ENN 新奥

ENN Energy Holdings Limited

(Stock code: 2688)

FUELING A GREENER LIFE

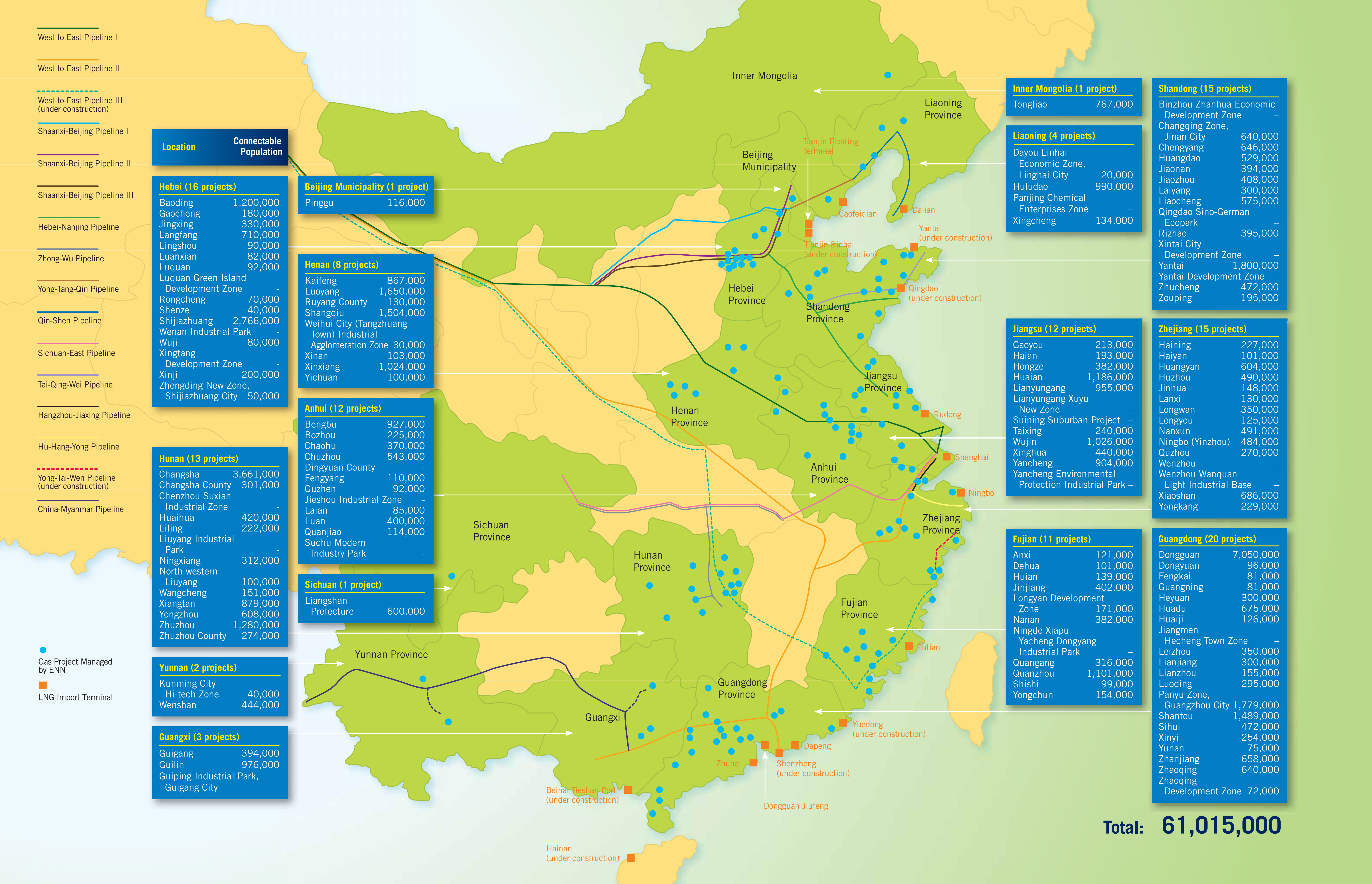
annual report 2013

ENN | Energy & Innovation
Ennovation

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

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

Operational Locations (The PRC)



Location	Connectable Population
Hebei (16 projects)	
Baoding	1,200,000
Gaocheng	180,000
Jingxing	330,000
Langfang	710,000
Lingshou	90,000
Luanxian	82,000
Luquan	92,000
Luquan Green Island Development Zone	-
Rongcheng	70,000
Shenze	40,000
Shijiazhuang	2,766,000
Wenan Industrial Park	-
Wuji	80,000
Xingtang Development Zone	-
Xinji	200,000
Zhengding New Zone, Shijiazhuang City	50,000
Beijing Municipality (1 project)	
Pinggu	116,000
Henan (8 projects)	
Kaifeng	867,000
Luoyang	1,650,000
Ruyang County	130,000
Shangqiu	1,504,000
Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	30,000
Xinan	103,000
Xinxiang	1,024,000
Yichuan	100,000
Anhui (12 projects)	
Bengbu	927,000
Bozhou	225,000
Chaohu	370,000
Chuzhou	543,000
Dingyuan County	-
Fengyang	110,000
Guzhen	92,000
Jieshou Industrial Zone	-
Laian	85,000
Luan	400,000
Quanjiao	114,000
Suchu Modern Industry Park	-
Sichuan (1 project)	
Liangshan Prefecture	600,000
Hunan (13 projects)	
Changsha	3,661,000
Changsha County	301,000
Chenzhou Suxian Industrial Zone	-
Huaihua	420,000
Liling	222,000
Liuyang Industrial Park	-
Ningxiang	312,000
North-western Liuyang	100,000
Wangcheng	151,000
Xiangtan	879,000
Yongzhou	608,000
Zhuzhou	1,280,000
Zhuzhou County	274,000
Yunnan (2 projects)	
Kunming City Hi-tech Zone	40,000
Wenshan	444,000
Guangxi (3 projects)	
Guigang	394,000
Guilin	976,000
Guiping Industrial Park, Guigang City	-
Inner Mongolia (1 project)	
Tongliao	767,000
Liaoning (4 projects)	
Dayou Linhai Economic Zone, Linghai City	20,000
Huludao	990,000
Panjing Chemical Enterprises Zone	-
Xingcheng	134,000
Jiangsu (12 projects)	
Gaoyou	213,000
Haian	193,000
Hongze	382,000
Huaian	1,186,000
Lianyungang	955,000
Lianyungang Xuyu New Zone	-
Suining Suburban Project	-
Taixing	240,000
Wujin	1,026,000
Xinghua	440,000
Yancheng	904,000
Yancheng Environmental Protection Industrial Park	-
Fujian (11 projects)	
Anxi	121,000
Dehua	101,000
Huian	139,000
Jinjiang	402,000
Longyan Development Zone	171,000
Nanan	382,000
Ningde Xiapu Yacheng Dongyang Industrial Park	-
Quangang	316,000
Quanzhou	1,101,000
Shishi	99,000
Yongchun	154,000
Shandong (15 projects)	
Binzhou Zhanhua Economic Development Zone	-
Changqing Zone, Jinan City	640,000
Chengyang	646,000
Huangdao	529,000
Jiaonan	394,000
Jiaozhou	408,000
Laiyang	300,000
Liaocheng	575,000
Qingdao Sino-German Ecopark	-
Rizhao	395,000
Xintai City Development Zone	-
Yantai	1,800,000
Yantai Development Zone	-
Zhucheng	472,000
Zouping	195,000
Zhejiang (15 projects)	
Haining	227,000
Haiyan	101,000
Huangyan	604,000
Huzhou	490,000
Jinhua	148,000
Lanxi	130,000
Longwan	350,000
Longyou	125,000
Nanxun	491,000
Ningbo (Yinzhou)	484,000
Quzhou	270,000
Wenzhou	-
Wenzhou Wanquan Light Industrial Base	-
Xiaoshan	686,000
Yongkang	229,000
Guangdong (20 projects)	
Dongguan	7,050,000
Dongyuan	96,000
Fengkai	81,000
Guangning	81,000
Heyuan	300,000
Huadu	675,000
Huaiji	126,000
Jiangmen Hecheng Town Zone	-
Leizhou	350,000
Lianjiang	300,000
Lianzhou	155,000
Luoding	295,000
Panyu Zone, Guangzhou City	1,779,000
Shantou	1,489,000
Sihui	472,000
Xinyi	254,000
Yunan	75,000
Zhanjiang	658,000
Zhaoqing	640,000
Zhaoqing Development Zone	72,000

Total: 61,015,000

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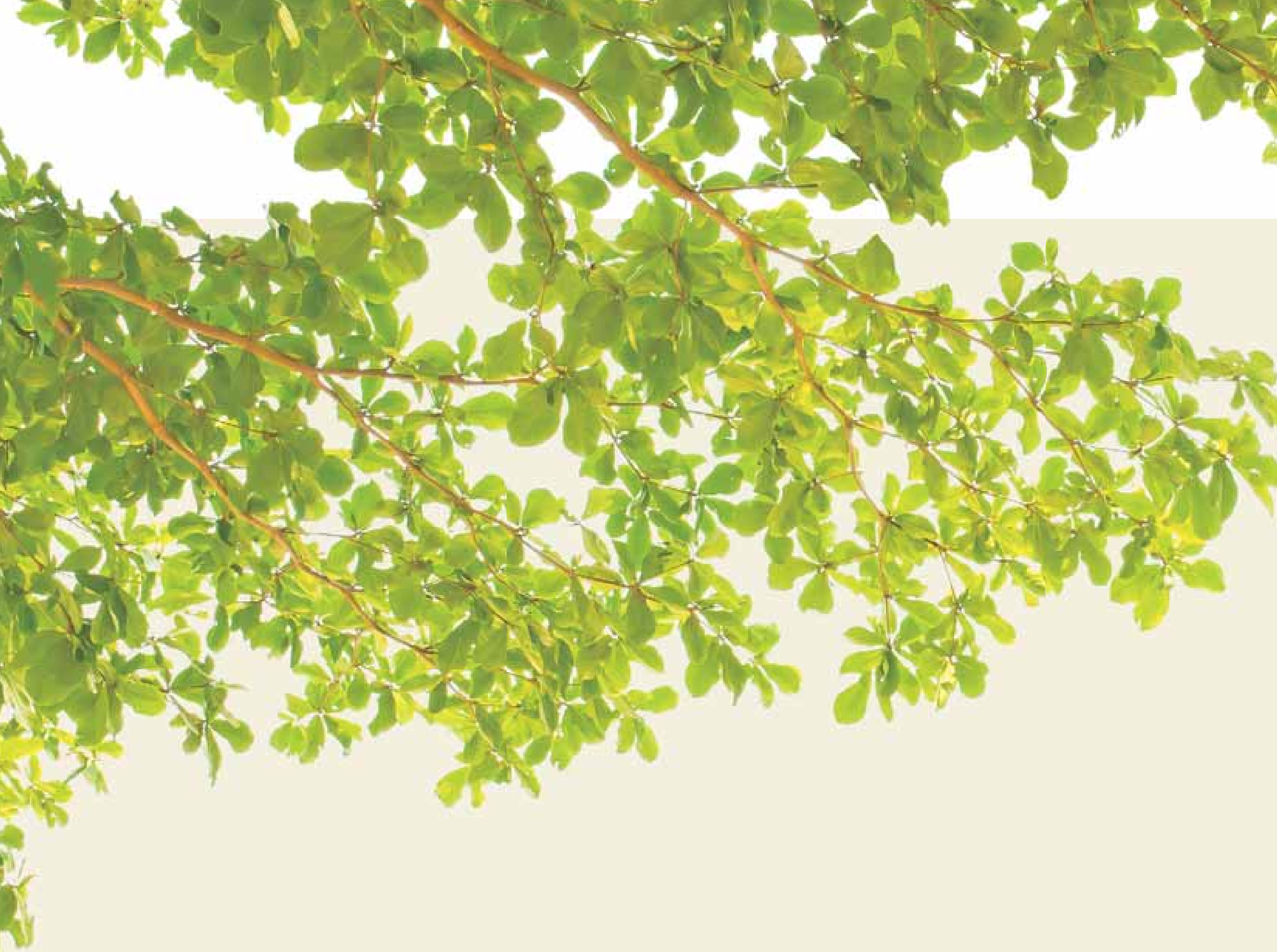

OUR MISSION

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

Wang Zizheng
Jin Yongsheng
Lim Haw Kuang

Independent Non-executive Directors

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau
Ma Zhixiang
Yuen Po Kwong

Company Secretary

Wong Chui Lai *CPA*

Authorised Representatives

Yu Jianchao
Wang Dongzhi

Members of the Audit Committee

Kong Chung Kau* *CPA*
Wang Guangtian
Yien Yu Yu, Catherine *CFA*
Ma Zhixiang
Yuen Po Kwong

Members of the Remuneration Committee

Yien Yu Yu, Catherine* *CFA*
Jin Yongsheng
Wang Guangtian
Kong Chung Kau *CPA*
Ma Zhixiang
Yuen Po Kwong

Members of the Nomination Committee

Wang Yusuo*
Jin Yongsheng
Wang Guangtian
Yien Yu Yu, Catherine *CFA*
Kong Chung Kau *CPA*
Ma Zhixiang
Yuen Po Kwong

Registered Office

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

Principal Place of Business in Hong Kong

Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

Head Office in The PRC

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

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor One Pacific Place
No. 88 Queensway
Hong Kong

Legal Adviser

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

Principal Bankers

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

Website

www.ennenergy.com

E-mail address

enn@ennenergy.com

* Chairman of the relevant Board committees

CAPITALISE ON INDUSTRY OPPORTUNITIES

Green, low-carbon and sustainable development already became the main theme of China's social development. More and more favourable policies will be promulgated to propel the development of natural gas industry. We will fully capitalise on such golden opportunities and speed up business expansion.

7.5%

The share of natural gas in primary energy consumption will be raised to 7.5%

CHAIRMAN'S STATEMENT

WE ARE GAINING MOMENTUM TO GROW FURTHER.

WANG Yusuo
Chairman

Results of the Year

The global economy showed signs of mild recovery in the year of 2013, while China maintained a steady growth. Thanks to the concerted effort of its employees, the Group continued to maintain a substantial growth during the year in face of complicated market environment. The revenue and profit attributable to shareholders for the year reached RMB22,966 million and RMB1,252 million respectively, representing an increase of 27.4% and a decrease of 15.5% over last year, while the earnings per share decreased by 16.5% to RMB1.16. The decreases in profit attributable to shareholders and earnings per share were due to the non-cash loss of RMB784 million due to the fair value change of the zero coupon convertible bonds issued in early 2013. Excluding this factor, profit attributable to shareholders in 2013 actually increased comparing to last year.

In 2013, the Group acquired a total of 17 new projects, including 9 city-gas projects including Baoding City in Hebei Province, Heyuan City, Leizhou City, Lianjiang City and Dongyuan County in Guangdong Province, Dingyuan County in Anhui Province, Liangshan Prefecture in Sichuan Province, Ruyang County in Henan Province and North-western Liuyang in Hunan Province and 8 industrial park projects. As a result, the number of projects secured by the Group in China increased to 134, and contributed an additional connectable urban population of 3.08 million, coupled with the urbanisation process and organic growth of population in our existing projects, the total number of connectable urban population as of the end of 2013 reached over 61.01 million. On the other hand, the Group continued to develop vehicle gas refuelling station business actively. During the year, 24 CNG refuelling stations and 94 LNG refuelling stations were built and put into operation. As of the end of 2013, the total number of vehicle gas refuelling stations operated by the Group reached 448 and the gas sales volume in this segment over the total gas sales volume increased further to 14.6%. The growth in vehicle gas sales volume not only reflected the rapid development of vehicle gas refuelling station business, but also further optimised the Group profit structure.

During the year, the Group completed piped natural gas connections for 1,220,441 residential households and 7,700 commercial/industrial ("C/I") customers (with total installed designed daily capacity of 8,045,922 cubic metres). As of the end of 2013, the accumulated number of connected residential households and C/I customers of natural gas were 9,200,671 and 38,787 (with total installed designed daily capacity of 41,820,125 cubic metres) respectively, while in terms of all piped gas users, the accumulated number of connected residential households and C/I customers reached 9,274,794 and 38,939 (with total installed designed daily capacity of 41,864,127 cubic metres) respectively. The sales volume of natural gas for the year grew by 29.1% to 8,037 million cubic metres as compared with last year. Accordingly, the Group not only reached but even exceeded its operational and financial performance guidances set in early 2013. The Group's ability to maintain satisfactory growth fully demonstrated the robust business development of the Group, its strong execution ability in increasing the gas penetration rate of its existing projects, as well as the immense demand for and growth potential of natural gas consumption in China.

In response to the adjustments of the national natural gas pricing mechanism, the Group proactively communicated with its customers and pricing bureaus to determine the new pricing scheme and contracts to facilitate the automatic pass-through mechanism to be established, ensuring the Group's results targets to be achieved. We believe that the liberalisation of natural gas pricing will push forward its utilisation.

Financial Position

As at 31 December 2013, the Group's cash on hand was equivalent to RMB6,822 million (2012: RMB6,156 million), and the total debts amounted to RMB12,443 million (2012: RMB11,242 million). The net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 47.3% (2012: 47.7%). As the Group deepened the gas penetration rate of existing projects and expanded the vehicle gas refuelling station business, revenue from gas sales became the Group's major source of income. The optimised revenue structure will generate long-term and stable cash flow and provide the Group with stable financial resources to pursue sustainable development.

Human Resources

As of the end of 2013, the Group had 26,352 employees (2012: 23,771 employees). The Group has always adhered to its "people-oriented" principle and considered talents as the vital source of its competitiveness and an indispensable factor for its future success and sustainable development. It believes that its employees could provide satisfactory services to customers if they are offered the opportunity of healthy development.

In 2013, the Group continued its efforts in talent development by establishing a talent structure covering different levels and enhancing the competency of its people. Training for operational staff was enhanced through technical skills accreditation for base-level employees and the establishment of technical skills accreditation system for junior, middle and senior base-level members. For professional members, qualification accreditation was fully implemented for 3,600 employees from marketing, finance, pricing, safety, information, administration, strategic performance, customer service and human resources departments during the year. While the Group continued its training programme for engineering masters, long-term training for chief engineers and training for technical sales engineers and vehicle/ship LNG refuelling station managers were also introduced. On the other hand, the Group continued to nurture future leaders and strived to enhance their abilities and skills rapidly through special programmes, on-the-job training, mentorship and project-based training, building up the talent pool for the Group's healthy development.

To better implement its principles of creating and sharing values together and focus on the long-term development, in 2013 the Group continued its incentive mechanism under which Economic Value Added (EVA, i.e. post-tax net operating income net of capital costs for total equity and debts) became a major value measurement to evaluate the performance target and was directly linked to the year-end bonus.

International Awards

In 2013, the Group was voted "Asia's Fabulous 50" and "2013 China's Best CEO" by Forbes in recognition of its outstanding results and performance. The Group also received five honours from the Institutional Investor, including the "Best CEOs", "Best CFOs", "Best Investor Relations Professionals", "Best Investor Relations Companies" and "Best Companies in China" under the category of power sector in the 2013 All-Asia Executive Team ranking. This year, the Group was listed in The Platts Top 250 Global Energy Company Rankings, which was followed by the "Best Performer in Corporate Social Responsibility" in the China Securities Golden Bauhinia Awards in November. These significant honours and awards clearly demonstrated the trust and support from the capital market and investors.

Prospects

In 2014, the global economy may moderately recover as developed economies show stronger growth and the emerging and developing countries maintain their moderate pace. China's economy is expected to continue its robust growth amid the reform.

The natural gas industry will enter into a new stage of rapid development against the social progress and reforms. From a macro point of view, the Chinese government will strive to ensure the steady growth of the domestic economy and drive its economic growth primarily through urbanisation supported by a new form of industrialization, continuous adjustment and upgrade of the industrial structure and accelerated replacement of obsolete production facilities. In respect of social development, a green, low-carbon economy and sustainable development have been the main themes. As recent nation-wide air pollution issues drew wide attention, the public now focus on the ways of preventing and controlling air pollution and reducing emission of fine particulate matter (PM2.5) effectively. In terms of policies, China is implementing the energy-saving and emission reduction policies to fulfill its international commitments and meet local environmental needs. The Chinese government issued the Atmospheric Pollution Prevention Action Plan and environmental indicators were incorporated in the performance appraisal of local governments. The State Council and local governments also signed the Letters of Responsibility for atmospheric pollution prevention which require the latter to forge ahead coal-to-gas and coal-to-electricity conversions. The compulsory coal consumption cut may become a trend and the use of clean energy will grow at a faster pace, promoting the broader use of natural gas in China.

The 2014 Guiding Opinions of Energy Development published by the National Energy Administration (NEA) in January 2014 listed out the targets of energy structure optimisation, including reducing the coal consumption and securing natural gas supply. According to the Opinions, the share of coal in China's primary energy consumption will be lowered to 65% or below. In 2014, China's natural gas supply (excluding coal gasification) will reach 131 billion cubic metres, in which shale gas accounts for 1.5 billion cubic metres and coalbed methane accounts for 18 billion cubic metres. The total consumption of natural gas is targeted to reach 193 billion cubic metres, or a year-on-year growth of 14.5%. In addition, the Action Plan for the Energy Industry to Strengthen Atmospheric Pollution Prevention published by NEA also states that the domestic supply and import of natural gas will be increased and the natural gas supply is expected to reach 330 billion cubic metres by 2017.

China has been improving its natural gas infrastructure in recent years, supporting the sustained and rapid development of natural gas. As of the end of 2013, long distance pipelines (including main and branch lines) in China amounted to over 60,000 kilometres in total. The national natural gas pipeline network comprising of West-to-East Pipeline I, West-to-East Pipeline II, Sichuan-East Pipeline, China-Myanmar Pipeline, Shaanxi-Beijing Pipeline and Zhong-Wu Pipeline as its core and linked by Lanzhou-Yinchuan Pipeline, Huai-Wu Pipeline and Hebei-Nanjing Pipeline covered 28 provinces (municipalities and autonomous regions) and the Hong Kong SAR. The connectivity and flexibility of the network have been improving as well. LNG import terminals in Tianjin, Zhuhai of Guangdong and Caofeidian of Hebei were built and put into operation in 2013, bringing the total number of LNG import terminals in China to 10 with a receiving capacity of 57.20 million tons per year. According to the Government's 12th Five-Year Plan for Natural Gas Development, 24 gas storage facilities will be built during the period. By 2015, total capacity of the storage facilities are expected to reach 33.7 billion cubic metres. Meanwhile, with more discoveries in gas field exploration, the Chinese government will speed up the exploration of unconventional natural gas and further diversify the source of natural gas supply in China, so as to achieve a fair supply and demand equilibrium.

The Group has been committed to meeting the needs of customers when formulating its strategies as customers are the key of business development. Currently, it sees a gradual shift in energy demand among the urban industry, industrial parks, public buildings and the transportation sector, from single source of energy to an integrated solution with diversified energy sources at minimum unit cost. The Chinese government also encouraged increasing the efficiency of integrated energy utilisation and changing the energy usage pattern. As highlighted in the 12th Five-Year Plan, 1,000 natural gas distributed energy projects and 10 demonstration projects with different individual features will be constructed by 2015. Policies that encourage the use of clean energy as transportation fuel, the use of new energy vehicles and emission cut for marine transports were also introduced. To meet customers' needs and adapt to the national policies, the Group continues to innovate its business model and becomes one of the leading players in this sector. In respect of the distributed energy project of Changsha Huanghua Airport, grid connection was completed and commenced power generation in 2013. Initiatives were also launched in the Group's transportation energy business. In 2013, 118 vehicle gas refuelling stations were completed and the volume of gas sold reached 1,187 million cubic metres. The Group also actively explores its ship LNG refuelling business, providing a first-mover advantage in such business area.

In the next few years, the Chinese government will gradually implement the decisions approved during the Third Plenary Session to support the economic and social reforms, developing a green, low-carbon society and focusing on sustainable development so as to build a better country. As air pollution prevention becomes an increasingly significant concern, the use of clean energy is a major trend in China and the natural gas industry will enjoy more rapid growth and

extensive development in the foreseeable future. Seizing this opportunity, the Group will leverage on its strengths to adapt to any market changes and meet customers' needs. Apart from making significant contribution to environmental protection and energy sectors both within and beyond the country, the Group will also maximise the long-term interests of the shareholders, customers, employees, society and the corporate.

Acknowledgement

The Group's consistent and rapid growth is attributed to the continuous support from its customers, business partners, shareholders and its people. On behalf of the board, I would like to express my most sincere gratitude to each of them.

Wang Yusuo
Chairman

24 March 2014


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OPTIMISE REVENUE STRUCTURE

Revenue attributable to gas sales has become the Group's major revenue stream. We will continue to improve the natural gas penetration rate of existing projects, focus on developing more C/I customers and industrial parks in order to further optimise the Group's revenue structure.

45.6%

In 134 project cities with an average penetration rate of only 45.6%

PROJECT OPERATIONAL DATA

	Operational location	Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations ('000 m^3)
1	Langfang	1993	513.5	4	988
2	Liaocheng	2000	411.5	5	2,958
3	Huludao	2000	361.6	3	1,350
4	Xingcheng[(3)]	2002	–	–	–
5	Pinggu	2001	139.0	1	300
6	Huangdao	2001	433.1	2	3,150
7	Zhucheng	2001	299.5	2	543
8	Chengyang	2001	447.9	3	600
9	Yantai Development Zone[(4)]	2001	–	–	–
10	Yantai	2004	708.5	7	1,296
11	Gaoyou	2001	121.6	1	72
12	Bengbu	2002	422.4	1	960
13	Zouping	2002	176.1	1	600
14	Taixing	2002	231.6	2	396
15	Laiyang	2002	216.4	1	150
16	Yancheng	2002	613.6	4	1,650
17	Huaian	2002	681.3	2	580
18	Haian	2002	256.4	2	216
19	Chuzhou	2002	478.7	2	600
20	Luan	2003	201.1	1	480
21	Rizhao	2002	310.2	1	300
22	Xinxiang	2002	536.7	1	560
23	Xinghua	2002	200.7	2	1,150
24	Bozhou	2003	252.6	1	113
25	Haining	2002	393.3	2	396
26	Quzhou	2002	207.8	3	280
27	Shijiazhuang	2002	794.3	1	876
28	Chaohu	2003	185.4	2	210
29	Lanxi	2003	66.2	–	–
30	Wujin	2003	1,194	2	1,530
31	Jinhua	2003	125.6	2	210
32	Wenzhou	2003	99.8	1	120
33	Longwan	2004	0.9	–	–
34	Xiangtan	2003	372.0	2	720
35	Dongguan	2003	1,374.3	4	3,932
36	Lianyungang	2003	600.1	2	675
37	Changsha	2003	1,500.9	8	3,658
38	Kaifeng	2003	719.5	2	1,040
39	Jiaozhou	2003	400.3	1	420
40	Zhuzhou	2003	462.3	1	1,020
41	Jiaonan	2003	289.2	1	837
42	Tongliao	2004	129.6	1	60
43	Guilin	2004	305.1	2	240
44	Huzhou	2004	436.6	2	648
45	Zhanjiang	2004	320.2	2	380
46	Luquan	2004	59.5	1	1,800
47	Shangqiu	2004	230.5	1	580
48	Shantou	2004	139.3	4	200
49	Guigang	2004	126.7	2	1,160
50	Huangyan	2005	143.5	–	–

	Accumulated number of piped gas (including natural gas) customers			
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	Number of vehicle gas refuelling stations
	226,773	1,359	1,036,062	8
	162,904	742	910,469	5
	219,469	530	307,229	7
	–	–	–	–
	32,571	193	234,523	1
	174,611	457	1,455,689	4
	104,380	236	335,218	3
	198,015	520	888,561	8
	–	–	–	–
	372,508	908	1,213,407	13
	53,975	266	70,498	1
	184,073	543	752,508	11
	37,216	115	522,705	3
	58,124	400	350,913	2
	61,912	291	189,481	3
	213,305	1,107	592,868	5
	242,045	620	796,014	7
	47,993	342	317,082	2
	129,372	764	544,853	4
	113,651	358	196,351	5
	134,859	299	301,853	3
	251,618	974	850,999	8
	47,355	226	117,411	2
	56,228	252	77,554	5
	53,795	345	498,874	3
	64,825	329	280,780	3
	744,524	1,228	1,949,466	22
	95,227	361	310,256	4
	17,749	118	170,580	–
	190,667	2,519	1,735,029	7
	49,616	235	188,543	2
	17,534	97	169,432	2
	606	–	–	–
	238,547	1,520	432,828	7
	307,781	2,650	3,119,078	20
	213,902	779	689,043	6
	1,136,045	4,249	3,259,524	20
	220,078	1,142	393,352	5
	114,710	534	575,949	4
	372,260	2,434	1,673,192	4
	100,602	175	267,840	5
	110,766	162	56,540	3
	132,735	197	88,102	3
	92,022	510	525,428	7
	107,404	447	410,736	5
	35,081	28	39,485	–
	110,112	399	127,607	7
	50,590	186	169,783	1
	41,414	119	40,582	1
	34,961	156	135,673	1

PROJECT OPERATIONAL DATA

	Operational location	Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations ('000 m³)
51	Yongkang	2005	180.0	1	160
52	Zhaoqing Development Zone	2005	91.6	1	100
53	Luoyang	2006	1,258.5	3	1,060
54	Quanzhou	2006	365.8	5	620
55	Xiaoshan	1994	372.0	1	200
56	Fengyang	2005	112.0	–	–
57	Nanan	2006	111.1	1	660
58	Huian	2006	73.2	–	–
59	Shishi	2006	103.1	–	–
60	Jinjiang	2006	268.5	1	1,340
61	Laian	2006	93.4	–	–
62	Ningbo (Yinzhou)	2007	402.0	2	130
63	Quanjiao	2007	97.2	–	–
64	Xinan	2007	164.1	2	1,350
65	Dehua	2003	113.4	1	2,680
66	Guzhen	2007	1.4	–	–
67	Zhaoqing	2008	175.9	1	2,514
68	Quangang	2008	34.6	–	–
69	Haiyan	2008	31.9	1	240
70	Yichuan	2009	15.0	1	30
71	Luanxian	2009	7.6	1	1,200
72	Longyou	2009	71.2	2	180
73	Sihui	2009	53.9	1	36
74	Yongchun	2009	14.2	–	–
75	Nanxun (5)	2009	–	–	–
76	Huadu	2010	276.3	1	540
77	Wenshan	2010	32.0	1	100
78	Huaihua	2010	48.8	1	120
79	Guangning	2010	3.0	–	–
80	Huaiji	2010	10.5	–	–
81	Luoding	2010	10.2	–	–
82	Xinyi	2010	3.9	–	–
83	Fengkai	2010	1.5	–	–
84	Lianzhou	2010	–	–	–
85	Changsha County (6)	2010	–	–	–
86	Zhuzhou County (7)	2010	–	–	–
87	Hongze	2011	57.5	–	–
88	Yongzhou	2011	48.0	1	960
89	Rongcheng	2011	13.1	–	–
90	Anxi	2011	24.9	2	1,976
91	Kunming City Hi-tech Zone	2011	25.5	2	460
92	Ningxiang	2011	101.3	–	–
93	Wangcheng (6)	2011	–	–	–
94	Dayou Linhai Economic Zone, Linghai City	2011	39.8	1	60
95	Yancheng Environment Protection Industrial Park	2011	–	–	–
96	Guiping Industrial Park, Guigang City	2011	–	–	–
97	Panyu Zone, Guangzhou City	2011	194.9	4	1,272
98	Changqing Zone, Jinan City	2011	–	–	–
99	Yunan	2011	5.1	–	–
100	Zhengding New Zone, Shijiazhuang City (8)	2011	–	–	–

	Accumulated number of piped gas (including natural gas) customers			
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	Number of vehicle gas refuelling stations
	17,564	260	508,975	–
	4,673	77	294,035	–
	345,771	791	1,524,846	16
	76,239	400	219,360	10
	158,093	403	393,508	5
	11,361	52	192,115	1
	16,900	133	1,183,269	1
	21,175	94	102,121	–
	16,525	234	247,092	–
	45,818	539	3,520,119	1
	19,863	105	200,848	–
	102,563	508	346,011	4
	34,126	140	79,785	–
	11,947	30	333,502	–
	4,872	284	265,908	–
	–	3	21,000	–
	48,374	197	196,870	3
	–	10	413,750	–
	–	41	130,548	2
	999	9	150,160	–
	1,008	12	165,704	–
	7,976	56	56,850	–
	7,718	72	271,450	–
	114	50	44,725	–
	–	–	–	–
	83,640	433	323,787	1
	3,756	12	838	1
	18,655	60	26,223	1
	847	3	23,500	–
	2,281	1	720	–
	502	6	2,300	–
	–	1	100	–
	1,547	2	21	–
	724	10	20,500	–
	–	–	–	–
	–	–	–	–
	13,155	58	113,473	–
	1,425	5	23,231	–
	3,794	17	3,012	–
	4,117	7	1,710	–
	168	20	79,220	6
	15,015	222	101,257	1
	–	–	–	–
	7,330	32	47,277	–
	–	–	–	–
	–	–	–	–
	90,428	470	209,077	–
	–	–	–	4
	–	–	–	–
	–	–	–	–

PROJECT OPERATIONAL DATA

	Operational location	Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations ('000 m^3)
101	Jingxing	2011	6.9	–	–
102	Shenze	2012	13.5	–	–
103	Gaocheng	2012	–	–	–
104	Longyan Development Zone	2012	4.0	1	96
105	Qingdao Sino-German Ecopark	2012	–	–	–
106	Weihui City(Tangzhuang Town) Industrial Agglomeration Zone	2012	–	–	–
107	Wenan Industrial Park	2012	–	–	–
108	Wenzhou Wanquan Light Industrial Base	2012	–	–	–
109	Xinji	2012	6.1	–	–
110	Lingshou	2012	3.2	–	–
111	Wuji	2012	4.9	–	–
112	Xingtang Development Zone	2012	–	–	–
113	Liling	2012	–	–	–
114	Luquan Green Island Development Zone	2012	–	–	–
115	Jieshou Industrial Zone	2012	36.0	–	–
116	Jiangmen Hecheng Town Zone	2012	–	–	–
117	Panjing Chemical Enterprises Zone	2012	–	–	–
118	Baoding	2013	–	–	–
119	Dingyuan County	2013	–	–	–
120	Heyuan	2013	3.0	–	–
121	Dongyuan	2013	–	–	–
122	Leizhou	2013	–	–	–
123	Suining Suburban Project	2013	16.4	–	–
124	Suchu Modern Industry Park	2013	–	–	–
125	Binzhou Zhanhua Economic Development Zone	2013	13.7	–	–
126	Xintai City Development Zone	2013	–	–	–
127	Lianjiang	2013	–	–	–
128	Ruyang County	2013	0.6	–	–
129	North-western Liuyang	2013	–	–	–
130	Liangshan Prefecture	2013	–	–	–
131	Lianyungang Xuyu New Zone	2013	–	–	–
132	Liuyang Industrial Park	2013	–	–	–
133	Chenzhou Suxian Industrial Zone	2013	–	–	–
134	Ningde Xiapu Yacheng Dongyang Industrial Park	2013	–	–	–
Other project					
Shanghai(CNG)			–	–	–
Shanghai(LPG)			–	–	–
Shanghai(DME)			–	–	–
Other gas refuelling station project			–	1	20
Total			**23,907.1**	**137**	**58,088**

Notes:

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

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

(3) The project in Xingcheng is operated by Huludao ENN Gas Company Limited. The operational data is included in Huludao.

(4) The project in Yantai Development Zone is operated by Yantai ENN Gas Company Limited. The operational data is included in Yantai.

Accumulated number of piped gas (including natural gas) customers			
Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	Number of vehicle gas refuelling stations
6,782	9	23,500	–
1,137	1	1,400	–
–	–	–	–
–	1	300	–
–	–	–	–
–	3	3,571	–
–	–	–	–
–	–	–	–
–	–	–	–
430	3	7,998	–
533	2	7,400	–
–	1	3,600	–
–	–	–	–
–	–	–	–
–	–	–	1
–	–	–	–
–	–	–	–
275,063	491	392,055	–
–	–	–	–
6,948	3	3,255	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
6,159	18	45,701	–
–	–	–	–
–	–	–	–
169	127	166,600	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	5
–	–	–	28
–	–	–	1
–	–	–	104
9,274,794	**38,939**	**41,864,127**	**448**

(5) The project in Nanxun is operated by Huzhou ENN Gas Company Limited. The operational data is included in Huzhou.

(6) The projects in Changsha County and Wangcheng are operated by Changsha ENN Gas Company Limited. The operational data is included in Changsha.

(7) The project in Zhuzhou County is operated by Zhuzhou ENN Gas Company Limited. The operational data is included in Zhuzhou.

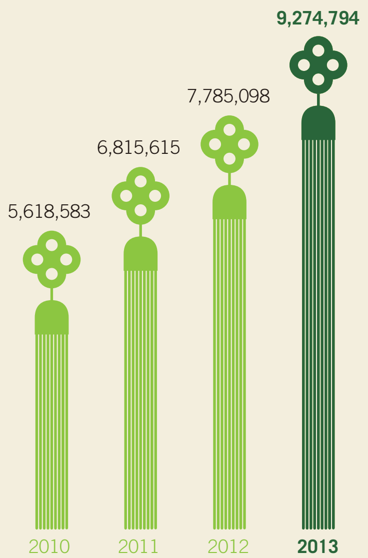
(8) The project in Zhengding New Zone, Shijiazhuang City is operated by Shijiazhuang ENN Gas Company Limited. The operational data is included in Shijiazhuang.

OPERATIONAL AND FINANCIAL SUMMARY

Operational

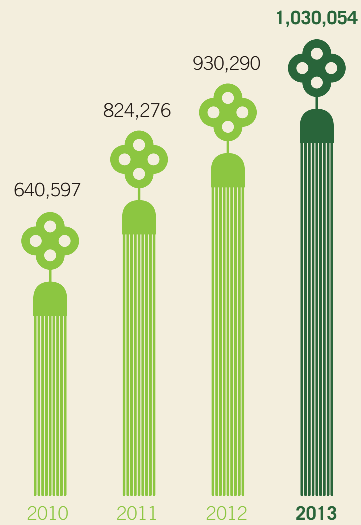
Accumulated Number of Gas Connections Made to Residential Households

Number of households



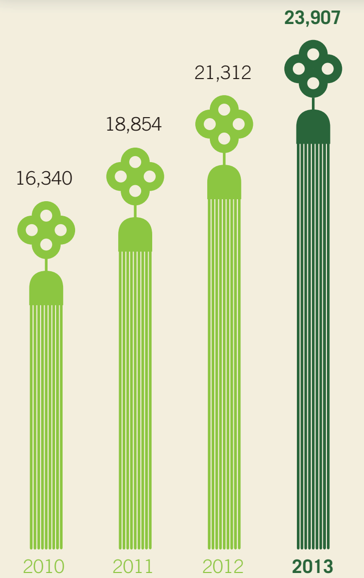
Units of Piped Gas Sold to Residential Households

'000m³



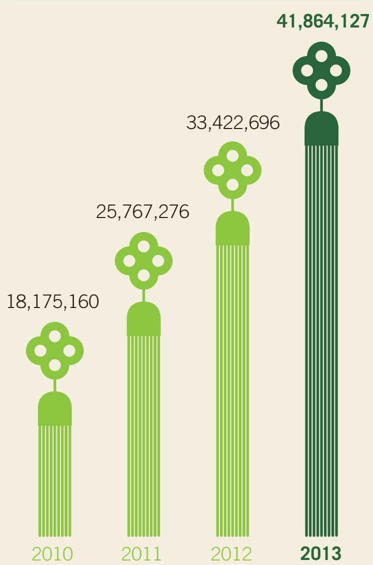
Length of Existing Intermediate Pipelines and Main Pipelines

km



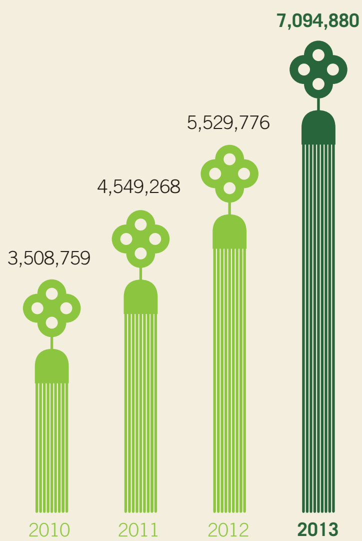
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m³

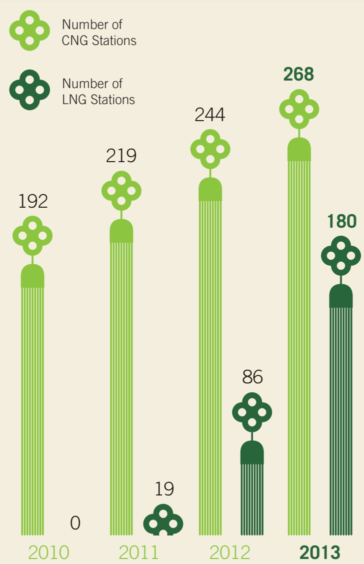


Units of Gas Sold to Commercial/ Industrial Customers and Vehicle Gas Refuelling Stations

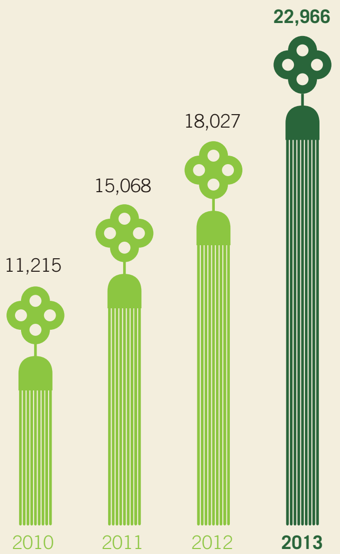
'000m³



Number of Vehicle Gas Refuelling Stations

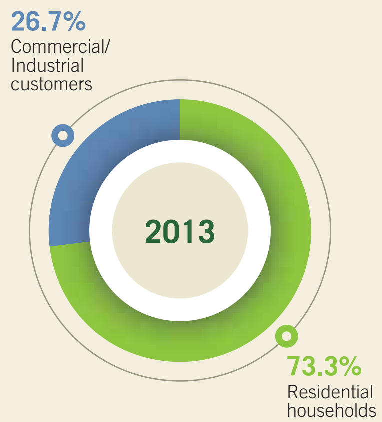


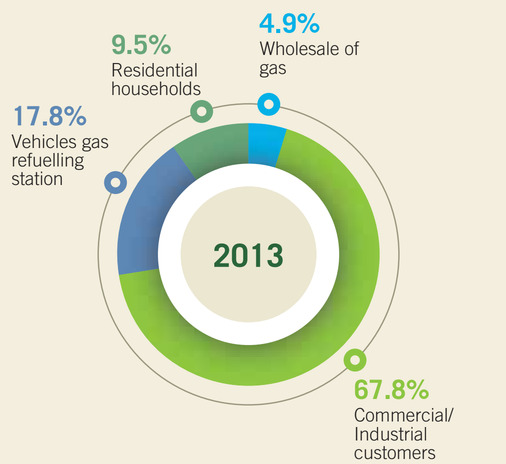
Revenue
RMB million



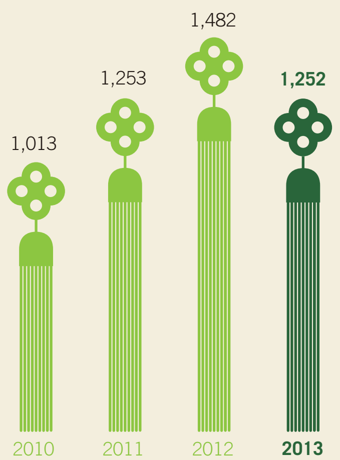
Revenue Breakdown by Customer

Connection Fees | **Sales of Gas**

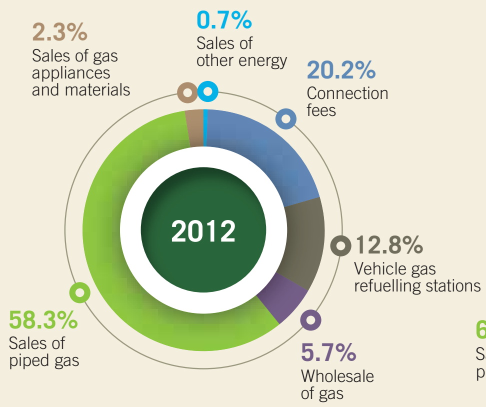


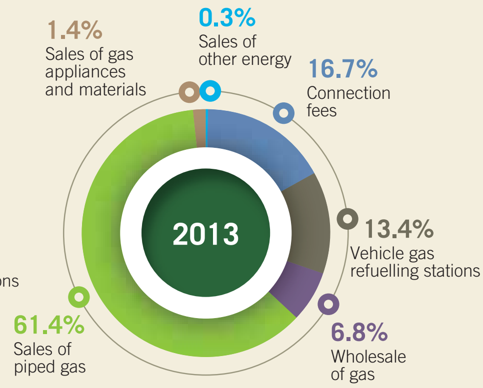


Profit for the Year Attributable to Owner of the Company
RMB million



Revenue Breakdown by Segment





COMPARISON OF TEN-YEAR RESULTS

	2013	2012	2011	2010
Operational Highlights				
Number of connected households (Piped gas)	**9,274,794**	7,785,098	6,815,165	5,618,583
Installed designed daily capacity for commercial/industrial customers (Piped gas) (m^3)	**41,864,127**	33,422,696	25,767,276	18,175,160
Units of piped gas sold				
Residential households ('000 m^3)	**1,030,054**	930,290	824,276	640,597
Commercial/industrial customers ('000 m^3)	**7,094,880**	5,529,776	4,549,268	3,508,759
Length of existing pipelines(1) (km)	**23,907**	21,312	18,854	16,340
Number of existing natural gas processing stations	**137**	126	115	100
Daily capacity of existing natural gas processing stations (m^3)	**58,088,000**	46,176,000	32,003,000	23,970,000
Revenue & Profit (RMB million)				
Revenue	**22,966**	18,027	15,068	11,215
Profit before tax	**2,760**	2,852	2,327	1,811
Income tax expense	**(960)**	(859)	(660)	(410)
Profit for the year	**1,800**	1,993	1,667	1,401
Non-controlling interests	**(548)**	(511)	(414)	(388)
Profit and total comprehensive income for the year attributable to owners of the Company	**1,252**	1,482	1,253	1,013
Dividends	**411**	371	315	297
Assets & Liabilities (RMB million)				
Non-current assets	**21,006**	18,137	15,517	12,712
Associates	**804**	798	694	488
Joint Ventures	**2,998**	2,271	1,733	1,361
Current assets	**11,097**	9,687	8,944	5,079
Current liabilities	**(10,869)**	(11,614)	(9,520)	(7,489)
Non-current liabilities	**(13,144)**	(8,609)	(8,528)	(4,611)
Net assets	**11,892**	10,670	8,840	7,540
Capital & Reserves (RMB million)				
Share capital	**113**	113	110	110
Reserves	**9,430**	8,540	6,936	5,922
Equity attributable to owners of the Company	**9,543**	8,653	7,046	6,032
Non-controlling interests	**2,349**	2,017	1,794	1,508
	11,892	10,670	8,840	7,540
Earnings per share – basic (RMB)	**1.16**	1.39	1.19	0.97

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

2009 (Restated)	2008 (Restated)	2007	2006 (Restated)	2005	2004
4,706,663	3,745,145	3,167,800	2,458,735	1,793,216	970,339
13,486,437	9,518,438	7,594,338	5,023,652	2,495,479	1,250,873
520,170	420,880	359,991	299,806	198,488	104,912
2,419,662	2,150,978	1,777,497	1,027,939	273,051	142,798
14,126	12,584	11,301	9,234	7,268	4,871
94	90	83	74	64	51
14,638,000	14,378,000	14,149,000	13,563,000	8,786,000	7,493,000
8,413	8,266	5,756	3,397	2,057	1,440
1,383	1,131	815	534	401	313
(304)	(260)	(109)	(50)	(39)	(9)
1,079	871	706	484	362	304
(276)	(240)	(199)	(104)	(92)	(53)
803	631	507	380	270	251
200	158	127	76	45	25
10,542	9,138	8,176	6,329	4,391	3,013
324	292	386	340	77	61
1,016	758	484	296	235	170
4,754	4,354	3,504	3,070	2,852	1,609
(5,364)	(5,428)	(3,957)	(2,699)	(1,683)	(1,262)
(4,844)	(3,697)	(3,932)	(3,467)	(3,112)	(1,231)
6,428	5,417	4,661	3,869	2,760	2,360
110	106	106	103	96	92
5,007	4,128	3,629	2,954	2,136	1,831
5,117	4,234	3,735	3,057	2,232	1,923
1,310	1,183	926	812	528	437
6,427	5,417	4,661	3,869	2,760	2,360
0.78	0.63	0.51	0.41	0.31	0.30

448 vehicle gas refuelling stations in China

448

STRENGTHEN GROWTH DRIVER

Leveraging on the experience, resources and network accumulated from years of city-gas projects operations, we will continue to expand vehicle/ship natural gas refuelling business and distributed energy projects with promising prospect.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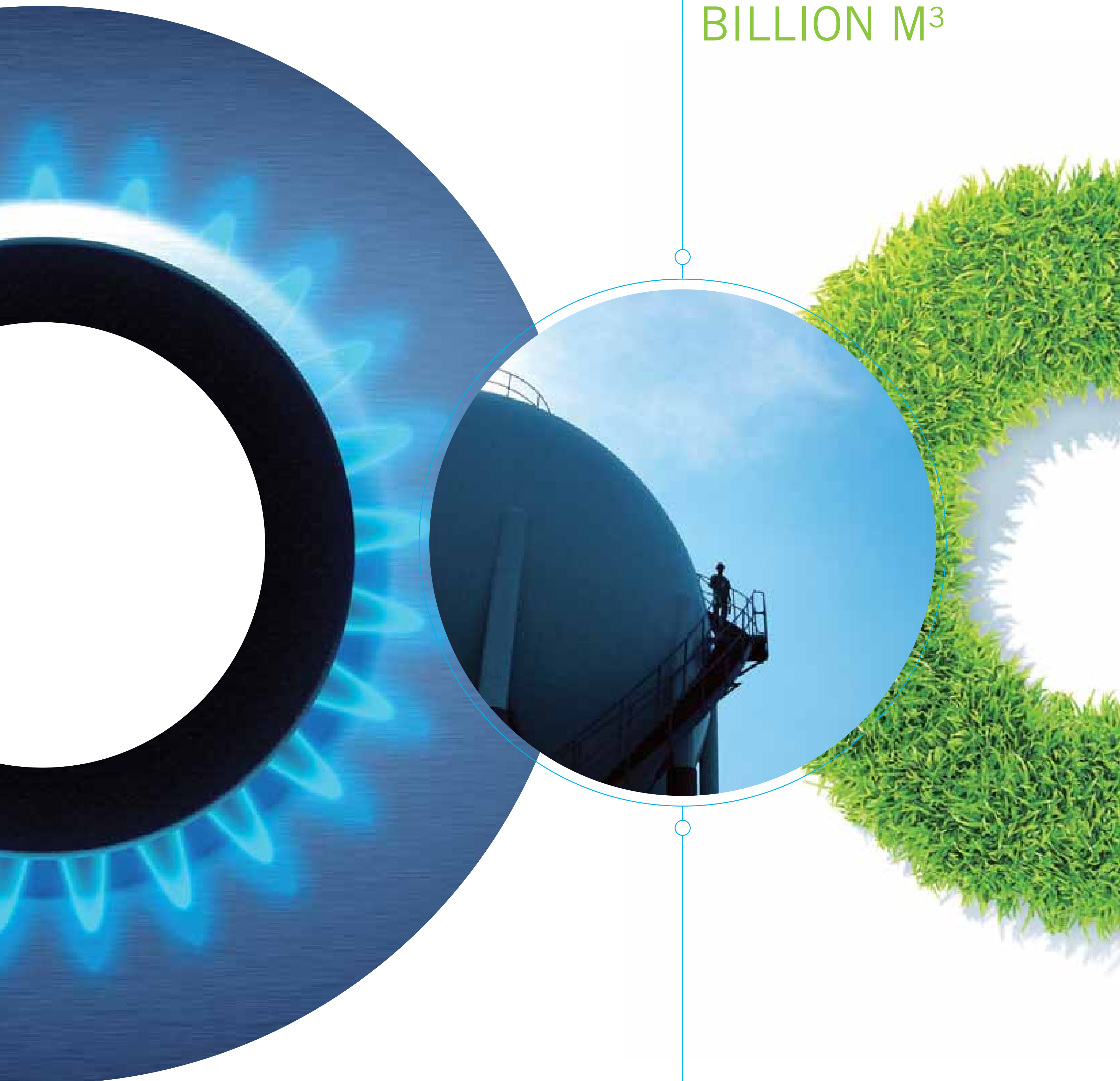
MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL NATURAL GAS SALES OF 8.04 BILLION M^3



Industry Review

Energy Consumption Pattern in China

The year of 2013 saw a steady growth of China's economy and a constant increase of energy consumption. According to the Statistical Communiqué of the People's Republic of China on the 2013 National Economic and Social Development, total energy consumption for the year amounted to 3.75 billion tons of standard coal, up by 3.7% over last year. The consumption of coal, crude oil, natural gas and electricity grew by 3.7%, 3.4%, 13.0% and 7.5% respectively. Energy consumption for each ten-thousand RMB of gross domestic product ("GDP") decreased by 3.7%.

Under the current energy consumption structure, carbon dioxide and sulphur dioxide emissions are the highest in the world, overloading the environment significantly and exerting immense pressure on energy saving and emission reduction, as the natural resources and environmental constraints are tightening. Particularly, most of Eastern and Central China regions were frequently affected by the extensive and persistent smog in 2013, arising public concerns and discussions about the environmental issues.

Energy is essential for social development, is of vital importance to the national economy and the people's livelihood. However, China's current coal-based energy structure has caused long-term and short-term problems in energy development. With the increasing energy demand and pressure on the environment, as well as the constraints caused by scarcer natural resources and worsening environment, the environmental issue has become a key obstacle to China's economic and social development. Energy structure optimisation, energy saving and emission reduction are at the top of the list for China.

First, the inherent constraints of conventional energy creates huge pressure on securing energy supply. With a shortage of energy resources, China's has limited ability in securing the sustainable supply of conventional fossil fuel and the annual oil production remains at around 200 million tons while coal has been over-exploited. The unplanned development leads to an excessively growing demand on energy, and coupled with the lack of energy reserve system, China is facing immense pressure on securing its energy supply.

Second, the constraints of the ecosystem reveal the need for sustainable development. China has a coal-based energy structure which overexploited and overutilised the resources. In addition to an area of 1.2 million square kilometres being affected by acid rain, enormous water resources are consumed or polluted while the land is occupied and defiled by the huge volume of coal gangue. All these send China to the top rank of the world in terms of major pollutants and greenhouse gas emission. In face of the increasing international pressure as a result of climate change, China has a pressing need for green transformation and development.

Third, the extensive economic development in China leading to inefficient use of energy resources that needs to be improved. While the development of China's service industries are far lagging behind, the low end and energy intensive industries are disproportionately overdeveloped, such as steel, non-ferrous metals, construction materials and petrochemicals which represent approximately half of the total energy consumption and have high consumption level per unit of output. Energy consumption per capita in China has reached the world average, while the GDP per capita however was just half of the global level.

Therefore, to change the way of producing and using energy, to adjust and optimise energy structure and to build a safe, stable, economical and clean energy-driven production system are strategically important to ensure the sustainable development of China's economy and society. The most realistic and practical way to optimise the energy consumption structure is to step up the development and use of natural gas and other new energy, so as to facilitate energy saving and emission reduction, and to be a strategic option for China's sustainable economic development.

The Chinese government issued the 12th Five-Year Plan for Energy Development on 1 January 2013, clearly stating eight energy development targets to be achieved by 2015. Its targets in respect of energy structure optimisation are to increase the proportion of non-fossil fuel consumption and installed non-fossil fuel power generators to 11.4% and 30% respectively; to raise the share of natural gas in primary energy consumption to 7.5%, and to reduce the share of coal consumption to approximately 65%. In addition, the targets for energy system reform are to bring sweeping reforms to the key electricity, oil and gas sectors, liberalisation of energy pricing mechanisms and further improvement in the treasury and taxation systems in respect of energy. With sound and comprehensive energy-related laws, policies and standards in place, a management structure that can adapt to scientific advancements in the energy sector will take shape.

The natural gas industry will enter into a new stage of rapid development against the social progress and reforms. In respect of social development, a green, low-carbon economy and sustainable development have been the main themes. With energy-saving and emission reduction policies in place, the use of clean energy will eventually accelerate, promoting the broader use of natural gas in China.

Gas Supply

Alongside social and economic development, the Chinese government has been expanding its investment in natural gas infrastructure in recent years by constructing onshore and offshore infrastructure, connecting pipelines within and beyond the territory, ensuring safe and smooth transportation and progressing at a moderate pace, to coordinate demand and supply through overseas energy import and domestic production, as well as to strengthen energy reserve and peak shaving facilities, with a view to enhance its natural gas supply.

In 2013, a number of national long distance pipelines were put into operation, including the China-Myanmar Natural Gas Pipeline and its branch Lijiang Pipeline, Chaibeiyuan Pipeline of the Qinghai Oilfield Natural Gas Pipeline, the Horgos-Urumqi section of West-East Pipeline III, the Nanning-Baise branch of West-East Pipeline II, the Zhongwei-Guiyang Pipeline and Shaanxi-Beijing Pipeline IV. As of the end of 2013, long distance pipelines (including main and branch lines) in China amounted to over 60,000 kilometres in total. The national natural gas pipeline network comprising of West-to-East Pipeline I, West-to-East Pipeline II, Sichuan-East Pipeline, China-Myanmar Pipeline, Shaanxi-Beijing Pipeline and Zhong-Wu Pipeline as its core and linked by Lanzhou-Yinchuan Pipeline, Huai-Wu Pipeline and Hebei-Nanjing Pipeline covered 28 provinces (municipalities and autonomous regions) and the Hong Kong SAR. The connectivity and flexibility of the network have been improving as well. The China-Myanmar Natural Gas Pipeline, in particular, secures the gas supply and lowers the procurement costs for the Group's projects in Guilin and Guigang of Guangxi, Kunming and Wenshan of Yunnan and Liangshan Prefecture of Sichuan.

The construction of LNG import terminals in China has accelerated over the past few years. LNG import terminals in Tianjin, Zhuhai of Guangdong and Caofeidian of Hebei were built and put into operation in 2013, achieving a total of 10 LNG import terminals in China with a receiving capacity of 57.2 million tons per year. The projects have satisfied the increasing demand for natural gas nationwide and eased the supply and demand imbalance.

Leveraging the natural gas infrastructure in China, the Group actively explores other energy sources. The Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a maximum one-time transportation capacity of over 14.05 million cubic metres, making the Group one of the largest onshore gas transporters in China and allowing it to secure more stable gas supply.

China's Policies on City-gas Industry

As the energy and environmental issues become more prominent, the Chinese government attaches higher importance to environmental protection and efficient use of energy, promulgating more policies encouraging the use of clean energy and optimisation of energy structure. The Chinese government has further announced a number of policies since 2013.

The 12th Five-Year Plan for Energy Development promulgated on 1 January 2013 expressly stated that a safe, stable, economical and clean energy-driven production system will be built during the period by reforming the way of producing and using energy, strengthening the prioritised energy-saving strategies, promoting energy conversion and consumption efficiency and reasonably controlling the total energy consumption. Initiatives will be launched to deepen the natural gas penetration rate of residential households and to accelerate the construction of natural gas distribution and transportation networks and gas storage facilities. Meanwhile, the Chinese government also plans to expand the coverage of natural gas supply, gradually liberalise the pricing of natural gas, develop and expand the natural gas consumption market and increase the residential gas consumption. In addition, it will also proactively promote the development of distributed energy, especially at the energy load centre, by facilitating the construction of distributed energy system (DES) for natural gas, coordinating the demand for natural gas and electricity during peak periods, selecting the reasonable use of the distributed natural gas, realising the synergy of natural gas and electricity optimisation, strengthening the research and development of distributed natural gas use technology, and enhancing the automation of technology and equipment. Energy supply infrastructure will also be constructed to offer necessary environment and support for the new development of energy automobile industry and to facilitate the conversion to clean energy as transportation fuel.

The Atmospheric Pollution Prevention Action Plan was promulgated on 10 September 2013. The severe air pollution problem in China primarily caused by inhalable coarse particles (PM10) and fine particulate matter (PM2.5) not only hinders the public health, but also affect social stability and harmony. As industrialisation and urbanisation advance in China, the growing energy and resource consumption poses extra pressure on air pollution prevention work. According to the Plan, the Chinese government aims to improve the air quality and the heavily polluted weather in five years. Regional air quality in Beijing, Tianjin and Hebei, the Yangtze River Delta region and the Pearl River Delta region will be improved significantly. It hopes to progressively eliminate heavily polluted weather and improve the air quality significantly in another five years or beyond. Specifically, the PM10 concentration is targeted to be reduced by more than 10% by 2017 in prefecture-level cities or above when compared with 2012. The PM2.5 concentration in Beijing, Tianjin and Hebei, the Yangtze River Delta region and the Pearl River Delta region will drop by 25%, 20% and 15% respectively, and the annual average PM2.5 concentrate in Beijing will be kept at approximately 60μg per cubic metre. One of the key initiatives includes accelerating energy structure adjustment, increasing clean energy supply (including natural gas, coal gas and coalbed methane) and promoting the use of clean energy.

By 2015, the transmission capacity of the newly built pipelines will reach more than 6 billion cubic metres, covering Beijing, Tianjin and Hebei, the Yangtze River Delta region and the Pearl River Delta region. Priority should be given to residential usage or coal replacement in terms of new natural gas supply, so as to modify the utilization of gas. Efficient distributed natural gas projects will be encouraged while gas for petrochemical production will be restricted. Orderly developing peak sharing gas-fired power plants and formulate development plans for coal gasification will speed up its industrialisation and capacity expansion while complying with the stringent environmental and water supply requirements.

The promulgation and implementation of such policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy, enhance the efficiency of natural gas use and attract more investment in the natural gas industry. It is believed that under the encouraging and supporting government policies, there is enormous potential to further develop the natural gas industry, and the Group is well positioned to secure gas supply and capture more new customers.

Business Review

The principal businesses of the Group are sales of piped gas, gas connection, construction and operation of vehicle gas refuelling stations, wholesale of gas, sales of other energy and sales of gas appliances and materials.

Gas Sales

During the year, the Group's total gas sales volume was 8,125 million cubic metres, up 25.8% when compared with last year, in which 8,037 million cubic metres were natural gas, representing an increase of 29.1% as compared with last year. The proportion of piped gas sold to residential households and commercial/industrial ("C/I") customers amounted to 12.7% and 68.2% respectively, representing increases of 10.7% and 27.5% as compared with last year. Since the Group has been focusing on expanding the size of gas sales in the past few years, the sales volume of gas has increased continuously, and the revenue attributable to gas sales became the major source of income of the Group. Revenue attributable to gas sales significantly increased further from 77.5% last year to 81.9%, showing the Group's optimised revenue structure and the more stable and long-term revenue base.

The consistent optimisation of China's energy structure and the stringent execution of the government's energy saving and emission reduction policies also create more opportunities for business development, including potential C/I and vehicle gas users. On the other hand, the overall gas penetration rate of residential households remained at a rather low level of 45.6%, the Group therefore has room to deepen the gas penetration rate of residential households. It is expected that the share of gas sales in total revenue of the Group will further increase and deliver long-term and stable cash flow to the Group.

Gas Connection

During the year, the Group continued to boost connection in existing city-gas projects, resulting in sustained increase in the overall connection rate every year. As of 31 December 2013, the gas penetration rate for residential households of the Group's projects in China increased from 42.1% at the end of 2012 to 45.6%. With the continuous and rapid growth in the number of customers, especially the increasing number of heavy-usage C/I customers, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure a long-term and stable revenue stream for the Group.

As of the end of 2013, the accumulated length of intermediate and main pipelines constructed by the Group was 23,907 kilometres, and the number of existing natural gas processing stations reached 137. Hence, the daily natural gas supply capacity of the Group reached 58.09 million cubic metres, allowing the Group to meet the long term demand arising from existing natural gas projects.

Development of Residential Households

During the year, the Group provided natural gas connections for 1,220,411 residential households, up 8.7% as compared with the number of new connections recorded last year. With the Group's strong ability in connecting new and existing residential buildings, the new connection targets set by the Group for 2013 were surpassed. As of the end of 2013, the aggregate number of connected piped natural gas residential households in the Group's projects amounted to 9,200,671. Including other piped gas, the total number of connected residential households reached 9,274,794. Supported by the Group's 9 new project cities as well as organic growth in population due to urbanisation in its existing project cities in China, the connectable population coverage of the Group grew to 61.02 million at the year end. The continual growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,792.

As the Chinese government has paid more attention to atmospheric pollution prevention and put more efforts in optimising the energy structure, the advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety and convenience have become more obvious, and natural gas has become the first energy choice in household activities such as cooking, water boiling and bathing. According to the 12th Five-Year Plan for Energy Development, China's population using natural gas will reach 250 million by 2015. Given the Group's capability in raising the gas penetration rate of its projects, it is believed that the gas penetration rate of the Group will grow steadily every year.

CONNECTED C/I CUSTOMERS REACHED 38,939 SITES, TOTAL INSTALLED DESIGNED DAILY CAPACITY EXCEEDED 41.86 MILLION M3

Development of C/I Customers

During the year, the Group provided natural gas connections for 7,700 C/I customers (with total installed designed daily capacity of 8,045,922 cubic metres) and the average connection fee was RMB157 per cubic metre. As of the end of 2013, the aggregate number of connected piped natural gas C/I customers of the Group amounted to 38,787 (with total designed installed daily capacity of 41,820,125 cubic metres). Including other piped gas C/I customers, the total number of connected C/I customers of the Group reached 38,939 (with total installed designed daily capacity of 41,864,127 cubic metres).

Currently, the Group acknowledges customers' energy demand is gradually shifting from single source of energy to an integrated solution with diversified energy sources at minimum unit cost. With continuous technological innovations and highly efficient marketing strategies, the Group provides refitting services to customers to enhance their energy utilization efficiency and reduce their energy consumption costs. In addition, the competitive advantages of natural gas being cleaner and cheaper over other energy sources will continue to fuel our development of more C/I customers.

Today, air pollution prevention is a key issue for China, the central and local governments have announced various related policies and measures to cope with it. The Group will seize this opportunity and make use of the environmental policies to constantly optimise our customer structure and actively support the government's air pollution prevention efforts so as to broaden the scope of natural gas usage.

Construction and Operation of Vehicle Gas Refuelling Stations

In 2013, the Group continued to regard vehicle gas refuelling business as one of its core businesses. During the year, 24 CNG refuelling stations were constructed and put into operation, total number of CNG refuelling stations reached 268. The LNG refuelling station business of the Group has been progressing smoothly. During the year, 94 LNG refuelling stations were built and put into operation, total number of LNG refuelling stations reached 180. Those stations are mainly located at ports, mining zones and logistics hubs to provide clean and economical natural gas for 10,266 heavy trucks and long-haul buses, exceeding the development target set for the year.

During the year, the sales volume of vehicle gas amounted to 14.6% of the overall gas sales volume of the Group, revenue attributable to vehicle gas sales was RMB3,085 million, up 33.7% compared with last year.

Emissions from vehicles are one of the principle sources of environmental pollution, especially in highly populated districts and area within three metres above the ground for human habitation. Hence, with further efforts of the Chinese government to optimise energy structure, control pollution and enforce energy saving and emission reduction policies, vehicles using clean energy have become a ubiquitous trend. Furthermore, the absolute advantages of natural gas over gasoline and diesel in terms of economic and environmental benefits attract users to convert their vehicles to natural gas-fuelled.

Thus, the prospect for the development of vehicle CNG and LNG refuelling businesses will be promising. In 2014, the Group will fully utilise its existing resources and networks to develop this highly promising business, so as to contribute to environmental protection and maximise the Group's profitability.

Development of Ship LNG Refuelling Business

The Group also actively explores its ship LNG business. During the year, we successfully completed engine conversion for inner-river vessels and trial run of LNG refuelling operation through a mobile refuelling vessel, these demonstrative projects equipped us with a group of expertise and experience in the area, and provided the Group a first-mover advantage. We will tap into the market progressively with more trial projects so as to grasp the emerging market opportunities.

Wholesale of Gas

In order to enhance the returns to our shareholders and fully utilise our natural gas transportation capacity, the Group continued to conduct the natural gas wholesale business during the year. The business depended on the remaining natural gas transportation capacity of the Group. The Group sold 370 million cubic metres of natural gas in this wholesale business, representing an increase of 48.9% as compared to last year and accounting for 4.5% of the total gas sales volume.

Sales of Other Energy

During the year, the Group sold 5,770 tons of LPG (2012: 17,785 tons), decreased by 67.6% over last year.

As the Group continues to phase out the lower-margin bottled LPG business, more resources can be allocated to piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of Gas Appliances

In addition to offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas metres. The Group operates its own production plant of stored-value card gas metres and the products are manufactured for the Group's connection business as well as selling to other gas distributors. It can lower the cost of connection, ensure accurate collection of gas usage charges and generate additional revenue for the Group at the same time. Meanwhile, the Group's "GREAT" branded gas appliances were developed and launched, and over 10,000 sets were sold in selected locations during the year.

Sales of Materials

The Group conducts bulk purchase of materials for pipelines construction and connection works. Through reselling unused materials which are procured at low costs, its revenue and profits can be enhanced.

The materials sold by the Group during the year amounted to RMB216 million, representing a decrease of 30.3% over last year and accounting for 0.9% of the Group's total revenue.

New Projects

In 2013, the Group acquired a total of 17 new projects, including 9 city-gas projects including Baoding City in Hebei Province, Heyuan City, Leizhou City, Lianjiang City and Dongyuan County in Guangdong Province, Dingyuan County in Anhui Province, Liangshan Prefecture in Sichuan Province, Ruyang County in Henan Province and North-western Liuyang in Hunan Province and 8 industrial park projects. As a result, the number of projects in China secured by the Group increased to 134, and contributed an additional connectable urban population of 3.08 million, coupled with the urbanization process and organic growth of population in our existing projects, the total number of connectable urban population as of the end of 2013 reached over 61.02 million. Among these projects, Baoding, with a connectable population of 1.2 million, where both automotive and textile industries are well-developed, has huge growth potential in the future. In Guangdong Province, the industrial and tertiary industries in the regions where the new projects are located are well-developed. Meanwhile, Dingyuan County project is located at a newly-planned region and it will be rapidly developed in the future. In addition, the future development of the project in Liangshan Prefecture will mainly depend on industrial projects such as rare earth, processing of non-ferrous metals and ceramics and these are quality clients with tremendous potentials for future development. Moreover, the modern construction materials industry in Ruyang County is well-developed, whereas Liuyang located at the Changsha-Zhuzhou-Xiangtan region is a component of the Pilot District of China's two-oriented society in Changsha-Zhuzhou-Xiangtan city group with promising future development of clean energy. Furthermore, the C/I customers of the newly acquired industrial park projects are highly concentrated, which is beneficial for the distribution of natural gas.

Gross and Net Profit Margins

During the year, the Group's overall gross and net profit margins were 23.8% and 7.8% respectively, representing decreases of 3.1% and 3.2% respectively as compared with last year.

The decrease in gross profit margin is mainly because of the continuous improvement in the Group's revenue structure due to more contribution from gas sales and the natural gas price hike in 2013. The decrease in net profit margin is mainly due to the non-cash loss of RMB784 million as a result of the fair value change of the convertible bonds.

Excellent Management

Since informatisation has contributed to the efficiency and effectiveness of its management, the Group continued the construction of information infrastructure and promoted the "smart card" for vehicle gas refuelling stations. During the year, the Group established the online systems in 72 CNG refuelling stations and 26 LNG refuelling stations. It also introduced the online system for informatisation related modules. The Group set up the online Enterprise Resource Planning (ERP) systems for 3 project companies in Panyu, Yongzhou and Luanxian, the online sales systems for 13 project companies, the online business management systems for 49 project companies and the online operational forecast systems for 74 project companies. In addition, it implemented informatisation system optimisation pilot plans in 5 project companies in Shijiazhuang and Quanzhou, significantly and continuously improving the efficiency and effectiveness of the Group's information system.

With the continuous use of management tools like balanced scorecard, the Group strengthened its marketing and strategic performance as well as market insights during the year. They were implemented in different planning segments such as the annual strategic conference, annual business goal and financial budget planning, to ensure that the Group's strategies were effectively delivered to project companies for implementation and to optimise resource allocation. To foster long-term development, the Group continued its incentive mechanism under which Economic Value Added (EVA) became a major value measurement to evaluate the performance of its project companies.

With the introduction of the market insight and sales operation system, the Group maintained its customer-oriented approach in response to the changes in customer needs. After two years of application, these systems showed satisfactory results. Market insights system helped the Group determine business development direction and goal, develop sales and marketing plans and secure a larger number of sales orders. The Group strengthened the management of key steps, such as synergy amongst various business lines, timely response to customers' sales orders and commencement of gas supply, so as to ensure a seamless process from sales to operation and shorten the lead time for customers.

The Group continued to develop its measurement management system and encouraged its member companies to formulate measurement management solutions according to the consumption characteristics and current status to tackle natural gas theft. On the other hand, the operating costs of individual business units continued to decline through streamlining the workforce, establishing service cost effectiveness standards, introducing human resources allocation standards for refuelling stations, implementing more stringent project costs control and promoting standardised material management.

Advanced Collection System for Gas Usage Charges

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

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

Advanced Safety Operation Management System

The Group has always regarded safe operation as its top priority and continued to maintain a good record of safe operation in 2013. During the year, the Group continued to establish the health, safety and environmental management system as well as the "3-No" Campaign (no accidents, no personal injuries and no harmful acts to the environment). Meanwhile, the quality of safe management was also improved by strengthening the safety management system, promoting the accreditation of staff responsible for safe operation, fostering a safety culture among project managers, taking actions against the "3-Breaches" (i.e. breach of supervision regulations, breach of operation regulations and breach of labor discipline), supervising various hidden dangers and standardising construction works.

Customer Service

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

During the year, the Group continued to optimise its service system to promote reasonable allocation of service resources, reduce the costs and enhance the efficiency of service and improve the overall service efficiency. All customers were covered by the call centres, which are responsible for handling enquiries and requests about quotation, installation and maintenance. Customers may call the centres to seek advice on addressing minor technical failure or report any emergency case. An automatic pass through mechanism with the hotline 110 was also established to provide one-stop services. In February 2013, the Group's call centres acquired the International Customer Operations Performance Centre (COPC) recognition, making it the first call centre operator in the energy sector in China to receive COPC recognition and the second call centre operator in China to succeed in acquiring COPC recognition in one single application.

During the year, the Group and its member companies continued to gain recognitions and compliments from customers and government authorities, including the honours of "Best Sales Office" and "Outstanding Customer Service Representative" from China Association of Trade in Services, reflecting its positive service image.

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

Human Resources

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

In 2013, the Group continued its efforts in talent development by establishing a talent structure covering different levels and enhancing the competency of its people. Training for operational staff was enhanced through technical skills accreditation for base-level employees and the establishment of technical skills accreditation system for junior, middle and senior base-level members. For professional members, qualification accreditation was fully implemented for 3,600 employees from marketing, finance, pricing, safety, information, administration, strategic performance, customer service and human resources departments during the year. While the Group continued its training programme for engineering masters, long-term training for chief engineers and training for technical sales engineers and vehicle/ship LNG refuelling station managers were also introduced. On the other hand, the Group continued to nurture future leaders and strived to enhance their abilities and skills rapidly through special programmes, on-the-job training, mentorship and project-based training, building up the talent pool for the Group's healthy development.

To better implement its principles of creating and sharing values together and focus on the long-term development, in 2013 the Group continued its incentive mechanism under which EVA became a major value measurement to evaluate the performance target and was directly linked to the year-end bonus.

As at 31 December 2013, the Group had 26,352 employees. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and financial resources

As at 31 December 2013, the Group's total debts amounted to RMB12,443 million (2012: RMB11,242 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB6,822 million (2012: RMB6,156 million). The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 47.3% (2012: 47.7%).

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

Ten-year 6% fixed rate bonds

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

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

Five-year zero coupon convertible bonds

On 26 February 2013, the Company issued zero coupon United States dollar denominated convertible bonds with the aggregate principal amount of US$500 million (approximately RMB3,141 million) (the "Bonds"). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. Conversion may occur at any time on or after 8 April 2013 up to 16 February 2018. If the Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount. If all the Bonds are converted into shares, it will be converted into 79,778,897 ordinary shares, representing 7.37% of the total issued share capital of the Company.

According to HKFRS 13 and HKAS 39, the Bonds need to be stated at fair value, with any gains or losses arising on measurement recognised in profit or loss in the current period from time to time until the Bonds mature, converted or redeemed. For the current year, the change in fair value of such Bonds amounts to RMB784 million, it is calculated by comparing its trading price on the Singapore Stock Exchange on 31 December 2013 and its issue price, together with the impact from US$ translation difference. As such, a RMB784 million non-cash loss was recorded on book. For more details of major terms about the Bonds, please refer to the announcement in relation to the proposed issue of the Bonds published on 30 January 2013 and the "Offering Memorandum" attached in the overseas regulatory announcement published on 27 February 2013.

As at 31 December 2013, no Bonds were converted into ordinary shares.

Borrowings structure

As at 31 December 2013, the Group's total debts amounted to RMB12,443 million (31 December 2012: RMB11,242 million), including fixed rate bonds of US$750 million (equivalent to RMB4,498 million) and zero coupon convertible bonds of US$500 million (equivalent to RMB3,925 million). Except for bank loans of US$150 million (equivalent to RMB902 million) which bear interest at floating rate, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by People's Bank of China. Except for the loan amount equivalent to RMB844 million that are secured by assets with carrying amount equivalent to RMB40 million, all of the other loans are unsecured. Short-term loans amounted to RMB921 million while the remaining were long-term loans falling due after one year or above.

As all of the operations of the Group are in China, except for the bonds of US$1,250 million and bank loans of US$150 million which are denominated in United States dollar, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. If Renminbi appreciates in the future, the Group will benefit from receiving revenues denominated in Renminbi and repaying foreign loans, thereby reducing the cost arising from foreign loans indirectly. The Group currently does not have foreign currency hedging policy but the Directors will monitor the market trends of exchange rates and interest rates closely and adopt appropriate measures when necessary.

CONTRIBUTE TO GREEN DEVELOPMENT OF THE SOCIETY

The robust industry development, solid business foundation and prudent strategies bring us closer to our corporate business goals. We are convinced of contributing more to energy saving and emission reduction of China's society and create better returns to shareholders.

61.02 million

Total coverage of connectable urban population of 61.02 million

SOUND CORPORATE GOVERNANCE PRACTICES BY A MANAGEMENT TEAM WITH FORESIGHT

Executive Directors

Mr. WANG Yusuo, aged 50, is a co-founder, the Chairman and the Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. Mr. Wang has over 27 years of experience in the investment and the management of the gas business in the PRC. He holds a PhD qualification in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a committee member of the Twelfth Chinese People's Political Consultative Conference. Mr. Wang is the spouse of Ms. Zhao Baoju, the brother-in-law of Mr. Zhao Jinfeng and the father of Mr. Wang Zizheng. Mr. Wang is a director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company, and the Chairman of Hebei Veyong Bio-Chemical Co., Ltd., a company listed in the Mainland China. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

Mr. CHEUNG Yip Sang, aged 47, is the Executive Director of the Company and has joined the Group in 1998. On 24 March 2014, Mr. Cheung was appointed as the Vice Chairman of the Company and has retired from the position as the Chief Executive Officer of the Company on the same day to assist the Chairman for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. Mr. Cheung graduated from The Chinese People's Armed Police Force Academy in 1990 with a bachelor's degree in Legal Studies and received an executive master's degree in business administration from the Peking University in 2006. Mr. Cheung has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry.

Mr. ZHAO Jinfeng, aged 46, is an Executive Director of the Company responsible for coordinating the Group's investment in PRC projects. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and received an executive master's degree in business administration from the Sino–Europe International Business School in 2006. Prior to joining the Group in 1993, Mr. Zhao worked at Langfang City Electrical Company responsible for resources management. Mr. Zhao has over 20 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju, the brother-in-law of Mr. Wang Yusuo and the uncle of Mr. Wang Zizheng.

Mr. YU Jianchao, aged 45, is the Executive Director and the Finance Director of the Company and has joined the Group since 1998. He graduated from the Hebei Economics and Finance College in 1993 and obtained an executive master's degree in business administration from the Sino-Europe International Business School in 2005. Prior to joining the Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co. Ltd. Mr. Yu has over 25 years of experience in accounting and financial management. Mr. Yu is a director of EGII, which is a controlling shareholder of the Company.

Mr. HAN Jishen, aged 49, is the Executive Director and the President of the Company and has joined the Group in 1993. Since 24 March 2014, Mr. Han took up the overall responsibility for the implementation of the Group's overall strategy, business development and decision-making of important matters. Mr. Han was graduated from Baoding Staff University in 1990 and obtained an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2007. He has over 20 years of experience in the gas fuel industry in the PRC. Mr. Han worked at the senior managerial level for over 15 years at the subsidiary level of the Company and has deep qualifications and extensive experience in marketing research, business development and business management in the gas industry market.

Mr. ZHAO Shengli, aged 44, is the Executive Director. He received a master's degree in business administration from the Tsinghua University in 2000. Prior to joining the Group in 1999, he worked in the China National Nuclear Corporation. Mr. Zhao has extensive experience in corporate governance and market expansion. Mr. Zhao has resigned from the Company as an Executive Director with effective from 24 March 2014.

From left to right:
WANG Yusuo
CHEUNG Yip Sang

From left to right:
ZHAO Jinfeng
YU Jianchao

From left to right:
HAN Jishen
ZHAO Shengli
WANG Dongzhi

Mr. WANG Dongzhi, aged 45, is the Executive Director and the Chief Financial Officer of the Company responsible for the financial and risk control and investor relations management of the Group. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from the Beijing Chemical University. Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a master's degree in business management from the Tianjin University in 2003. Prior to joining the Group in 2000, Mr. Wang was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management. Mr. Wang is the President of EGII, which is a controlling shareholder of the Company.

Non-executive Directors

Mr. WANG Zizheng, aged 26, graduated from Shanghai Tongji University with a bachelor's degree majoring in urban planning. Mr. Wang attended training in various departments in EGII since his graduation. He was appointed as a senior investment manager of EGII since August 2013 who mainly focused on investment, merger & acquisition and operation management of overseas LNG refuelling stations, hence gained considerable experience in natural gas business. Mr. Wang is the Chairman of EGII since February 2014 and at the same time was the Director of two subsidiaries of EGII. He is the son of Mr. Wang Yusuo (Chairman of the Company, Executive Director and controlling shareholder of the Company) and Ms. Zhao Baoju (Non-Executive Director and controlling shareholder of the Company) and the nephew of Mr. Zhao Jinfeng.

Ms. ZHAO Baoju, aged 48, is a co-founder and the Non-executive Director of the Company. She has over 20 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Professional Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is a Director and a controlling shareholder of EGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo, the mother of Mr. Wang Zizheng and the sister of Mr. Zhao Jinfeng. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies. On 24 March 2014, Ms. Zhao resigned from the Board of Directors.

Mr. JIN Yongsheng, aged 50, is the Non-executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, majoring in finance, and has obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 24 years of experience in legal practice. Mr. Jin is a director of EGII, which is a controlling shareholder of the Company. He is also the Non-executive Director of CIMC Enric Holdings Limited, a Hong Kong listed company.

Mr. LIM Haw Kuang, aged 60, graduated from Imperial College, University of London. He graduated from International Management Institute, Geneva in 1986 with an MBA in International Management. Mr. Lim has been an Independent Non-executive Director of the Company since 26 March 2013 and has been re-designated as a Non-executive Director on 24 March 2014. Mr. Lim has extensive experience in the oil and natural gas business. Mr. Lim joined Shell in Malaysia in 1978 and had served in various capacities in IT, finance, natural gas, exploration and production, oil products, etc in different Shell operations globally. Mr. Lim was appointed as the Executive Chairman of Shell Companies in China in September 2005, a position he held until 1 January 2013. He retired from Shell on 1 March 2013. Mr. Lim has been appointed as an Independent Board Director for Sime Darby Group, a Malaysian conglomerate, since September 2010, and is concurrently the Chairman of the Boards of Sime Darby Energy & Utilities. With effective from 4 March 2013, Mr. Lim has been appointed as a Non-executive Director of BG Group, a global gas major based in the UK.

Independent Non-executive Directors

Mr. WANG Guangtian, aged 50, is an Independent Non-executive Director appointed by the Company in 2001. He holds a master's degree in world economics from the Hebei University and has over 30 years of experience in financial and administrative management. He is currently the Vice President of Guofu Group and a Director and the General Manager of Guofu (Hong Kong) Holdings Limited. He is also an Independent Non-executive Director of China Oil And Gas Group Limited, a Hong Kong listed company.

Ms. YIEN Yu Yu, Catherine, aged 43, is an Independent Non-executive Director appointed by the Company in 2004. She is currently a managing director of Rothschild (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BScHons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 44, is an Independent Non-executive Director appointed by the Company in 2005. He is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate, a fellow member of the Association of Chartered Certified Accountants in England and the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

Mr. ZHANG Gang, aged 63, is an Independent Non-executive Director appointed by the Company in 2012. Mr. Zhang worked in the State Administration of Quality and Technical Supervision, and served as a Deputy Director and Director subsequently in Boiler and Pressure Vessel Safety Supervision Bureau in the People's Republic of China ("PRC"). Mr. Zhang was then appointed as the Director in Special Equipment Safety Supervision Bureau of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC. In 2008, Mr. Zhang was appointed as the Chief Engineer of AQSIQ till June 2011. Mr. Zhang is a Senior Engineer who has extensive experience in quality, safety management and construction of energy-related projects. Mr. Zhang has resigned from the Company as an Independent Non-executive Director with effective from 24 March 2014.

Mr. MA Zhixiang, aged 62, graduated from School of Mechanics of University of Petroleum (East China) with a doctor's degree in engineering in storage and transportation. Mr. Ma has extensive experience in petroleum and natural gas industry. He has held senior management positions in China Petroleum Pipeline Bureau and PetroChina Company Limited and has resigned from these positions in March 2012. Mr. Ma is a State Council Expert for Special Allowance.

Mr. YUEN Po Kwong, aged 45, graduated from Oxford University with an M.A. in Chemistry and from Cornell University with a Master of Science in Synthetic Organic Chemistry. Mr. Yuen then attended College of Law in Guildford, England and obtained his Diploma in Law (with Distinction) and Diploma in Legal Studies. Mr. Yuen has extensive experience in regulatory and corporate compliance. He is a partner of Fangda Partners specialising in dispute resolution and contentious regulatory compliance. Prior joining Fangda Partners to establish its Hong Kong office in 2012, Mr. Yuen was a partner of one of the "Magic Circle Firms", specialising in resolving China related disputes. Before becoming a lawyer, Mr. Yuen was a teaching fellow of Cornell University.

Senior Management

Mr. WANG Fengsheng, aged 44, is the Executive Vice President of the Company. He joined the Group in 1999 and is responsible for assisting the President in local project management and business expansion in Eastern China. Prior to joining the Group, Mr. Wang had worked in the Baotou Iron & Steel Group. He received an executive master's degree in business administration from the Cheung Kong Graduate School of Business in 2009. He has extensive experience in corporate governance.

Mr. LIU Yongxin, aged 51, is the Vice President of the Company mainly responsible for assisting the President in the expansion of overseas projects and international business. He graduated from Chang'an University in 1987 with a master's degree in vehicle engineering, and obtained a master's degree in finance from the Massey University in New Zealand in 1999. He was awarded the doctor of philosophy in finance and investment management from the Sun Yat-sen University in 2010. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP holding various important positions in the marketing, operation and business development departments. Mr. Liu has accumulated over 20 years experience in operation and market expansion in the energy sector.

Mr. CHEN Fuchao, aged 57, is the Vice President of the Company responsible for assisting the President for managing specific projects, overseeing and providing supports to the East and middle regional business. He graduated from the School of Mathematics of the Huaiyin Normal University in 1981, and the Nantong Management College in 1987 majoring in industrial economics. He is now studying for an executive master's degree in business administration from the Xiamen University. Prior to joining the Group in January 2004, Mr. Chen worked in the local government of Huaiyin City, Jiangsu Province as the primary person-in-charge of a government department. He has extensive experience in corporate management.

Mr. LI Shuwang, aged 48, is the Vice President and Chief Engineer of the Company responsible for the engineering, quality management, operations scheduling and ship LNG refuelling business management and development. Mr. Li graduated from the Hebei University of Technology with a bachelor's degree in engineering in 1988 and was awarded the doctor of philosophy in management from the Nation University of USA in 2007. He is currently a part-time professor in the Sun Yat-sen University. Before joining the Group in 2006, he had worked in the Sinopec Group, and was among the first group of constructors and engineers who was awarded the Registered Constructor and Senior Engineer qualification by the state. Mr. Li has extensive experience in the energy sector.

Mr. GAO Jihua, aged 46, is the Vice President of the Company responsible for assisting the President for the management and development of LNG vehicle refuelling business of the Group, and coordination and support of the Central and Southwest regional business. Mr. Gao graduated from the Hebei University of Science and Technology in 1989 with a bachelor's degree in engineering, majoring in hotwork and was awarded an executive master's degree in business administration by the Peking University in 2009. Prior to joining the Group in 1999, he had worked in HanDan Metallurgical Machinery Plant and held senior managerial position. Mr. Gao has extensive experience in corporate governance and market development.

Mr. OUYANG Su, aged 57, is the Vice President and Executive Deputy General Manager in Central China, responsible for assisting the President in local project management and business expansion. He graduated from the China University of Political Science and Law as a postgraduate in economics and management in 2004 and received a master's degree in business administration from Sino-Europe International Business School of Senior Management in October 2012. Prior to joining the Company in 2003, he had worked in Zhuzhou Water Supply Company and Zhuzhou City Gas Company. Mr. Ouyang has over 30 years of managerial experience in public utilities company.

Mr. YIN Xuexin, aged 49, is the Vice President of the Company responsible for the Group's energy trading. He joined the Group in 1987 and graduated from the Guanghua School of Management of Beijing University in 2009 with an executive master's degree in business administration. Mr. Yin has extensive exposure in market development and corporate governance and has accumulated over 24 years of experience in the PRC gas industry.

Ms. WU Xiaojing, aged 46, is the Vice President of the Company and the General Manager of Southern China region responsible for assisting the President in the management of projects in Southern China region and business development. Ms. Wu graduated from The Chinese People's Armed Police Force Academy in 1990 with a law degree majoring in immigration inspection and obtained an executive master's degree in business administration from Beijing University in 2011. Prior to joining the Group in 2004, she worked in the Southern China branch of Beckman Coulter, Inc. and was responsible for the business development in the region. Ms. Wu is experienced in corporate governance, market development, brand building and cultural development.

Ms. Lu Yufang, aged 56, is the Vice President of the Company and the General Manager of Northern China region responsible for assisting the President in the management of projects in Northern China region and business development. Ms. Lu graduated from the Party School of the Central Committee of C.P.C. in 1993 majoring in economics and management and obtained the qualification of senior accountant. Prior to joining the Group in 2005, she worked in Shijiazhuang Gas Group as the Chief Accountant. Ms. Lu is experienced in corporate governance and financial management.

Ms. GE Hua, aged 52, is a Vice President of the Company and the General Manager of Shandong Region responsible for assisting the President in project management of Shandong Region and business expansion. Ms. Ge received an executive master of business administration from Fudan University in 2006. Prior to joining the Group in 2000, she held positions in Yancheng Zhongxiang Group, Head Office of Yancheng Economic Development Zone and Citic Yancheng Company. Ms. Ge has extensive experience in corporate governance and market development.

Mr. CHEN Liye, aged 36, is the Financial Controller assisting Chief Financial Officer in the Group's daily finance management. Mr. Chen graduated from Zibo Business School majoring in accounting in 1995 and received a master of business administration from Tsinghua University in 2012. Mr. Chen owns the qualifications of Certified Accountant and Certified Tax Agent in the PRC. He was the Chief Accountant of Shandong Da Zhong Taxi Company Limited before joining the Group in 2007. Mr. Chen has extensive experience in finance, tax and financial management.

Ms. WONG Chui Lai, aged 36, is the Company Secretary of the Company, responsible for finance and implementation of good corporate governance. Prior to joining the Group in 2007, Ms. Wong worked at one of the big four international accounting firms. Ms. Wong graduated from the City University of Hong Kong in 2000, with a bachelor's degree in BBA(Hons) in Accountancy. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Associate of Chartered Certified Accountants (ACCA) in England. Ms. Wong has over 13 years of experience in accounting and financial management. Ms. Wong is the Senior Finance Manager of EGII, which is a controlling shareholder of the Company.

DIRECTOR'S REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2013.

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the Consolidated Statement of profit or loss and other comprehensive income on page 85.

The Directors recommend the payment of a final dividend of HK$48.00 cents (equivalent to approximately RMB37.97 cents) per share to the shareholders on the register of members on 10 June 2014. The total dividend amount is approximately RMB411 million, and the retention of the remaining profit for the year is approximately RMB841 million.

Financial Summary

Details of the summary of the published financial information of the Group for the past ten years are set out on pages 22 to 23.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB3,034 million has been incurred in acquiring property, plant and equipment.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 15 to the Consolidated Financial Statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 40 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 88.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 36 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations by the Group for 2013 amounted to RMB36 million.

Directors' and Senior Management Members' Emoluments

Details of Directors' and senior management members' emoluments are set out in Note 11 to the Consolidated Financial Statements.

Directors

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

Executive Directors:

Wang Yusuo (Chairman)
Cheung Yip Sang (Vice Chairman, resigned as Chief Executive Officer on 24 March 2014)
Zhao Jinfeng
Yu Jianchao
Han Jishen (President)
Zhao Shengli (resigned on 24 March 2014)
Wang Dongzhi (Chief Financial Officer)

Non-executive Directors:

Wang Zizheng (appointed on 24 March 2014)
Zhao Baoju (resigned on 24 March 2014)
Jin Yongsheng
Lim Haw Kuang (re-designated on 24 March 2014)

Independent Non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau
Zhang Gang (resigned on 24 March 2014)
Ma Zhixiang (appointed on 24 March 2014)
Yuen Po Kwong (appointed on 24 March 2014)

In accordance with Article 99 of the Company's Articles of Association, Mr. Wang Zizheng, Mr. Ma Zhixiang, and Mr. Yuen Po Kwong shall retire at the forthcoming annual general meeting ("AGM") of the Company, while in accordance with Article 116 of the Company's Article of Association, Mr. Wang Yusuo, Mr. Zhao Jinfeng, Mr. Yu Jianchao, Ms Yien Yu Yu, Catherine and Mr. Kong Chung Kau shall retire by rotation at the AGM. All the retiring Directors are eligible and offer themselves for re-election except for Mr. Zhao Jinfeng and Mr. Kong Chung Kau who do not offer themselves for re-election due to personal development and shall retire at the AGM.

As of 31 December 2013, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

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

Disclosure of Interests

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

As at 31 December 2013, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interests in shares Corporate interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 31 December 2013
Mr. Wang Yusuo ("Mr. Wang")	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000	–	326,095,000	30.11%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000	–	326,095,000	30.11%
Mr. Wang Guangtian	Beneficial owner	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	200,000	200,000	0.02%

Notes:

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

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

Save as disclosed above, as at 31 December 2013, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

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

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2013	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2013 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2013 (Aggregate)
Mr. Wang Guangtian	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Mr. Kong Chung Kau	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–		
Total				600,000	–	600,000	

Notes:

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

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

Substantial Shareholders

As at 31 December 2013, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Total interests in shares	Total aggregate interests in shares and underlying shares (Note 3)	Approximate percentage of the Company's total issued share capital as at 31 December 2013
Mr. Wang	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000 (L)	30.11%
Ms. Zhao	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000 (L)	30.11%
EGII	Beneficial owner	326,095,000 (Note 1)	326,095,000 (L)	30.11%
The Capital Group Companies, Inc.	Interest of controlled corporation	151,664,596 (Note 2)	151,664,596 (L)	14.01%
Capital Research and Management Company	Investment manager	128,156,700	128,156,700 (L)	11.83%
Commonwealth Bank of Australia	Interest of controlled corporation	86,186,000	86,186,000 (L)	7.96%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	65,534,156	65,534,156 (L) (including 1,458,673 (S) 50,565,822 (P))	6.05%

Notes:

1 The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Of these shares, 128,156,700 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.)

3. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2013, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2013, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Option Scheme

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

Details of the share option scheme are set out in Note 45 to the Consolidated Financial Statements and the section headed "Director's rights to acquire shares" in this report.

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

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2013	Number of shares involved under options lapsed during the year	Number of shares subject to outstanding options as at 31 December 2013 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2013 (Aggregate)	Weighted average closing price of shares immediately before the date of exercise of options (HK$)
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	300,000	–	600,000	0.05%	–
	14.06.2010	14.06.2012–13.06.2020	16.26	300,000	–			
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	–	–	–	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	180,000	(180,000)			
Total				780,000	(180,000)	600,000	0.05%	

Note:

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

No share option was granted or cancelled during the year.

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

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

Non-Exempt Continuing Connected Transactions

(A) On 31 December 2010, those Wang Family Companies (Note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group. For the year ended 31 December 2013, the property management services fee paid by the Group amounted to RMB12,138,000 which is below the annual cap amount RMB14,000,000 as set forth in the Group's announcement dated on 31 December 2010 about this matter.

Property Management Services

	Service providing party	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Langfang Elephant Club Property Management Company Limited ("Elephant Club Management") (Note 1)	Langfang Xinao Gas Company Limited	1.1.2013	1 year	Office building in Langfang city	2,000,000
(ii)	Langfang Elephant Club Property Services Company Limited ("Elephant Club Services") (Note 1)	Xinao Gas Development Company Limited	1.1.2013	1 year	Office building in Langfang city	2,673,000
(iii)	Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2013	1 year	Office building in Langfang city	4,067,000
(iv)	Elephant Club Services	Langfang Xinao Gas Equipment Company Limited	1.1.2013	1 year	Office building in Langfang city	720,000
(v)	Elephant Club Services	Xinao Energy Logistics Company Limited	1.1.2013	1 year	Office building in Langfang city	2,382,000
(vi)	Elephant Club Services	Xinao Energy Trading Company Limited	1.1.2013	1 year	Office building in Langfang city	282,000
(vii)	Elephant Club Services	Langfang Branch, Xinao Gas Engineering Company Limited	1.7.2013	6 months	Office building in Langfang city	50,000
						12,138,000

(B) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies has agreed to provide the Group with supporting services, including but not limited to employees training, catering services, information technology support and maintenance, legal and administrative services. For the year ended 31 December 2013, the supporting services fee paid by the Group amounted to RMB38,951,000 which is below the annual cap amount RMB110,000,000 as set forth in the Group's announcement dated on 31 December 2010 about this matter.

Supporting Services

Service providing party (Note 1)	**Service accepting party**	**Services**	**Contract sum** (RMB)
• Langfang Tongcheng Vehicle Services Company Limited	Subsidiaries under ENN Energy Holdings Limited	• Transportation services	38,951,000
• ENN Solar Energy Company Limited		• Provision of electricity	
• Xinao Group Elephant Club Hotel Company Limited		• Hotel services	
• Xinyuan Yangguang Agriculture Company Limited		• Meal services	
• Elephant Club Services		• Catering and administration services	
• Beijing Ovation AiTe Arts Development Company Limited		• Provision of office equipments	
• Xinbo Zhuochang Technology (Beijing) Company Limited		• Cultural services	
• Langfang Ovation International Travel Agency Company Limited		• Sharing services	
• Langfang City Natural Gas Limited Xinao Refuelling Gas Station		• Gasoline supply	
• Xinao Group Company Limited		• Training services	

(C) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide maritime transportation services to the Group for the transportation of energy including but not limited to liquefied petroleum gas, compressed natural gas and liquefied natural gas. For the year ended 31 December 2013, the maritime transportation services fee paid by the Group amounted to RMB11,320,000 which is below the annual cap amount RMB30,000,000 as set forth in the Group's announcement dated on 31 December 2010 about this matter.

Maritime Transportation Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Contract sum** (RMB)
(i) Beibuwan Travel Company Limited	Xinao Energy Trading Company Limited	Transportation of energy	11,320,000

(D) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide energy technology supporting services to the Group, including but not limited to solutions, project development, sub-contracting (construction services related), operational guidance, basic management and related training. For the year ended 31 December 2013, the energy technology supporting services fee paid by the Group amounted to RMB25,098,000 which is below the annual cap amount RMB68,000,000 as set forth in the Group's announcement dated on 31 December 2010 about this matter.

Energy Technology Supporting Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Contract sum** (RMB)
• Xinao Energy Services Company Limited • Langfang Xinao Energy Saving Service Company Limited • Xinao Energy Service (Shanghai) Company Limited • Shanghai Ovation Energy Planning & Design Company Limited	Subsidiaries under ENN Energy Holdings Limited	Energy technological support	25,098,000

Auditor has issued an unqualified letter containing findings and conclusions in respect of the CCTs disclosed by the Group as above in accordance with Chapter 14A.38 of the Listing Rules.

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

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

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

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

The Board of Directors of the Company confirmed that the disclosure requirements of Chapter 14A of the Listing Rules have been complied.

Exempted Connected Transactions

(A) Gas Connection Service

	Service providing party	Service accepting party	Service	Contract sum (RMB)
(i)	Xinao Gas Development Company Limited	Langfang Xinao Property Development Company Limited (Note 1)	Gas connection for residential and commercial/industrial ("C/I") customers	417,000
(ii)	Xinao Gas Development Company Limited	Langfang New Urban Development Company Limited	Gas connection for residential and CI customers	3,336,000
(iii)	Xinao Gas Development Company Limited	Xinao Group Elephant Club Hotel Company Limited	Gas connection for residential and CI customers	11,000
(iv)	Langfang Branch, Xinao Gas Engineering Company Limited	Solar (Bengbu) Energy Company Limited (Note 1)	Gas connection for C/I customer	78,000
(v)	Bengbu Xinao Gas Limited	Bengbu City Investment and Development Company Limited (Note 2)	Gas connection for residential customers	250,000
				4,092,000

(B) Construction Service

	Service providing party	Service accepting party	Service	Contract sum (RMB)
(i)	Shantou City Chenghai Gas Construction Company Limited (Note 2)	Shantou Xinao Gas Company Limited	Construction of pipeline	6,611,000
(ii)	Shantou City Chenghai Gas Construction Company Limited (Note 2)	Shantou City Xinao Haojiang Gas Limited	Construction of pipeline	60,000
(iii)	Langfang Xinao Solar Energy Integration Company Limited (Note 1)	Xinao Energy Logistics Company Limited	Installation of solar panel	9,600,000
(iv)	Langfang Xinao Solar Energy Integration Company Limited (Note 1)	Qingdao Xinao Intelligent Energy Limited	Installation of solar panel	500,000
				16,771,000

(C) Property Leasing Service

	Service providing party	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Changsha City Gas Industry Company (Note 2)	Changsha Xinao Gas Company Limited	1.1.2013	1 year	Office building, street store and warehouse in Changsha City	2,493,000
(ii)	Changsha City Gas Industry Company (Note 2)	Xinao Gas Engineering Company Limited	1.12.2011	3 years	Warehouse in Changsha City	72,000
(iii)	Langfang Xinao Gas Company Limited	Xinao Group Company Limited (Note 1)	1.1.2011	3 years	Office building in Langfang city	1,475,000 (including RMB436,000 management fee)
(iv)	Xinao Group Company Limited (Note 1)	Xinao Gas Development Company Limited	1.1.2011	3 years	Office building in Langfang city	2,596,000
						6,636,000

(D) Land Leasing

	Lessor (Note 2)	Lessee	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Bozhou City Construction Investment Company Limited	Bozhou Xinao Gas Company Limited	21.7.2012	10 years	Land parcel on which gas refuelling station is located	200,000
(ii)	Xinxiang City Public Transportation Company	Xinxiang Xinao Gas Company Limited	30.3.2013	1 year	Land parcel on which gas refuelling station is located	160,000
(iii)	Xinxiang City Public Transportation Company	Xinxiang Xinao Vehicle Gas Company Limited	1.1.2010	5 years	Land parcel on which gas refuelling station is located	160,000
						520,000

(E) Transportation Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
Tongliao City Rixin Natural Gas Company Limited (Note 2)	Xinao Energy Logistics Company Limited	Transportation of energy	528,000

(F) Purchase of materials

	Seller	Buyer	Transaction	Contract sum (RMB)
(i)	Qingdao Yian Gas Company Limited (Note 1)	Qingdao Xinao Jiaocheng Yian Gas Company Limited	Purchase of materials	1,855,000

(G) Supporting Services

	Service providing party	Service accepting party	Service	Contract sum (RMB)
(i)	Changsha City Gas Industry Company Limited (Note 2)	Changsha Xinao Gas Company Limited	Comprehensive services	2,470,000
(ii)	Beijing Petroleum Company (Note 2)	Langfang Xinao Gas Company Limited	Administration Services	3,889,000
(iii)	Bituo E-commerce Company Limited (Note 1)	Subsidiaries of ENN Energy Holdings Limited	Administration Services	3,116,000
				9,475,000

(H) Purchase of Property

Seller	Buyer	Transaction	Contract sum (RMB)
Xinao Gaoke Technology and Industrial Company Limited (Note 1)	Xinao Energy Logistics Company Limited	Purchase of Land	30,369,000

(I) Purchase of Equipment

Seller	Buyer	Transaction	Contract sum (RMB)
Bituo E-commerce Company Limited (Note 1)	Subsidiaries of ENN Energy Holdings Limited	Purchase of Equipment	9,641,000

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any general meeting of the relevant company) by Mr. Wang, the Chairman, an Executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a Non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Group during the year.
2. Minority equity interest holder of one or more non-wholly-owned subsidiary(ies) of the Company who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary, thereby being connected persons of the Group.
3. Most subsidiaries, jointly-controlled entities and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

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

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

Event after the Reporting Period

There are no significant events occurring after the reporting period.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in the section headed "Directors' rights to acquire shares" and the details of share options disclosed in Note 45 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2013.

Major Customers and Suppliers

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

Pre-Emptive Rights

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

Purchase Sale or Redemption of Listed Securities

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

Audit Committee

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. During the year, members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang, who are all Independent Non-executive Directors. On 24 March 2014, Mr. Zhang Gang resigned from the Board of Directors and Mr. Lim Haw Kuang became Non-executive Director of the Company, as such, both of them will be no longer act as audit committee members of the Company. On the same day, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, Independent Non-executive Directors, were appointed as additional Audit Committee members of the Company. Three Audit Committee meetings were held during the financial year, and the Audit Committee has reviewed the audited annual accounts for 2012 and the unaudited interim accounts for 2013. The Audit Committee has also reviewed the annual results and the audited annual accounts for 2013 at the audit committee meeting held on 21 March 2014.

Remuneration Committee

The Company's Remuneration Committee was established on 31 December 2004. The Remuneration Committee's responsibilities include the review of the Company's policy for remuneration of Directors and senior management and determination of the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments and making of recommendation to the Board on the remuneration of Non-executive Directors. During the year, the Remuneration Committee is composed of one Executive Director, namely, Mr. Jin Yongsheng, and five Independent Non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang. On 24 March 2014, Mr. Zhang Gang resigned from the Board of Directors and Mr. Lim Haw Kuang became Non-executive Director of the Company, as such, both of them will be no longer act as remuneration committee members of the Company. On the same day, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, Independent Non-executive Directors, were appointed as additional remuneration committee members of the Company. One Remuneration Committee meeting was held during the financial year.

The Nomination Committee

The Company's Nomination Committee was established on 30 March 2012. The Nomination Committee's responsibilities include review the structure, size, board diversity and composition of the board and make recommendations on the change to the board to complement the Company's corporate strategy. During the year, the Nomination Committee is composed of the Chairman of the Board, namely, Mr. Wang Yusuo, one Non-executive Director, namely, Mr. Jin Yongsheng, and five Independent Non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang. On 24 March 2014, Mr. Zhang Gang resigned from the Board of Directors and Mr. Lim Haw Kuang became Non-executive Director of the Company, as such, both of them will be no longer act as nomination committee members of the Company. On the same day, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, Independent Non-executive Directors, were appointed as additional nomination committee members of the Company. One Nomination Committee meeting was held during the financial year.

The Code on Corporate Governance Code

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules throughout the year except the deviation from Code Provision E.1.2. Mr. Wang Yusuo (Chairman of the Board) was unable to attend the AGM held on 21 May 2013 due to business trip. Alternatively, Mr. Wang Dongzhi, the Executive Director and Chief Financial Officer of the Company, attended and acted as the chairman of the said annual general meeting.

The Model Code for Securities Transactions by Directors of Listed Issuers

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

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

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

Interests in Competitors

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

Auditor

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 24 March 2014

CORPORATE GOVERNANCE REPORT

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

AsiaMoney

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

Yazhou Zhoukan

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

FinanceAsia

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

Forbes Global

- Year 2013 "China's Best CEO"
- Year 2012, 2013 "Asia's Fabulous 50"
- Year 2001, 2002, 2003 "The 200 Best Under a Billion"

EuroWeek

- Year 2005 "Best Asian High Yield Bond Issue"

The Asset

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

The Hong Kong Management Association

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

Annual International ARC Awards

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

Annual International Galaxy Awards

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

Mercury Excellence Awards

- Year 2004 "Silver, Annual Report"

China Affiliate of the Balanced Scorecard Institute

- Year 2008 "Star Organisation of Strategy Execution in China"

Institutional Investor Magazine

- Year 2013 – All-Asia Executive Team Ranking:
  - – Best Companies in China, Rank No. 1 (Power Sector)
  - – Best CEOs Rank No. 2 (Power Sector)
  - – Best CFOs Rank No. 3 (Power Sector)
  - – Best Investor Relations Companies, Rank No. 3 (Power Sector)
  - – Best Investor Relations Professionals, Rank No. 3 (Power Sector)
- Year 2012 – All-Asia Executive Team Ranking:
  - – Best CEOs Rank No. 1 (Power Sector)
  - – Best CFOs Rank No. 1 (Power Sector)
  - – Best Investor Relations Companies, Rank No. 2 (Power Sector)

Vision Awards

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

International LACP Awards

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

Ta Kung Pao

- Year 2013 "China Securities Golden Bauhinia Awards – Best Performer in Corporate Social Responsibility"

IR Magazine

- Year 2013/14 "Top 100 for Investor Relations in Greater China"

Platts

- Year 2013 "The Platts Top 250 Global Energy Companies"

Code on Corporate Governance Code

During 2013, the Company has complied with the code provisions in the Code on Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the time being in force, except the deviation from Code Provision E.1.2 with explanation set out herein. In addition, the Company has also further complied with those recommended best practices in the Code as set out herein.

The Group continues to maintain and optimise the system of internal control and risk management in order to strengthen its governance, compliance and risk control abilities. These practices are mainly used for:

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

The Group has an independent risk management department responsible for risk prevention, reporting handling, regular audit, project examination and inspection, establishing an all-around risk management system. In 2013, the Group continued to promote the active risk management model and carried out exit audits, performance audits or project inspection in 56 member companies. The employees' behavior, accountability and performance credibility, the income and expense, and key procedures including engineering and procurement were audited and examined in depth in order to further improve the control mechanism and raise the awareness of member companies and its employees regarding compliance and risk prevention.

The finance department has been designated to be in charge of the internal control and positions responsible for internal control were set up at various levels. In 2013, all member companies conducted the self-examination of internal control and 44 of them performed the internal control evaluation. Meanwhile, the Group and SAP jointly developed and introduced the GRC (governance, risk and compliance) system and implemented pilot system in Langfang and Shijiazhuang. The GRC system improved the Group's internal control management tools, and will further enhance the internal control standard of the member companies.

The legal affair department was set up in 2012 to manage the corporate governance and legal issues. It ensures the Group's good corporate governance and compliance by standardising the board meetings of member companies, strengthening the legal affair system, offering legal support to key decision-making in operation and management, conducting annual inspection of member companies and handling legal disputes and litigations.

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

Compliance of the Code on Corporate Governance Code

A. Directors

A.1 The Board

Code Principle

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

Code Provisions	Compliance	Details of Compliance
• At least four regular board meetings a year.	Yes	• The Board meets at least on a quarterly basis. In 2013, a total of 11 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings, Board Committees meetings and general meetings in 2013 are as follows:

	No. of meetings attended during 2013			
	Board	*Audit Committee*	*Nomination Committee*	*Remuneration Committee*
Executive Directors:				
Mr. Wang Yusuo	9/11 (4/4)*	–	–	–
Mr. Cheung Yip Sang	8/11 (4/4)*	–	–	–
Mr. Zhao Jinfeng	6/11 (4/4)*	–	–	–
Mr. Yu Jianchao	11/11 (4/4)*	–	–	–
Mr. Han Jishen (Notes 2)	4/7 (3/3)*	–	–	–
Mr. Zhao Shengli	9/11 (4/4)*	–	–	–
Mr. Wang Dongzhi	11/11 (4/4)*	–	–	–
Non-executive Directors:				
Ms. Zhao Baoju	8/11 (4/4)*	–	–	–
Mr. Jin Yongsheng	9/11 (4/4)*	–	1/1	1/1
Independent Non-executive Directors:				
Mr. Wang Guangtian	9/11 (3/4)*	2/3	1/1	1/1
Ms. Yien Yu Yu, Catherine	6/11 (3/4)*	2/3	0/1	0/1
Mr. Kong Chung Kau	8/11 (4/4)*	3/3	1/1	1/1
Mr. Zhang Gang	5/11 (3/4)*	2/3	1/1	1/1
Mr. Lim Haw Kuang (Notes 3)	6/7 (3/3)*	1/2	0/0	0/0

Notes

1. * Regular Board Meetings
2. On 26 March 2013, Mr. Han Jishen has been appointed as the Executive Director and the President of the Company.
3. On 26 March 2013, Mr. Lim Haw Kuang has been appointed as the Independent Non-executive Director of the Company, and also the member of the Audit Committee, Nomination Committee and the Remuneration Committee.
4. The annual general meeting ("AGM") and an extraordinary general meeting ("EGM") have been held on 21 May and 30 December during the year. Only Mr. Jin Yongsheng, Mr. Wang Dongzhi, Mr. Kong Chung Kau and Mr. Lim Haw Kuang have attended the AGM, while only Mr. Zhao Shengli, Mr. Wang Dongzhi, Mr. Kong Chung Kau and Mr. Lim Haw Kuang have attended the EGM.

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

A. Directors *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• Opportunity to all directors to include matters in the agenda for regular board meetings.	Yes	• Directors are consulted as to items to be included and items which the directors may wish to include in the agenda for regular Board meetings before the finalised version of the relevant agenda is despatched to the directors.
• At least 14 days notice given to all directors prior to a regular board meeting to ensure that opportunity to attend is given.	Yes	• Notice of a regular Board meeting is given to all directors not less than 14 days prior to such meeting.
• Minutes of meetings kept by company secretary and available for inspection.	Yes	• All Board and Board Committees minutes and records are kept by the company secretary and will be available for inspection in Hong Kong by any directors.
• Draft and final minutes of board meetings sent to all directors for comments and records, in both cases, within a reasonable time.	Yes	• Draft minutes of a Board meeting will be prepared by the Company Secretary and circulated to all the directors for review and comment, and final version of the Board minutes will be sent to all directors for record as soon as practicable after the relevant Board meeting.
• Agreed procedure for directors to seek independent professional advice at the company's expense.	Yes	• The Board has adopted a written procedure for the directors to seek independent professional advice at the Company's expense.
• If a substantial shareholder/director (or any of his/her associates) has a conflict of interest in a matter which the Board has determined to be material, a board meeting should be held. The director having interest in the matter must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	Yes	• The Articles of Association of the Company stipulate that subject to certain exceptions contained therein, a director shall not be entitled to vote on (nor shall be counted in the quorum in relation thereto) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he/she has any material interest, and if he/she shall do so his/her vote shall not be counted (nor will he/she be counted in the quorum for the resolution). • It is the practice of the Board to hold a meeting to decide on any matter in which a substantial shareholder or a director (or any of its/his/her associates) has a material interest and to request for presence of independent non-executive directors.
• Insurance cover in respect of legal action against directors.	Yes	• There is in place a directors & officers liabilities insurance covering the directors and officers of the Group.

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

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

A. Directors *(continued)*

A.2 Chairman and chief executive officer

Code Principle

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

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

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

A. Directors *(continued)*

A.2 Chairman and chief executive officer (continued)

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

On 24 March 2014, Mr. Cheung Yip Sang was appointed as vice chairman of the Board and resigned as the CEO. Mr. Han Jishen, the Executive Director and the President will take up the duties of CEO and responsible for managing the business of the Group, executing the strategies and decisions of the Board, and managing the day-to-day operations of the Group. Apart from acting as a director or president in a number of companies owned and controlled by Mr. Wang Yusuo and/or his family, Mr. Han Jishen has no other relationship with Mr. Wang Yusuo.

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

A. Directors *(continued)*

A.3 Board composition

Code Principle

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

At March 24, 2014, Executive Director Mr. Zhao Shengli, Non-executive Director Ms. Zhao Baoju and Independent Non-executive Director Mr. Zhang Gang had resigned as a director. They have confirmed that they did not have any disagreement with the Board and no relevant attention needed to be brought to the shareholders of the Company in relation to their resignation. On the same day, Mr. Lim Haw Kuang has became a Non-executive Director of the Company from an Independent Non-executive Director of the Company, while Mr. Wang Zizheng has been appointed as a Non-executive Director and Mr. Ma Zhixiang and Mr. Yuen Po Kwong has been appointed as Independent Non-executive Directors of the Company.

As at 24 March 2014, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Cheung Yip Sang	(Vice Chairman and Executive Director, resigned as CEO on 24 March 2014)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Han Jishen	(President and Executive Director, appointed on 26 March 2013)
Mr. Zhao Shengli	(Executive Director, resigned on 24 March 2014)
Mr. Wang Dongzhi	(CFO and Executive Director)
Mr. Wang Zizheng	(Non-executive Director, appointed on 24 March 2014)
Ms. Zhao Baoju	(Non-executive Director, resigned on 24 March 2014)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)
Mr. Zhang Gang	(Independent Non-executive Director, resigned on 24 March 2014)
Mr. Lim Haw Kuang	(Appointed as an Independent Non-executive Director on 26 March 2013 and has became a Non-executive Director on 24 March 2014)
Mr. Ma Zhixiang	(Independent Non-executive Director, appointed on 24 March 2014)
Mr. Yuen Po Kwong	(Independent Non-executive Director, appointed on 24 March 2014)

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

Roles and functions

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

For the year ended 31 December 2013, the Board:

1. reviewed the performance of the Group and formulated business strategy of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2012 and the interim results of the Group for the six months period ended 30 June 2013;
3. considered and approved the appointment of one non-executive director and one independent non-executive director;
4. reviewed and approved the adjustment on the remunerations of the Board members;
5. reviewed the effectiveness of the system of internal control and risk management of the Group;
6. reviewed general mandates to issue and repurchase shares of the Company;
7. Reviewed and approved the Group to issue a USD500 million zero coupon convertible bonds with a maturity date in 2018 for restructuring the existing debts;

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

A. Directors *(continued)*

A.3 Board composition (continued)

8. Reviewed and approved the IFC syndicated loan of USD150 million;
9. Reviewed and approved the connected transaction in relation the capital injection of RMB500 million to the ENN Finance Co., Ltd, reviewed and approved the 2014 to 2016 continuing connected transactions;
10. Proposed changes to the Supplemental Deed of Non-competition between Major Shareholders and submitted to the EGM held on 30 December 2013 for approval; and
11. Reviewed and approved the changes at the Share Registrar at Cayman Islands.

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

A.4 Appointment, re-election and removal

Code Principle

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

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

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

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

A. Directors *(continued)*

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

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

A.5 Nomination Committee

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

On 30 March 2012, the Board has established a nomination committee. During the year, the Committee is chaired by Mr. Wang Yusuo (Chairman of the Board) and comprises of all independent non-executive directors, including Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang, and one non-executive director, Mr. Jin Yongsheng. Since 24 March 2014, Mr. Zhang Gang resigned from the Board of Directors and Mr. Lim Haw Kuang re-designed as non-executive director, hence they are no longer acted as nomination committee member. On the same day, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, the Independent Non-executive Directors, were appointed as additional nomination committee members of the Company. The responsibilities of the nomination committee include identifying and selecting suitably qualified individuals to become members of the Board. When the nomination committee considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

The Company has adopted a board diversity policy (the "Policy") since March 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board, in another means, assisting the Company in the realisation of strategic goals and continuing development. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, culture and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.

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

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

A. Directors *(continued)*

A.5 Nomination Committee (continued)

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

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

A. Directors *(continued)*

A.5 Nomination Committee (continued)

Code Provisions	Compliance	Details of Compliance
• The nomination committee should put its terms of reference on the websites of the Stock Exchange and the Company.	Yes	• The relevant terms of reference have been put on the Stock Exchange and the Company's website.
• The nomination committee should be provided sufficient resources and independent professional advices at the Company's expense to perform its responsibilities.	Yes	• The detailed resume and full background information of the new appointed directors have been provided and considered by the nomination committee.
• The circular to shareholders and/or explanatory statement of the relevant general meeting where board elect an individual as an independent non-executive director should set out the reasons of the election and his independence.	Yes	• The reasons of the election and the independence of the new independent non-executive director will be set out in the circular to the shareholders.
• The nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.	Yes	• The Board has adopted the policy on concerning the diversity of board members, in which a number of factors, including but not limited to gender, age, culture and education background, ethnicity, professional experience, skills, knowledge and length of service will be taken into account. • The effectiveness of such policy has been reviewed by the nomination committee members from time to time so as to make sure the Board diversity has been function well.

A.6 Responsibilities of directors

Code Principle

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

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

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

A. Directors *(continued)*

A.6 Responsibilities of directors (continued)

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

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

A. Directors *(continued)*

A.6 Responsibilities of directors (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2013, the Company organised two series of internal training programmes and seminars for the directors and the senior management on various matters relating to the interpretation of government policies, execution of corporate strategy, establishment of market system, corporate monitoring and management as well as set-up of human resources system. There have been satisfactory attendances in general.
• The Company should arrange training to place emphases on the director's roles, functions and duties.	Yes	• The Company arranged regular internal trainings. As well, the Company provides updates on the listing rules and relevant regulatory requirements for reference from time to time. • All the training record of the directors are received by the Company.
• Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.	Yes	• Details of a director, including the offices held by such director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each director is updated from time to time and confirmed by such director before being published in the Company's annual report and circulars. • Executive directors who intend to accept any directorship or appointment in other companies or entities would need to consult and obtain prior approval from the Board before acceptance.
• Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.	Yes	• During the year under review, the non-executive directors have actively participated in Board meetings, Board Committees meetings (if invited) (see Section A.1) and general meetings in general.
• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	• During the year under review, the non-executive directors have satisfactorily discharged their duties.

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

A. Directors *(continued)*

A.7 Supply of and access to information

Code Principle

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

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

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

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION

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

Code Principle

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

Remuneration Committee

The Remuneration Committee was established on 31 December 2004 and consists of the following members as at 31 December 2013:

Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director and chairman of the Remuneration Committee)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)
Mr. Zhang Gang	(Independent Non-executive Director, appointed on 26 March 2013)
Mr. Lim Haw Kuang	(Independent Non-executive Director, appointed on 26 March 2013)

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for non-executive directors;
7. to ensure that no director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the CEO about their proposals relating to the remuneration of executive directors and have access to professional advice if considered necessary; and
9. to report to the Board.

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

The Remuneration Committee met once during the year under review to consider the remuneration of the directors and senior management. Attendance record of the Remuneration Committee members is set out in Section A.1 above. The remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration bands (RMB)	Number of persons
1 to 1,000,000	22
1,000,001 to 2,000,000	4
2,000,001 to 3,000,000	1

Further particulars regarding directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Note 11 to the Consolidated Financial Statement.

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

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION *(continued)*

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

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

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

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

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code Principle

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

Code Provisions	Compliance	Details of Compliance
• Management should provide explanation on financial and other information to enable the board to make informed assessment.	Yes	• Directors are provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the directors to present results and discuss any variance between the budget and the actual results (if any).
• Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.	Yes	• A statement of directors' responsibilities for financial statements is set out in the interim and annual reports. • Auditors' reporting responsibilities statement is set out in the auditors' report.
• Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/ reports under regulatory requirements.	Yes	• The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/reports under regulatory requirements. In addition, the Audit Committee has been established to monitor the financial reporting process and the integrity of financial statements of the Company. • The Company's 2011, 2012 annual report was awarded by independent association as "Gold: Energy, Oil, Natural Gas and Fuels" and "Merit, Cover Design: Oil and Natural Gas Production and Service".

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

C. ACCOUNTABILITY AND AUDIT *(continued)*

C.1 Financial reporting (continued)

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

C.2 Internal controls

Code Principle

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

Code Provisions	Compliance	Details of Compliance
• The directors should at least annually conduct a review of the effectiveness of the system of internal control.	Yes	• The Board has conducted a review of the effectiveness of the system of internal control and risk management of the Group covering all material controls including financial, operational and compliance controls, and risk management functions for the year 2013.
• Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.	Yes	• The Board has included in its annual review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year under review.

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

C. ACCOUNTABILITY AND AUDIT *(continued)*

C.2 Internal controls (continued)

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

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

C. ACCOUNTABILITY AND AUDIT *(continued)*

C.3 Audit committee

Code Principle

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

Audit Committee

The Audit Committee was established on 28 March 2001 and consists of the following members as at 31 December 2013:

Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director and chairman of the Audit Committee)
Mr. Zhang Gang	(Independent Non-executive Director, appointed on 26 March 2013)
Mr. Lim Haw Kuang	(Independent Non-executive Director, appointed on 26 March 2013)

The Audit Committee is primarily responsible for the following duties:

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

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

Auditors' remuneration

For the year ended 31 December 2013, audit services provided to the Group by Deloitte Touche Tohmatsu, the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

	Approximate Amount
Annual audit services fee to Deloitte Touche Tohmatsu	RMB4,660,000
Non-audit services fee to Deloitte Touche Tohmatsu	
• Interim result review	RMB1,144,000
• Issuance of Convertible bonds	RMB530,000
Audit services fee paid to other PRC auditors	RMB4,666,000
	RMB11,000,000

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

C. ACCOUNTABILITY AND AUDIT *(continued)*

C.3 Audit committee (continued)

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

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

D. DELEGATION BY THE BOARD

D.1 Management functions

Code Principle

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

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

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

D. DELEGATION BY THE BOARD *(continued)*

D.2 Board committees

Code Principle

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

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

1. Audit Committee;
2. Remuneration Committee; and
3. Nomination Committee.

Further details of the Remuneration Committee, the Audit Committee and Nomination Committee are set out in Sections B.1, C.3 and A.5 above respectively.

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

D.3 Corporate governance Functions

Corporate Governance Functions

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

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

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

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

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

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

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

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

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Code Principle

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

Code Provisions	Compliance	Details of Compliance
• A separate resolution should be proposed by the chairman for each substantially separate issue.	Yes	• Separate resolutions are proposed at general meeting on each substantially separate issue. For example, a separate resolution will be proposed for each director nominated for election or re-election.
• The chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.	No	• Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting held on 21 May 2013 due to business trip. Alternatively, Mr. Wang Dongzhi, the Executive Director and Chief Financial Officer of the Company, attended and acted as the chairman of the said annual general meeting.
• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	• In January 2013, Independent Non-executive Directors has considered, responsed and approved a connected transaction in respect of capital injection of a connected company. • In December 2013, the Company, through the establishment of a Board committee, reviewed and approved the 2014 to 2016 continuing connected transactions. • On 30 December 2013, the Company held an extraordinary general meeting in relation to the approval of Supplemental Deed of Non-competition and approval was obtained from independent shareholders.
• Notice to shareholders should be sent in the case of annual general meeting at least 20 clear business days before the meeting and be sent at least 10 clear business days in the case of all other general meetings.	Yes	• The notice of 2013 annual general meeting was sent to shareholders on 18 April 2013, and the annual general meeting was held on 21 May 2013. • In addition, the notice of 2013 extraordinary general meeting was sent to shareholders on 6 December 2013. The extraordinary general meeting was held on 30 December 2013. • Attendance record of the two general meetings is set out in A.1 above.
• The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness	Yes	• The board has established a shareholders' communication policy and available at the Company's website at www.ennenergy.com. The board has reviewed it from time to time to ensure its effectiveness.

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

E. COMMUNICATION WITH SHAREHOLDERS *(continued)*

E.2 Voting by poll

Code Principle

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

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

F. Company Secretary

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

Principle

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

Code Provisions	Compliance	Details of Compliance
• The company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs.	Yes	• Ms. Wong Chui Lai joined the Company since 2007, she has taken no less than 15 hours of relevant professional training. She will take the yearly required relevant professional training for the coming years. She has rich knowledge on the day-to-day operation of the Company. • The appointment of the Company Secretary has been appointed and approved by the Board. Full investigation and all-rounded assessment have been taken place in evaluating the skills and knowledge. • The Company Secretary report directly to the Chairman and CEO, and providing full support to the Chairman, the Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. • All directors may call upon for advice and assistance at any time in respect to their duties and the effective operation of the Board and the Board Committees.
• Where the Company engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority at the Company whom the external provider can contact.	N/A	
• The Board should approve the selection, appointment or dismissal of the company secretary.	Yes	
• The company secretary should report to the Board, Chairman and/or the chief executive.	Yes	
• All directors should have access to the advice and services of the company secretary.	Yes	

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

G. Shareholders' rights

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

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

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend annual and extraordinary general meetings of the Company provided that their shares have been fully paid up and recorded in the register of members of the Company. In respect of the financial year ended 31 December 2013, an annual general meeting of the Company will be held on 30 May 2014 and it is currently expected that interim results for the six months ended 30 June 2014 will be announced in August 2014. Notice of the forthcoming annual general meeting will be dispatched to shareholders at least 20 clear business days before the meeting.

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

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

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

Enquiries to the Board

Enquiries may be put to the Board through the Company's Principal Place of Business in Hong Kong at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong (email: enn@ennenergy.com).

H. Supplemental Deed of Non-competition

In order to protect the best interests of the Group, and continue not to be influenced under controlling shareholders, and maintain independent, at the time of listing of the Company, each of Mr. Wang Yusuo, Ms. Zhao Baoju, EGII (formerly known as Easywin Enterprises Limited) and Xinao Group Company Limited ("Major Shareholders") has irrevocably undertaken and covenanted with the Company that he/she/it will not directly or indirectly carry on any restricted business which is or may be in competition with the Group. Since the Listing, the Group has been engaged principally in the downstream businesses of gas supply industry in the PRC. The Company is of the view that it is now an appropriate time to re-consider the scope of the Restricted Business. As a result, a Supplemental Deed of Non-Competition dated 21 November 2013 has been entered to amend the scope of the Restricted Business and has been approved by the independent shareholders of the Company on 30 December 2013.

Except for that the Major Shareholders are carrying on businesses outside the restricted business, the Major Shareholders have undertaken in the Supplemental Deed of Non-Competition that they will invite the Group to participate on normal commercial terms in the new gas supply business projects in the PRC which they may engage in the future. The Major Shareholders will also, by exercising the legal rights available to them, procure their associates to do the same. This would give the Group an opportunity to tap into the expertise and resources possessed by the Major Shareholders when they start new projects in the upstream and/or midstream sectors. The Group is not bound to participate in such projects. Instead, the Company will convene a board meeting to consider the matter. Only the Independent Directors can vote or be counted as a quorum for the board meeting. The Major Shareholders would therefore not be entitled to take part in the decision on whether or not the Group should participate in such projects. The Independent Directors would deliberate on whether it would be in the interest of the Group to engage in the project(s) concerned, taking into account the relevant factors such as the business strategy of the Group at that time, the qualifications and/or eligibility the Group then have, the market condition and future prospects, etc. Detail of the Supplemental Deed of Non-competition is set out in the circular of the Company dated 9 December 2013.

Additional Corporate Governance Information

I. Constitutional documents

During the year, there is no change in the Company's constitutional documents.

J. Investor relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and collecting views and feedbacks from such investors. The Group has an Investor Relations Department to handle matters relating to investor relations. In the year under review, the executive directors and senior management of the Company participated in 30 international investors' conferences and 2 international road shows, covering Hong Kong, Mainland China, Japan, Singapore, Europe and the United States, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the company led investors to visit the company for nearly 20 batches of city gas projects and vehicle refuelling stations which further increases the understanding of the investors intuitive on the Group's business.

The Company has also delivered good interim and annual reports to shareholders which allow them to have a basic understanding of the natural gas industry, policy in China, prospect and the financial performance of the Group. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

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

Hotline telephone number:	(852) 2528 5666
By fax:	(852) 2865 7204
By post:	Rooms 3101–04, 31/F., Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong
Attention:	Ms. Shirley Kwok
By email:	enn@ennenergy.com

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 85 to 164, which comprise the consolidated statement of financial position as at 31 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 of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
Revenue	6	**22,966**	18,027
Cost of sales		**(17,502)**	(13,183)
Gross profit		**5,464**	4,844
Other income	7	**238**	171
Other gains and losses	8	**(685)**	13
Distribution and selling expenses		**(380)**	(344)
Administrative expenses		**(1,753)**	(1,627)
Share of results of associates		**84**	71
Share of results of joint ventures		**359**	345
Finance costs	9	**(567)**	(621)
Profit before tax	10	**2,760**	2,852
Income tax expense	12	**(960)**	(859)
Profit and total comprehensive income for the year		**1,800**	1,993
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**1,252**	1,482
Non-controlling interests		**548**	511
		1,800	1,993

	Notes	2013 RMB	2012 RMB
Earnings per share	14		
– Basic		**1.16**	1.39
– Diluted		**1.16**	1.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 RMB million	2012 RMB million (Restated)
Non-current Assets			
Property, plant and equipment	15	**17,531**	15,099
Prepaid lease payments	16	**948**	770
Investment properties	17	**76**	69
Goodwill	18	**206**	196
Intangible assets	19	**1,294**	1,238
Interests in associates	20	**804**	798
Interests in joint ventures	21	**2,998**	2,271
Available-for-sale financial assets	22	**114**	14
Other receivables	23	**35**	42
Amounts due from associates	25	**55**	40
Amounts due from joint ventures	26	**183**	116
Deferred tax assets	28	**318**	222
Deposits paid for investments	29	**106**	217
Deposits paid for acquisition of property, and plant and equipment, land use rights and operation rights		**130**	97
Restricted bank deposits	30	**10**	17
		24,808	21,206
Current Assets			
Inventories	31	**419**	311
Trade and other receivables	23	**2,829**	2,071
Prepaid lease payments	16	**23**	20
Amounts due from customers for contract work	32	**193**	180
Amounts due from associates	25	**87**	83
Amounts due from joint ventures	26	**439**	528
Amounts due from related companies	27	**25**	22
Restricted bank deposits	30	**260**	316
Cash and cash equivalents	33	**6,822**	6,156
		11,097	9,687

	Notes	2013 RMB million	2012 RMB million (Restated)
Current Liabilities			
Trade and other payables	34	**6,166**	4,898
Amounts due to customers for contract work	32	**2,033**	1,451
Amounts due to associates	25	**88**	20
Amounts due to joint ventures	26	**1,187**	896
Amounts due to related companies	35	**18**	28
Taxation payables		**319**	292
Bank and other loans – due within one year	36	**921**	2,737
Short-term debentures	37	**–**	1,208
Financial guarantee liability	38	**59**	23
Deferred income	39	**78**	61
		10,869	11,614
Net Current Assets (Liabilities)		**228**	(1,927)
Total Assets less Current Liabilities		**25,036**	19,279
Capital and Reserves			
Share capital	40	**113**	113
Reserves		**9,430**	8,540
Equity attributable to owners of the Company		**9,543**	8,653
Non-controlling interests		**2,349**	2,017
Total Equity		**11,892**	10,670
Non-current Liabilities			
Bank and other loans – due after one year	36	**1,902**	1,471
Corporate bond	41	**497**	497
Senior notes	42	**4,498**	4,629
Medium-term notes	43	**700**	700
Convertible bonds at fair value through profit and loss	44	**3,925**	–
Deferred tax liabilities	28	**399**	346
Deferred income	39	**1,223**	966
		13,144	8,609
		25,036	19,279

The consolidated financial statements on pages 85 to 164 were approved and authorised for issue by the Board of Directors on 24 March 2014 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Equity attributable to owners of the Company								Equity attributable to non-controlling interests	Total equity
	Share capital RMB million (Note 40)	Share premium RMB million	Special reserve RMB million (note a)	Share options reserve RMB million	Statutory surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	RMB million	RMB million
Balance at 1 January 2012	110	2,202	(18)	142	409	38	4,163	7,046	1,794	8,840
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,482	1,482	511	1,993
Issue of shares upon exercise of share option (Note 45)	3	576	–	(160)	–	–	–	419	–	419
Acquisition of assets through acquisition of subsidiaries (Note 47)	–	–	–	–	–	–	–	–	37	37
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	49	49
Disposal of subsidiaries and derecognition of a subsidiary (Note 48)	–	–	–	–	–	–	–	–	(19)	(19)
Recognition of equity settled share-based payment	–	–	–	21	–	–	–	21	–	21
Dividend appropriation (Note 13)	–	(315)	–	–	–	–	–	(315)	–	(315)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(355)	(355)
Transfer to statutory surplus reserve fund	–	–	–	–	95	–	(95)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	1	(1)	–	–	–
Reclassification (note d)	–	(922)	–	–	–	–	922	–	–	–
Balance at 31 December 2012	113	1,541	(18)	3	504	39	6,471	8,653	2,017	10,670
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,252	1,252	548	1,800
Acquisition of assets through acquisition of subsidiaries (Note 47)	–	–	–	–	–	–	–	–	8	8
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	198	198
Disposal of subsidiaries and derecognition of a subsidiary (Note 48)	–	–	–	–	–	–	–	–	(7)	(7)
Dividend appropriation (Note 13)	–	(362)	–	–	–	–	–	(362)	–	(362)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(415)	(415)
Lapse of share options (Note 45)	–	–	–	(1)	–	–	1	–	–	–
Transfer to statutory surplus reserve fund	–	–	–	–	115	–	(115)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	2	(2)	–	–	–
Balance at 31 December 2013	113	1,179	(18)	2	619	41	7,607	9,543	2,349	11,892

Notes:

a. The balance as of 1 January 2013 represented the difference between paid up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial offering of the Company's shares in 2001 and the difference between the fair value and the carrying values of the underlying assets and liabilities attributable to the additional acquisition of interest in subsidiaries of RMB20 million.

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
OPERATING ACTIVITIES			
Profit before tax		**2,760**	2,852
Adjustments for:			
Share of results of associates		**(84)**	(71)
Share of results of joint ventures		**(359)**	(345)
Exchange difference		**(109)**	(8)
Fair value loss of convertible bonds		**784**	–
Gain on re-measurement of assets upon step acquisition of a business		**(24)**	–
Reversal of impairment loss on trade and other receivables, net		**(5)**	(8)
Loss (gain) on disposal of property, plant and equipment		**7**	(7)
Gain on disposal of prepaid lease payments		**(3)**	–
Loss on disposal of controlling interest in associates		**1**	5
Gain on derecognition/disposal of subsidiaries	48	**(1)**	(40)
Increase in fair value of investment properties		**(10)**	(11)
Share-based payment expenses		**–**	21
Depreciation of property, plant and equipment		**635**	551
Amortisation of intangible assets		**73**	70
Release of prepaid lease payments		**21**	20
Financial guarantee income		**(11)**	(9)
Bank interest income		**(72)**	(40)
Finance costs		**567**	621
Deferred income released to profit or loss		**(71)**	(52)
		4,099	3,549
Movements in working capital:			
Increase in inventories		**(105)**	(42)
Increase in trade and other receivables		**(654)**	(289)
(Increase) decrease in amounts due from customers for contract work		**(13)**	21
Decrease (increase) in amounts due from associates		**8**	(12)
Decrease in amounts due from joint ventures		**34**	59
Increase in amounts due from related companies		**(3)**	(8)
Increase in trade and other payables		**1,199**	846
Increase in amounts due to customers for contract work		**582**	462
(Decrease) increase in amounts due to joint ventures		**(110)**	116
Increase in amounts due to associates		**1**	4
Decrease in amounts due to related companies		**(11)**	(5)
Cash generated from operations		**5,027**	4,701
PRC enterprise income tax paid		**(1,001)**	(833)
Net cash generated from operating activities		**4,026**	3,868

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
INVESTING ACTIVITIES			
Dividend received from joint ventures		**120**	24
Dividend received from associates		**3**	4
Interest received		**72**	38
Deferred income received		**345**	303
Purchase of property, plant and equipment		**(2,941)**	(2,695)
Increase in prepaid lease payments		**(167)**	(91)
Deposits paid for investments		**(106)**	(126)
Deposits paid for prepaid lease payment		**(12)**	–
Deposits paid for operation rights		**(31)**	–
Deposits paid for acquisition of property, plant and equipment		**(2)**	(93)
Net cash outflow on acquisition of subsidiaries	46 & 47	**(46)**	(176)
Net cash (outflow) inflow on disposal of subsidiaries	48	**(12)**	59
Net cash outflow on derecognition of a subsidiary	48	**–**	(15)
Proceeds from disposal of controlling interest in associates		**13**	10
Investments in joint ventures		**(375)**	(204)
Investments in associates		**(26)**	(126)
Acquisition of intangible assets		**(20)**	(31)
Proceeds from disposal of property, plant and equipment		**35**	86
Proceeds from disposal of prepaid lease payments		**6**	–
Proceeds from disposal of investment properties		**3**	–
Increase in restricted bank deposits		**(152)**	(321)
Decrease in restricted bank deposits		**215**	2,670
Amounts advanced to associates		**(29)**	(56)
Amounts repaid by associates		**15**	5
Amounts advanced to joint ventures		**(337)**	(236)
Amounts repaid by joint ventures		**335**	112
Amounts advanced to related companies		**–**	(8)
Net cash used in investing activities		**(3,094)**	(867)
FINANCING ACTIVITIES			
Interest paid		**(614)**	(734)
Net proceeds from shares issued on exercise of share options		**–**	419
Proceeds from issuance of medium-term notes		**–**	700
Proceeds from issuance of short-term debentures		**–**	1,198
Proceeds from issuance of convertible bonds		**3,141**	–
Transaction costs incurred for issue of convertible bonds		**(64)**	–
Repayment of short-term debentures		**(1,200)**	(1,300)
Contribution from non-controlling shareholders		**198**	49
Dividends paid to non-controlling shareholders		**(415)**	(355)
Dividends paid to shareholders		**(362)**	(315)
New bank loans raised		**4,290**	4,924
Repayment of bank loans		**(5,649)**	(4,836)
Prepayment of up front fee of bank borrowings		**(17)**	–
Amounts advanced from associates		**79**	–
Amounts repaid to associates		**(12)**	(57)
Amounts advanced from joint ventures		**660**	196
Amounts repaid to joint ventures		**(259)**	(89)
Amounts advanced from related companies		**2**	–
Amounts repaid to related companies		**(1)**	–
Net cash used in financing activities		**(223)**	(200)

	Notes	2013 RMB million	2012 RMB million
Net increase in cash and cash equivalents		**709**	2,801
Effect of foreign exchange rate changes		**(43)**	–
Cash and cash equivalents at the beginning of the year		**6,156**	3,355
Cash and cash equivalents at the end of the year		**6,822**	6,156

1. General Information

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

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 57.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

Application of new and revised HKFRSs

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

Amendments to HKFRSs	Annual Improvements to IFRSs 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

In addition, the Group has early adopted the Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets.

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 (please see Notes 20 and 21 for details).

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.

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.

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

Application of new and revised HKFRSs *(continued)*

HKFRS 13 Fair Value Measurement (continued)

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 5 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

Pursuant to the amendment to HKAS 1 "Presentation of items of Other Comprehensive Income", the title of "consolidated statement of other comprehensive income" is changed to "consolidated statement of profit or loss and other comprehensive income". Other than this change of name, 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 of the Group.

Impact of the early application of Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

As a consequence of issuing HKFRS 13 in 2011, some of the disclosure requirements in HKAS 36, including the recoverable amount disclosures for non-financial assets were amended. In May 2013, there are further amendments to HKAS 36 which will become effective for annual periods beginning on or after 1 January 2014. The further amendments to HKAS 36 in particular, revise certain disclosure requirements relating to the recoverable amount for non-financial assets. After evaluating both amendments, the directors of the Company (the "Directors") decided to early adopt the latest amendments to HKAS 36. The application of the amendments to HKAS 36 does not result in any impact on the amounts reported in these consolidated financial statements. The disclosure of recoverable amounts for non-financial assets has been prepared in accordance with these latest amendments to HKAS 36.

New and revised HKFRSs in issue but not yet effective

The Group has not early adopted 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 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 1 January 2014

2 Effective for annual periods beginning on or after 1 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 1 July 2014, with limited exceptions

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

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

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

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

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

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.

3. Significant Accounting Policies *(continued)*

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. Significant Accounting Policies *(continued)*

Business combinations

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

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

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

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

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

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

Goodwill

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

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

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

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

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

3. Significant Accounting Policies *(continued)*

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value on the date it lost significant influence or joint control over the investee and the fair value is regarded as its fair value on initial recognition. Upon disposal or partial disposal of the Group's interest in an associate or a joint venture, the difference between the carrying amount of the associate or joint venture at the date the Group lost significant influence or joint control over the investee, and the fair value of any retained interest and any proceeds from disposing of a partial interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

3. Significant Accounting Policies *(continued)*

Interests in associates and joint ventures *(continued)*

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

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

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

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

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

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

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

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

Transfer of assets from customers

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

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

3. Significant Accounting Policies *(continued)*

Gas connection contracts

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and buildings

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

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

3. Significant Accounting Policies *(continued)*

Foreign currencies

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

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

Borrowing costs

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

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

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

Government grants

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

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

Retirement benefit scheme contribution

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

Share-based payment arrangements

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

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

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

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

3. Significant Accounting Policies *(continued)*

Taxation

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

3. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

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

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

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

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

3. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

Research and development expenditure (continued)

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

Inventories

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

Objective evidence of impairment could include:

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

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

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

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

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

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

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Financial guarantee contracts

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

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

Convertible bonds

The group designated the convertible bonds as financial liabilities at fair value through profit or loss ("FVTPL") as the convertible bonds contained one or more embedded derivatives and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item.

Derecognition

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

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

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

3. Significant Accounting Policies *(continued)*

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

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

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

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

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

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 estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Depreciation of property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2013 amounted to RMB17,531 million (2012: RMB15,099 million). Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

Estimated impairment of goodwill

The carrying value of goodwill at 31 December 2013 amounted to RMB206 million (2012: RMB196 million). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in Note 18.

4. Key Sources of Estimation Uncertainty *(continued)*

Estimated impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of receivables. Impairment loss are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible or when the net present value of the receivable is less than the carrying amount of the receivable. The identification of impairment loss requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and the impairment in the reporting periods in which such estimate has been changed. At 31 December 2013, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB1,292 million (2012: RMB992 million). Details of movement in impairment on trade and other receivables are set out in Note 23.

5. Capital Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 36, 37, 41, 42, 43 and 44, net of cash and cash equivalents) and total equity of the Group.

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

	2013 RMB million	2012 RMB million
Bank and other loans	**2,823**	4,208
Short-term debentures	**–**	1,208
Corporate bond	**497**	497
Senior notes	**4,498**	4,629
Medium-term notes	**700**	700
Convertible bonds at fair value through profit and loss	**3,925**	–
	12,443	11,242
Less: Cash and cash equivalents	**(6,822)**	(6,156)
Net debt	**5,621**	5,086
Total equity	**11,892**	10,670

	2013 %	2012 %
Net debt to total equity ratio	**47.3**	47.7

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

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

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2013 RMB million	2012 RMB million
Financial assets		
Available-for-sale financial assets	**114**	14
Loans and receivables (including cash and cash equivalents)	**9,306**	8,304
Financial liabilities		
Financial liabilities at fair value through profit or loss	**3,925**	–
Financial liabilities at amortised cost	**12,640**	14,616
Financial guarantee liability	**59**	23

c. Financial risk management objectives and policies

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

Foreign currency risk management

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

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

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

	Assets		**Liabilities**	
	2013 RMB million	2012 RMB million	**2013 RMB million**	2012 RMB million
Foreign currency:				
United States Dollar ("USD")	**376**	1,179	**9,413**	4,777
Hong Kong Dollar ("HKD")	**26**	94	**–**	129

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

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

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

	United States Dollar		Hong Kong Dollar	
	2013 %	2012 %	**2013 %**	2012 %
Possible change in exchange rate	**5**	5	**5**	5
	2013 RMB million	2012 RMB million	**2013 RMB million**	2012 RMB million
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(452)**	(180)	**1**	(2)
– if RMB strengthens against foreign currencies	**452**	180	**(1)**	2

Interest rate risk management

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

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates, joint ventures and related companies, and fixed-rate bank and other loans, corporate bond, senior notes and medium-term notes (see Notes 25, 26, 27, 36, 41, 42 and 43 for details of these amounts, loans, debentures, bond and notes respectively).

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 36 for details of these amounts).

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

	2013 %	2012 %
Reasonably possible change in interest rate	**75 basis points**	75 basis points
	2013 RMB million	2012 RMB million
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(17)**	(11)
– as a result of decrease in interest rate	**17**	11

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

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

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

Credit risk management

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liability in relation to the financial guarantee provided by the Group as disclosed in Note 38.

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

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2012 and 2013.

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

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

Liquidity risk management

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

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

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2013									
Trade and other payables		**2,829**	**–**	**–**	**–**	**–**	**–**	**2,829**	**2,829**
Amounts due to associates		**75**	**–**	**–**	**–**	**–**	**–**	**75**	**75**
Amounts due to joint ventures		**1,179**	**–**	**–**	**–**	**–**	**–**	**1,179**	**1,179**
Amounts due to related companies		**18**	**–**	**–**	**–**	**–**	**–**	**18**	**18**
Bank and other loans									
– fixed rate	**6.32**	**687**	**–**	**–**	**–**	**–**	**–**	**687**	**682**
– variable rate	**6.10**	**342**	**472**	**451**	**434**	**358**	**492**	**2,549**	**2,141**
Medium-term notes	**5.55**	**39**	**39**	**39**	**739**	**–**	**–**	**856**	**700**
Corporate bond	**6.45**	**32**	**32**	**32**	**32**	**532**	**–**	**660**	**497**
Senior notes	**6.00**	**274**	**274**	**274**	**274**	**274**	**5,259**	**6,629**	**4,498**
Convertible bonds		**–**	**–**	**–**	**–**	**3,126**	**–**	**3,126**	**3,925**
Financial guarantee contracts		**466**	**–**	**–**	**–**	**–**	**–**	**466**	**59**
		5,941	**817**	**796**	**1,479**	**4,290**	**5,751**	**19,074**	**16,603**
At 31 December 2012									
Trade and other payables		2,586	–	–	–	–	–	2,586	2,586
Amounts due to associates		19	–	–	–	–	–	19	19
Amounts due to joint ventures		741	–	–	–	–	–	741	741
Amounts due to related companies		28	–	–	–	–	–	28	28
Bank and other loans									
– fixed rate	6.20	1,502	–	–	–	–	–	1,502	1,481
– variable rate	6.86	1,389	280	348	270	247	684	3,218	2,727
Short-term debentures	4.71	1,257	–	–	–	–	–	1,257	1,208
Medium-term notes	5.55	39	39	39	39	739	–	895	700
Corporate bond	6.45	32	32	32	32	32	532	692	497
Senior notes	6.00	283	283	283	283	283	5,704	7,119	4,629
Financial guarantee contracts		476	–	–	–	–	–	476	23
		8,352	634	702	624	1,301	6,920	18,533	14,639

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

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

Liquidity risk management (continued)

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amount is claimed by the counterparty to the guarantee and the amount for convertible bonds is the actual payment made by the company assuming the convertible bond to be matured in 2018. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guarantee suffer credit losses.

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

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

	2013		2012	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to associates and a joint venture	**466**	**2017-2020**	476	2013-2017

d. Fair value measurement of financial instruments

The Group measures its convertible bonds at fair value at the end of the reporting period on a recurring basis:

	Fair value as at 31 December		**Fair value hierarchy**	**Valuation technique and key input**
	2013 RMB million	2012 RMB million		
Financial liabilities				
Convertible bonds	**3,925**	–	Level 2	Fair values are derived from quoted prices in an over-the-counter-market as adjusted for the effect of market activity level, if any

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

	2013		2012	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank loans	**682**	**681**	1,481	1,470
Senior notes	**4,498**	**4,932**	4,629	5,453
Short-term debentures	**–**	**–**	1,208	1,170
Medium-term notes	**700**	**689**	700	680
Corporate bond	**497**	**509**	497	475

In the above table, other than the fair values of the senior notes disclosed which are under the fair value hierarchy of Level 2, the rest of the fair values disclosed are under the fair value hierarchy of Level 3. The fair values of the senior notes are derived from the quoted prices in an over-the-counter market as adjusted for effect of market activity level, if any. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

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

e. Other price risk

The Group is exposed to price risk through the convertible bonds issued during the reporting period as the Group designated the convertible bonds to be financial liabilities at FVTPL and the fair value is determined based on the market price of the convertible bonds.

The Directors do not implement specify measurements to mitigate the price risk because the change in the fair value of convertible bonds does not have impact on the cash flow of the Company and the convertible bond will be ultimately redeemed or converted into the shares of the Company.

If the market price of the convertible bonds increased or decreased by 5%, the Group would recognise additional RMB196 million losses or gains respectively in the profit or loss.

6. Revenue

	2013 RMB million	2012 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**14,102**	10,516
Vehicle gas refuelling stations	**3,085**	2,307
Wholesale of gas	**1,551**	1,031
Sales of other energy	**61**	127
Sales of gas appliances	**108**	103
Sales of material	**216**	310
	19,123	14,394
Provision of service		
Gas connection fees	**3,843**	3,633
	22,966	18,027

7. Other Income

	2013 RMB million	2012 RMB million
Other income includes:		
Incentive subsidies (note)	**84**	57
Bank interest income	**72**	40
Rental income from equipment, net	**9**	11
Financial guarantee income	**11**	9

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

8. Other Gains and Losses

	2013 RMB million	2012 RMB million
Impairment loss reversed on trade and other receivables, net (Note 23)	**5**	8
(Loss) gain on disposal of:		
– Property, plant and equipment	**(7)**	7
– Prepaid lease payment	**3**	–
– Interests in an associate (note a)	**(1)**	(5)
Gain on derecognition/disposal of subsidiaries (Note 48)	**1**	40
Increase in fair value of investment properties (Note 17)	**10**	11
Arrangement fee of a banking facility (note b)	**–**	(29)
Gain on re-measurement of assets upon step acquisition of a business (note c)	**24**	–
Fair value loss of convertible bonds	**(784)**	–
Gain (loss) on foreign exchange, net (note d)	**64**	(19)
	(685)	13

Notes:

a. In December 2013, the Group disposed 40%, 20% and 30% of equity interests in three associates respectively to a joint venture for total cash consideration of RMB42 million in total. The difference of RMB1 million between the proceeds and the carrying amount of the Group's investments disposed of has been recognised during the year ended 31 December 2013.

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

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

c. It represents the fair value gain on re-measurement of assets upon acquisition of business in a subsidiary, 河源市管道燃氣發展有限公司 ("Heyuan Piped Gas") (Note 46), during the year ended 31 December 2013.

d. Included in the balance for the year ended 31 December 2013 is an amount of approximately RMB139 million (2012: RMB8 million) which is the exchange gain arising from the translation of senior notes denominated in USD to RMB.

9. Finance Costs

	2013 RMB million	2012 RMB million
Interest on:		
Bank and other loans wholly repayable within five years	**97**	230
Bank loans not wholly repayable within five years	**119**	111
Short-term debentures	**47**	87
Medium-term notes	**39**	8
Senior notes	**278**	281
Corporate bond	**32**	32
	612	749
Less: Amount capitalised under construction in progress (note)	**(109)**	(128)
Transaction costs incurred for issue of convertible bonds (Note 44)	**64**	–
	567	621

Note: Borrowing costs capitalised during both years arose from funds borrowed specifically for the purpose of obtaining qualifying assets. In addition, during the year ended 31 December 2013, the borrowing cost capitalised arose from the pool of general borrowing calculated by applying a capitalisation rate of 4.71% per annum (2012: 6.22% per annum) to expenditure on qualifying assets.

10. Profit Before Tax

	2013 RMB million	2012 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	–	21
Other staff costs, including directors' emoluments	**1,613**	1,467
Less: Amount of other staff costs capitalised under construction in progress	**(50)**	(55)
	1,563	1,412
Depreciation and amortisation:		
Property, plant and equipment	**635**	551
Intangible assets	**73**	70
Total depreciation and amortisation (note)	**708**	621
Release of prepaid lease payments	**21**	20
Auditors' remuneration	**11**	11
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**76**	66
Research and development expenses	**67**	7

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

	2013 RMB million	2012 RMB million
Depreciation and amortisation included in:		
Cost of sales	**576**	495
Administrative expenses	**132**	126
	708	621

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

a. Directors' emoluments

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

	2013					
Name of director	**Fee RMB'000**	**Salaries and allowance RMB'000**	**Discretionary performance bonus RMB'000**	**Share-based payment RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Wang Yusuo	–	2,495	–	–	–	2,495
Zhao Jinfeng	–	576	–	–	–	576
Jin Yongsheng	192	–	–	–	–	192
Yu Jianchao	–	576	–	–	–	576
Cheung Yip Sang	–	1,869	1,570	–	75	3,514
Zhao Baoju	192	–	–	–	–	192
Wang Guangtian	192	–	–	–	–	192
Yien Yu Yu, Catherine	192	–	–	–	–	192
Kong Chung Kau	192	–	–	–	–	192
Zhao Shengli	–	924	1,251	–	72	2,247
Wang Dongzhi	–	934	–	–	74	1,008
Zhang Gang	200	–	–	–	–	200
Lim Haw Kuang*	143	–	–	–	–	143
Han Jishen*	–	1,003	1,404	–	75	2,482
	1,303	8,377	4,225	–	296	14,201

* Mr. Lim Haw Kuang has been appointed as independent non-executive director and Mr. Han Jishen has been appointed as executive director of the company with effect from 26 March 2013.

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

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

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

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

a. Directors' emoluments *(continued)*

The amounts disclosed above include directors' fees of RMB919,000 (2012: RMB585,000) payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

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

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

b. Five highest paid individuals

The five highest paid individuals of the Group in 2013 and 2012 were all Directors and details of their emoluments are included in Note 11(a) above.

12. Income Tax Expense

	2013 **RMB million**	2012 RMB million
PRC Enterprise Income Tax:		
Current tax	**992**	869
Under provision in prior years	**20**	13
Withholding tax	**16**	10
	1,028	892
Deferred tax (Note 28)		
Current year	**(68)**	(33)
	960	859

The charge represents PRC Enterprise Income Tax for both years.

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

Pursuant to the relevant laws and regulations in the PRC in respect of preferential tax benefit for entities engaged in energy infrastructure business, certain PRC subsidiaries enjoying preferential tax rate of 15% in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the current EIT Law from 1 January 2008 and the tax rate applicable for 2013 is 25% (2012: 25%).

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

12. Income Tax Expense *(continued)*

Income 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 RMB million	2012 RMB million
Profit before tax	**2,760**	2,852
Tax at the PRC Enterprise Income Tax rate of 25% (2012: 25%)	**690**	713
Tax effects of share of results of associates	**(21)**	(17)
Tax effects of share of results of joint ventures	**(90)**	(87)
Tax effects of income not taxable for tax purpose	**(11)**	(13)
Tax effects of expenses not deductible for tax purpose	**354**	127
Tax effects of tax losses not recognised	**45**	141
Utilisation of tax losses previously not recognised	**(19)**	(37)
Tax effects of deductible temporary differences not recognised	**17**	19
Tax concession and exemption granted to PRC subsidiaries	**(69)**	(25)
Effect of different tax rates of subsidiaries	**–**	(14)
Under provision in respect of prior years	**20**	13
Withholding tax on undistributed profit of PRC entities	**44**	39
Income tax charge for the year	**960**	859

13. Dividends

	2013 RMB million	2012 RMB million
Final dividend paid in respect of previous financial year	**362**	315

Notes:

a. 2012 final dividend of HK$42.20 cents (equivalent to approximately RMB34.22 cents) per share or approximately RMB362 million in aggregate was paid during the year ended 31 December 2013.

b. The proposed final dividend in respect of 2013 of HK$48.00 cents (equivalent to approximately RMB37.97 cents) per share on 1,082,859,397 shares has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. 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 RMB million	2012 RMB million
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,252**	1,482

	2013 Number of shares	2012 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,082,859,397**	1,067,694,000
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	**372,728**	6,746,139
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,083,232,125**	1,074,440,139

15. Property, Plant and Equipment

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
Balance at 1 January 2012	1,204	9,195	851	422	813	2,599	15,084
Acquisition of subsidiaries	–	–	–	1	–	2	3
Additions	92	244	129	72	24	2,317	2,878
Reclassification	454	1,465	297	–	54	(2,270)	–
Transfer to investment property	(2)	–	–	–	–	–	(2)
Disposal/derecognition of subsidiaries	(4)	(145)	(14)	(2)	(1)	(91)	(257)
Disposals	(11)	(28)	(11)	(15)	(21)	(2)	(88)
Balance at 31 December 2012	1,733	10,731	1,252	478	869	2,555	17,618
Acquisition of subsidiaries	12	69	9	1	1	26	118
Additions	92	257	162	55	73	2,395	3,034
Reclassification	440	1,612	80	–	33	(2,165)	–
Disposal of subsidiaries	(4)	–	(2)	–	(3)	–	(9)
Disposals	(19)	(59)	(22)	(39)	(9)	(1)	(149)
Balance at 31 December 2013	2,254	12,610	1,479	495	964	2,810	20,612
DEPRECIATION IMPAIRMENT							
Balance at 1 January 2012	157	1,162	207	221	258	6	2,011
Provided for the year	41	301	66	52	91	–	551
Transfer to investment property	(1)	–	–	–	–	–	(1)
Eliminated on disposal/derecognition of subsidiaries	–	(2)	–	(1)	–	–	(3)
Eliminated on disposals	(2)	(10)	(6)	(13)	(8)	–	(39)
Balance at 31 December 2012	195	1,451	267	259	341	6	2,519
Provided for the year	58	333	103	44	97	–	635
Eliminated on disposals	(6)	(16)	(13)	(31)	(7)	–	(73)
Balance at 31 December 2013	247	1,768	357	272	431	6	3,081
CARRYING VALUES							
Balance at 31 December 2013	2,007	10,842	1,122	223	533	2,804	17,531
Balance at 31 December 2012	1,538	9,280	985	219	528	2,549	15,099

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

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

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

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB43 million (2012: RMB45 million) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB292 million (2012: RMB242 million).

16. Prepaid Lease Payments

	2013 **RMB million**	2012 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**971**	790
Analysed for reporting purposes as:		
Current portion	**23**	20
Non-current portion	**948**	770
	971	790

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB75 million (2012: RMB74 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

17. Investment Properties

	RMB million
FAIR VALUE	
At 1 January 2012	57
Net increase in fair value recognised in profit or loss	11
Transfer from property, plant and equipment (Note 15)	1
At 31 December 2012	69
Net increase in fair value recognised in profit or loss	10
Disposal of investment properties	(3)
At 31 December 2013	76

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

The fair value of the Group's investment properties at 31 December 2012 and 2013 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers, on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

18. Goodwill

	2013 RMB million	2012 RMB million
COST		
At beginning of the year	**247**	247
Arising on:		
Acquisition of a business (Note 46)	**10**	–
At end of the year	**257**	247
IMPAIRMENT		
At beginning and end of the year	**(51)**	(51)
CARRYING AMOUNTS		
At end of the year	**206**	196

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

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

	2013 RMB million	2012 RMB million
Sale of piped gas business located in Lianyungang, the PRC	**18**	18
Sale of piped gas business located in Kaifeng, the PRC	**16**	16
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37**	37
Sale of piped gas business located in Guangdong, the PRC	**21**	21
Production and sale of liquefied natural gas ("LNG") (included under sales of other energy segment)	**15**	15
Other CGUs	**99**	89
	206	196

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined from value in use calculations.

The Group prepares cash flow projection covering a 10-year period (2012: 10-year period). The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flows beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates for each CGU ranging from 0.8% to 14.4% (2012: 1.5% to 12.2%) and assuming the gross profit margin will be at the same throughout the 10-year period. The growth rates are based on the management's estimation on the respective entity's projected market share and will not exceed the growth rate of natural gas consumption projected by the relevant government authorities.

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined to discount rate to be 10% (2012: 10%).

The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

19. Intangible Assets

	Rights of operation RMB million	**Customer base** RMB million	**Total** RMB million
COST			
At 1 January 2012	1,145	50	1,195
Arising on acquisition of subsidiaries (Note 47)	243	–	243
Addition	31	–	31
Disposal of subsidiaries	(20)	–	(20)
At 31 December 2012	1,399	50	1,449
Arising on acquisition of subsidiaries (Notes 46 & 47)	109	–	109
Addition	20	–	20
At 31 December 2013	1,528	50	1,578
AMORTISATION			
At 1 January 2012	135	9	144
Charge for the year	68	2	70
Eliminated on disposal of subsidiaries	(3)	–	(3)
At 31 December 2012	200	11	211
Charge for the year	71	2	73
At 31 December 2013	271	13	284
CARRYING VALUES			
At 31 December 2013	1,257	37	1,294
At 31 December 2012	1,199	39	1,238

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

20. Interests in Associates

	2013 **RMB million**	2012 RMB million
Cost of investment in associates		
Listed	**44**	44
Unlisted	**645**	698
Share of post-acquisition profits net of dividend received	**80**	15
	769	757
Deemed capital contribution		
Financial guarantee	**35**	35
Fair value adjustments on interest-free advances	**–**	6
	35	41
	804	798
Market value of the listed equity interests in an associate outside Hong Kong	**17**	12

20. Interests in Associates *(continued)*

Included in the interests in associates is goodwill of approximately RMB49 million (2012: RMB75 million) arising on acquisitions of associates.

	2013 RMB million	2012 RMB million
Opening balance	**75**	110
Eliminated on disposal of associates	**(26)**	(35)
Closing balance	**49**	75

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.15% (2012: 6.15%) per annum and average terms of 2 years.

Details of the Group's material associate as at 31 December 2012 and 2013 are as follows:

Name of company	Form of business structure	Place of establishment/operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			2013	2012	
新能能源有限公司 (Xinneng Energy Company Limited) ("Xinneng Energy")	Incorporated	The PRC	**15%**	15%	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant

Notes:

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

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

Summarised financial information of a material associate

Summarised financial information in respect of a Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Xinneng Energy

	2013 RMB million	2012 RMB million
Current assets	**886**	571
Non-current assets	**2,340**	2,448
Current liabilities	**1,080**	853
Non-current liabilities	**797**	1,144

20. Interests in Associates *(continued)*

Summarised financial information of a material associate *(continued)*

Xinneng Energy (continued)

	2013 RMB million	2012 RMB million
Revenue	**1,496**	1,394
Profit and total comprehensive income for the year	**327**	253

There is no dividend received from the Xinneng Energy in both years.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB million	2012 RMB million
Net assets of Xinneng Energy	**1,349**	1,022
Proportion of the Group's ownership interest in Xinneng Energy and carrying amount of the Group's interest in Xinneng Energy	**202**	153

Aggregate information of associates that are not individually material:

	2013 RMB million	2012 RMB million
Profit and other comprehensive income for the year	**125**	101
Group's share of profit and other comprehensive income from associates for the year	**35**	33
Aggregate carrying amount of the Group's interests in these associates	**602**	645

21. Interests in Joint Ventures

	2013 RMB million	2012 RMB million
Cost of unlisted investments	**1,822**	1,355
Shares of post-acquisition profits, net of dividends received	**1,117**	894
	2,939	2,249
Deemed capital contribution		
Financial guarantee	**53**	6
Fair value adjustments on interest-free advances	**6**	16
	59	22
	2,998	2,271

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2012: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.15% (2012: 6.15%) per annum and average terms of 2 years.

21. Interests in Joint Ventures *(continued)*

Details of the Group's principal joint ventures as at 31 December 2012 and 2013 are as follows:

Name of company	Form of business structure	Place of establishment/operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			2013	2012	
長沙新奧燃氣發展有限公司 ("Changsha Xinao") (note)	Incorporated	The PRC	**55%**	55%	Sales of piped gas
東莞新奧燃氣有限公司 ("Dongguan Xinao") (note)	Incorporated	The PRC	**55%**	55%	Investment in gas pipeline infrastructure and sales of piped gas and gas appliances
煙台新奧燃氣發展有限公司 ("Yantai Xinao")	Incorporated	The PRC	**50%**	50%	Investment in gas pipeline infrastructure and sales of piped gas

Note:

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

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

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Changsha Xinao

	2013 RMB million	2012 RMB million
Current assets	**891**	660
Non-current assets	**37**	44
Current liabilities	**556**	368
The above amounts of assets and liabilities include the following:		
	2013 RMB million	2012 RMB million
Cash and cash equivalents	**104**	99
Current financial liabilities (excluding trade and other payables and provisions)	**70**	100

21. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures *(continued)*

Changsha Xinao (continued)

	2013 RMB million	2012 RMB million
Revenue	1,629	1,410
Profit and other comprehensive income for the year	76	102
Dividends received from Changsha Xinao during the year	22	–

The above profit for the year include the following:

	2013 RMB million	2012 RMB million
Depreciation and amortisation	2	2
Interest income	1	1
Interest expense	5	9
Income tax expense	29	37

Reconciliation of the above summarised financial information to the carrying amount of the interest in from Changsha Xinao recognised in the consolidated financial statements:

	2013 RMB million	2012 RMB million
Net assets of Changsha Xinao	372	336
Proportion of the Group's ownership interest in Changsha Xinao	205	185
Capitalisation of financial guarantee	4	4
Carrying amount of the Group's interest in Changsha Xinao	209	189

Dongguan Xinao

	2013 RMB million	2012 RMB million
Current assets	854	863
Non-current assets	2,227	2,035
Current liabilities	1,285	1,291
Non-current liabilities	293	390
Non-controlling interests	117	102

The above amounts of assets and liabilities include the following:

	2013 RMB million	2012 RMB million
Cash and cash equivalents	305	325
Current financial liabilities (excluding trade and other payables and provisions)	404	226
Non-current financial liabilities (excluding trade and other payables and provisions)	289	386

21. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures *(continued)*

Dongguan Xinao (continued)

	2013 **RMB million**	2012 RMB million
Revenue	**2,626**	2,636
Profit and other comprehensive income for the year	**345**	301
Dividends received from Dongguan Xinao during the year	**41**	19

The above profit for the year include the following:

	2013 **RMB million**	2012 RMB million
Depreciation and amortisation	**61**	54
Interest income	**4**	3
Interest expense	**48**	49
Income tax expense	**147**	106

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongguan Xinao recognised in the consolidated financial statements:

	2013 **RMB million**	2012 RMB million
Net assets of Dongguan Xinao	**1,386**	1,115
Proportion of the Group's ownership interest in Dongguan Xinao	**762**	613
Goodwill	**31**	31
Carrying amount of the Group's interest in Dongguan Xinao	**793**	644

Yantai Xinao

	2013 **RMB million**	2012 RMB million
Current assets	**306**	171
Non-current assets	**576**	564
Current liabilities	**352**	288
Non-current liabilities	**2**	–

The above amounts of assets and liabilities include the following:

	2013 **RMB million**	2012 RMB million
Cash and cash equivalents	**207**	125
Current financial liabilities (excluding trade and other payables and provisions)	**10**	20
Non-current financial liabilities (excluding trade and other payables and provisions)	**1**	1

21. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures *(continued)*

Yantai Xinao (continued)

	2013 RMB million	2012 RMB million
Revenue	**848**	784
Profit and other comprehensive income for the year	**83**	96

There is no dividend received from Yantai Xinao in both years.

The above profit and other comprehensive income for the year include the following:

	2013 RMB million	2012 RMB million
Depreciation and amortisation	**28**	27
Interest income	**1**	1
Interest expense	**1**	5
Income tax expense	**28**	32

Reconciliation of the above summarised financial information to the carrying amount of the interest in Yantai Xinao recognised in the consolidated financial statements:

	2013 RMB million	2012 RMB million
Net assets of Yantai Xinao	**529**	447
Proportion of the Group's ownership interest in Yantai Xinao	**265**	224
Goodwill	**8**	8
Capitalisation of financial guarantee	**1**	1
Carrying amount of the Group's interest in Dongguan Xinao	**274**	233

Aggregate information of joint ventures that are not individually material:

	2013 RMB million	2012 RMB million
The Group's share of profit and total comprehensive income	**86**	75

22. Available-for-Sale Financial Assets

	2013 RMB million	2012 RMB million
Unlisted equity securities, at cost less impairment	**114**	14

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

23. Trade and Other Receivables

	2013 RMB million	2012 RMB million (Restated)
Trade receivables	**787**	599
Less: Impairment	**(52)**	(56)
	735	543
Other receivables		
Current (note a)	**536**	422
Non-current (note c)	**35**	42
	571	464
Less: Impairment	**(14)**	(15)
	557	449
Notes receivable (note b)	**428**	309
Advance to suppliers, deposits and prepayments	**1,144**	812
Total trade and other receivables	**2,864**	2,113

	2013 RMB million	2012 RMB million (Restated)
Analysed for reporting purpose as:		
Current portion	**2,829**	2,071
Non-current portion	**35**	42
	2,864	2,113

Notes:

a. Included in the balance as at 31 December 2012 is an amount of RMB10 million, relating to the Group granted a loan amounting to RMB15 million to an independent third party. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable on equal installment starting from 31 March 2009 and up to 31 March 2013.

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

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

23. Trade and Other Receivables *(continued)*

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

	2013 RMB million	2012 RMB million (Restated)
Within three months	**663**	465
4 to 6 months	**40**	39
7 to 9 months	**19**	26
10 to 12 months	**13**	6
More than one year	**–**	7
	735	543

The following is an aged analysis of notes receivable, presented based on the date of notes receivable received at the end of the reporting period:

	2013 RMB million	2012 RMB million
Within three months	**353**	136
4 to 6 months	**75**	173
	428	309

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

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately RMB682 million (2012: RMB481 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 67 days (2012: 64 days).

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

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

	2013 RMB million	2012 RMB million
Within one year	**682**	474
Over one year	**–**	7
Total	**682**	481

23. Trade and Other Receivables *(continued)*

Movements in the impairment on trade receivables

	2013 RMB million	2012 RMB million
Balance at beginning of the year	**56**	62
Impairment losses recognised on receivables	**18**	29
Amounts recovered during the year	**(22)**	(35)
Balance at end of the year	**52**	56

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

Movements in the impairment on other receivables

	2013 RMB million	2012 RMB million
Balance at beginning of the year	**15**	17
Amounts recovered during the year	**(1)**	(2)
Balance at end of the year	**14**	15

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either affiliates of non-controlling shareholders of subsidiaries or with satisfactory repayment history.

24. Transfer of Financial Assets

The following were the Group's financial assets as at 31 December 2013 that were transferred to banks or suppliers by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks RMB million	**Bills receivable endorsed to suppliers** RMB million	**Total** RMB million
Carrying amount of transferred assets	9	260	269
Carrying amount of associated liabilities	(9)	(260)	(269)
	–	–	–

25. Amounts Due from/to Associates

	2013 RMB million	2012 RMB million
Amounts due from associates:		
Current portion	87	83
Non-current portion	55	40
	142	123
Amounts due to associates	88	20

Included in the amount due from/to associates are trade receivables amounting to approximately RMB45 million (2012: RMB41 million) and trade payables amounting to approximately RMB13 million (2012: RMB13 million) and the aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2013 RMB million	2012 RMB million
Trade receivables due from associates		
Within three months	26	23
4 to 6 months	5	2
7 to 9 months	7	3
10 to 12 months	2	3
More than one year	5	10
	45	41

	2013 RMB million	2012 RMB million
Trade payables due to associates		
Within three months	12	13
over one year	1	–
	13	13

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

The amounts due from/to associates are unsecured, interest-free and repayable on demand. The interest-free amounts due from associates that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.15% (2012: 6.15%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

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

26. Amounts Due From/to Joint Ventures

	2013 RMB million	2012 RMB million
Amounts due from joint ventures:		
Current portion	**439**	528
Non-current portion	**183**	116
	622	644
Amounts due to joint ventures	**1,187**	896

Included in the amounts due from joint ventures was approximately RMB98 million (2012: RMB66 million) arising from the deposits placed for purchases of gas by the Group from the joint ventures which the Directors consider is not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB233 million (2012: RMB252 million) and trade payables amounting to approximately RMB70 million (2012: RMB180 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2013 RMB million	2012 RMB million
Trade receivables due from joint ventures		
Within three months	**155**	145
4 to 6 months	**60**	17
7 to 9 months	**6**	36
10 to 12 months	**2**	14
More than one year	**10**	40
	233	252
Trade payables due to joint ventures		
Within three months	**68**	106
4 to 6 months	**–**	21
7 to 9 months	**–**	26
More than one year	**2**	27
	70	180

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

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand.

The interest-free amounts due from joint ventures that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.15% (2012: 6.15%) per annum. For the remaining amounts due from joint ventures, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

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

27. Amounts Due from Related Companies

	2013 RMB million	2012 RMB million (Restated)
Amounts due from companies controlled by a shareholder and director	**25**	22

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a shareholder and director of the Company. The maximum amount outstanding during the year in respect of the amount due from companies controlled by Mr. Wang is RMB25 million (2012: RMB24 million).

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

Included in the amounts due from related companies are trade receivables amounting to RMB23 million (2012: RMB22 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2013 RMB million	2012 RMB million (Restated)
Within three months	**4**	5
4 to 6 months	**2**	1
7 to 9 months	**1**	3
10 to 12 months	**4**	4
More than one year	**12**	9
	23	22

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

For the amounts due from companies controlled by a shareholder and director of the Company, the counterparties are related companies that are financially sound. Therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

28. Deferred Taxation

	2013 RMB million	2012 RMB million
Deferred tax assets	**318**	222
Deferred tax liabilities	**(399)**	(346)
	(81)	(124)

28. Deferred Taxation *(continued)*

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

	Valuation of properties RMB million	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profit of PRC entities from 1 January 2008 RMB million (note)	Deferred income RMB million	Others RMB million	Total RMB million
At 1 January 2012	5	231	65	56	(196)	–	161
Disposal of subsidiaries (Note 48)	–	(4)	–	–	–	–	(4)
(Credit) charge to profit or loss	–	(17)	22	29	(45)	(22)	(33)
At 31 December 2012	5	210	87	85	(241)	(22)	124
Acquisition of a subsidiary (Note 46)	–	25	–	–	–	–	25
(Credit) charge to profit or loss	–	(7)	26	28	(86)	(29)	(68)
At 31 December 2013	5	228	113	113	(327)	(51)	81

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

Deferred taxation of approximately RMB555 million (2012: RMB405 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,494 million (2012: RMB1,626 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following year ending 31 December:

	2013 RMB million	2012 RMB million
2013	**–**	300
2014	**206**	205
2015	**278**	253
2016	**327**	302
2017	**501**	566
2018	**182**	–
	1,494	1,626

At the end of the reporting period, the Group has other deductible temporary differences of approximately RMB516 million (2012: RMB648 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

29. Deposits Paid for Investments

The balance as at 31 December 2013 of RMB106 million (2012: RMB117 million) represented the deposits paid for the investments in various piped gas and clean energy projects in the PRC which have not been completed at the end of the reporting period.

The balance as at 31 December 2012 also included a deposit of RMB100 million in respect of the Group's investment in a fund company which was established to engage in investment activities in 2013.

30. Restricted Bank Deposits

	2013 RMB million	2012 RMB million
Current portion	**260**	316
Non-current portion	**10**	17
	270	333
Bank deposits secured for:		
Bills facilities	**167**	253
Purchase contracts with suppliers	**–**	66
Rights of operations	**18**	14
Gas supplies	**85**	–
	270	333

As at 31 December 2013, the restricted bank deposits carry fixed interest rate range from 0.35% to 0.53% (2012: from 0.35% to 0.46%) per annum. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

31. Inventories

	2013 RMB million	2012 RMB million
Construction materials	**241**	164
Gas appliances	**52**	64
Natural gas	**110**	62
Liquefied petroleum gas ("LPG")	**5**	10
Spare parts and consumable	**11**	11
	419	311

The cost of inventories recognised as an expense during the year was approximately RMB14,345 million (2012: RMB11,593 million).

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

	2013 RMB million	2012 RMB million
Contract costs incurred plus recognised profits	**698**	1,012
Less: Progress billings	**(2,538)**	(2,283)
	(1,840)	(1,271)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**193**	180
Amounts due to customers for contract work	**(2,033)**	(1,451)
	(1,840)	(1,271)

33. Cash and Cash Equivalents

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.35%to 2.6% (2012: 0.35% to 2.6%) per annum as at 31 December 2013. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB402 million (2012: RMB1,273 million), of which approximately RMB376 million (2012: RMB1,179 million) and approximately RMB26 million (2012: RMB94 million) are denominated in USD and HKD respectively.

34. Trade and Other Payables

	2013 RMB million	2012 RMB million (Restated)
Trade payables	**1,973**	1,821
Advances received from customers	**3,337**	2,312
Accrued charges and other payables	**856**	765
	6,166	4,898

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

	2013 RMB million	2012 RMB million (Restated)
Trade payables aged:		
Within three months	**1,692**	1,557
4 to 6 months	**104**	77
7 to 9 months	**38**	53
10 to 12 months	**26**	15
More than one year	**113**	119
	1,973	1,821

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

35. Amounts Due to Related Companies

	2013 RMB million	2012 RMB million (Restated)
Amounts due to companies controlled by a shareholder and director	**18**	28

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

The amounts due to related companies of approximately RMB18 million (2012: RMB28 million) are unsecured, interest-free and repayable on demand.

Included in the amounts due to related companies are trade payables amounting to approximately RMB15 million (2012: RMB26 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2013 RMB million	2012 RMB million (Restated)
Within three months	**13**	24
4 to 6 months	**–**	1
More than one year	**2**	1
	15	26

36. Bank and Other Loans

	2013 RMB million	2012 RMB million
Bank loans		
Secured	**831**	1,285
Unsecured	**1,883**	2,805
	2,714	4,090
Other loans		
Secured	**13**	22
Unsecured	**96**	96
	109	118
	2,823	4,208
The bank and other loans are repayable:		
Within one year	**921**	2,737
More than one year, but not exceeding two years	**379**	185
More than two years, but not exceeding five years	**1,067**	675
More than five years	**456**	611
	2,823	4,208
Less: Amounts due within one year shown under current liabilities	**(921)**	(2,737)
Amounts due after one year	**1,902**	1,471

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB902 million (2012: RMB63 million) are denominated in USD and approximately RMB129 million are denominated in HKD in 2012.

The secured bank and other loans are secured by property, plant and equipment and rights to fee income of certain subsidiaries and joint ventures as set out in Note 51 and personal guarantee of Mr. Wang and his spouse as set out in Note 52.

36. Bank and Other Loans *(continued)*

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

At 31 December 2013

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loan	07/01/2014 – 17/06/2014	3.46% – 7.54%	586
Unsecured RMB other loans	17/06/2014	3.38% – 5%	96
Total fixed-rate borrowings			682
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	04/01/2014 – 06/2024	6.11%	395
Secured RMB bank loan at PBOC base rate	11/06/2014 – 20/12/2020	6.10%	831
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.75%	15/05/2015 – 15/05/2020	3.06%	452
Unsecured USD bank loan at LIBOR plus 2.5%	15/05/2015 – 15/05/2018	2.96%	450
Secured RMB other loan at PRC government bond rate	15/12/2014 – 12/06/2017	3.54%	13
Total floating-rate borrowings			2,141
Total borrowings			2,823

36. Bank and Other Loans *(continued)*

At 31 December 2012

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

37. Short-Term Debentures

Pursuant to the approval [2011] No. CP278 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 16 December 2011, NAFMII granted an approval to wholly-owned subsidiary of the Company, 新奥(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited) ("Xinao (China)") to issue short-term debentures with a maximum limit of RMB2,500 million up to 16 December 2013.

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

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

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

38. Financial Guarantee Liability

As at 31 December 2013, the Group had outstanding guarantees issued to banks to secure loan facilities granted to joint ventures and associates to the extent of approximately RMB466 million (2012: RMB476 million) for loans with maturity from four to seven years, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2013 is approximately RMB59 million (2012: RMB23 million).

39. Deferred Income

	Subsidies received from customers RMB million (note a)	Connection fee received from customers RMB million (note b)	Total RMB million
GROSS			
At 1 January 2012	36	811	847
Additions	–	303	303
At 31 December 2012	36	1,114	1,150
Additions	22	323	345
At 31 December 2013	58	1,437	1,495
RECOGNITION			
At 1 January 2012	10	61	71
Release to profit or loss	4	48	52
At 31 December 2012	14	109	123
Release to profit or loss	4	67	71
At 31 December 2013	18	176	194
CARRYING VALUES			
At 31 December 2013	40	1,261	1,301
At 31 December 2012	22	1,005	1,027

	2013 RMB million	2012 RMB million
Analysed for reporting purposes as:		
Current liabilities	**78**	61
Non-current liabilities	**1,223**	966
	1,301	1,027

Notes:

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

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

40. Share Capital

	2013 Number of shares	2012 Number of shares	**2013 HKD million**	2012 HKD million
Shares of HKD0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,082,859,397**	1,051,149,397	**108**	105
Issue of shares on exercise of share options	**–**	31,710,000	**–**	3
At end of the year	**1,082,859,397**	1,082,859,397	**108**	108

	2013 RMB million	2012 RMB million
Presented in consolidated financial statements as:		
At beginning of the year	**113**	110
Issue of shares on exercise of share options	**–**	3
At end of the year	**113**	113

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

41. Corporate Bond

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

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

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

	2013 RMB million	2012 RMB million
Principal amount	**500**	500
Issue costs	**(4)**	(4)
	496	496
Effective interest recognised	**1**	1
Carrying amount as at end of the year	**497**	497

42. Senior Notes

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

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

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 6.2756% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated as follows:

	2013 **RMB million**	2012 RMB million
Nominal value of 2021 Senior Notes	**4,863**	4,863
Issue costs	**(98)**	(98)
Fair value at date of issuance	**4,765**	4,765
Effective interest recognised	**764**	477
Interest paid/payable	**(746)**	(467)
Exchange gain	**(285)**	(146)
Carrying amount at 31 December	**4,498**	4,629
Fair values of the 2021 Senior Notes*	**4,932**	5,453

* The fair values of the 2021 Senior Notes are determined by references to the price quotations published by the SGX-ST on 20 December 2013 and 30 December 2012.

43. Medium-Term Notes

On 15 October 2012, Xinao (China) issued medium-term notes in the aggregate principal amount of RMB700 million which are unsecured. The medium-term notes carry a fixed interest rate of 5.55% per annum and are repayable on 17 October 2017. The interest is payable to the holders of the notes on yearly basis.

44. Convertible Bonds at Fair Value Through Profit and Loss

On 26 February 2013, the Company issued zero coupon United States dollar ("US dollar") denominated convertible bonds with the aggregate principal amount of US$500 million (approximately RMB3,141 million) (the "Bonds"). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. Conversion may occur at any time on or after 8 April 2013 up to 16 February 2018. If the Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount. On 26 February 2016 (the "Put Option Date"), the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at 101.51 per cent of their principal amount.

In accordance with the terms and conditions of the Bonds, the Company: (i) may at any time after 26 February 2016 and prior to the maturity date redeem in whole, but not in part, the Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into US dollar at the prevailing rate defined in the terms and conditions of the Bonds) for each of any 20 trading days within a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published was at least 130 per cent of the early redemption amount divided by the then prevailing conversion ratio (as defined in the terms and conditions of the Bonds agreement) and (b) the applicable redemption date does not fall within a closed period; or (ii) may at any time prior to the maturity date of the Bonds redeem in whole, but not in part, the Bonds for the time being outstanding at the early redemption amount provided that prior to the date of such notice at least 90 per cent in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Bonds, are traded on SGX-ST, were designated as financial instrument at fair value through profit and loss and the over-the-counter market price represents the fair value of the Bonds.

As at 31 December, the over-the-counter market price of the Bonds was US$644 million (approximately RMB3,925 million). There was fair value loss of approximately RMB784 million. The transaction costs incurred for issue of the Bonds approximately RMB64 million was recognised as part of finance costs during the current year.

45. Share Options

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

The purpose of the share option scheme is to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option scheme, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

On 14 June 2010, the Company granted share options to directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

45. Share Options *(continued)*

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe 18,680,000 shares in the Company.

As at the end of the reporting period, the number of share options granted to the Directors and certain employees of the Group that are outstanding are 600,000 (2012: 600,000) and nil (2012: 180,000) share options, respectively. There are 180,000 share options lapsed during the year.

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the share option scheme during the year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options ('000) Outstanding at 1.1.2013	Granted during the year	Exercised/ lapsed during the year	Outstanding at 31.12.2013
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	–	–	–	–
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	**780**	–	**(180)**	**600**
					780	–	**(180)**	**600**
Exercisable at the end of the year								**600**
Weighted average exercise price					**HK$16.26**	–	**HK$16.26**	**HK$16.26**

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the share option scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options ('000) Outstanding at 1.1.2012	Granted during the year	Exercised/ lapsed during the year	Outstanding at 31.12.2012
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	15,745	–	(15,745)	–
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	16,745	–	(15,965)	780
					32,490	–	(31,710)	780
Exercisable at the end of the year								780
Weighted average exercise price					HK$16.26	–	HK$16.26	HK$16.26

The closing price of the Group's shares immediately before 14 June 2010, the date of grant, was HK$16.22 per share.

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

There are no share-based expenses recognised by the Group and no share options exercised during the year. In 2012, the Group recognised RMB21 million share-based expenses and 31,710,000 share options were exercised at the weighted average price of HK$16.26. The total fair value of the options calculated by using the binomial model was HK$193 million.

45. Share Options *(continued)*

The following assumptions were used to calculate the fair value of share options:

Spot price	HK$16.26
Exercise price	HK$16.26
Risk free rate	2.421%
Expected volatility	49.23%
Expected dividend yield	1.37%
Early exercise behaviour	150% of the Exercise Price

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

46. Acquisition of Businesses During the Year Ended 31 December 2013

On 23 May 2013, the Group acquired 100% of the registered capital of LNG Europe B.V. ("LNG Europe") at a cash consideration of EUR1.2 million (approximately RMB10 million). LNG Europe is engaged in wholesales of liquid and gaseous fuels and liquefied natural gas in Netherlands.

On 27 June 2013, the Group acquired further 51.13% of the registered capital of Heyuan Piped Gas at a cash consideration of RMB84 million which became a wholly owned subsidiary of the Group. Heyuan Piped Gas is the holding company of a group of companies engaging in the sales of piped gas in Guangdong province, the PRC.

Heyuan Piped Gas and LNG Europe were acquired with the objective of significantly improving market coverage in Guangdong province, the PRC and as a touchstone to expand business to European Zone.

In accordance with the sale and purchase agreement of the shares in LNG Europe (the "Sale and Purchase Agreement"), the vendors of LNG Europe agreed that the purchase price should be adjusted by: (1) the difference between the final net asset value and the provisional value disclosed below; (2) the difference between the final value of property, plant and equipment and the provisional value disclosed below; and (3) an additional payment between EUR360,000 to EUR840,000 depending on LNG Europe's actual performance comparing to the target sales volume of LNG to its carrier businesses customers and the target consolidated earnings before interest, taxes, depreciation and amortisation as set out in the Sale and Purchase Agreement for the next five years after the date of acquisition.

Consideration

	Heyuan Piped Gas RMB million	**LNG Europe** RMB million
Cash	84	5
Fair value of adjusted purchase price (provisional value)	–	5
	84	10

Acquisition-related costs have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of profit or loss and other comprehensive income in current year.

46. Acquisition of Businesses During the Year Ended 31 December 2013 *(continued)*

Consideration *(continued)*

The provisional values of the assets and liabilities of Heyuan Piped Gas and LNG Europe at the date of acquisition are as follows:

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Non-current assets		
Property, plant and equipment	112	3
Intangible assets – rights of operation	100	–
Prepaid lease payments	11	–
Current assets		
Inventories	3	–
Trade and other receivables	15	1
Cash and cash equivalents	21	1
Non-current liabilities		
Deferred tax liabilities	(25)	–
Current liabilities		
Trade and other payables	(73)	(5)
Net assets acquired	164	–

In accordance with the best estimation at acquisition date, the fair values of the receivables acquired in these transactions are the same as the gross contractual amounts.

Goodwill arising on acquisition (determined on a provisional basis)

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Consideration	84	10
Plus: Fair value of previously held interest (provisional value)	80	–
Less: Fair value of identified net assets acquired	(164)	–
Goodwill arising on acquisition	–	10

Goodwill arose on the acquisition of LNG Europe is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

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

Net cash outflow arising on acquisition

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Consideration paid in cash	(34)	(5)
Less: Cash and cash equivalent balances acquired	21	1
	(13)	(4)

46. Acquisition of Businesses During the Year Ended 31 December 2013 *(continued)*

Impact of acquisition on the results of the Group

Had the acquisition of LNG Europe and Heyuan Piped Gas been effected at 1 January 2013, the revenue of the Group for the year ended 31 December 2013 would have been approximately RMB23,000 million, and the profit for the current year would have been approximately RMB1,804 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2013, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had LNG Europe and Heyuan Piped Gas been acquired on 1 January 2013, the Directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payment and intangible asset acquired on the basis of the provisional fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

47. Acquisition of Assets Through Acquisitions of Subsidiaries

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2013

On 6 May 2013, the Group acquired 70% of the registered capital of 睢寧萬豐天然氣有限公司 ("Suining Piped Gas") at a cash consideration of RMB19 million. Suining Piped Gas is engaged in sales of piped gas. Suining Piped Gas has not yet commenced operation as at the date of acquisition.

On 18 November 2013, the Group acquired 100% of the registered capital of 聊城眾和能源開發有限公司 ("Liaocheng") at a consideration of RMB25 million. Liaocheng is the investment holding company of a joint venture entity engaging in the sales of piped gas in Shandong province, the PRC. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

	Suining Piped Gas RMB million	**Liaocheng** RMB million
Non-current assets		
Interest in a joint venture	–	25
Property, plant and equipment	3	–
Intangible assets – rights of operation	9	–
Current assets		
Cash and cash equivalent	15	–
Trade and other receivables	–	1
Current liabilities		
Trade and other payables	–	(1)
Net assets	27	25
Less: Non-controlling interests	(8)	–
Net assets acquired	19	25
Total consideration	19	25
Satisfied by:		
Cash	19	25
Net cash outflow arising on acquisition:		
Cash consideration paid	(19)	(25)
Less: cash and cash equivalents acquired	15	–
	(4)	(25)

47. Acquisition of Assets Through Acquistions of Subsidiaries *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2012

To facilitate with the Group's overall business strategy, the Group will from time to time liaise with the local PRC government and potential vendor to acquire the existing gas connection and related assets. During the year ended 31 December 2012, the Group has acquired assets through the acquisitions of the following subsidiaries.

On 24 February 2012, the Group acquired 70% of the registered capital of 龍岩民生燃氣發展有限公司 ("Longyan") at a cash consideration of RMB34 million. Longyan is engaged in sales of piped gas. Longyan had not yet commenced operation as at acquisition date.

On 22 March 2012, the Group acquired 100% of the registered capital of 聚源通投資有限公司 ("Juyuantong") at a cash consideration of approximately RMB173 million. At the time of the acquisition, Juyuantong and its subsidiary had not yet commenced operations other than securing gas supply contracts for the sales of piped gas in Henan province.

On 16 August 2012, the Group acquired 51% of the registered capital of 界首市新奥阜康天然氣利用有限公司 ("Jieshou") at a cash consideration of approximately RMB23 million. At the time of acquisition, Jieshou had not yet commenced operations.

These transactions were accounted for acquisition of assets through acquisition of subsidiaries and the fair value of the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	3
Intangible assets – rights of operation	243
Prepaid lease payments	2
Current assets	
Trade and other receivables	3
Cash and cash equivalents	20
Current liabilities	
Trade and other payables	(4)
Total net assets	267
Less: Non-controlling interests	(37)
Net assets acquired	230
Total consideration	230
Satisfied by:	
Cash	196
Consideration payables (included in other payables)	34
Total consideration	230
Net cash outflow arising on acquisition:	
Cash consideration paid	196
Less: cash and cash equivalents acquired	(20)
	176

48. Derecognition/Deregistration/Disposal of Subsidiaries

a. Disposal of a subsidiary during the year ended 31 December 2013

On 29 August 2013, the Group disposed 24% equity interest in 湖南三湘新奥清潔能源有限公司("Hunan Sanxiang") at a cash consideration of RMB7 million. Upon completion of the disposal of the equity interest, the Group's equity interest in Hunan Sanxiang diluted to 51%. Pursuant to the revised articles of association of Hunan Sanxiang, the Group is unable to control Hunan Sanxiang because a resolution for the financial and operating activities of Hunan Sanxiang can only be passed with a two-third majority.

The net assets of Hunan Sanxiang derecognised at the date of disposal were as follows:

	RMB million
Current assets	
Trade and other receivables	3
Cash and cash equivalents	19
Non-current assets	
Fixed assets	9
Interest in a jointly venture	3
Current liabilities	
Trade and other payables	(6)
Total net assets	28
Less: Non-controlling interests	(7)
Net amount derecognised attributable to the equity owners of the Group	21

The gain recognised in profit or loss on loss of control of Hunan Sanxiang was calculated as follows:

	RMB million
Fair value of the residual interests in Hunan Sanxiang recognised	15
Consideration receivable	7
Net assets derecognised attributable to the equity owners of the Group	(21)
Gain on derecognition of a subsidiary on loss of control to joint venture	1

	RMB million
Net cash outflow arising from disposal of subsidiary	
Consideration receivable	7
Cash and cash equivalents disposal of	(19)
	(12)

b. Derecognition of a subsidiary during the year ended 31 December 2012

In 2011, a 72.8% owned subsidiary, 江蘇大通管輸天然氣有限公司 ("Jiangsu Datong"), increased its registered capital of approximately RMB30 million by introducing of 大豊市大豊港開發建設有限公司 ("Dafeng") and 鹽城市城市建設投資集團有限公司 ("Yancheng") as its equity holders. Dafeng and Yancheng together contributed RMB30 million as additional registered capital of Jiangsu Datong.

On 1 January 2012, upon completion of the contribution from Dafeng and Yancheng, the Group's equity interest in Jiangsu Datong diluted to 51%. Pursuant to the revised articles of association of Jiangsu Datong, the Group was unable to control Jiangsu Datong because a resolution for the financial and operating activities of Jiangsu Datong can only be passed with a two-third majority.

48. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

b. Derecognition of a subsidiary during the year ended 31 December 2012 *(continued)*

The net assets of Jiangsu Datong derecognised at the date the Group lost control over Jiangsu Datong were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	218
Prepaid lease payment	4
Current assets	
Inventories	1
Other receivables	41
Cash and cash equivalents	15
Current liabilities	
Trade and other payables	(86)
Taxation payable	(1)
Non-current liabilities	
Bank loans	(120)
Total net assets	72
Less: Non-controlling interests	(16)
Net amount derecognised attributable to the equity owners of the Group before capital injection	56
Capital injection by Dafeng and Yancheng	30
Net amount derecognised including capital injection by Dafeng and Yancheng	86

The loss recognised in profit or loss on loss of control of Jiangsu Datong was calculated as follows:

	RMB million
Fair value of the residual interests in Jiangsu Datong recognised as investment cost of an associate	51
Capital injection by Dafeng and Yancheng	30
	81
Less: Net assets derecognised	(86)
Loss on derecognition of a subsidiary on loss of control to associate	(5)
Net cash outflow arising on derecognition of a subsidiary	
Cash outflow arising on derecognition	
Cash and cash equivalent disposed of	(15)

c. Disposal of subsidiaries during the year ended 31 December 2012

The Group completed the disposal of 95% of equity interest in Beijing Xinao and 80% of equity interest in Beijing Jingchang on 22 May 2012 and 1 July 2012 respectively.

On 12 December 2012, the Group completed the disposal of 90% of equity interest in 廣州富城管道燃氣有限公司 ("Guangzhou Fucheng") to an independent third party for a cash consideration of RMB19.5 million.

48. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

c. Disposal of subsidiaries during the year ended 31 December 2012 *(continued)*

The aggregate net assets of Beijing Xinao, Beijing Jingchang and Guangzhou Fucheng derecognised at the date of disposal were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	91
Prepaid lease payment	8
Intangible assets	17
Current assets	
Inventories	6
Trade and other receivables	17
Cash and cash equivalents	9
Current liabilities	
Trade and other payables	(114)
Non-current liabilities	
Deferred tax liabilities	(4)
Net assets disposed of	30

Gain on disposal of subsidiaries

	RMB million
Consideration receivable (out of which RMB4 million is not yet received and included as other receivable at 31 December 2012)	72
Net asset disposed of	(30)
Non-controlling interest	3
Gain on disposal of subsidiaries	45

	RMB million
Net cash inflow arising on disposal of subsidiaries	
Consideration received	68
Cash and cash equivalent disposed of	(9)
	59

49. Commitments

a. Capital commitments

	2013 RMB million	2012 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	55	110
Capital commitment in respect of		
– investments in joint ventures	118	287
– investments in associates	–	40

b. Other commitments

As at 31 December 2013, the Group has commitment amounting to approximately RMB46 million (2012: RMB30 million) in respect of acquisition of land use rights in the PRC.

50. Lease Commitments

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2013 RMB million	2012 RMB million
Premises	60	59
Other assets	4	3
	64	62

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

	2013 RMB million	2012 RMB million
Within one year	32	35
In the second to fifth year inclusive	72	75
Over five years	109	83
	213	193

Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 4.02% (2012: 4.45%) on an ongoing basis. All of the properties held have committed tenants for terms ranging from one to twenty two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013 RMB million	2012 RMB million
Within one year	6	5
In the second to fifth year inclusive	7	9
Over five years	4	5
	17	19

51. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

	2013 **RMB million**	2012 RMB million
Carrying amount of:		
Property, plant and equipment	**40**	81
Restricted bank deposits	**270**	333

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries and joint ventures in favour of banks to secure banking facilities amounting to RMB1,290 million (2012: RMB1,590 million) granted to the Group and RMB820 million (2012: RMB1,226 million) of which is utilised up to 31 December 2013.

52. Related Party Transactions

Apart from the related party balances as stated in Notes 25, 26, 27 and 35, the Group had the following transactions with certain related parties:

	2013 **RMB million**	2012 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**70**	28
– Sales of materials to	**31**	21
– Sales of assets to	**–**	16
– Purchase of gas from	**192**	61
– Purchase of materials from	**–**	2
– Loan interest received from	**3**	1
– Provision of gas transportation services to	**10**	2
Joint ventures:		
– Sales of gas to	**408**	307
– Sales of materials to	**67**	91
– Purchase of gas from	**1,235**	528
– Provision of gas transportation services to	**329**	378
– Loan interest received from	**12**	5
– Loan interest paid to	**6**	–
– Provision of gas connection services to	**36**	42
– Provision of supporting services by	**24**	19
– Lease of equipment from	**1**	1
– Lease of property from	**1**	1
– Disposal of controlling interest in associates	**42**	–

52. Related Party Transactions *(continued)*

	2013 **RMB million**	2012 RMB million
Nature of transaction		
Companies controlled by Mr. Wang:		
– Provision of gas supporting services by	**25**	35
– Sales of gas to	**7**	7
– Purchase of property from	**–**	8
– Purchase of materials from	**–**	2
– Provision of gas connection service to	**4**	3
– Provision of construction service by	**10**	8
– Provision of property management services by	**12**	10
– Lease of premises to	**1**	1
– Lease of premises from	**3**	3
– Provision of supporting services by	**39**	37
– Provision of maritime transportation services by	**11**	15
– Provision of electronic business services by	**3**	–
– Provision of service card technology services by	**9**	–
– Purchase of land from	**30**	–

In 2012, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB2,370 million. No personal guarantee has been provided by Mr. Wang and Ms. Zhao Baoju in 2013.

A joint venture has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounting to RMB461 million (2012: RMB561 million) granted to the Group and RMB375 million (2012: RMB497 million) of which is utilised up to 31 December 2013.

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the year was disclosed in Note 11.

53. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection, sales of piped gas, vehicle refuelling stations, wholesale of gas, sales of other energy, sales of gas appliances and sales of material. Segment profit reviewed by CEO represents the gross profit earned by each segment. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

During the reporting period, the segment information presented to CEO was re-grouped. The distribution of bottled LPG and steam previously included in segment "distribution of bottled LPG" and production and sales of LNG previously included in segment "sales of piped gas" and now included in a new segment named "sales of other energy". Accordingly, the Group restated the corresponding segment information in 2012.

Segment profit or loss represents the profit earned by/loss from each segment without allocation of central administration costs, distribution and selling expenses, share of profit of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to CEO for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

53. Segment Information *(continued)*

The following is an analysis of the Group's revenue and results by reportable segment which is also the operating segments for the periods under review:

2013

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	4,569	18,644	3,098	3,873	306	372	1,198	32,060
Inter segment sales	(726)	(4,542)	(13)	(2,322)	(245)	(264)	(982)	(9,094)
Revenue from external customers	3,843	14,102	3,085	1,551	61	108	216	22,966
Segment profit before depreciation and amortisation	2,508	2,819	545	67	30	38	33	6,040
Depreciation and amortisation	(131)	(363)	(45)	(4)	(31)	(2)	–	(576)
Segment profit (loss)	2,377	2,456	500	63	(1)	36	33	5,464

2012 (Restated)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	4,302	13,146	2,309	2,987	309	324	1,267	24,644
Inter segment sales	(669)	(2,630)	(2)	(1,956)	(182)	(221)	(957)	(6,617)
Revenue from external customers	3,633	10,516	2,307	1,031	127	103	310	18,027
Segment profit before depreciation and amortisation	2,401	2,287	522	61	24	21	23	5,339
Depreciation and amortisation	(133)	(297)	(36)	(6)	(21)	(2)	–	(495)
Segment profit	2,268	1,990	486	55	3	19	23	4,844

53. Segment Information *(continued)*

An analysis of the Group's total assets and liabilities by segment is as follows:

2013

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	**3,319**	**14,161**	**1,218**	**391**	**579**	**189**	**112**	**19,969**
Interests in associates								**804**
Interests in joint ventures								**2,998**
Unallocated corporate assets								**12,134**
Consolidated total assets								**35,905**
Liabilities:								
Segment liabilities	**5,996**	**2,693**	**281**	**73**	**56**	**95**	**150**	**9,344**
Bank and other loans								**2,823**
Corporate bond								**497**
Senior notes								**4,498**
Medium-term notes								**700**
Convertible bonds at fair value through profit and loss								**3,925**
Unallocated corporate liabilities								**2,226**
Consolidated total liabilities								**24,013**

2012 (Restated)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	2,923	11,632	857	295	584	191	109	16,591
Interests in associates								798
Interests in joint ventures								2,271
Unallocated corporate assets								11,233
Consolidated total assets								30,893
Liabilities:								
Segment liabilities	4,366	1,980	174	56	49	83	144	6,852
Bank and other loans								4,208
Short-term debentures								1,208
Corporate bond								497
Senior notes								4,629
Medium-term notes								700
Unallocated corporate liabilities								2,129
Consolidated total liabilities								20,223

53. Segment Information *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly include unallocated property, plant and equipment, prepaid lease payments, investment properties, other receivable, interests in associates, interests in joint ventures, deferred tax assets and available-for-sale financial assets; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxation payable, bank and other loans, short-term debentures, corporate bond, senior notes, medium-term notes, financial guarantee liability and deferred tax liabilities.

For the purposes of presenting segment revenue, results, assets and liabilities, the Group allocates certain property, plant and equipment and prepaid lease payments to certain segments without allocating the related depreciation and release of prepaid lease payments to those segments.

Other segment information

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Amounts included in the measure of segment profit or loss or segment assets:								
2013								
Additions to non-current assets (note b)	**658**	**1,921**	**277**	**59**	**42**	**–**	**–**	**2,957**
Depreciation and amortisation	**131**	**363**	**45**	**4**	**31**	**2**	**–**	**576**
2012 (Restated)								
Additions to non-current assets (note b)	547	2,024	188	98	194	–	1	3,052
Depreciation and amortisation	133	297	36	6	21	2	–	495

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2013 RMB million	2012 RMB million	**2013 RMB million**	2012 RMB million
Segment total	**2,957**	3,052	**576**	495
Adjustments (note a)	**368**	234	**132**	126
Total	**3,325**	3,286	**708**	621

Notes:

a. Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

b. Non-current assets include property, plant and equipment, prepaid lease payments, goodwill and intangible assets.

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

There is no single customer contribute more than 10% of the total revenue of the Group.

54. Retirement Benefits Scheme

	2013 RMB million	2012 RMB million
Retirement benefit contribution made during the year	**129**	106

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. A subsidiary of the Group is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes.

55. Comparative Figures

Non-controlling shareholders of the subsidiaries are regarded as related parties in previous year. However, as these non-controlling shareholders of the subsidiaries do not have significant influence to the Group. The amounts due from/to non-controlling shareholders of subsidiaries amounting to RMB51 million and RMB4 million were included in trade and other receivables and trade and other payables respectively for presentation purpose and the prior period figures were reclassified accordingly.

56. Statement of Financial Position of the Company

	2013 RMB million	2012 RMB million
Non-current Assets		
Investment in subsidiaries	**2,901**	2,901
Investment in an associate	**44**	44
Amounts due from a subsidiary	**1,734**	1,552
	4,679	4,497
Current Assets		
Amounts due from subsidiaries	**5,471**	1,095
Cash and cash equivalents	**69**	79
	5,540	1,174
Current Liabilities		
Other payables and accrued expenses	**40**	39
Amounts due to subsidiaries	**224**	160
Bank loans – due within one year	**–**	185
	264	384
Net Current Assets	**5,276**	790
Total Assets less Current Liabilities	**9,955**	5,287
Capital and Reserves		
Share capital	**113**	113
Reserves	**517**	545
Total Equity	**630**	658
Non-current Liabilities		
Bank loans – due after one year	**902**	–
Senior notes	**4,498**	4,629
Convertible bonds at fair value through profit and loss	**3,925**	–
	9,325	4,629
Total Equity and Non-current Liabilities	**9,955**	5,287

56. Statement of Financial Position of the Company *(continued)*

The statement of changes in equity as follow:

	Share capital RMB million	Share premium RMB million	Share option reserve RMB million	Accumulated profit and loss RMB million	Total RMB million
Balance at 1 January 2012	110	2,202	142	(1,706)	748
Profit and total comprehensive income for the year	–	–	–	(215)	(215)
Exercise of share options during the year	3	576	(160)	–	419
Recognition of equity settled share-based payment	–	–	21	–	21
Dividend appropriation	–	–	–	(315)	(315)
Reclassification (Note)	–	(922)	–	922	–
Balance at 31 December 2012	**113**	**1,541**	**3**	**(999)**	**658**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**334**	**334**
Lapse of share options (Note 45)	**–**	**–**	**(1)**	**1**	**–**
Dividend appropriation	**–**	**(362)**	**–**	**(362)**	**(362)**
Balance at 31 December 2013	**113**	**1,179**	**2**	**(664)**	**630**

Note: The amount represented the aggregate dividends paid by the Company since 2005 and debited to accumulated losses of the Company and was adjusted in 2012 for presentation purpose.

57. Particular of Principal Subsidiaries

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2013	2012	Principal activities
ENN Gas Investment Group Limited ("ENN Gas")	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited*	PRC	RMB9,900,000	**90.00%**	90.00%	Sales of piped gas
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* ("Changsha Xinao")	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure

57. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2013	2012	Principal activities
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	US$7,100,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited#	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliances
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Sales of natural gas, LPG and coal gas
青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited*	PRC	RMB50,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	US$1,610,000	**90.00%**	90.00%	Sales of piped gas
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 Xinao Finance Company Limited	PRC	RMB1,000,000,000	**89.50%**	97.00%	Provision of financial services
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas

57. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company		Principal activities
			2013	2012	
新奥燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奥(中國)燃氣投資有限公司 Xinao (China)#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
湘潭新奥燃氣發展有限公司 Xiangtan Xinao Gas Development Company Limited*	PRC	RMB30,000,000	**85.00%**	85.00%	Sales of piped gas and gas appliances
湛江新奥燃氣有限公司 Zhanjiang Xinao Gas Company Limited*	PRC	RMB85,000,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure and sales of piped gas

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN Gas, whose place of operation is the PRC. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities as at 31 December 2013 or at any time during the year except for Xinao (China) which has issued the following debt securities in which the Group has no interest.

	2013 RMB million	2012 RMB million
Short-term debentures	**–**	1,208
Corporate bond	**497**	497
Medium-term notes	**700**	700
	1,197	2,405

* Sino-foreign equity joint venture

Wholly foreign owned enterprise

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

Name of subsidiary	Incorporation/ establishment/ registration and operation	Proportion ownership interest held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2013 %	2012 %	**2013 RMB million**	2012 RMB million	**2013 RMB million**	2012 RMB million
Quanzhou City Gas	PRC	**40**	40	**70**	34	**226**	220
Changsha Xinao	PRC	**45**	45	**72**	67	**252**	180
Changzhou Xinao	PRC	**30**	30	**93**	84	**114**	108

57. Particular of Principal Subsidiaries *(continued)*

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.

Quanzhou City Gas	2013 RMB million	2012 RMB million
Current assets	**573**	595
Non-current assets	**839**	711
Current liabilities	**848**	665
Non-current liabilities	**–**	92
Revenue	**2,976**	1,686
Profit and other comprehensive income for the year	**175**	85
Dividends paid to non-controlling interests	**68**	21
Net cash inflow from (outflow) operating activities	**295**	(126)
Net cash outflow from investing activities	**(3)**	(58)
Net cash (outflow) inflow from financing activities	**(306)**	150
Net cash outflow	**(14)**	(34)

Changsha Xinao	2013 RMB million	2012 RMB million
Current assets	**116**	153
Non-current assets	**1,810**	1,643
Current liabilities	**890**	949
Non-current liabilities	**476**	447
Revenue	**532**	564
Profit and other comprehensive income for the year	**160**	148
Dividends paid to non-controlling interests	**87**	–
Net cash inflow from operating activities	**244**	403
Net cash outflow from investing activities	**(213)**	(230)
Net cash outflow from financing activities	**(84)**	(124)
Net cash (outflow) inflow	**(52)**	49

57. Particular of Principal Subsidiaries *(continued)*

Changzhou Xinao	**2013 RMB million**	2012 RMB million
Current assets	**172**	198
Non-current assets	**582**	474
Current liabilities	**469**	401
Revenue	**367**	347
Profit and other comprehensive income for the year	**232**	210
Dividends paid to non-controlling interests	**87**	81
Net cash inflow from operating activities	**323**	324
Net cash outflow from investing activities	**(125)**	(54)
Net cash outflow from financing activities	**(218)**	(204)
Net cash (outflow) inflow	**(20)**	66

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ENN 新奥

Rooms 3101-04, 31/F., Tower 1, Lippo Centre,
No.89 Queensway, Hong Kong
Tel (852) 2528 5666
Fax (852) 2865 7204
Website www.ennenergy.com
E-mail enn@ennenergy.com

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