividends paid to non-controlling interests	**–**	18,315
Net cash inflow from operating activities	**80,182**	93,616
Net cash outflow from investing activities	**(76,246)**	(48,895)
Net cash inflow (outflow) from financing activities	**31,590**	(21,898)
Net cash inflow	**35,526**	22,823

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(ii) Luohe Zhongyu

	2013	2012
	HK$'000	HK$'000
Current assets	**232,324**	183,572
Non-current assets	**307,519**	253,481
Current liabilities	**(182,404)**	(187,637)
Non-current liabilities	**(148,906)**	(54,211)
Equity attributable to owners of the Company	**155,512**	150,874
Non-controlling interests	**53,021**	44,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

41. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(ii) Luohe Zhongyu *(Continued)*

	2013 **HK$'000**	2012 HK$'000
Revenue	**392,786**	325,321
Expenses	**(335,580)**	(277,193)
Profit for the year	**57,206**	48,128
Profit attributable to owners of the Company	**44,214**	37,198
Profit attributable to the non-controlling interests	**12,992**	10,930
Profit for the year	**57,206**	48,128
Other comprehensive income attributable to owners of the Company	**2,650**	462
Other comprehensive income attributable to the non-controlling interests	**778**	136
Other comprehensive income for the year	**3,428**	598
Total comprehensive income attributable to owners of the Company	**46,864**	37,660
Total comprehensive income attributable to the non-controlling interests	**13,770**	11,066
Total comprehensive income for the year	**60,634**	48,726
Dividends paid to non-controlling interests	**5,080**	6,509
Net cash inflow from operating activities	**106,028**	121,056
Net cash outflow from investing activities	**(92,505)**	(122,481)
Net cash (outflow) inflow from financing activities	**(17,883)**	1,228
Net cash outflow	**(4,360)**	(197)

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

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

	2013 HK$'000	2012 HK$'000
Unlisted investments in subsidiaries	**768,806**	694,025
Amounts due from group companies	**866,535**	298,304
Bank balances and cash	**24,473**	19,042
Other receivables	**21,470**	3,596
Other payables and accrued charges	**(3,110)**	(1,142)
Bank borrowings	**(674,598)**	–
Total assets less liabilities	**1,003,576**	1,013,825
Share capital (note 30)	**25,240**	25,240
Reserves (Note)	**978,336**	988,585
Total equity	**1,003,576**	1,013,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

Note:

Reserves of the Company

	Share premium HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st January, 2012	816,047	19,143	43,838	49,296	928,324
Loss for the year	–	–	–	(3,470)	(3,470)
Other comprehensive expense for the year	–	–	3,347	–	3,347
Total comprehensive income for the year	–	–	3,347	(3,470)	(123)
Exercise of share options	79,007	(18,623)	–	–	60,384
At 31st December, 2012	895,054	520	47,185	45,826	988,585
Loss for the year	–	–	–	(25,258)	(25,258)
Other comprehensive income for the year	–	–	15,009	–	15,009
Total comprehensive expense for the year	–	–	15,009	(25,258)	(10,249)
At 31st December, 2013	895,054	520	62,194	20,568	978,336

FINANCIAL SUMMARY

	For the year ended 31st December,				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**3,130,885**	2,754,084	1,794,319	1,169,469	844,150
Profit for the year attributable to					
Owners of the Company	**262,248**	226,021	86,114	22,811	20,060
Non-controlling interests	**62,569**	55,533	42,190	34,314	25,080
	324,817	281,554	128,304	57,125	45,140

	As at 31st December,				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**4,698,914**	3,548,701	2,836,665	2,275,534	1,630,853
Total liabilities	**(2,770,240)**	(1,987,239)	(1,607,525)	(1,373,127)	(817,092)
	1,928,674	1,561,462	1,229,140	902,407	813,761
Equity attributable to the owners of the Company	**1,692,480**	1,390,235	1,088,441	769,311	693,797
Non-controlling interests	**236,194**	171,227	140,699	133,096	119,964
	1,928,674	1,561,462	1,229,140	902,407	813,761

中裕燃氣

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

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