



**港華燃氣有限公司**  
**Towngas China Company Limited**

(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1083)

Annual Report **2013**

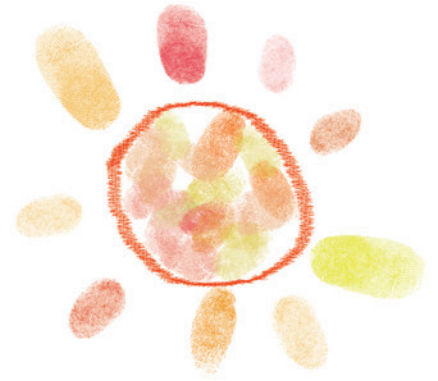


*Expanding New Horizons*



# Mission

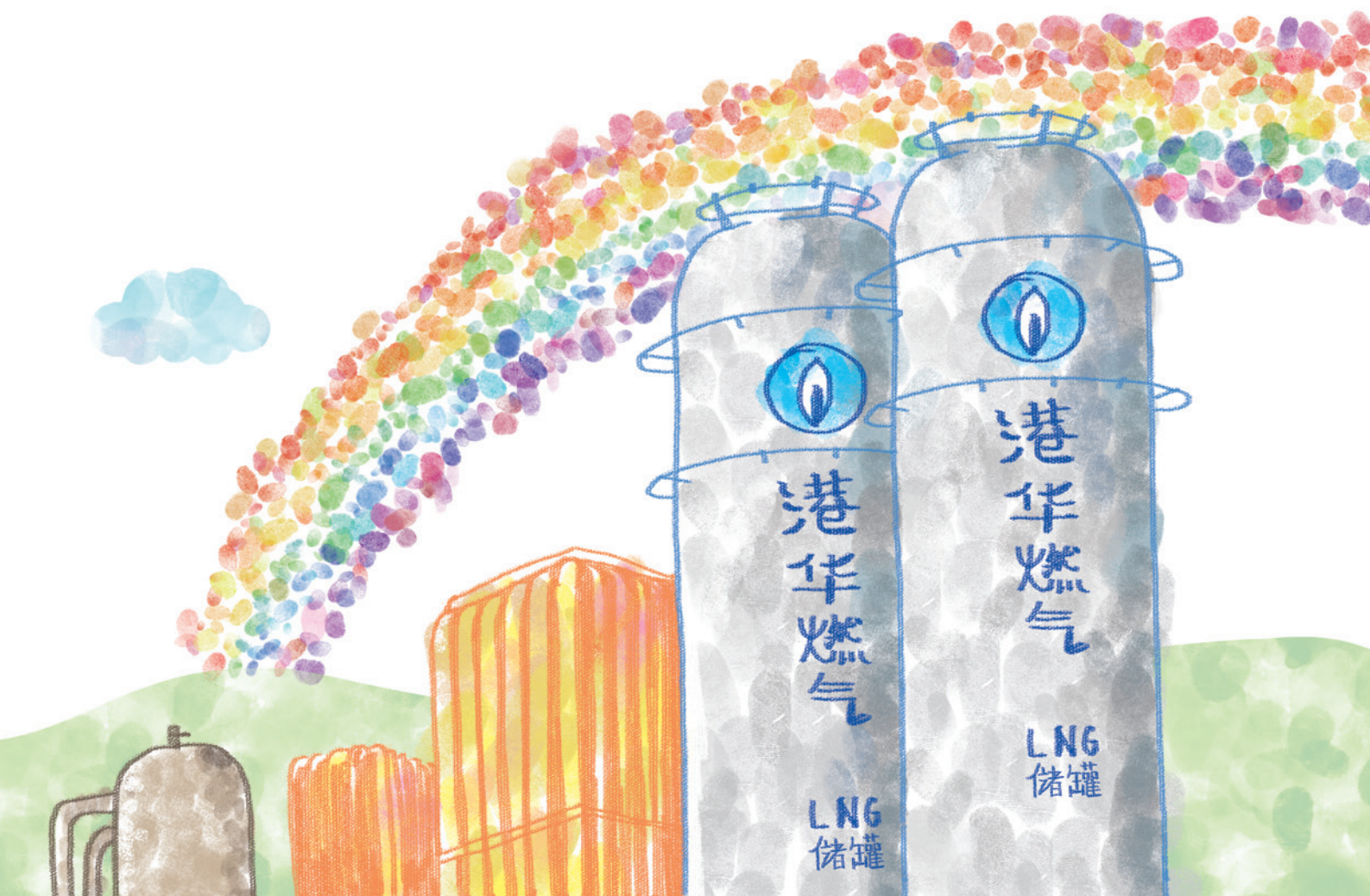
To provide our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.





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# Corporate Information

## Board of Directors

### Executive Directors

Chan Wing Kin, Alfred (*Chairman*)  
Wong Wai Yee, Peter (*Chief Executive Officer*)  
Ho Hon Ming, John (*Company Secretary*)

### Non-Executive Director

Kwan Yuk Choi, James

### Independent Non-Executive Directors

Cheng Mo Chi, Moses  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar

## Authorised Representatives

Chan Wing Kin, Alfred  
Ho Hon Ming, John

## Company Secretary

Ho Hon Ming, John

## Audit Committee

Li Man Bun, Brian David (*Chairman*)  
Cheng Mo Chi, Moses  
Chow Vee Tsung, Oscar

## Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar  
Chan Wing Kin, Alfred

## Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)  
Cheng Mo Chi, Moses  
Li Man Bun, Brian David  
Chow Vee Tsung, Oscar

## Auditor

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

## Registered Office

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

## Head Office and Principal Place of Business

23rd Floor, 363 Java Road  
North Point, Hong Kong  
Telephone : (852) 2963 3298  
Facsimile : (852) 2561 6618  
Stock Code : 1083  
Website : [www.towngaschina.com](http://www.towngaschina.com)

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited  
17M Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Hong Kong Branch Share Transfer Office

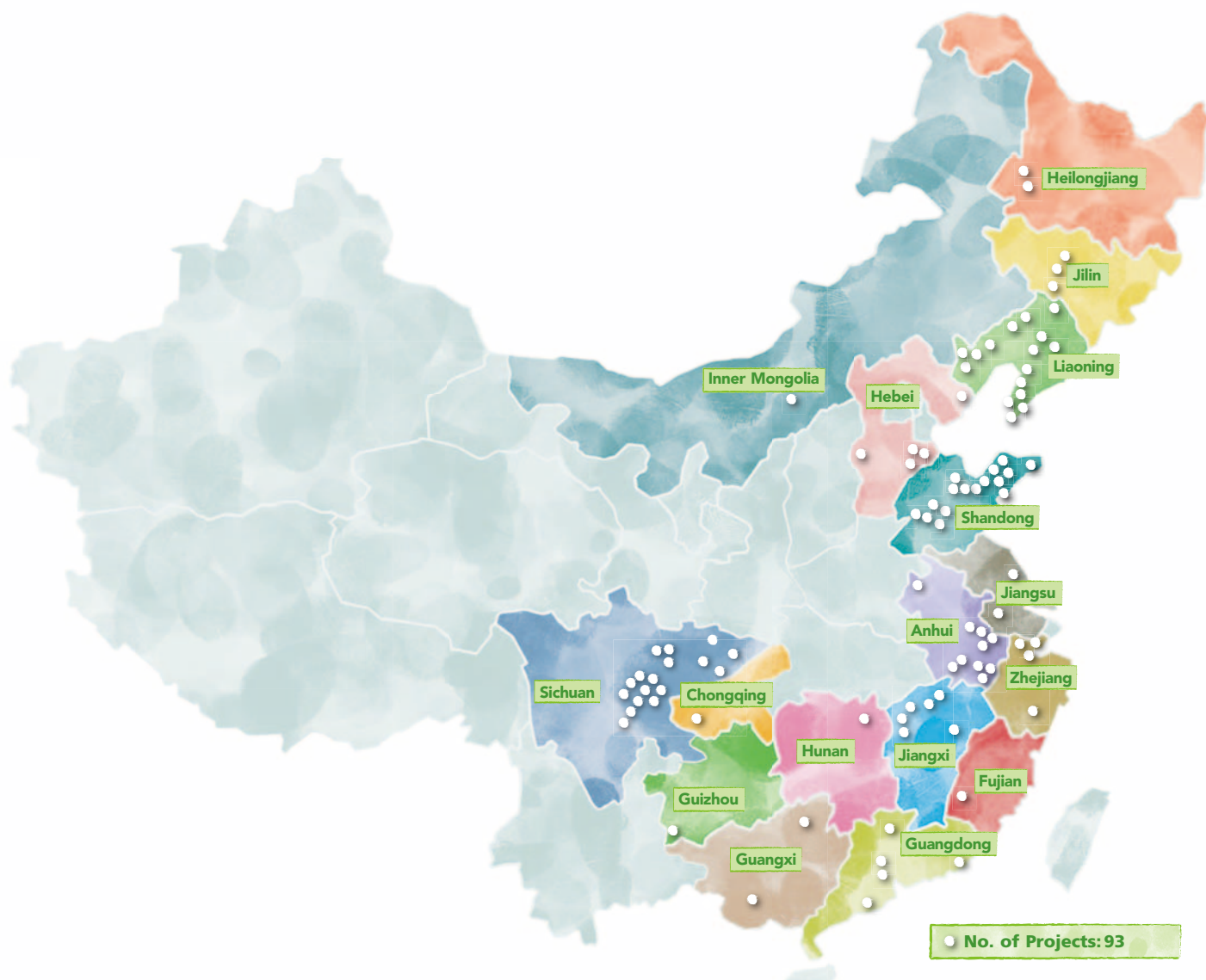
Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Principal Bankers

Bank of China (Hong Kong) Limited  
China Merchants Bank, Shenzhen Branch



# Geographical Coverage



<b>Heilongjiang</b>	Qiqihar, Qiqihar (vehicle gas refilling station)
<b>Jilin</b>	Changchun, Gongzhuling, Siping
<b>Liaoning</b>	Anshan, Beipiao, Benxi, Chaoyang, Changxingdao, Dalian Economic and Technical Development Zone, Fuxin, Jianping, Kazuo, Lvshun, Shenyang, Tieling, Wafangdian, Wafangdian (midstream), Xinqiu, Yingkou
<b>Shandong</b>	Boxing, Chiping, Feicheng, Jimo, Jinan West, Laiyang, Laoshan, Linqiu, Longkou, Pingyin, Taian, Weifang, Weihai, Zhaoyuan, Zibo, Zibo Lubo
<b>Jiangsu</b>	Dafeng, Nanjing Gaochun
<b>Anhui</b>	Anqing, Bowang, Bozhou, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi, Wuhu, Zhengpugang
<b>Jiangxi</b>	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui, Yifeng
<b>Sichuan</b>	Cangxi, Chengdu, Dayi, Jianyang, Leshan, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
<b>Chongqing</b>	Qijiang
<b>Guangdong</b>	Fengxi, Foshan, Qingyuan, Shaoguan, Yangdong
<b>Guangxi</b>	Guilin, Zhongwei (Fusui)
<b>Zhejiang</b>	Huzhou, Lishui, Tongxiang, Yuhang
<b>Hunan</b>	Miluo
<b>Fujian</b>	Changting
<b>Hebei</b>	Cangxian, Mengcun, Qinhuangdao, Shijiazhuang, Yanshan
<b>Guizhou</b>	Xingyi
<b>Inner Mongolia</b>	Baotou

# Five-Year Financial Summary

## For the year ended 31 December

	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>RESULTS</b>					
Turnover	2,905,953	2,981,420	4,321,344	5,183,466	<b>6,715,709</b>
Profit before taxation	414,214	626,248	1,033,536	1,235,548	<b>1,608,852</b>
Taxation	(102,071)	(136,442)	(256,943)	(299,393)	<b>(382,509)</b>
Profit for the year	312,143	489,806	776,593	936,155	<b>1,226,343</b>
Profit for the year attributable to:					
Shareholders of the Company*	265,090	435,797	708,754	840,798	<b>1,106,286</b>
Non-controlling interests	47,053	54,009	67,839	95,357	<b>120,057</b>
Profit for the year	312,143	489,806	776,593	936,155	<b>1,226,343</b>
	HK cents	HK cents	HK cents	HK cents	<b>HK cents</b>
Earnings per share					
Basic	13.54	19.93	28.84	34.17	<b>42.46</b>
Diluted	13.52	19.93	28.82	34.10	<b>42.34</b>

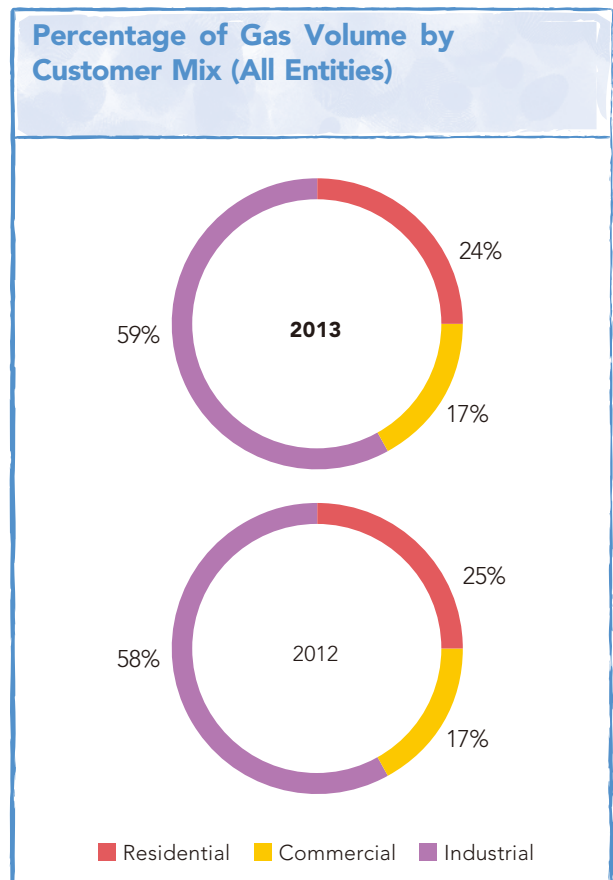
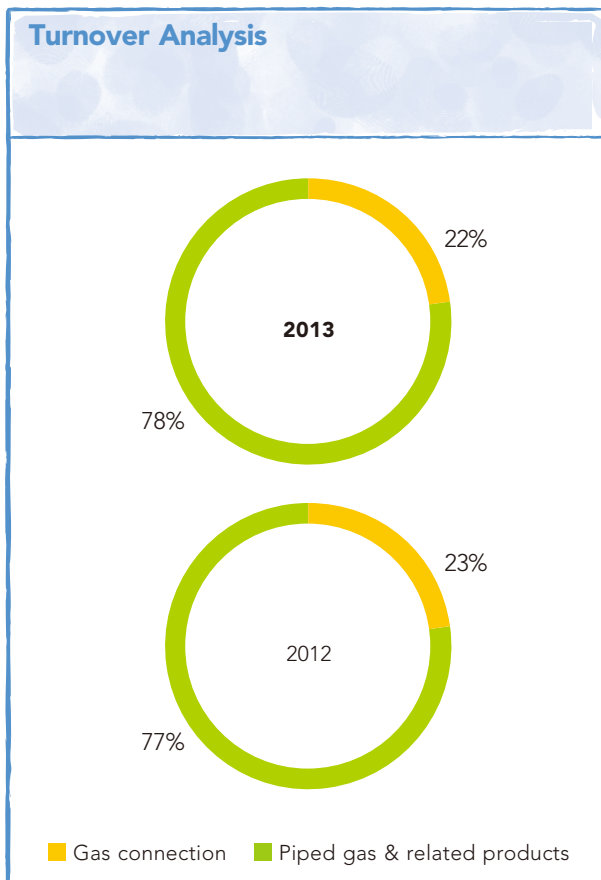
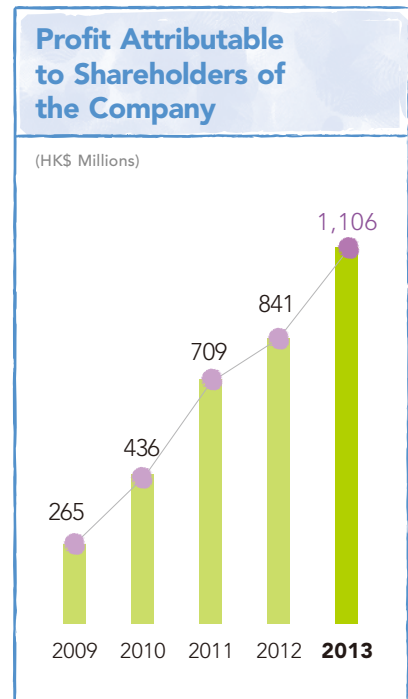
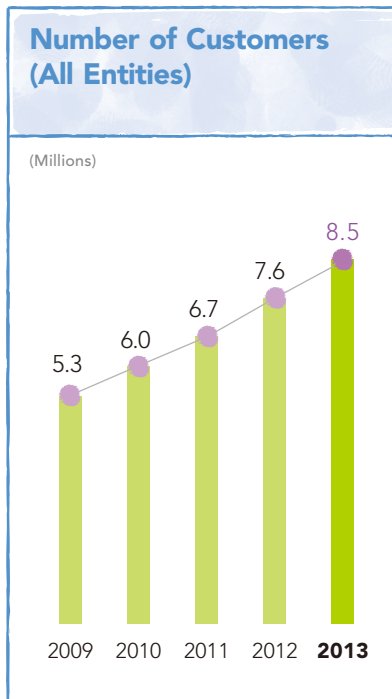
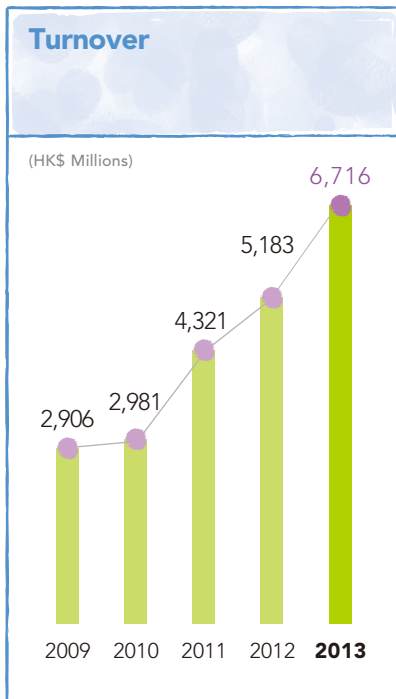
## As at 31 December

	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	11,330,417	14,882,799	18,183,406	21,255,284	<b>25,628,676</b>
Total liabilities	(4,442,294)	(5,747,672)	(7,884,151)	(9,968,323)	<b>(12,150,413)</b>
	6,888,123	9,135,127	10,299,255	11,286,961	<b>13,478,263</b>
Equity attributable to shareholders of the Company	6,433,588	8,563,437	9,615,314	10,481,716	<b>12,531,303</b>
Non-controlling interests	454,535	571,690	683,941	805,245	<b>946,960</b>
Total equity	6,888,123	9,135,127	10,299,255	11,286,961	<b>13,478,263</b>

\* the Company: Towngas China Company Limited



# Financial Highlights



# Chairman's Statement







## Business Performance in 2013

2013 generally saw stabilising global economy with occasional volatility, while China's economic performance fared better than the rest of the world. A 7.7% year-on-year growth was reported in the Gross Domestic Product of the nation in 2013. Thanks to the committed efforts of all our employees in the Towngas China Group, the Group reported favourable results for 2013. The Group's turnover jumped 30% over 2012 to HK\$6,716 million, while profit after taxation attributable to shareholders of the Company amounted to HK\$1,106 million, a significant increase of 32% as compared to 2012.

## Development of the City Gas Industry

China is facing serious air pollution problem currently. Persistent smog with extensive geographical coverage has become a grave concern across the nation. In January 2013, the Chinese Government announced its target to limit the country's total energy consumption in 2015 to 4 billion tonnes of standard coal or less, representing growth in consumption at a mere 25% over 2010. This rather aggressive goal in energy conservation and emissions reduction drives the more active use of natural gas across the country and accelerates the conversion from the use of coal-fired to natural gas energy by the local governments. Coupled with the rapid growth of the country's urban population, China's city gas industry is expected to keep thriving in the long term.

## Overview of the Natural Gas Supply

In accordance with the "12th Five-Year Plan" (2011-2015), China announced direction for reforms in independent operation of natural gas pipeline networks and opening up of such networks to private operators in a fair manner. The National Energy Administration also solicited the views of natural gas operators with regard to the regulation of mid-stream natural gas pipeline transmission rates and the equitable opening up of oil and gas pipeline and network facilities, indicating the imminent reforms for mid-stream natural gas operations. These developments will help to drive the growth of Mainland China's natural gas market as it will accelerate geographic coverage of natural gas supplies while also enhancing the overall economic and cost efficiencies of the natural gas industry chain.

# Chairman's Statement

In July 2013, the National Development and Reform Commission ("NDRC") raised the natural gas city-gate prices for provincial non-residential consumption, while stating for the record that natural gas city-gate prices will continue to be adjusted in the future. The NDRC also stipulated that natural gas sales prices below the provincial level will be determined by the provincial pricing control authorities which will take local conditions into account.

Being driven by the market, China increased natural gas selling prices. This will attract more natural gas imports into China, alleviating the nation's undersupply of natural gas. The China-Myanmar natural gas pipeline was commissioned recently in 2013, while natural gas supplies from Russia are expected to materialise in 2017 at the earliest, following the breakthrough in China-Russian pricing negotiations for the supply of natural gas. In addition, the commencement of operation of various coastal liquefied natural gas receiving terminals will contribute towards the ongoing and stable development of China's natural gas industry and city gas sectors.

The move to increase city-gate prices for non-residential natural gas consumption in July 2013 has had a minimal impact on the Group's results for 2013, as the Group was able to pass the price hike onto industrial and commercial customers.

## Business Development Strategy

The rapid development of the natural gas industry features prominently in China's "12th Five-Year Plan". Apart from expanding natural gas exploration and importation, the country has also made significant investments in the construction of major natural gas facilities. In 2013, the Chinese Government launched an industry consultation exercise with regard to the restructuring of the natural gas industry, including new measures for the opening up of natural gas facilities to private operators in a fair manner. Leveraging this sound opportunity for development, the Group will continue to develop new city gas projects, apart from also supporting market development and increasing investments in vehicular natural gas operations in our enterprises. Targeted regions include: industrial parks along Phases I, II and III of the West-to-East gas pipeline; as well as industrial bases in the Pearl River Delta, the Yangtze River Delta and the Bohai Rim regions. Furthermore, the Group will be accelerating its investments in city gas projects in the central and western regions in line with the nation's strategy to relocate certain industries from the developed coastal areas to the central and western regions, as well as the trend of economic development. Results have been encouraging with the successful establishment of 14 new projects in 2013 by the Group.

## The Award – Winning Enterprise

### – Winner of the "Hong Kong Corporate Governance Excellence Awards 2013"

At the prize-giving ceremony of the "Hong Kong Corporate Governance Excellence Awards 2013" jointly presented by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University held on 12 December 2013, Towngas China was honoured with the Award for Corporate Governance Excellence in 2013.

First introduced in 2007, the Hong Kong Corporate Governance Excellence Awards not only provide recognition, they also commend listed companies for their outstanding achievements and performance, among other factors, in protecting shareholders' rights, integrity, board independence and leadership as well as corporate social responsibility. Towngas China won the award under the Hang Seng Composite Index Constituent Companies category for our excellence in various aspects of corporate governance.



## – “2013 The Best CEO of Chinese Listed Companies” by Forbes

Mr. Wong Wai Yee, Peter, our Executive Director and Chief Executive Officer, was once again named in the list of “2013 The Best CEO of Chinese Listed Companies” by Forbes, duplicating his feat of 2012. Mr. Wong’s inclusion in this prestigious list not only provides strong recognition of the Group’s long-standing leadership in the industry, but also recognises Mr. Wong’s outstanding management calibre and contributions.

## – Other Awards

In addition, the Group won various honours in 2013 including the “Outstanding Marketing in China Award 2012-2013”, the “Best Customer Services in China Award 2012-2013”, as well as the titles of “Enterprise with the Best Corporate Social Responsibilities 2013” and “Five Stars Outstanding Corporate Citizen in China 2013”.

## 2014 Outlook

Given ever stronger calls for environmental protection in China and the increasing emphasis on enhancing air quality, together with the sequential commencement of operation of new natural gas sources in the mainland, we are projecting sound growth for the Group’s gas sales in 2014.

In view of the natural gas pricing reforms and the restructuring of the natural gas industry, which have already commenced, we will be closely monitoring related developments while maintaining effective communications with the relevant government authorities and industry. As China is still undergoing the phase of rapid construction, the demand for investment in natural gas and city gas remains robust. It is expected that China’s reforms in the natural gas sector will promote natural gas consumption and drive infrastructure investments in upstream gas supply.

As China grows to become a well-off society and its middle class continues to grow, consumers expect higher service standards. The Towngas China Group holds a distinctive edge in terms of both gas supply safety and customer services. The Group will continue to invest more and enhance its training to catch the trend.

China is still keeping a relatively high pace of growth under the “12th Five-Year Plan”. The Towngas China Group will persistently pursue growing opportunities underpinned by quality and efficiency, as well as continue to strengthen safety and risk management, while emphasising customer services and corporate social responsibility. Leveraging on the backing of its parent company, HKCG, and its experiences accumulated in successfully establishing public utilities business in mainland China over the years, the Group is an exemplary leader in the city gas industry in China. The Group, enjoying good fame and word of mouth which aid its development in new projects and new markets, holds enormous potential for building an even more thriving future.

## **CHAN Wing Kin, Alfred**

*Chairman*

Hong Kong, 17 March 2014

# Corporate Governance Award







## Winner of the “Hong Kong Corporate Governance Excellence Awards 2013” – Category for Hang Seng Composite Index Constituent Companies

Towngas China Company Limited was awarded a winner of the “Hong Kong Corporate Governance Excellence Awards 2013” under the Category for Hang Seng Composite Index Constituent Companies organized by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University.

With more than 90 piped city gas projects in 17 provincial regions, the Group upholds the importance of corporate governance as one of the pillars of the business success. And, as such, the Company is dedicated to maintaining high standards of corporate governance in a transparent and responsible manner. The Company has devised a regional management system with the senior delegates seconded from the head office participating in key management, financial and engineering functions of each of the Group companies. The regional management succeeds in cultivating the corporate culture and ensures the internal control policies are well implemented in each Group company. High importance is attached to the auditing function with different scales and intervals at the Group companies’ levels. Whistleblowing Policy has been adopted by the Group which provides formal channel and standardized procedures for stakeholders to raise concerns about misconduct, malpractice or irregularity of the Group.

The award mirrored Towngas China’s impressive capability to adopt a comprehensive corporate governance model, as well as a target-oriented and well prioritized approach in prompt response to the business risks and challenges they were exposing to, and its ability to deliver strong performance albeit in a complex environment. This represents a brilliant and meaningful achievement as it is the first award winning natural gas supplier in the PRC.





# Awards

The Group was recognized repeatedly for achieving industry excellence in environmental protection, corporate social responsibility as well as corporate governance during the year.

- 1 Ms. Zhang Xu, our Smile Ambassador was named the first runner-up in the Miss Exhibition Pageant competition by The Chinese Manufacturers' Association of Hong Kong
- 2 Our "Interactive Mentorship Programme" was awarded an "Excellence in Practice Citation (2012)" by American Society for Training and Development (ASTD)  
The campaign "A Dual Approach to the Creation of a Learning-oriented Entity" won the 7th Management Action Award – Excellence Award by Business Review Magazine
- 3 Mr. Wong Wai Yee, Peter was named in the list of "2013 The Best CEO of Chinese Listed Companies" by Forbes
- 4 "Best Customer Services in China Award 2012-2013" jointly bestowed by the China Association of Trade in Services, its Customer Service Committee and the China Information Industry Association
- 5 The campaign "Bauhinia – Rendering a Peaceful Mind at Home" won the "Outstanding Marketing in China Award 2012-2013" jointly presented by the Economic Observer and Hong Kong Management Association
- 6 ISO27001 information security certification was approved and granted by the British Standards Institution
- 7 The "Enterprise with the Best Corporate Social Responsibilities 2013" jointly bestowed by China News Service and China Newsweek
- 8 "Hong Kong Corporate Governance Excellence Awards 2013" jointly presented by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University
- 9 "Five Stars Outstanding Corporate Citizen in China 2013" jointly bestowed by the Committee of Corporate Citizenship under the China Association of Social Workers, the CCTV Financial Channel and the Tencent Foundation "Gentle Breeze Movement" was honoured to be awarded the "Outstanding Project of Corporate Citizen in China 2013"









# Financial Review







For the year ended 31 December 2013, the Group recorded a turnover of HK\$6,716 million, a growth of 29.6% compared to 2012. Profit after taxation attributable to shareholders of the Company amounted to HK\$1,106 million, an increase of 31.6% as compared to the previous year. Basic earnings per share amounted to 42.46 HK cents, representing an increase of 24.3% compared to 2012.



# Financial Review

## Turnover

Turnover from the sales of piped gas and related products increased 32.5% from HK\$3,972 million to HK\$5,265 million in 2013. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. In the gas connection business, income from connection fees for the year amounted to HK\$1,451 million, a rise of 19.8% compared to 2012. This was attributable to an increase of approximately 310,000 new household connections by subsidiaries in 2013.

## Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used in 2013 amounted to HK\$4,275 million, while that was HK\$3,220 million in 2012. The increase in expenses was mainly attributable to the increase in the volume of gas sold.

## Overhead Costs

Overhead costs in 2013 amounted to HK\$1,516 million, up 24.3% as compared to HK\$1,220 million in 2012. The increase was mainly due to the Group's business development together with escalations in wages and inflation. Staff costs, depreciation and amortisation expenses and other expenses rose by 28.6%, 20.1% and 21.7%, respectively. At the same time, an increase of HK\$75 million in overheads was due to the inclusion of new subsidiaries engaged in piped city gas operations in 2013.

## Staff Costs

Staff costs increased from HK\$521 million in 2012 to HK\$671 million in 2013. The increase in staff costs was due to the increase in the number of staff in line with our business development needs, the addition of new subsidiaries and higher average salaries on the mainland.

## Finance Costs

Finance costs in 2013 amounted to HK\$164 million, a slight increase as compared to 2012. This rise in finance costs reflected the increase in loans due to the acquisition of new projects in 2013, which offsets the decrease in interest expenses following the receipt of funds amounting to approximately HK\$930 million from the placement of new ordinary shares in January 2013.

## Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas"), which pays increasing dividends to the Group every year. Chengdu Gas was stated at cost and no impairment provision was required during the year.

## Share Placement

In January 2013, the Company successfully placed 150 million new ordinary shares at a price of HK\$6.31 per share in the market to third party independent professional, institutional or other investors at a total consideration of HK\$946,500,000. The price for each share represented a discount of approximately 4.10% to the closing price of HK\$6.58 per share on 8 January 2013, being the last full trading day on which the terms of the issue were fixed. The net proceeds from the placing (after deduction of commission and other expenses of the placing) amounted to approximately HK\$930 million. This share placement was over-subscribed by enthusiastic investors with more than 20 times. Net proceeds from the placement were used as general working capital and for investments in new projects.



## Financial Resources and Position

As at 31 December 2013, the Group's total borrowings amounted to HK\$6,900 million, of which HK\$994 million represented loans extended by The Hong Kong and China Gas Company Limited ("HKCG") due between 1 to 5 years, HK\$3,456 million represented bank loans and other loans due between 1 to 5 years, HK\$2,419 million represented bank loans and other loans due within 1 year, and HK\$31 million represented bank loans and other loans with an outstanding term of over 5 years. The Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowing of HK\$350 million to the fixed-rate borrowing in 2011. Other than the HK\$740 million in bank loans and other loans bearing interest at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturity profiles and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. As at 31 December 2013, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 20.9%.

As at 31 December 2013, the Group held unutilised facilities amounting to HK\$1,981 million.

As at 31 December 2013, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,605 million, mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and our shareholders. The Group maintains a consistently strong liquidity position with cash and cash equivalents on hand and unutilised banking facilities, with adequate financial resources to meet all contractual obligations and operational requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.

## Credit Ratings

In 2013, Moody's Investor Service, a rating agency, maintained a credit rating of "Baa2" for the Company with a stable outlook. Standard & Poor's, another rating agency, also continued to assign the Company a credit rating of "BBB" with a stable outlook. These reflect the Company's solid and stable financial position and operational prospects. At the same time, Moody's Investor Service indicated that the Company's share placement completed on 16 January 2013 would be credit positive.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2013.

## Currency Profile

The Group's activities are predominantly operated and conducted in Hong Kong and mainland China. Its cash, cash equivalents and borrowings are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. As such, no material foreign exchange risk exposure is expected.

## Final Dividend

In view of the continuous growth in the Group's results, the Board recommended the payment of a final dividend for the year ended 31 December 2013 of eight HK cents per share (2012: six HK cents per share), representing an increase of 33.3% over the previous year. The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

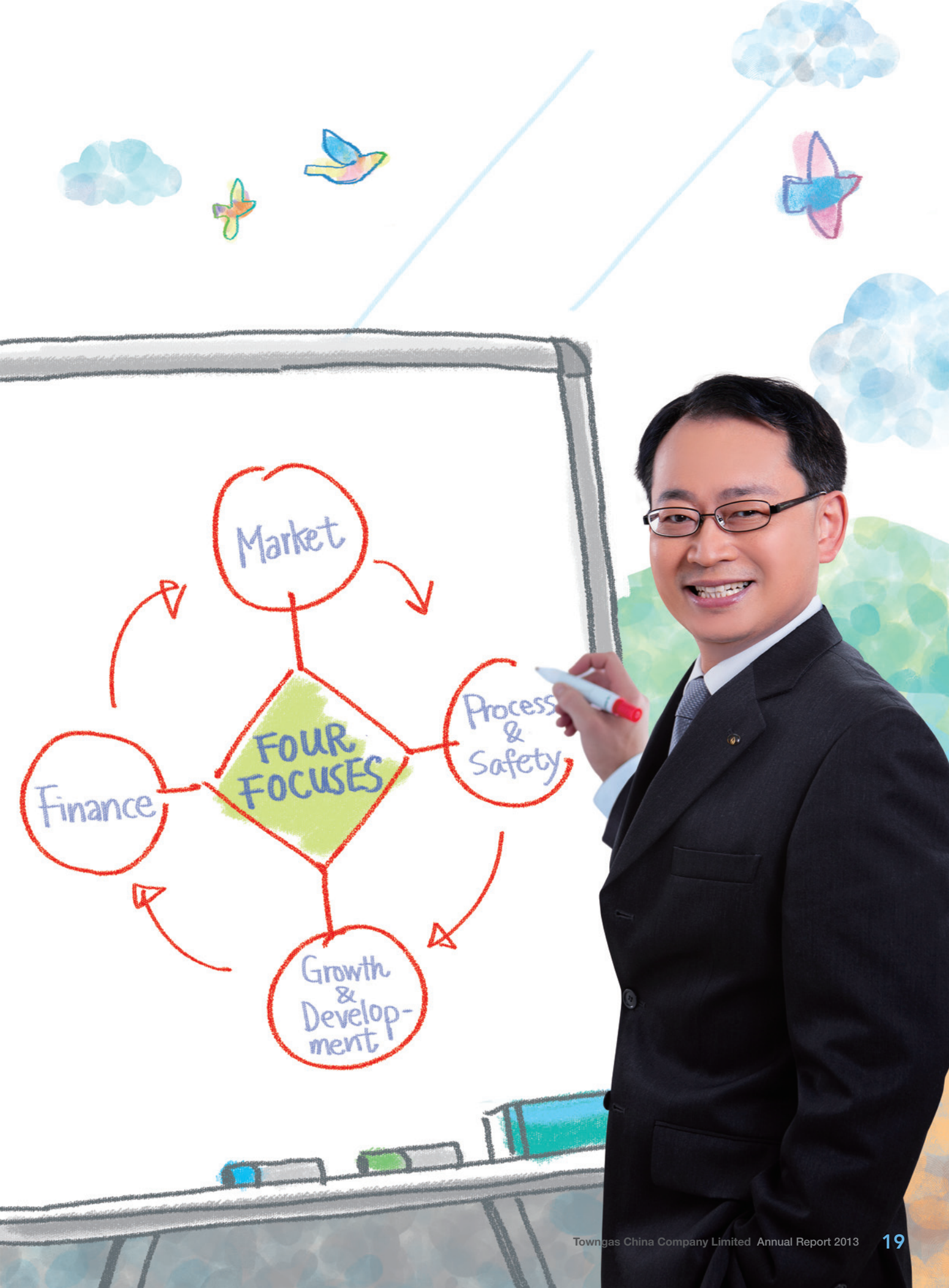


# Business Review

China's economic development was generally stable in 2013, sustaining growth at a reasonable level. Bidding to ensure sustainable and healthy economic development, the new government adopted a range of policy measures to "pursue stable growth, control inflation and avoid risks". The Group was determined to continue systematic development, seeing steady progress and ongoing improvements in safety, customer services and market development. We boosted our business process information system whilst also launching customer service improvement programmes on a continuing basis to enhance customer satisfaction.







Market

FOUR FOCUSES

Process & Safety

Growth & Development

Finance

# Business Review

## Sales of Piped Gas

In 2013, the Group sold a total of 5.95 billion cubic metres of piped gas, representing an increase of 11.8% against the 5.32 billion cubic metres sold last year. Industrial gas sales grew by 390 million cubic metres to account for 58.8% of the total volume of gas sold by the Group. Commercial gas sales as a percentage of the total volume of gas sold by the Group were steady at 16.7%, while sales of residential gas as a percentage of total volume of gas sold decreased slightly to 24.5%. Benefiting from China's stable economic growth and the Group's development strategy to strengthen industrial gas consumption, we have been able to continue the stable growth of our industrial and commercial gas sales. A gas sales profile underpinned by industrial and commercial gas consumption ensures ongoing growth for the Group's profit from gas sales because this strategy allows the Group to reflect any upstream price adjustments on to industrial and commercial customers promptly.

## Project Acquisitions

We continued to expand the geographic footprint of our business presence in 2013 with the acquisition of 14 new projects in Shandong, Anhui, Sichuan, Guangdong, Jiangsu, Liaoning, Hebei and Guangxi. These included city gas projects in Shiheng Town in Feicheng City and the Economic Development Zone in Boxing County in Binzhou City, Shandong Province; the Zhengpugang Xin Qu Modern Industrial Zone in Maanshan City, Fanchang County in Wuhu City and Bozhou-Wuhu Modern Industrial Zone in Bozhou City, Anhui Province; Mianzhu City, Sichuan Province; Fengxi District in Chaozhou City, Guangdong Province; Dafeng City in Jiangsu Province; Jianping County in Liaoning Province; the Zhongwei piped gas project in the Guangxi Zhuang Autonomous Region, as well as Cang County, Mengcun Hui Autonomous County and Yanshan County in Cangzhou City and the Shijiazhuang Southern Industrial Zone in Hebei Province. Total gas consumption of the 14 projects mentioned above is expected to reach approximately 1.6 billion cubic metres in five years.

In addition, the Group also developed 6 new projects in early 2014, consisting of city gas projects located at Jiapiang County in Leshan City, Sichuan Province; Songyang County in Lishui City, Zhejiang Province; Siping City in Jilin Province; Xingyi City, Guizhou Province and Guyang County in Baotou City, Inner Mongolia Autonomous Region, as well as a vehicle gas refilling station project at Qiqihar City, Heilongjiang Province. These projects will provide solid foundations for the development of the Group's business in 2014. The Xingyi and Guyang piped gas projects mark the Group's debut in Guizhou Province and Inner Mongolia Autonomous Region, respectively. This strategic move will facilitate the development of city gas projects in these two provincial-level areas as the next step. Total gas consumption of these six projects is expected to reach 0.5 billion cubic metres in five years.





Details of the Group's 14 new projects are as follows:

<b>Project</b>	<b>Shareholding of the Group</b>	<b>Major Industries in the Operating Regions</b>
1. Shiheng Town, Feicheng City, Shandong Province	100%	Metallurgical smelting, food processing, equipment fabrication
2. Economic Development Zone, Boxing County, Binzhou City, Shandong Province	65%	Steel coating
3. Zhengpugang Xin Qu Modern Industrial Zone, Maanshan City, Anhui Province	100%	High-end equipment fabrication, automobile parts and accessories, iron and steel
4. Mianzhu City, Sichuan Province	80%	Phosphorous chemicals, glass chemicals and building materials
5. Fengxi District, Chaozhou City, Guangdong Province	60%	Ceramic necessities and ceramic arts
6. Fanchang County, Wuhu City, Anhui Province	50%	New materials in construction, light textiles, metallurgical machinery and medication
7. Bozhou-Wuhu Modern Industrial Zone, Bozhou City, Anhui Province	49%	Manufacturing of modern machinery and equipment, electronic information
8. Dafeng City, Jiangsu Province	51%	Petrochemical industry, new materials, pharmaceutical chemistry, production of heavy machinery and equipment and papermaking
9. Cang County, Cangzhou City, Hebei Province	90%	Chemical industry, equipment manufacturing, communications and electronic products manufacturing
10. Mengcun Hui Autonomous County, Cangzhou City, Hebei Province	90%	Pipe fittings manufacturing
11. Yanshan County, Cangzhou City, Hebei Province	90%	Piping manufacturing
12. Jianping County, Liaoning Province	80%	Ceramics
13. Zhongwei piped gas project, Guangxi Zhuang Autonomous Region	100%	Aluminium, sugar production, glass products
14. Shijiazhuang Southern Industrial Zone, Hebei Province	45%	Building ceramics, pharmaceutical chemicals, cement building materials

# Business Review

Details of the Group's 6 new projects in 2014 are as follows.

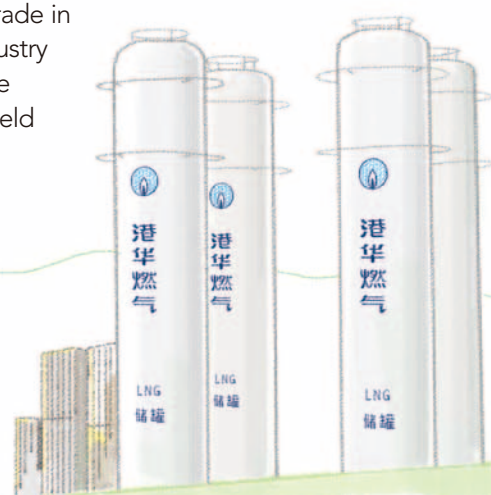
Project	Shareholding of the Group	Major Industries in the Operating Regions
1. Jiayang County, Leshan City, Sichuan Province	70%	Ceramics
2. Gas vehicular filling station project, Qiqihar City, Heilongjiang Province	55%	Vehicle gas refilling station
3. Songyang County, Lishui City, Zhejiang Province	51.35% <sup>(*)</sup>	Manufacturing of stainless steel pipes and copper metallurgy
4. Siping City, Jilin Province	80%	Manufacturing of machinery, special-purpose vehicles
5. Xingyi City, Guizhou Province	70%	Building materials, pharmaceuticals and wine-making
6. Guyang County, Baotou City, Inner Mongolia Autonomous Region	85%	Magnesium metal processing

<sup>(\*)</sup> The Group directly holds a 65% equity interest in its holding company which holds a 79% equity interest in the project. As a result, the effective shareholding in the project by the Group is 51.35%.

## Customer Services

The Group firmly and continuously committed to the delivery of premium "Customer-oriented, Professional and Efficient" services through an increasing number of customer centres across the country in 2013. Customer centres were also renovated to reflect the theme "Sunshine, Happiness and Home" to enhance our "customer experience" with the provision of more heartwarming and convenient one-stop quality services.

During the year, the Group was honored to have won the "Best Customer Services in China Award 2012-2013" presented jointly by the China Association of Trade in Services, its Customer Service Committee and the China Information Industry Association. Following the nomination of 30 outstanding customer service officers in the Group's first "Service with a Smile Ambassador Contest" held in 2012, a "Service with a Smile Ambassador Club" was formed in 2013, hand-in-hand with the launch of the "Flying Dandelion" Programme to promote the Group's culture of heartwarming services. Junior customer service managers participated in a training programme entitled "Dandelion Service Sublimation", through which our employees not only enhanced their service skills, but also became true ambassadors of our customer service philosophy. We then launched nationwide "mystery customer inspections" of our customer centres, hotline centres and on-the-spot services, with a view to monitoring service quality and ensuring the implementation and stable enhancement of our high service standards.





Group companies also established service pledges continuously, setting specific service targets with regard to safety and reliability of the gas supply, service appointments, work efficiency, service attitudes and customer response. Performance results for these service pledges are published regularly. We also worked to enhance customer satisfaction by seeking both a thorough understanding as well as total fulfillment of customer needs through our customer service teams, service hotlines and customer opinion handling committees.

With regard to the management of customer safety, we continued to carry out our indoor safety inspections in accordance with a “three-tier procedure for hazard rectification” by achieving our target to complete 100% of indoor safety inspections within a three-year period together with a 100% rectification of indoor Class I hazards. During the year, we successfully upgraded the overall quality of our safety inspection personnel and the efficiency of our safety inspection work with the completion of the first round of our “corporate safety inspection service standard assessment”. This resulted in the general improvement of indoor gas safety standards as well as the assurance of safe gas consumption for customers. At the same time, “professional, aesthetic and personalised” designs and installation, as well as individual installations for separate flats, were implemented for new customers, ensuring not only a safe and assured, but also a convenient environment for gas consumption.



# Business Review

## Bauhinia

Bauhinia's brand image and reputation was further enhanced in 2013 with record-high accumulated sales of 2 million gas appliances, Bauhinia gas appliances sold reached 650,000 items in 2013 alone and were sold in more than 70 sales regions and cities.

Building on the brand's 2013 theme "Peace of Mind – Eight Years of Services from Bauhinia" and leveraging opportunities presented by the "March 15th World Consumer Rights Day" as well as the "May 1st Holiday", a number of publicity and marketing activities were organised to commemorate the eighth anniversary of the launch of Bauhinia's products. With a special emphasis on the brand's pledge towards "integrity and accountability", discounts were offered to encourage customers to replace their old gas appliances. Both customers and the market responded positively to these activities with a number of enthusiastic purchases.

The Group also won the "Outstanding Marketing in China Award 2012-2013" jointly presented by The Economic Observer and The Hong Kong Management Association for our promotional campaign entitled "Bauhinia – Rendering a Peaceful Mind at Home."





On the media planning front, we sponsored a sizable TV food show entitled “Bauhinia – Flame Food in China”, consisting of 24 episodes filmed in 24 cities across the country, to promote the culture of flame cooking throughout the year in association with five channels including MASTV, Jiangsu TV, Shandong TV, Jilin TV and Sichuan TV, in a vigorous drive to promote the strategic development of the Bauhinia brand.

With regard to products, 2013 marked the notable development of our proprietary gas cooking stove, the Taiji Gas Stove, which is compatible with China’s Class I National Energy Efficiency Standards. Helping to promote Bauhinia’s quality brand image, products exhibiting special design were also developed. In adherence to the brand’s mission – “Rendering a Peaceful Mind at Home with Professional Services”, we engaged in the active research and development of cutting-edge firewall technologies during the year to seek ongoing improvements in the safety standards of products supplied to customers. Besides, complying with national policies in environmental protection, we were committed to the research and development of highly efficient burners (with a heat efficiency of up to 60%) at a low cost to sustain the competitiveness of our products.

### Safety and Risk Management

Following the numerous research achievements introduced under our Northeastern Safety Year 2009, Southwestern Safety Year 2010, Shandong Safety Year 2011 and East China Safety Year 2012, 2013 was designated as the South China Safety Year, under which research and promotions for eight Key Management Focus (KMF) Projects were rolled out simultaneously. This resulted in improvements in various key performance indicators. Activities such as photography and essay writing contests as well as competition in the design of pamphlets, posters and promotion columns were also organised to further incorporate a safety awareness mindset throughout our front-line staff in our operating sectors.

The Group continued the implementation of our monthly safety inspections by general managers with ongoing improvements being added to inspection requirements. Under this initiative, project inspections are carried out on a monthly basis by a team led by the general manager of each company. Results of these inspections by the companies’ general managers are summarised, analysed and discussed in the Group’s monthly safety meetings. On top of these activities, a new initiative was introduced during the year – general managers exchanged their safety inspection duties with their counterparts in other Group companies, either in the same region or in other regions. In this regard, the general managers of the companies would be appointed by regional general managers to review the monthly safety inspections completed by the other general managers, to facilitate exchanges, complementary interactions and mutual enhancements.



# Business Review

The Group continued to conduct audit assessments on safety and risk management as well as construction project management at the company level together with the establishment of an internal accreditation system for site supervisors. In future, staff undertaking project management duties within the Group must possess qualifications recognised by the Group.

Safety and risk management workshops covering subjects such as safety, engineering work, operations, customer service, transportation, environmental protection, etc were arranged for new companies joining the Group. These activities provide comprehensive training for management personnel responsible for safety, engineering and customer service, while also enabling the management to swiftly familiarise themselves with the Group's management requirements and implement accordingly in their day-to-day operations together with services that will enhance the safety and risk management standards of these Group companies.

## Engineering and Procurement Management

Supporting the Group's development objectives, the Engineering Department continued to provide assistance to Group companies in the formulation of scientifically sound plans in respect of engineering planning. Engineering investment costs effectively reduced as a result.

With respect to city gas standards, the Group was invited to participate in the preparation of a number of national/industrial standards and local directives. Our participation in the preparation of "Safety Technical Specification for Operation, Maintenance and Emergency Repair of City Gas Facilities", "Code for Design of Compressed Natural Gas Supply Station" and "Code for Design of Liquefied Petroleum Gas (LPG) Station" for the industry reflected the Group's strong technical standards. During the year, we completed the compilation of two important technical management guidelines including a "Checklist for Engineering Quality Supervision" as well as "Regulations for the Maintenance of Equipment and Facilities at Plants and Stations." In the absence of any previously drafted standards in these areas in the domestic gas industry in China, these two technical management guidelines effectively fulfill the need for management in these areas. They also provide a solid base in the formulation of standards for the gas industry in cities and townships highlighting the strong influence the Group has established over the national gas industry.

During the year, measures were adopted by the Engineering Department of the Group to optimise the process flow of Liquefied Natural Gas stations. Staged-gasifiers were adopted at large-scale Liquefied Natural Gas gasification stations to increase gasification efficiency, reduce site occupation and cut construction costs.

The Group Engineering Department enhanced management of operational safety at various plants and stations with the compilation of a checklist as well as audits on operation of sites and stations. Together with summary in cases manuals and the sharing of experiences facilitated through regional engineering workshops, operational safety management in our different Group companies was further strengthened.

To address rising costs for labour and other expenses, the Group maintained effective controls on cost outlays for engineering materials in 2013, through the adoption of a joint procurement strategy together with active consultation and close cooperation with supply partners under our annual "Cost Improvement" theme. At the same time, stringent controls were implemented over the quality of engineering materials, while the scope of random inspections, quality inspections and on-site supervision was enlarged. Additional inspection and testing equipment, such as a spectroscope, impact testing machine and stretch tester, was also purchased to enhance the Group's abilities and efficiencies in quality inspection of materials, resulting in further improvements to the Group's quality control systems.



## Staff Training and Development

As at the end of 2013, the Group had 20,324 employees. As usual, the Group had been encouraging continuous learning, making every effort to provide a platform to facilitate ongoing development together with genuine care and assistance for our employees.

Together with our regional offices, we continued to organise advanced management seminars in association with leading universities in accordance with our “Towngas Leadership Competency” programme, with a view to nurturing the Group’s future leaders. 2013 marked the sixth year in our partnership with the School of Economics and Management, Tsinghua University, with a total of 36 of our senior managers being enrolled in advanced management programmes. At the regional level, 37 mid to senior managers took part in a second seminar jointly organised by our Northeastern regional office and the Dalian University of Technology, while 32 mid to senior management personnel took part in the first joint seminar organised by our North China regional office and Shandong University.

During the year, the Group introduced the EAP (Employee Assistance Programme) through four specialized areas – “My Healthy Life”, “My Low-carbon Life and Protection of the Environment”, “My Happy Life” and “Assistance for Employees”. It is hoped that employees can enjoy a healthier and happier life both at work and at home, in a bid to drive the healthy and rapid development of the Group.



# Business Review

Training junior-level technical staff to enhance their specialized expertise and broaden their career prospects in line with our commitment to continuous learning, was an important measure adopted by the Group. In this connection, 15 employees from the Southwestern region received tertiary education certificates jointly awarded by our Towngas Engineering Academy and the Changzhou Higher Vocational School of Construction after achieving the required results in the 2-year training period and passing the examination on intellectual quality as well as a thesis defense session. These requirements form part of the academic accreditation process for this "2nd Internal Tertiary Education Accreditation".

The Group's "Engineering Graduate Training Programme" has been recognised by the Hong Kong Institute of Engineers, an official member of the Washington Accord for the international and mutual recognition of accreditations for academic and professional qualifications in engineering. This means that the Group became the first internationally qualified entity in China to implement such a training programme. Currently, we are running this programme in the Southwestern region on a trial basis.

Building on the learning culture fostered by the Group, and through a combination of the self-driven learning and sharing, learning by tools, online learning and offline learning, and with their internal platforms for information exchange and E-learning which are hubs for information flow among members of the Group. Group companies are sharing their experiences and learning on a daily basis. These have resulted in a culture of self-driven learning as well as a tank of calibre with outstanding performance competencies, motivation and commitment.


During the year, the Group was honored to receive an "Excellence in Practice Citation (2012)" award from the American Society for Training and Development. We were singled out from among 150 training institutions and enterprises around the world for our "Interactive Mentorship Programme". We also won the "7th Management Action Award – Excellence Award" presented by Business Review Magazine for our case study entitled "A Dual Approach to the Creation of a Learning-oriented Entity".

To foster a warm feeling for our staff and a stronger sense of belonging within the Group, the "Towngas China Scholarship Scheme for Children of Employees" was launched in 2013 in recognition of our employees' children who achieve outstanding academic results. 10 nominees and 19 winners of the merit awards, who sat for admission examinations for domestic tertiary institutions and who fulfilled criteria under the scheme, were selected. The scheme, one of the activities organised by the Group to show our care for our employees and their families, is designed to encourage care for the family from our staff, as well as commitment to the provision of good education for children and their nurturing. It also reflects an important element of our corporate culture which calls for a positive and harmonious philosophy in both work and life.

## Corporate Social Responsibility

In March 2013, we founded our own charity label, the "Gentle Breeze Movement". Activities by the Group and Group companies such as our energy conservation and environmental protection campaigns, tree planting schemes, "Towngas Rice Dumplings for the Community", charity libraries, disaster relief and poverty aid schemes, now all fall under the Movement's umbrella. The name of "Gentle Breeze Movement" was chosen in the hope that in fulfilling our corporate social responsibilities, the activities conducted both by the Group and our Group companies will warm and benefit the wider public, and the warm culture of the Group can be extended like a "gentle breeze".





The Group launched an initiative entitled “Seven Options for Smog Reduction – Towngas China’s Green Journey” in association with our Group companies as well as HKCG. Under this initiative, employees were encouraged to avoid driving, use the stairs and to use one’s own handkerchiefs, etc, with a view to leading an all-rounded green-life. Besides, our tree planting activities during the year planted more than 20,000 trees over a green area of nearly 50,000 square metres.

The “Towngas Rice Dumplings for the Community” campaign is organised every year during the Dragon Boat Festival. In June, staff volunteers made nearly 20,000 rice dumplings, distributing them to senior citizens and other groups in need.

In 2013, a number of donations for educational purposes were made under the “Gentle Breeze Movement”. These included the renovation of teaching blocks for seven schools in Xiushui, Jiangxi and Jiangbei District in Maanshan, Anhui; the building of charity libraries and e-classrooms; as well as donations for teaching, everyday facilities and sporting equipment. To date, 22 Towngas China Charity Libraries have been built across the country. Additionally, scholarships jointly donated by HKCG and the Group were awarded through the Sichuan Youth Development Foundation to help 100 outstanding but financially underprivileged students from the counties of Lushan, Baoxing and Tianquan in the quake-struck Ya’an district. Having passed their 2013 university entrance examinations and received offers for full-time programmes at tertiary institutions, the scholarships enable the students to fulfill their dreams for university education.

During the year, we were pleased to have won the “Enterprise with the Best Corporate Social Responsibilities 2013” title jointly presented by China News Service and China Newsweek, as well as “Five Stars Outstanding Corporate Citizen in China 2013” title, jointly presented by the Committee of Corporate Citizenship under the China Association of Social Workers, the CCTV Financial Channel and the Tencent Foundation. At the same time, our “Gentle Breeze Movement” also received the “Outstanding Project of Corporate Citizen in China 2013” award.

## Long-term Development Strategy

The Group’s mission is to provide customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment. The Group is thus focused on gas-related investment, exploration and operations management, with our principal businesses involving the sale and distribution of piped gas. In view of our professional management in customer services, safe and reliable gas supply, as well as our emphasis on corporate social responsibility, Towngas China has developed into a leading brand in China’s gas industry. Our business footprint has also expanded rapidly, with the establishment of over 90 piped gas companies across 17 provinces, autonomous regions and municipalities including Anhui, Fujian, Guangdong, Guangxi, Guizhou, Heilongjiang, Hebei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Jilin, Liaoning, Shandong, Sichuan, Zhejiang and Chongqing. Driving stable and sustainable growth into the future while also seeking to add value for shareholders, we will continue to identify new projects with business potential in the natural gas industry while also expanding the scope of the Group’s existing projects.

Corporate social responsibility acts as a major cornerstone in our development. Therefore, in continuous fulfillment of these responsibilities, we will actively serve our society. Looking forward we will be channeling additional resources into our charity label, “Gentle Breeze Movement”, to ensure that our welfare activities will be carried out both more regularly and in a more structured manner as we put our unceasing efforts to contribute to the sustainable development of our community as well our business.

# Biographical Details of Directors



Chan Wing Kin, Alfred

Wong Wai Yee, Peter

Ho Hon Ming, John

Kwan Yuk Choi, James

**Mr. Chan Wing Kin, Alfred**, B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc.(Eng), B.Sc.(Eng), aged 63, has been the Chairman and an Executive Director of the Company since 1 March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is also an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited and a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Chan is a Vice Chairman of China Gas Association. He received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

**Mr. Wong Wai Yee, Peter**, C.P.A., C.M.A., A.C.I.S., A.C.S., C.I.G.E.M., F.H.K.I.o.D., M.B.A., aged 62, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer – Utilities Business of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Wong was named consecutively as one of “The Best CEO of Chinese Listed Companies” by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong was formerly a director of Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 37 years of experience in corporate finance, management and international working experience.





Cheng Mo Chi, Moses

Li Man Bun, Brian David

Chow Vee Tsung, Oscar

**Mr. Ho Hon Ming, John**, F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.), aged 57, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd. and Shenzhen Gas Corporation Ltd., all being listed companies on the Shanghai Stock Exchange. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 35 years of experience in accounting, corporate finance and investment.

**Mr. Kwan Yuk Choi, James**, J.P., C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng), aged 62, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013. Mr. Kwan currently acts as a senior adviser to HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) on a part-time basis from 1 February 2013 to 31 January 2015. Mr. Kwan was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. Mr. Kwan is currently a member of the Vocational Training Council and a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Hong Kong Special Administrative Region. He was the President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan is a Chartered Engineer, Honorary Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom. Mr. Kwan was an executive director and the chief operating officer of HKCG prior to his retirement on 1 February 2013. His other directorship in public listed company in the last 3 years includes Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange.

# Biographical Details of Directors

**Dr. Cheng Mo Chi, Moses**, GBS, OBE, JP, aged 64, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng serves as a member of the National Committee of the Chinese People's Political Consultative Conference and the Chairman of the Committee on Free Kindergarten Education established by the Education Bureau. He was awarded a Doctorate of the Academy *honoris causa* by The Hong Kong Academy for Performing Arts on 28 June 2013. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Television Network Limited (formerly known as City Telecom (H.K.) Limited), Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange. His other directorships in public listed companies in the last 3 years include China COSCO Holdings Company Limited and Hong Kong Exchanges and Clearing Limited.

**Mr. Li Man Bun, Brian David**, JP, FCA, MBA, MA (Cantab), aged 39, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He was General Manager & Head of Wealth Management Division of The Bank of East Asia, Limited ("BEA") (a listed company on the Hong Kong Stock Exchange) from July 2004 to March 2009, and was appointed Deputy Chief Executive of BEA in April 2009. Mr. Li is primarily responsible for BEA's China and international businesses, as well as the management of BEA Union Investment Management Limited. Mr. Li is also an independent non-executive director

of Hopewell Highway Infrastructure Limited and China Overseas Land & Investment Limited respectively, both are listed companies on the Hong Kong Stock Exchange. In June 2011, Mr. Li resigned as an independent director of Xinjiang Goldwind Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. Mr. Li currently holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong, chairman of the Traffic Accident Victims Assistance Advisory Committee of the Government of the Hong Kong Special Administrative Region ("HKSARG"), a member of the HKSARG Small and Medium Enterprises Committee, a member of the HKSARG Standing Committee on Judicial Salaries and Conditions of Service, a member of the HKSARG Harbourfront Commission, a member of the HKSARG Aviation Development Advisory Committee, a member of the Hong Kong-Europe Business Council, and a member of the Hong Kong-Taiwan Business Co-operation Committee. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Full Member of the Treasury Markets Association. Mr. Li is also a Fellow of the Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as MA and BA from the University of Cambridge.

**Mr. Chow Vee Tsung, Oscar**, aged 39, has been an Independent Non-Executive Director since 4 June 2012 and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chow is an executive director of Chevalier International Holdings Limited, a public company listed in Hong Kong. He was educated in Hong Kong, Canada and the United Kingdom and graduated from the University of Oxford, the United Kingdom with a degree in Master of Engineering. In 1997, he returned to Hong Kong to engage in the finance sector and worked in the corporate finance division of BNP Prime Peregrine and subsequently worked as an Associate Underwriter of Centre Solutions (Asia) Limited, a subsidiary of Zurich Financial Services, before he joined the Chevalier Group in 2000. Mr. Chow is a General Committee member of the Hong Kong General



Chamber of Commerce and a General Committee member of the Chinese Manufacturers' Association of Hong Kong. He is also a Committee member of the Shanghai Chinese People's Political Consultative Conference, a Committee member of the Advisory Council on the Environment, a member of the SME Development Fund Vetting Committee and a Court member of The Hong Kong Polytechnic University and The University of Hong Kong. In addition, he is a Council member of The Hong Kong University of Science and Technology. Mr. Chow had been an executive and managing director of Dingyi Group Investment Limited (formerly known as Chevalier Pacific Holdings Limited) but resigned from such directorship in October 2011.

Notes:

1. The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2013 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.
2. Save as disclosed in the Directors' respective biographical details under "Biographical Details of Directors" section, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.
3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in note 12 to the consolidated financial statements.
4. The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2016. The term of office of Mr. Chow Vee Tsung, Oscar, an Independent Non-Executive Director elected at the Company's annual general meeting (the "AGM") in 2012, shall expire on 3 June 2015 or the conclusion of the Company's AGM in 2015, whichever is earlier. The term of office of Mr. Kwan Yuk Choi, James, a Non-Executive Director, shall expire on 2 June 2016. Their respective terms of office are subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the provisions of the Company's memorandum and the articles of association (the "Articles") in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM.
5. On 21 November 2013, the Company published an announcement setting out the information relating to a disciplinary proceeding against an Independent Non-Executive Director.

# Report of the Directors

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

## Results and Final Dividend

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 63.

The Directors have recommended the payment of a final dividend out of the share premium account of eight HK cents per share (2012: six HK cents per share) to shareholders whose names are on the register of members of the Company on Wednesday, 4 June 2014.

The proposed final dividend, if approved by the shareholders at the AGM, will be payable in cash, with an option granted to shareholders to receive new and fully paid shares of the Company in lieu of cash, or partly in cash and partly in new shares under the scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the proposed final dividend, but will rank *pari passu* in all other respects with the existing shares.

The circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Monday, 9 June 2014. Subject to approval by shareholders at the AGM to be held on Monday, 26 May 2014 and compliance with the Companies Law of the Cayman Islands, the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be distributed to shareholders on or about Friday, 11 July 2014. The register of members of the Company will be closed from Friday, 30 May 2014 to Wednesday, 4 June 2014 (both days inclusive), for the purpose of determining shareholders who qualify for the final dividend and during which period no transfer of shares of the Company will be registered.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of final dividend at the AGM and the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent on or about 11 July 2014 to the shareholders whose names appear on the register of members of the Company on 4 June 2014.

## Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 67.

The Company's reserves available for distribution to shareholders at 31 December 2013 amounted to HK\$5,069 million (2012: HK\$4,333 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.



## Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2013 is set out on page 4.

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

## Directors

The Directors during the year and up to the date of this Annual Report are as follows:

### Executive Directors

Mr. Chan Wing Kin, Alfred (*Chairman*)  
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)  
Mr. Ho Hon Ming, John (*Company Secretary*)

### Non-Executive Director

Mr. Kwan Yuk Choi, James (*Note*)

### Independent Non-Executive Directors

Dr. Cheng Mo Chi, Moses  
Mr. Li Man Bun, Brian David  
Mr. Chow Vee Tsung, Oscar

*Note:*

Mr. Kwan Yuk Choi, James was re-designated from an Executive Director to a Non-Executive Director on 1 February 2013.

In accordance with article 112 of the Articles, Mr. Chan Wing Kin, Alfred, Mr. Wong Wai Yee, Peter and Mr. Chow Vee Tsung, Oscar having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the Company's AGM in 2012 with effect from 4 June 2012. Other than such family relationship with Dr. Chow Yei Ching, who himself was able to satisfy the Stock Exchange's independence criteria in Rule 3.13 of the Listing Rules, Mr. Chow Vee Tsung, Oscar is not otherwise connected with any other Director, the chief executive of the Company or substantial Shareholder within the two years immediately prior to the date of his appointment on 4 June 2012 as an Independent Non-Executive Director and is able to satisfy all other independence criteria in Rule 3.13 of the Listing Rules. As such, the Company is of the view that the family relationship between Dr. Chow Yei Ching and Mr. Chow Vee Tsung, Oscar would not affect Mr. Chow Vee Tsung, Oscar's independence when performing his duties as an Independent Non-Executive Director of the Company and accordingly considers that Mr. Chow Vee Tsung, Oscar is independent.

# Report of the Directors

## Directors (Continued)

Each of the Independent Non-Executive Directors was appointed for a period commencing from his appointment date and is subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The biographical details of the Directors of the Company are set out on pages 30 to 33 of this Annual Report.

## Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2013, the interests or short positions of the Directors and the chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in Shares and underlying Shares

Name of company	Name of Director	Capacity	Interest in shares			Total interest in shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the Company or its associated corporation as at 31.12.2013
			Personal interest	Family interest	Corporate interest				
Towgas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	-	-	-	-	3,618,000	3,618,000	0.14%
	Wong Wai Yee, Peter	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Ho Hon Ming, John	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.12%
	Kwan Yuk Choi, James	Beneficial owner	1,000,000	-	-	1,000,000	1,515,000	2,515,000	0.10%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	182,156	-	-	182,156	-	182,156	0.00%
	Ho Hon Ming, John	Beneficial owner	28,527	-	-	28,527	-	28,527	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	64,306	72,858	-	137,164	-	137,164	0.00%

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares".

## Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2013 were as follows:

Name of Director	Date of grant	Exercise period	Number of Shares subject to outstanding options as at 01.01.2013	as at 31.12.2013		
				Exercise price HK\$	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2009 – 27.11.2015	1,085,400	3.811	1,085,400	0.04%
	16.03.2007	16.03.2010 – 27.11.2015	1,447,200	3.811	1,447,200	0.06%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.03%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.03%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	904,500	0.03%
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	904,500	0.03%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	904,500	3.811	–	–
	16.03.2007	16.03.2009 – 27.11.2015	904,500	3.811	309,000	0.01%
	16.03.2007	16.03.2010 – 27.11.2015	1,206,000	3.811	1,206,000	0.05%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no option was granted to the Directors and no option held by the Directors had lapsed or was cancelled.
3. These options represent personal interests held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2013, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.



# Report of the Directors

## Share Option Scheme of the Company

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

The 2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005. The share options under the 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

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

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

As at the date of this report, the outstanding number of shares in respect of which options had been granted under the 2005 Main Board Scheme was 13,535,800 (2012: 16,240,800), representing approximately 0.52% (2012: approximately 0.62%) of the issued share capital of the Company as at the date of this report.

Details of specific categories of options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
<b>2005 Main Board Scheme:</b>			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

## Share Option Scheme of the Company (Continued)

The following table discloses movements in the share options during the year:

	Option types	Date of grant	Exercise period	Exercise price (HK\$)	Number of Shares subject to outstanding options as at 01.01.2013	Exercised during the year	Number of Shares subject to outstanding options as at 31.12.2013	Weighted average closing price of Shares immediately before the date(s) on which options were exercised (HK\$)
<b>Category 1:</b>								
<b>Directors</b>								
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	–	1,085,400	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	–	1,085,400	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	–	1,447,200	–
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	1,206,000	–
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	1,206,000	–
Kwan Yuk Choi, James	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500	–	7.24
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	595,500	309,000	7.24
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	1,206,000	–
<b>Total for Directors</b>					12,663,000	1,500,000	11,163,000	
<b>Category 2:</b>								
<b>Employees</b>								
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	301,500	–	301,500	–
		03.10.2006	04.04.2008 – 27.11.2015	2.796	542,700	–	542,700	–
		03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	–	723,600	–
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	301,500	301,500	8.06
		16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	301,500	301,500	8.06
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	402,000	402,000	8.06
<b>Total for Employees</b>					3,577,800	1,005,000	2,572,800	
<b>All categories</b>					16,240,800	2,505,000	13,735,800	

# Report of the Directors

## Share Option Scheme of the Company (Continued)

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no share option was cancelled or had lapsed.
3. During the year, no new option was granted.

## Arrangements to Purchase Shares or Debentures

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

## Directors' Interests in Contracts of Significance

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

## Management Contracts

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

## Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

1. Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG;
2. Mr. Wong Wai Yee, Peter, an Executive Director of the Company, has been appointed as an executive director of HKCG with effect from 1 February 2013; and
3. Mr. Kwan Yuk Choi, James, a Non-Executive Director of the Company, was an executive director of HKCG until his retirement on 1 February 2013.

HKCG and its subsidiaries (excluding the Group) ("HKCG Group") are principally engaged in the production, distribution and marketing of gas, water supply and emerging environmental-friendly energy related businesses in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scales and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.



## Substantial Shareholders

As at 31 December 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or the chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

### Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2013
Lee Shau Kee	Interest of controlled corporations	1,628,172,901 (Note 1)	62.31%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,628,172,901 (Note 2)	62.31%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,628,172,901 (Note 2)	62.31%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,628,172,901 (Note 2)	62.31%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,628,172,901 (Note 2)	62.31%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,628,172,901 (Note 2)	62.31%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,628,172,901 (Note 2)	62.31%
HKCG	Interest of controlled corporations	1,628,172,901 (Note 3)	62.31%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,585,202,901 (Note 3)	60.67%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,585,202,901 (Note 3)	60.67%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	155,960,900 (Note 4)	5.97%

# Report of the Directors

## Substantial Shareholders (Continued)

### Long positions in Shares and underlying Shares in the Company (Continued)

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,628,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,628,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,585,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
4. Commonwealth Bank was taken to be interested in these 155,960,900 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

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.

### Short Positions in Shares and Underlying Shares in the Company

As at 31 December 2013, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

### Other Persons

As at 31 December 2013, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

## Connected Transactions

Set out below is the information in relation to the connected transactions/continuing connected transactions that existed during the year ended 31 December 2013 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance 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. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and note 36 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Equity Interests Transfer Agreement and Vehicle Transfer Agreement

On 19 March 2013, the Company's wholly-owned subsidiary 公主嶺港華燃氣有限公司 (the "Purchaser") entered into an equity interests transfer agreement with 吉林省天然氣有限公司 (Jilin Province Natural Gas Limited Company) (the "Vendor") pursuant to which the Purchaser agreed to purchase 50% equity interests in Gongzhuling Gangtian Compressed Natural Gas Co., Ltd. ("Gongzhuling Gangtian") from the Vendor at the consideration of RMB4,900,000 (the "Equity Interests Transfer Agreement"). On the same day, Gongzhuling Gangtian entered into a vehicle transfer agreement with the Vendor pursuant to which Gongzhuling Gangtian agreed to purchase the 5 tractor trucks and 5 sleighs used for the transport of compressed natural gas from the Vendor at the consideration of RMB3,170,000 (the "Vehicle Transfer Agreement").

As the Vendor is a company owned as to 49% by HKCG, which in turn is a controlling shareholder of the Company, the Vendor is an associate of HKCG and thus a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Equity Interests Transfer Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules and was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Particulars of the Equity Interests Transfer Agreement and the Vehicle Transfer Agreement were disclosed in the announcement of the Company dated 19 March 2013.



# Report of the Directors

## Connected Transactions (Continued)

### Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions

On 12 May 2010, the Company and HKCG entered into three master agreements respectively, namely:

- (1) an agreement (the "2010 Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group;
- (2) an agreement (the "2010 Pipeline Materials Purchase Master Agreement") relating to the purchase of various pipeline construction materials and tools by members of the Group from members of the HKCG Group; and
- (3) an agreement (the "2010 Gas Sales Master Agreement", and together with the 2010 Gas Purchase Master Agreement and the 2010 Pipeline Materials Purchase Master Agreement, collectively referred to as the "2010 CCT Master Agreements") relating to the sale of various types of fuel gas (including but not limited to piped natural gas, compressed natural gas and liquefied natural gas) by members of the Group to members of the HKCG Group (the "Gas Sales Transactions"),

each for a term commencing from 12 May 2010 to 30 April 2013 (both days inclusive). Particulars of the 2010 CCT Master Agreements were disclosed in the announcement of the Company dated 12 May 2010.

On 5 April 2013, the Company and HKCG entered into two master agreements to renew the 2010 Gas Purchase Master Agreement and the 2010 Pipeline Materials Purchase Master Agreement respectively, namely:

- (1) an agreement (the "2013 Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the "Gas Purchase Transactions"); and
- (2) an agreement (the "2013 Pipeline Materials Purchase Master Agreement", and together with the 2013 Gas Purchase Master Agreement collectively referred to as the "2013 CCT Master Agreements") relating to the purchase of various pipeline construction materials and tools (including but not limited to gas meters) by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"),

each for a term commencing from 1 May 2013 to 31 December 2015 (both days inclusive). Particulars of the Gas Purchase Transactions, the Pipeline Materials Purchase Transactions and the 2013 CCT Master Agreements were disclosed in the announcement of the Company dated 5 April 2013.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2010 CCT Master Agreements and the 2013 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Connected Transactions (Continued)

### Gas Purchase, Pipeline Materials Purchase and Gas Sales Transactions (Continued)

The Gas Purchase Transactions and Pipeline Materials Purchase Transactions are subject to annual cap amounts of RMB48,000,000 (approximately HK\$60,560,000) and RMB18,000,000 (approximately HK\$22,710,000) respectively for the year ended 31 December 2013. The Gas Sales Transactions are subject to a cap amount of RMB18,000,000 (approximately HK\$22,486,000) for the four months ended 30 April 2013. The respective amounts of the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2013 was RMB40,617,000 (approximately HK\$51,245,000) and RMB13,699,000 (approximately HK\$17,283,000), which have not exceeded the annual cap amounts as stated above. The amount of the Gas Sales Transactions for the four months ended 30 April 2013 was RMB466,000 (approximately HK\$582,000), which has not exceeded the cap amount for the four months ended 30 April 2013 as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2013 and the Gas Sales Transactions for the four months ended 30 April 2013 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

### Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions

On 19 December 2011, the Company entered into master agreements with three subsidiaries of HKCG respectively, namely

- (1) an agreement (the "Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 (Shenyang Sanquan Project Management Consulting Co., Ltd.), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");
- (2) an agreement (the "Master System Software and Supporting Services Agreement") relating to the user authorization, installation, management and maintenance and the provision of technical supporting services in respect of system software developed by 港華科技(武漢)有限公司 (Hongkong and China Technology (Wuhan) Company Limited) ("HKCG (Wuhan)"), including but not limited to the Towngas Customer Information System, the Towngas Customer Services Centre Hotline System and the Production Operating Management System by HKCG (Wuhan), a non wholly-owned subsidiary of HKCG, to members of the Group (the "System Software and Supporting Services Transactions"); and

# Report of the Directors

## Connected Transactions (Continued)

### Project Management, System Software and Supporting Services and Cloud Computing System and Supporting Services Transactions (Continued)

- (3) an agreement (the "Master Cloud Computing System and Supporting Services Agreement", and together with the Master Project Management Agreement and the Master System Software and Supporting Services Agreement collectively referred to as the "2011 CCT Master Agreements") relating to the user authorization, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems, including but not limited to, Towngas Customer Information System by 名氣通智能科技(深圳)有限公司 (Towngas Telecommunications (Shenzhen) Limited), a wholly-owned subsidiary of HKCG, to members of the Group (the "Cloud Computing System and Supporting Services Transactions"),

each for a term commencing from 19 December 2011 to 30 September 2014 (both days inclusive). Particulars of the Project Management Transactions, System Software and Supporting Services Transactions, Cloud Computing System and Supporting Services Transactions and the 2011 CCT Master Agreements were disclosed in the announcement of the Company dated 19 December 2011.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2011 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the reporting, annual review and announcement requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions were subject to annual cap amounts of RMB13,000,000 (approximately HK\$16,402,000), RMB27,000,000 (approximately HK\$34,065,000) and RMB11,180,000 (approximately HK\$14,105,000) respectively for the year ended 31 December 2013. The respective amounts of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2013 was RMB4,284,000 (approximately HK\$5,405,000), RMB3,607,000 (approximately HK\$4,551,000) and RMB6,828,000 (approximately HK\$8,615,000), which have not exceeded the annual cap amounts as stated above.

The Board including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2013 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.





## Related Party Transactions

Details of the related party transactions undertaken in normal course of business are set out in note 36 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they have complied with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

## Borrowings

Particulars of borrowings of the Group as at 31 December 2013 are set out in note 29 to the consolidated financial statements.

## Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$845,000.

## 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 Annual Report and during the year, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 30.45% of the Group's operating cost for the year. Purchases from the largest supplier accounted for about 8.78% of the Group's operating costs. None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had an interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers was less than 30% during the year.

## Pre-Emptive Rights

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

# Report of the Directors

## Emolument Policy

As at 31 December 2013, the Group had 20,324 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company for the Board's approval, having regard to the Group's operating results, individual performance and comparable market statistics. No Director or executive, nor any of his/her associates, is involved in deciding his/her own remuneration.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, and details of the scheme are set out in note 39 to the consolidated financial statements and under the heading "Share Option Scheme of the Company" in this Annual Report.

## Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2013, except that one of the Independent Non-Executive Directors had been unable to attend the AGM held on 3 June 2013 due to other engagement overseas.

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on pages 49 to 60 in this Annual Report.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2013 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

**Ho Hon Ming, John**

*Executive Director and Company Secretary*

Hong Kong, 17 March 2014

# Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, control, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

## Corporate Governance Practices

The Company has adopted the code provisions in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules from time to time, as its own code on corporate governance practices since 2005.

The Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2013, except that one of the Independent Non-Executive Directors was unable to attend the Company's AGM held on 3 June 2013 due to other engagement overseas.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

## Board of Directors

### Board Composition

As at the date of this Annual Report, the Board comprises seven members as detailed below:

#### Executive Directors

Mr. Chan Wing Kin, Alfred (*Chairman*)  
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)  
Mr. Ho Hon Ming, John (*Company Secretary*)

#### Non-Executive Director

Mr. Kwan Yuk Choi, James

#### Independent Non-Executive Directors

Dr. Cheng Mo Chi, Moses  
Mr. Li Man Bun, Brian David  
Mr. Chow Vee Tsung, Oscar

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. Directors give sufficient time and attention to the Group's affairs. The Company also requests the Directors to disclose to the Company semi-annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of time involved. The Board believes that the balance of skills and experience are appropriate for safeguarding the interests of shareholders and the Group.



# Corporate Governance Report

## Board of Directors (Continued)

### Board Composition (Continued)

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for Directors and officers of the Company. This insurance coverage is reviewed on an annual basis.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the Company's AGM in 2012 with effect from 4 June 2012. Other than such family relationship with Dr. Chow Yei Ching, who himself was able to satisfy the Stock Exchange's independence criteria in Rule 3.13 of the Listing Rules, Mr. Chow Vee Tsung, Oscar is not otherwise connected with any other Director, the chief executive of the Company or substantial Shareholder within the two years immediately prior to the date of his appointment on 4 June 2012 as an Independent Non-Executive Director and is able to satisfy all other independence criteria in Rule 3.13 of the Listing Rules. As such, the Company is of the view that the family relationship between Dr. Chow Yei Ching and Mr. Chow Vee Tsung, Oscar would not affect Mr. Chow Vee Tsung, Oscar's independence when performing his duties as an Independent Non-Executive Director of the Company and accordingly considers that Mr. Chow Vee Tsung, Oscar is independent.

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between any members of the Board, save that Mr. Chow Vee Tsung, Oscar is the son of Dr. Chow Yei Ching, a former Independent Non-Executive Director who retired from directorship at the AGM in 2012 on 4 June 2012, and in particular, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Chairman and the Chief Executive Officer.

All directors entered into formal letters of appointment with the Company. Pursuant to the Articles, at least one third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2013, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of Independent Non-Executive Directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules.

## Board of Directors (Continued)

### Board Composition (Continued)

The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2016. The term of office of Mr. Chow Vee Tsung, Oscar, an Independent Non-Executive Director elected at the Company's AGM in 2012, shall expire on 3 June 2015 or the conclusion of the Company's AGM in 2015, whichever is earlier. The term of office of Mr. Kwan Yuk Choi, James, a Non-Executive Director, shall expire on 2 June 2016. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

The Board adopted a Board Diversity Policy in March 2013 setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

### Functions of the Board

Headed by the Chairman, the Board is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The Executive Directors are responsible for the day-to-day management of the Company's operations and conduct meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Specific matters are decided by the Board and those reserved for management are reviewed by the Board. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles sets out the responsibilities and proceedings of the Board. The Board meets regularly at least four times a year to consider operational reports and policies of the Company. Significant operational policies are discussed and passed by the Board.

# Corporate Governance Report

## Board of Directors (Continued)

### Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

- (a) developing and reviewing the Company's policies and practices on corporate governance;
- (b) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) reviewing the Company's compliance with Appendix 14 to the Listing Rules.

During the year under review, the Board devised a Board Diversity Policy and Whistleblowing Policy, the summaries of which are included in this report.

### Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company Secretary updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2013:

	<b>Type of Training</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	A, B
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	A, B
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	A, B
<b>Non-Executive Director</b>	
Mr. Kwan Yuk Choi, James	A, B
<b>Independent Non-Executive Directors</b>	
Dr. Cheng Mo Chi, Moses	A, B
Mr. Li Man Bun, Brian David	A, B
Mr. Chow Vee Tsung, Oscar	A, B

A: attending seminars and/or conference and/or forums or giving talks at seminars

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.



## Board of Directors (Continued)

### Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2013 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the Code. Details of individual attendance of each of the Directors are set out below:

	<b>Attendance/Number of Meetings</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	4/4
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	4/4
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	4/4
<b>Non-Executive Director</b>	
Mr. Kwan Yuk Choi, James ( <i>Note</i> )	4/4
<b>Independent Non-Executive Directors</b>	
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4
Mr. Chow Vee Tsung, Oscar	4/4

Note:

Mr. Kwan Yuk Choi, James was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013.

### Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Wing Kin, Alfred and the Chief Executive Officer is Mr. Wong Wai Yee, Peter. The roles of the Chairman and the Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate, clear, complete and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group and ensuring that good corporate governance practices and procedures are established.

The Chief Executive Officer, who is assisted by other Executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

# Corporate Governance Report

## Board of Directors (Continued)

### Responsibilities of the Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- actively participating in the boards of the Company's subsidiaries and associated companies;
- approving the annual budgets for each operating company covering financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering the misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

## Board Committees

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

### Remuneration Committee

The Remuneration Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, namely Dr. Cheng Mo Chi, Moses, Mr. Li Man Bun, Brian David and Mr. Chow Vee Tsung, Oscar and is chaired by Dr. Cheng Mo Chi, Moses.

Written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Remuneration Committee's responsibilities include but are not limited to the review and consideration of the Company's remuneration policy for Directors and senior management, the making of recommendations to the Board on the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and the making of recommendations relating to remunerations of Non-Executive Directors.

## Board Committees (Continued)

### Remuneration Committee (Continued)

During the year ended 31 December 2013, the Remuneration Committee:

- reviewed the remunerations of the senior management for 2013;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2013.

The Remuneration Committee held two meetings during the year ended 31 December 2013 with individual attendance as follows:

<b>Members of the Remuneration Committee</b>	<b>Attendance/Number of Meetings</b>
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar	2/2
Mr. Chan Wing Kin, Alfred	2/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and also contribution to the Group.

### Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Cheng Mo Chi, Moses and Mr. Chow Vee Tsung, Oscar, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Li Man Bun, Brian David.

The Audit Committee reports directly to the Board and reviews interim and annual financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and review the effectiveness of internal controls of the Group. Written terms of reference, which describe the authority and duties of the Audit Committee, have been adopted and posted on the websites of the Company and HKEx, and are regularly reviewed and updated by the Board.



# Corporate Governance Report

## Board Committees (Continued)

### Audit Committee (Continued)

During the year ended 31 December 2013, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2012 and for the six months ended 30 June 2013;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings;
- established and adopted a Whistleblowing Policy; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2012 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2013 with individual attendance as follows:

<b>Members of the Audit Committee</b>	<b>Attendance/Number of Meetings</b>
Mr. Li Man Bun, Brian David	2/2
Dr. Cheng Mo Chi, Moses	2/2
Mr. Chow Vee Tsung, Oscar	2/2

### Nomination Committee

The Nomination Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, Dr. Cheng Mo Chi, Moses, Mr. Li Man Bun, Brian David and Mr. Chow Vee Tsung, Oscar, and is chaired by Mr. Chan Wing Kin, Alfred.

The written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Nomination Committee's responsibilities include but are not limited to formulating the policy and making recommendations to the Board on nominations and appointments of Directors and Board succession. The Nomination Committee is also responsible for reviewing the structure, size, composition and diversity of the Board, assessing the independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board.

## Board Committees (Continued)

### Nomination Committee (Continued)

During the year ended 31 December 2013, the Nomination Committee:

- recommended the nomination of retiring Directors for re-election at the 2013 AGM;
- reviewed the independence of Independent Non-Executive Directors;
- adopted the Board Diversity Policy; and
- reviewed the structure, size and composition of the Board.

The Nomination Committee held one meeting during the year ended 31 December 2013 with individual attendance as follows:

<b>Members of the Nomination Committee</b>	<b>Attendance/Number of Meeting</b>
Mr. Chan Wing Kin, Alfred	1/1
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar	1/1

### Model Code for Securities Transactions by Directors

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2013, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2013.

The Company has further adopted a formal model code for securities transactions by its relevant employees in 2008, who may have access to the Company's inside information during the course of their employment, on terms no less exacting than the required standard set out in the Model Code.

### External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2013. Deloitte also reviewed the 2013 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2013 amounted to HK\$6.2 million.

# Corporate Governance Report

## External Auditor (Continued)

Non-audit service fees charged by Deloitte during 2013 are as follows:

Description of non-audit services performed	HK\$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2013	550,000
(2) Tax review	110,500
(3) Annual review on continuing connected transactions for the year ended 31 December 2013	63,000
Total	723,500

## Directors' and Auditor's Responsibility in Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 61 to 62 of this Annual Report.

## Going Concern Basis in Preparing Financial Statements

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Effectiveness of Internal Control System

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. The Group's internal audit department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2013, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Whistleblowing Policy was established in 2013, with an aim to encourage employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report any misconduct, malpractice or irregularity to the Company, and it has been uploaded on the Company's website.

## Effectiveness of Internal Control System (Continued)

The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct non-compliance, if any.

## Company's Constitutional Documents

During the year, there have been no changes to the Company's constitutional documents.

## Company Secretary

The Company Secretary of the Company is Mr. Ho Hon Ming, John. For the year under review, the Company Secretary has taken no less than 15 hours of relevant professional training.

## Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communication with the shareholders is timely and accurate.

The Company uses a range of communication tools, such as the AGM, the annual reports, various notices, announcements and circulars, to ensure its shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at "www.towngaschina.com" which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived (for documents published in the previous five years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2013 AGM held on 3 June 2013, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2013 AGM to answer questions from the Company's shareholders.

The notice of the AGM is distributed to all shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.



# Corporate Governance Report

## Communication with Shareholders (Continued)

Details of individual attendance of each of the Directors are set out below:

	<b>Attendance/Number of Meeting</b>
<b>Executive Directors</b>	
Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	1/1
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	1/1
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	1/1
<b>Non-Executive Director</b>	
Mr. Kwan Yuk Choi, James ( <i>Note 1</i> )	1/1
<b>Independent Non-Executive Directors</b>	
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar ( <i>Note 2</i> )	0/1

Notes:

1. Mr. Kwan Yuk Choi, James was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013.
2. Mr. Chow Vee Tsung, Oscar was unable to attend the AGM held on 3 June 2013 due to other engagement overseas.

## Shareholders' Rights

### Convening a Extraordinary General Meeting by Shareholders and putting forward proposals

Under the Articles, an extraordinary general meeting ("EGM") may be convened by the Board upon requisition by any two or more shareholders, or any one shareholder which is a recognized clearing house (or its nominee), of the Company holding 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. The shareholders shall make a written requisition to the Board or the Company Secretary of the Company at the head office of the Company, specifying the shareholding information of the shareholders, their contact details and the proposal regarding any specified transaction/business and its supporting documents.

If within 21 days of receipt of such written requisition, the Board does not proceed to convene such EGM to be held within a further 21 days, the requisitionists 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.

### Making Enquiries to the Board

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her contact details, such as postal address or fax, addressed to the head office of the Company at 23rd Floor, 363 Java Road, North Point, Hong Kong or facsimile number (852) 2561 6618.

# Independent Auditor's Report

## Deloitte. 德勤

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED  
港華燃氣有限公司  
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 144, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors 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 Group's preparation of the 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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



# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 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

17 March 2014

# Consolidated Income Statement

For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Turnover	7	<b>6,715,709</b>	5,183,466
Operating profit before returns on investments	8	<b>925,047</b>	743,656
Other gains, net	9	<b>246,050</b>	159,872
Share of results of associates		<b>336,188</b>	245,040
Share of results of joint ventures		<b>265,125</b>	235,125
Finance costs	10	<b>(163,558)</b>	(148,145)
Profit before taxation	11	<b>1,608,852</b>	1,235,548
Taxation	13	<b>(382,509)</b>	(299,393)
Profit for the year		<b>1,226,343</b>	936,155
Profit for the year attributable to:			
Shareholders of the Company		<b>1,106,286</b>	840,798
Non-controlling interests		<b>120,057</b>	95,357
		<b>1,226,343</b>	936,155
Proposed final dividend of eight HK cents (2012: six HK cents) per ordinary share	14	<b>209,044</b>	156,621
Earnings per share	15	<b>HK cents</b>	HK cents
– Basic		<b>42.46</b>	34.17
– Diluted		<b>42.34</b>	34.10



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
Profit for the year	<b>1,226,343</b>	936,155
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	<b>294,001</b>	157,690
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value change on cash flow hedge	<b>8,684</b>	(6,299)
	<b>302,685</b>	151,391
Total comprehensive income for the year	<b>1,529,028</b>	1,087,546
Total comprehensive income attributable to:		
Shareholders of the Company	<b>1,384,816</b>	989,419
Non-controlling interests	<b>144,212</b>	98,127
Total comprehensive income for the year	<b>1,529,028</b>	1,087,546

# Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	<b>9,355,245</b>	7,652,265
Leasehold land	17	<b>352,258</b>	304,619
Intangible assets	18	<b>174,621</b>	177,089
Goodwill	19	<b>5,797,674</b>	4,284,965
Interests in associates	20	<b>2,809,167</b>	2,525,529
Interests in joint ventures	21	<b>1,787,730</b>	1,546,131
Loans to joint ventures	21	<b>11,743</b>	91,706
Available-for-sale investments	22	<b>170,248</b>	170,016
Deferred consideration receivable	23	<b>123,066</b>	156,724
		<b>20,581,752</b>	16,909,044
<b>Current assets</b>			
Inventories	24	<b>588,281</b>	394,596
Leasehold land	17	<b>11,663</b>	9,961
Loans to associates	20	<b>19,206</b>	33,582
Loans to joint ventures	21	<b>224,514</b>	139,757
Trade and other receivables, deposits and prepayments	25	<b>1,580,379</b>	1,056,809
Amounts due from non-controlling shareholders	26	<b>18,247</b>	6,358
Other financial asset	27	<b>–</b>	6,391
Time deposits over three months	25	<b>374,271</b>	219,302
Bank balances and cash	25	<b>2,230,363</b>	2,479,484
		<b>5,046,924</b>	4,346,240
<b>Current liabilities</b>			
Trade and other payables and accrued charges	28	<b>4,151,637</b>	2,998,265
Amounts due to non-controlling shareholders	26	<b>248,843</b>	193,504
Taxation		<b>563,384</b>	435,654
Borrowings – amount due within one year	29	<b>2,418,883</b>	1,946,359
		<b>7,382,747</b>	5,573,782
Net current liabilities		<b>(2,335,823)</b>	(1,227,542)
Total assets less current liabilities		<b>18,245,929</b>	15,681,502

# Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current liabilities</b>			
Loans from the ultimate holding company	30	<b>993,750</b>	993,750
Borrowings – amount due after one year	29	<b>3,487,785</b>	3,145,493
Deferred taxation	31	<b>275,823</b>	236,306
Other financial liabilities	27	<b>10,308</b>	18,992
		<b>4,767,666</b>	4,394,541
<b>Net assets</b>			
		<b>13,478,263</b>	11,286,961
<b>Capital and reserves</b>			
Share capital	32	<b>261,286</b>	246,035
Reserves		<b>12,270,017</b>	10,235,681
<b>Equity attributable to shareholders of the Company</b>			
		<b>12,531,303</b>	10,481,716
Non-controlling interests		<b>946,960</b>	805,245
<b>Total equity</b>			
		<b>13,478,263</b>	11,286,961

The consolidated financial statements on pages 63 to 144 were approved and authorised for issue by the Board of Directors (“the Board”) on 17 March 2014 and are signed on its behalf by:

**Chan Wing Kin, Alfred**  
DIRECTOR

**Li Man Bun, Brian David**  
DIRECTOR

# Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to shareholders of the Company									Non-controlling interests HK\$'000	Total HK\$'000
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Retained earnings	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2012	246,035	5,786,113	1,320,493	24,021	(12,693)	90,102	2,161,243	9,615,314	683,941	10,299,255	
Exchange differences arising on translation to presentation currency	-	-	154,920	-	-	-	-	154,920	2,770	157,690	
Fair value change on cash flow hedge	-	-	-	-	(6,299)	-	-	(6,299)	-	(6,299)	
Profit for the year	-	-	-	-	-	-	840,798	840,798	95,357	936,155	
Total comprehensive income for the year	-	-	154,920	-	(6,299)	-	840,798	989,419	98,127	1,087,546	
Transfer	-	-	-	-	-	4,909	(4,909)	-	-	-	
Addition on acquisition of businesses	-	-	-	-	-	-	-	-	2,842	2,842	
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	44,550	44,550	
Dividends paid to shareholders of the Company	-	(123,017)	-	-	-	-	-	(123,017)	-	(123,017)	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(24,215)	(24,215)	
	-	(123,017)	-	-	-	4,909	(4,909)	(123,017)	23,177	(99,840)	
At 31 December 2012	246,035	5,663,096	1,475,413	24,021	(18,992)	95,011	2,997,132	10,481,716	805,245	11,286,961	
Exchange differences arising on translation to presentation currency	-	-	269,846	-	-	-	-	269,846	24,155	294,001	
Fair value change on cash flow hedge	-	-	-	-	8,684	-	-	8,684	-	8,684	
Profit for the year	-	-	-	-	-	-	1,106,286	1,106,286	120,057	1,226,343	
Total comprehensive income for the year	-	-	269,846	-	8,684	-	1,106,286	1,384,816	144,212	1,529,028	
Issue of shares upon share placement	15,000	915,308	-	-	-	-	-	930,308	-	930,308	
Issue of shares upon exercise of share options	251	13,000	-	(3,705)	-	-	-	9,546	-	9,546	
Transfer	-	-	-	-	-	7,270	(7,270)	-	-	-	
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	(96,546)	(96,546)	(932)	(97,478)	
Addition on acquisition of businesses	-	-	-	-	-	-	-	-	47,935	47,935	
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(107,004)	(107,004)	
Partial disposal of a subsidiary	-	-	-	-	-	-	(21,766)	(21,766)	21,766	-	
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	70,141	70,141	
Dividends paid to shareholders of the Company	-	(156,771)	-	-	-	-	-	(156,771)	-	(156,771)	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(34,403)	(34,403)	
	15,251	771,537	-	(3,705)	-	7,270	(125,582)	664,771	(2,497)	662,274	
At 31 December 2013	261,286	6,434,633	1,745,259	20,316	(10,308)	102,281	3,977,836	12,531,303	946,960	13,478,263	



# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	<b>1,608,852</b>	1,235,548
Adjustments for:		
Interest income	<b>(38,344)</b>	(22,804)
Imputed interest on loans to joint ventures and deferred consideration receivable	<b>(12,141)</b>	(15,569)
Interest expenses	<b>159,971</b>	145,475
Share of results of associates	<b>(336,188)</b>	(245,040)
Share of results of joint ventures	<b>(265,125)</b>	(235,125)
Dividends from available-for-sale investments	<b>(58,169)</b>	(43,120)
Release of leasehold land	<b>12,417</b>	9,847
Amortisation of intangible assets	<b>7,454</b>	7,291
Depreciation of property, plant and equipment	<b>323,097</b>	268,506
Loss (gain) on disposal of property, plant and equipment	<b>19,733</b>	(993)
Loss on disposal of leasehold land	<b>4,788</b>	128
Gain on fair value change of derivative financial instruments	<b>(1,017)</b>	(7,314)
Allowance for doubtful debts	<b>29,050</b>	11,979
Loss on disposal of a subsidiary	<b>34,712</b>	–
Exchange gain	<b>(159,662)</b>	(45,390)
Operating cash flows before movements in working capital	<b>1,329,428</b>	1,063,419
(Increase) decrease in inventories	<b>(157,884)</b>	3,459
Increase in trade receivables	<b>(183,593)</b>	(78,062)
Increase in other receivables, deposits and prepayments	<b>(138,149)</b>	(87,598)
Increase in trade payables	<b>197,066</b>	69,649
Increase in other payables and accrued charges	<b>387,307</b>	419,244
Increase (decrease) in amounts due to non-controlling shareholders	<b>12,256</b>	(4,091)
Cash generated from operations	<b>1,446,431</b>	1,386,020
Interest paid	<b>(162,364)</b>	(146,495)
Taxation paid	<b>(233,550)</b>	(164,701)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>1,050,517</b>	1,074,824

	Notes	2013 HK\$'000	2012 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(1,682,107)</b>	(1,609,402)
Acquisitions of businesses (net of cash and cash equivalents acquired)	34	<b>(1,200,255)</b>	(177,689)
Consideration paid for acquisitions of businesses acquired in prior periods		<b>(347,861)</b>	(152,833)
Acquisition of additional interest in an associate		<b>(8,042)</b>	–
Capital injection to an associate		<b>(4,609)</b>	(73,594)
Capital injection to a joint venture		<b>(5,122)</b>	–
Disposal of a subsidiary (net of cash and cash equivalents disposed)	35	<b>1,839</b>	–
Increase in time deposits over three months		<b>(154,969)</b>	(70,719)
Purchase of leasehold land		<b>(41,973)</b>	(14,122)
Loans to an associate		–	(2,487)
Loans to joint ventures		<b>(56,515)</b>	–
Dividends received from joint ventures		<b>208,312</b>	183,332
Dividends received from an associate		<b>176,930</b>	74,047
Repayment of loans from joint ventures		<b>62,642</b>	51,453
Repayment of loans from associates		<b>15,161</b>	–
Dividends from available-for-sale investments		<b>58,169</b>	43,120
Deferred consideration received		<b>40,000</b>	40,000
Proceeds from disposal of property, plant and equipment		<b>11,671</b>	24,038
Interest received		<b>38,344</b>	21,784
Proceeds from disposal of leasehold land		<b>2,623</b>	12,169
Acquisition of additional interest in a subsidiary		<b>(97,478)</b>	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,983,240)</b>	(1,650,903)
<b>FINANCING ACTIVITIES</b>			
Repayments of bank and other loans		<b>(2,393,827)</b>	(2,688,693)
Dividends paid to shareholders of the Company		<b>(156,771)</b>	(123,017)
Dividends paid to non-controlling shareholders of subsidiaries		<b>(34,403)</b>	(24,215)
New bank and other loans raised		<b>3,182,031</b>	3,358,338
New loans from the ultimate holding company		–	522,385
Capital contribution from non-controlling shareholders of subsidiaries		<b>70,141</b>	44,550
Issue of shares upon exercise of share options		<b>9,546</b>	–
Issue of shares upon share placement		<b>930,308</b>	–
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>1,607,025</b>	1,089,348
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(325,698)</b>	513,269
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>2,479,484</b>	1,922,503
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>76,577</b>	43,712
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH</b>		<b>2,230,363</b>	2,479,484



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 1. General and Basis of Preparation

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company ("Directors"), the Group's parent holding company and the ultimate controlling shareholder, is The Hong Kong and China Gas Company Limited ("HKCG"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the Annual Report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$" or "HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with its shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network and the sale of gas household appliances.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$2,336 million as at 31 December 2013. The Group's liabilities as at 31 December 2013 included borrowings of approximately HK\$2,419 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had un-utilised facilities (the "Facilities") amounting to approximately HK\$2,201 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK\$2,419 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

Taking into account of the internally generated funds and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards

The Group has applied for the first time in the current year the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKAS”), amendments and interpretation (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income

Except as described below, the application of the above 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.

### New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated Financial Statements”, HKFRS 11 “Joint Arrangements”, HKFRS 12 “Disclosure of Interests in Other Entities”, HKAS 27 (as revised in 2011) “Separate Financial Statements” and HKAS 28 (as revised in 2011) “Investments in Associates and Joint Ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

### Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC) Int-12 “Consolidation – Special Purpose Entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (Continued)

### Impact of the application of HKFRS 10 (Continued)

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

### Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures", and the guidance contained in a related interpretation, HK(SIC) – Int13 "jointly controlled entities – Non-Monetary Contributions by Venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

As a result of the adoption of HKFRS 11, the Group has re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

### Impact of the application of HKFRS 12

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).

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (Continued)

### HKFRS 13 “Fair Value Measurement”

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

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

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard.

In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the other new and revised HKFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (Continued)

### Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income” (Continued)

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>2</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC) – Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

<sup>5</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

### Amendments to HKAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group’s consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

### Amendments to HKAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”

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

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group’s consolidated financial statements.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (Continued)

### Amendments to HKAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group’s consolidated financial statements as the Group does not have any derivatives that are subject to novation.

### HK(IFRIC) – Int 21 “Levies”

HK(IFRIC) – Int 21 “Levies” addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK(IFRIC) – Int 21 will have no effect on the Group’s consolidated financial statements as the Group does not have any levy arrangements.

Except those mentioned above, the directors of the Company anticipate that the application of the other new and revised HKFRSs that have been issued but are not yet effective may have no material impact on the results and the financial position of the Group.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at fair value, as explained in the accounting policies below, and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

When the group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

### 3. Significant Accounting Policies (Continued)

#### Basis of consolidation (Continued)

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

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

#### Changes in the Group's ownership interests in existing subsidiaries

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

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

#### Business combinations

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

### 3. Significant Accounting Policies (Continued)

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant 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 is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment 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 on a pro rata basis on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent years.

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

#### Investments 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. 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Investments in associates and joint ventures (Continued)

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, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part 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.

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 and 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.

### 3. Significant Accounting Policies (Continued)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from gas connection, which relates to contracts for construction of gas connection facilities, is recognised based 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 can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used by the customers.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

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

Dividend income from investments is recognised when the shareholders' rights 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).

#### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less accumulated depreciation, and any impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Buildings	15 – 30 years
Gas pipelines	25 – 40 years
Plant and equipment and others	5 – 15 years

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. 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.

### Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to appropriate categories of property, plant and equipment.

### Intangible assets

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

#### Exclusive operating rights for city pipeline network

Exclusive operating rights for city pipeline network are stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating rights is capitalised and amortised on a straight-line basis over the estimated useful life.

The estimated useful life and amortisation method of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 3. Significant Accounting Policies (Continued)

#### Construction contracts

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probably recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenues, the expected loss is recognised as an expense immediately.

#### Impairment (other than goodwill)

At the end of each 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial assets

The Group's financial assets are mainly classified into one of the two categories, 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 period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

#### Loans and receivables

Loans and receivables (including deferred consideration receivable, loans to associates, loans to joint ventures, trade receivables, other receivables, amounts due from non-controlling shareholders, time deposits over three months and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

#### Available-for-sale financial assets

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

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

#### Impairment of financial assets

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

For all other financial assets, objective evidence of impairment could include:

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

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### *Impairment of financial assets (Continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the 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.

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

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

##### **Financial liabilities and equity**

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

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group 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 period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Bank and other borrowings*

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### *Other financial liabilities*

Other financial liabilities including trade payables, other payables, amounts due to non-controlling shareholders and loans from the ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

#### *Derivative financial instruments and hedging*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### *Hedge accounting*

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges) or hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### *Derecognition*

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

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

#### Share-based payment transactions

##### Equity-settled share-based payment transactions

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 option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates 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 option reserve.

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

#### 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 income statement 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. Significant Accounting Policies (Continued)

### Taxation (Continued)

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

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

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

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

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

Current and deferred tax is 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. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### 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 lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### 3. Significant Accounting Policies (Continued)

#### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

#### Retirement benefits costs

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered service entitling them to the contributions.

### 4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. 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, are discussed below.

#### Impairment of goodwill

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 units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill is HK\$5,797,674,000 (2012: HK\$4,284,965,000). Details of the recoverable amount calculation are disclosed in note 19.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 4. Key Sources of Estimation Uncertainty (Continued)

### Income taxes

As at 31 December 2013, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK\$232,923,000 (2012: HK\$137,811,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2013, the carrying amount of trade receivables is HK\$644,465,000 (2012: HK\$412,371,000).

## 5. Capital Risk Management

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

The capital structure of the Group consists of debt, which includes borrowings and loans from the ultimate holding company disclosed in notes 29 and 30, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% determined as the proportion of net debt excluding loans from the ultimate holding company ("ND") to equity plus ND (the "Gearing Ratio").

The Gearing Ratio at the reporting date was as follows:

	2013 HK\$'000	2012 HK\$'000
Debt <sup>(i)</sup>	<b>6,900,418</b>	6,085,602
Time deposits over three months	<b>(374,271)</b>	(219,302)
Bank balances and cash	<b>(2,230,363)</b>	(2,479,484)
Net debt	<b>4,295,784</b>	3,386,816
Equity <sup>(ii)</sup>	<b>12,531,303</b>	10,481,716
Net debt to equity ratio	<b>34.3%</b>	32.3%
Gearing Ratio <sup>(iii)</sup>	<b>20.9%</b>	18.6%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 29 and 30.

(ii) Equity includes all capital and reserves of the Group excluding non-controlling interest.

(iii) Being the proportion of ND of HK\$3,302,034,000 (2012: HK\$2,393,066,000) to equity plus ND of HK\$15,833,337,000 (2012: HK\$12,874,782,000).

## 6. Financial Instruments

### Categories of financial instruments

	2013 HK\$'000	2012 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<b>3,685,196</b>	3,578,605
Derivative financial instruments	–	6,391
Available-for-sale instruments	<b>170,248</b>	170,016
<b>Financial liabilities</b>		
Amortised cost	<b>8,518,305</b>	7,208,759
Derivative financial instruments	<b>10,308</b>	18,992

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, deferred consideration receivable, loans to associates, loans to joint ventures, trade and other receivables, amounts due from non-controlling shareholders, other financial asset, time deposits over three months, bank balances and cash, trade and other payables, amounts due to non-controlling shareholders, borrowings, loans from the ultimate holding company and other financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Currency risk

Certain bank balances and cash, time deposits over three months, bank and other borrowings and loans from the ultimate holding company are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances and cash, time deposits over three months, bank and other borrowings and loans from the ultimate holding company, denominated in United States Dollar ("USD") and HKD at the end of the reporting period are set out in notes 25, 29 and 30.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Currency risk (Continued)

##### Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2012: 3%) in exchange rate of USD and HKD 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 each reporting period for a 3% (2012: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash, borrowings and loans from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit before taxation for the year where RMB strengthens by 3% (2012: 3%) against USD and HKD. For a 3% (2012: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2013 HK\$'000	2012 HK\$'000
Profit before taxation for the year	<b>171,381</b>	143,369

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to joint ventures and loans to associates. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and the loans from the ultimate holding company and pay-fixed interest rate swap. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The critical terms of the interest rate swap are similar to the hedged borrowing. The interest rate swap is designated as effective hedging instruments and hedge accounting is used (see note 27 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD loans and the loans from the ultimate holding company and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.



## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Interest rate risk (Continued)

##### Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loans from the ultimate holding company, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points (2012: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2012: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2013 would decrease/increase by HK\$15,401,000 (2012: HK\$13,377,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loans from the ultimate holding company.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate debt instruments.

#### Credit risk

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, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to joint ventures and loans to associates are concentrated in five (2012: six) joint ventures and one (2012: two) associate respectively. However, the management, having considered the financial background and good creditability of the associate and joint ventures, believes there is no significant credit risk. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

The credit risk of deferred consideration receivable is concentrated in one (2012: one) counterparty. Management will closely monitor the financial position of the counterparty to ensure overdue debts are timely recovered.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk

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

The Group relies on loans from the ultimate holding company, bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK\$2,201 million (at 31 December 2012: HK\$1,670 million). As stated in note 1, the directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$2,336 million (at 31 December 2012: HK\$1,228 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1 - 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	5 + years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2013 HK\$'000
<b>2013</b>								
Trade payables	-	435,854	258,310	175,991	-	-	870,155	870,155
Other payables	-	498,889	-	-	-	-	498,889	498,889
Amounts due to non-controlling shareholders	-	248,843	-	-	-	-	248,843	248,843
Loans from the ultimate holding company	3.61%	-	-	8,181	1,065,480	-	1,073,661	993,750
Bank loans	2.53%	-	1,302,366	1,117,882	3,790,448	16,293	6,226,989	5,849,467
Other loans	2.05%	2,945	-	23,733	15,338	18,947	60,963	57,201
		1,186,531	1,560,676	1,325,787	4,871,266	35,240	8,979,500	8,518,305
Derivative-net settlement								
Interest rate swap		-	1,007	3,022	7,051	-	11,080	10,308

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5 + years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2012 HK\$'000
2012								
Trade payables	–	237,445	242,986	111,917	–	–	592,348	592,348
Other payables	–	337,305	–	–	–	–	337,305	337,305
Amounts due to non-controlling shareholders	–	193,504	–	–	–	–	193,504	193,504
Loans from the ultimate holding company	3.31%	–	–	–	1,059,501	–	1,059,501	993,750
Bank loans	2.86%	–	754,151	1,207,271	3,087,892	16,492	5,065,806	5,029,939
Other loans	1.98%	2,861	–	15,953	22,008	26,306	67,128	61,913
		771,115	997,137	1,335,141	4,169,401	42,798	7,315,592	7,208,759
Derivative-net settlement								
Interest rate swap		–	1,369	2,738	16,427	–	20,534	18,992

#### Fair value measurements

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

Financial assets/ financial liabilities	Fair value as at 31.12.2013	Fair value as at 31.12.2012	Fair value hierarchy	Valuation techniques and key inputs
1) Foreign currency forward contract classified as other financial asset in the statement of financial position	<b>Asset – nil</b>	Assets – HK\$6,391,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of the Group.
2) Interest rate swaps classified as other financial liabilities in the statement of financial position	<b>Liabilities (designated for hedging) – HK\$10,308,000</b>	Liabilities (designated for hedging) – HK\$18,992,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 7. Segment Information

### Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	–	Construction of gas pipeline networks under gas connection contracts

\* Sales from gas related household appliances contribute to less than 5% of the Group's total revenue.

Segments results represent the profit before taxation earned by each segment, excluding interest income, finance costs, share of results of associates, share of results of joint ventures, other gains, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

## 7. Segment Information (Continued)

### Operating segments (Continued)

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
<b>For the year ended 31 December 2013</b>			
TURNOVER			
External	<b>5,264,625</b>	<b>1,451,084</b>	<b>6,715,709</b>
Segment results	<b>426,956</b>	<b>638,269</b>	<b>1,065,225</b>
Other gains, net			<b>246,050</b>
Unallocated corporate expenses			<b>(140,178)</b>
Share of results of associates			<b>336,188</b>
Share of results of joint ventures			<b>265,125</b>
Finance costs			<b>(163,558)</b>
Profit before taxation			<b>1,608,852</b>
Taxation			<b>(382,509)</b>
Profit for the year			<b>1,226,343</b>

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2012			
TURNOVER			
External	3,972,241	1,211,225	5,183,466
Segment results	307,682	551,760	859,442
Other gains, net			159,872
Unallocated corporate expenses			(115,786)
Share of results of associates			245,040
Share of results of joint ventures			235,125
Finance costs			(148,145)
Profit before taxation			1,235,548
Taxation			(299,393)
Profit for the year			936,155



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 7. Segment Information (Continued)

### Operating segments (Continued)

Segment results included depreciation and amortisation of HK\$342,968,000 (2012: HK\$285,644,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2013 and 2012.

## 8. Operating Profit Before Returns on Investments

	2013 HK\$'000	2012 HK\$'000
Turnover	<b>6,715,709</b>	5,183,466
Less expenses:		
Gas fuel, stores and materials used	<b>4,274,570</b>	3,219,970
Staff costs	<b>670,677</b>	521,417
Depreciation, amortisation and release of leasehold land	<b>342,968</b>	285,644
Other expenses	<b>502,447</b>	412,779
	<b>925,047</b>	743,656

## 9. Other Gains, Net

Other gains, net mainly comprised of:

	2013 HK\$'000	2012 HK\$'000
Dividend income from available-for-sale investments	<b>58,169</b>	43,120
Interest income	<b>38,344</b>	22,804
Exchange gain	<b>159,662</b>	45,390
Imputed interest income on deferred consideration receivable	<b>6,278</b>	7,272
Imputed interest income on loans to joint ventures	<b>5,863</b>	8,297
Gain on fair value change of derivative financial instruments	<b>1,017</b>	7,314
Loss on disposal of a subsidiary	<b>(34,712)</b>	–

## 10. FINANCE COSTS

	2013 HK\$'000	2012 HK\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	<b>161,269</b>	145,027
– bank and other borrowings not wholly repayable within five years	<b>1,095</b>	1,468
Bank charges	<b>3,587</b>	2,670
	<b>165,951</b>	149,165
Less: amounts capitalised	<b>(2,393)</b>	(1,020)
	<b>163,558</b>	148,145

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 11. Profit Before Taxation

	2013 HK\$'000	2012 HK\$'000
Profit before taxation has been arrived at after charging and (crediting):		
Directors' remuneration (note 12)	<b>10,307</b>	9,838
Other staff costs	<b>602,311</b>	464,675
Retirement benefit scheme contributions (excluding directors)	<b>58,059</b>	46,904
Total staff costs	<b>670,677</b>	521,417
Allowance for doubtful debts	<b>29,050</b>	11,979
Amortisation of intangible assets	<b>7,454</b>	7,291
Release of leasehold land	<b>12,417</b>	9,847
Auditor's remuneration	<b>11,031</b>	9,141
Cost of inventories sold	<b>4,686,162</b>	3,561,889
Depreciation of property, plant and equipment	<b>323,097</b>	268,506
Operating lease rentals in respect of land and buildings	<b>25,360</b>	17,272
Loss (gain) on disposal of property, plant and equipment	<b>19,733</b>	(993)
Loss on disposal of leasehold land	<b>4,788</b>	128

## 12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 7 (2012: 9) directors were as follows:

	Year ended 31 December 2013									
	Chan Wing Kin, Alfred	Cheng Mo Chi, Moses	Chow Vee Tsung, Oscar	Chow Yei Ching	Kwan Yuk Choi, James	Ho Hon Ming, John	Law Wai Fun, Margaret	Li Man Bun, Brian David	Wong Wai Yee, Peter	Total
	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000 (Note d)	HK\$'000 (Note e)	HK\$'000	HK\$'000 (Note f)	HK\$'000
Fees	200	500	500	-	200	200	-	500	200	2,300
Other emoluments										
Salaries and other benefits	-	-	-	-	-	1,023	-	-	1,094	2,117
Retirement benefit scheme contributions	-	-	-	-	-	102	-	-	110	212
Performance and discretionary bonus (Note a)	-	-	-	-	-	2,038	-	-	3,640	5,678
Total emoluments	<b>200</b>	<b>500</b>	<b>500</b>	<b>-</b>	<b>200</b>	<b>3,363</b>	<b>-</b>	<b>500</b>	<b>5,044</b>	<b>10,307</b>

## 12. Directors' and Employees' Emoluments (Continued)

	Year ended 31 December 2012									
	Chan Wing Kin, Alfred	Cheng Mo Chi, Moses	Chow Vee Tsung, Oscar	Chow Yei Ching	Kwan Yuk Choi, James	Ho Hon Ming, John	Law Wai Fun, Margaret	Li Man Bun, Brian David	Wong Wai Yee, Peter	Total
	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000 (Note d)	HK\$'000 (Note e)	HK\$'000	HK\$'000 (Note f)	HK\$'000
Fees	200	500	250	250	200	200	200	500	200	2,500
Other emoluments										
Salaries and other benefits	-	-	-	-	-	983	-	-	1,052	2,035
Retirement benefit scheme contributions	-	-	-	-	-	98	-	-	105	203
Performance and discretionary bonus (Note a)	-	-	-	-	-	1,835	-	-	3,265	5,100
<b>Total emoluments</b>	<b>200</b>	<b>500</b>	<b>250</b>	<b>250</b>	<b>200</b>	<b>3,116</b>	<b>200</b>	<b>500</b>	<b>4,622</b>	<b>9,838</b>

### Notes:

- (a) The performance and discretionary bonus are determined by the Board from time to time with reference to directors' duties and responsibilities and the Group's performance and profitability.
- (b) Mr. Chow Vee Tsung, Oscar was appointed as an Independent Non-Executive Director of the Company with effect from 4 June 2012.
- (c) Dr. Chow Yei Ching retired as an Independent Non-Executive Director of the Company with effect from 4 June 2012.
- (d) Mr. Ho Hon Ming, John is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary. The monthly basic salary of Mr. Ho Hon Ming, John as Company Secretary was increased to HK\$88,610 per month with effect from 1 January 2014.
- (e) Ms. Law Wai Fun, Margaret resigned as an Executive Director of the Company with effect from 1 January 2013 upon her retirement.
- (f) Mr. Wong Wai Yee, Peter is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer. The monthly basic salary of Mr. Wong Wai Yee, Peter as Chief Executive Officer was increased to HK\$94,850 per month with effect from 1 January 2014.
- (g) No service contracts were entered into by any directors with the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 12. Directors' and Employees' Emoluments (Continued)

Employees' emoluments:

For the year ended 31 December 2013, the five highest paid individuals of the Group included two (2012: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2012: three) highest paid individuals are as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries and other benefit	4,009	3,725
Performance related incentive payments	1,886	1,606
Contribution to retirement benefit scheme	281	253
	<b>6,176</b>	5,584

The emoluments were within the following bands:

	Number of employees	
	2013	2012
HK\$1,500,001 to HK\$2,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2013.

## 13. Taxation

	2013 HK\$'000	2012 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	339,651	260,215
Deferred taxation (note 31)		
– taxation charge for the year	42,858	39,178
	<b>382,509</b>	299,393

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.



### 13. Taxation (Continued)

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2012: 15% to 25%).

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries were entitled to exemption from EIT for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries would be entitled to a 50% relief from EIT for the following three years. The reduced tax rate for the relief period was 12.5%. EIT for the year ended 31 December 2012 had been provided for after taking these tax incentives into account. These tax incentives had been expired by the year 2012.

Certain subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to EIT at concessionary rate of 15%. Save as aforesaid, the applicable tax rate for the current year is 25%.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2013 HK\$'000	2012 HK\$'000
Profit before taxation	<b>1,608,852</b>	1,235,548
Tax at the applicable rate of 25% (2012: 25%) (Note)	<b>402,213</b>	308,887
Tax effect of expenses that are not deductible for tax purposes	<b>97,173</b>	99,779
Tax effect of income that are not taxable for tax purposes	<b>(50,620)</b>	(46,782)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in EIT	–	(5,768)
Effect of different tax rates of subsidiaries operating in different regions	<b>(3,641)</b>	(3,582)
Tax effect of share of results of associates	<b>(84,047)</b>	(61,260)
Tax effect of share of results of joint ventures	<b>(66,281)</b>	(58,781)
Tax effect of utilisation of tax losses not previously recognised	<b>(650)</b>	(1,551)
Tax effect of tax losses not recognised	<b>42,350</b>	25,325
Withholding tax on undistributed profits	<b>46,012</b>	43,126
Tax charge for the year	<b>382,509</b>	299,393

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2013 (2012: 25%).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 14. Dividends

During the year, final dividend in respect of year ended 31 December 2012 of HK\$156,771,000 (2012: HK\$123,017,000 in respect of year ended 31 December 2011) was recognised as distribution, being six HK cents per ordinary share (2012: five HK cents per ordinary share).

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2013 of eight HK cents (2012: six HK cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 15. Earnings Per Share

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

	2013 HK\$'000	2012 HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	<b>1,106,286</b>	840,798

	Number of shares	
	2013 '000	2012 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,605,489</b>	2,460,345
Effects of dilutive potential ordinary shares: Share options	<b>7,288</b>	5,378
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,612,777</b>	2,465,723

## 16. Property, Plant and Equipment

	Buildings HK\$'000	Gas pipelines HK\$'000	Plant and equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2012	661,836	5,066,432	801,463	642,519	7,172,250
Currency realignment	8,381	55,828	9,303	8,816	82,328
Additions	87,288	340,585	148,501	1,034,048	1,610,422
Additions from acquisition of businesses	22,821	102,322	11,273	–	136,416
Disposals	(18,528)	(2,005)	(23,721)	–	(44,254)
Transfer	116,770	594,876	11,923	(723,569)	–
At 31 December 2012	878,568	6,158,038	958,742	961,814	8,957,162
Currency realignment	29,051	197,243	32,296	28,936	287,526
Additions	62,102	238,799	127,183	1,256,416	1,684,500
Additions from acquisition of businesses	38,323	159,665	52,040	67,279	317,307
Disposals	(9,293)	(11,657)	(44,651)	–	(65,601)
Disposal of a subsidiary	(38,238)	(124,579)	(33,492)	(35,966)	(232,275)
Transfer	112,301	900,030	40,793	(1,053,124)	–
At 31 December 2013	1,072,814	7,517,539	1,132,911	1,225,355	10,948,619
<b>DEPRECIATION</b>					
At 1 January 2012	95,124	711,692	237,467	–	1,044,283
Currency realignment	1,381	8,209	3,727	–	13,317
Provided for the year	27,780	149,421	91,305	–	268,506
Eliminated on disposals	(3,975)	(337)	(16,897)	–	(21,209)
At 31 December 2012	120,310	868,985	315,602	–	1,304,897
Currency realignment	4,819	28,906	14,651	–	48,376
Provided for the year	40,211	179,109	103,777	–	323,097
Eliminated on disposals	(1,506)	(2,764)	(29,927)	–	(34,197)
Eliminated on disposal of a subsidiary	(22,818)	(16,559)	(9,422)	–	(48,799)
At 31 December 2013	141,016	1,057,677	394,681	–	1,593,374
<b>CARRYING VALUES</b>					
At 31 December 2013	931,798	6,459,862	738,230	1,225,355	9,355,245
At 31 December 2012	758,258	5,289,053	643,140	961,814	7,652,265

The buildings situated on land in the PRC are held under medium-term leases.

No property, plant and equipment of the Group was pledged as at 31 December 2013 and 2012.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 17. Leasehold Land

	2013 HK\$'000	2012 HK\$'000
Balance at the beginning of the year	<b>314,580</b>	306,012
Currency realignment	<b>9,880</b>	4,161
Additions	<b>41,973</b>	14,122
Acquired on acquisition of businesses	<b>17,316</b>	12,429
Disposals	<b>(7,411)</b>	(12,297)
Charge for the year	<b>(12,417)</b>	(9,847)
Balance at the end of the year	<b>363,921</b>	314,580
Analysis for reporting purpose:		
Non-current portion	<b>352,258</b>	304,619
Current portion	<b>11,663</b>	9,961
	<b>363,921</b>	314,580

The amount represented medium-term land use rights situated in the PRC.

## 18. Intangible Assets

	HK\$'000
COST	
At 1 January 2012	225,318
Currency realignment	1,962
At 31 December 2012	227,280
Currency realignment	6,693
At 31 December 2013	233,973
AMORTISATION	
At 1 January 2012	42,408
Currency realignment	492
Provided for the year	7,291
At 31 December 2012	50,191
Currency realignment	1,707
Provided for the year	7,454
At 31 December 2013	59,352
CARRYING VALUES	
At 31 December 2013	174,621
At 31 December 2012	177,089

The intangible assets represent the Group's exclusive operating rights for city pipeline network.

The exclusive operating rights are amortised on a straight-line basis over a period of 25 to 30 years.

## 19. Goodwill

	HK\$'000
At 1 January 2012	3,848,101
Currency realignment	33,842
Acquired on acquisition of businesses	403,022
At 31 December 2012	4,284,965
Currency realignment	153,072
Acquired on acquisition of businesses	1,359,637
At 31 December 2013	5,797,674

Goodwill acquired in a business combination is allocated to cash generating units (“CGUs”) that are expected to benefit from that business combination. The management considers each investment holding company operating in specific locations together with its respective subsidiaries (together referred to as the “Sub-group”) represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 19. Goodwill (Continued)

	2013 HK\$'000	2012 HK\$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	<b>366,490</b>	356,006
Hong Kong & China Gas (Zibo) Limited	<b>394,170</b>	382,894
Hong Kong & China Gas (Yantai) Limited	<b>266,212</b>	258,596
Hong Kong & China Gas (Weifang) Limited	<b>153,177</b>	148,795
Hong Kong & China Gas (Weihai) Limited	<b>304,953</b>	296,230
Hong Kong & China Gas (Taian) Limited	<b>269,805</b>	262,087
Hong Kong & China Gas (Maanshan) Limited	<b>320,246</b>	311,084
Hong Kong & China Gas (Anqing) Limited	<b>303,538</b>	294,855
Mianyang Hong Kong and China Gas Co., Ltd.	<b>326,304</b>	316,970
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	<b>247,995</b>	240,901
Towngas (BVI) Holdings Limited ("Towngas BVI")*	<b>454,559</b>	441,555
Jiujiang Hong Kong and China Gas Co., Ltd.	<b>71,720</b>	69,668
Guilin Hong Kong and China Gas Co., Ltd.	<b>42,818</b>	41,593
Wuning Hong Kong & China Gas Co., Ltd.	<b>80,179</b>	77,885
Xiushui Hong Kong & China Gas Co., Ltd.	<b>42,315</b>	41,105
Miluo Red-Horse Natural Gas Development Co., Ltd.	<b>153,923</b>	149,520
Beipiao Hong Kong & China Gas Co., Ltd.	<b>48,730</b>	47,336
Changting Hong Kong & China Gas Co., Ltd. ("Changting")	<b>59,938</b>	58,223
Fuxin Xinqiu Hong Kong & China Gas Co., Ltd. ("Xinqiu")	<b>144,383</b>	140,252
Qinhuangdao Hong Kong & China Gas Co., Ltd. ("Qinhuangdao")	<b>60,979</b>	59,235
Jinan Pingyin Hong Kong & China Gas Co., Ltd.	<b>155,665</b>	97,503
Shenyang business ("Shenyang")	<b>139,020</b>	–
Sichuan Quanxin Gas Co., Ltd. ("Quanxin")	<b>131,924</b>	–
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. ("Fengxi")	<b>184,180</b>	–
Boxing Hong Kong & China Gas Co., Ltd. ("Boxing")	<b>113,257</b>	–
Yanshan Hong Kong & China Gas Co., Ltd. ("Yanshan")	<b>58,727</b>	–
Cangxian Hong Kong & China Gas Co., Ltd. ("Cangxian")	<b>58,721</b>	–
Dafeng Hong Kong and China Gas Company Limited ("Dafeng")	<b>359,709</b>	–
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd. ("Zhongwei")	<b>151,109</b>	–
Jianping Hong Kong and China Gas Company Limited ("Jianping")	<b>57,825</b>	–
Others	<b>275,103</b>	192,672
	<b>5,797,674</b>	4,284,965

\*Note: The operating entities of Towngas BVI are located in the Liaoning and Zhejiang provinces in the PRC.

## 19. Goodwill (Continued)

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 7.6% (2012: 8%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2012: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2013 (2012: nil).

## 20. Interests in Associates/Loans to Associates

Details of the Group's interests in associates are as follows:

	2013 HK\$'000	2012 HK\$'000
Cost of investments in associates	<b>1,743,493</b>	1,640,683
Share of post-acquisition profits and other comprehensive income, net of dividends received	<b>1,065,674</b>	884,846
	<b>2,809,167</b>	2,525,529
Loans to associates – Current portion	<b>19,206</b>	33,582

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 20. Interests in Associates/Loans to Associates (Continued)

Details of each of the Group's principal associates as at the end of the reporting period are as follows:

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2013	2012	
Changchun Gas Company Limited 長春燃氣股份有限公司	PRC – Limited liability company	25%	26%	Production and distribution of natural gas, coal gas, liquefied petroleum gas ("LPG"), metallurgical coke and coke oil
Bozhou WanHua Gas Company Ltd 亳州皖華燃氣有限公司	PRC – Sino-foreign equity joint venture	49%	–	Provision of natural gas and related services and gas pipeline construction
Foshan Gas Group Ltd. 佛山市燃氣集團股份有限公司	PRC – Sino-foreign equity joint venture	43%	43%	Provision of LPG, natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	40%	40%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC – Limited liability company	40%	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	42%	42%	Provision of natural gas and related services and gas pipeline construction
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC – Sino-foreign equity joint venture	49%	48%	Provision of natural gas and related services and gas pipeline construction
Shijiazhuang Huabo Gas Co., Ltd. 石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	45%	–	Provision of natural gas and related services and gas pipeline construction
Zibo Lubo Gas Company Ltd. 濰博綠博燃氣有限公司	PRC – Sino-foreign equity joint venture	27%	27%	Provision of natural gas and related services and gas pipeline construction

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs, which were not audited by the certified public accountants registered in the PRC.

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

## 20. Interests in Associates/Loans to Associates (Continued)

### Foshan Gas Group Ltd. ("Foshan")

	2013 HK\$'000	2012 HK\$'000
Current assets	1,260,899	1,053,735
Non-current assets	4,030,285	3,386,733
Current liabilities	(2,138,514)	(1,798,950)
Non-current liabilities	(1,100,913)	(992,002)

	2013 HK\$'000	2012 HK\$'000
Revenue	4,433,568	3,859,229
Profit and total comprehensive income for the year	456,062	388,855
Dividends received from the associate during the year	54,252	74,047

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

	2013 HK\$'000	2012 HK\$'000
Net assets of Foshan	2,051,757	1,649,512
Less: non-controlling interests of Foshan	(511,524)	(372,649)
	1,540,233	1,276,863
Proportion of the Group's ownership interest in Foshan	662,300	549,051
Goodwill	48,479	47,092
Carrying amount of the Group's interest in Foshan	710,779	596,143

### Aggregate information of associates that are not individually material

	2013 HK\$'000	2012 HK\$'000
The Group's share of profit and total comprehensive income	140,081	77,832
Aggregate carrying amount of the Group's interests in these associates	2,098,388	1,929,386

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 20. Interests in Associates/Loans to Associates (Continued)

The loans to associates are unsecured and carried at amortised cost with the following details:

Principal amount 2013	2012	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2013 HK\$'000	2012 HK\$'000
<b>RMB15,000,000</b>	RMB15,000,000	April 2014 (2012: October 2013)	6.56%	6.56%	<b>19,206</b>	18,657
-	RMB10,000,000	July 2013 (2012: July 2013)	7.26%	7.26%	-	12,438
-	RMB2,000,000	June 2013 (2012: June 2013)	6.56%	6.56%	-	2,487
					<b>19,206</b>	33,582

The principal and interest will be received on respective payment due dates set out in the loan agreements.

## 21. Interests in Joint Ventures/Loans to Joint Ventures

Details of the Group's investments in joint ventures are as follows:

	2013 HK\$'000	2012 HK\$'000
Cost of investments in joint ventures	<b>1,192,585</b>	1,007,799
Share of post-acquisition profits and other comprehensive income, net of dividends received	<b>595,145</b>	538,332
	<b>1,787,730</b>	1,546,131
Loans to joint ventures		
– Non-current portion	<b>11,743</b>	91,706
– Current portion	<b>224,514</b>	139,757
	<b>236,257</b>	231,463



## 21. Interests in Joint Ventures/Loans to Joint Ventures (Continued)

Details of the Group's principal joint ventures at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2013	2012	
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC – Limited liability company	50%	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Wuhu Hong Kong & China Gas Company Limited 蕪湖港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	–	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction

# Notes to the Consolidated Financial Statements

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## 21. Interests in Joint Ventures/Loans to Joint Ventures (Continued)

### Aggregate information of joint ventures that are not individually material

	2013 HK\$'000	2012 HK\$'000
The Group's share of profit and total comprehensive income	<b>265,125</b>	235,125
Aggregate carrying amount of the Group's interests in these joint ventures	<b>1,787,730</b>	1,546,131

The loans to joint ventures are unsecured and carried at amortised cost with the following details:

Principal amount 2013	Principal amount 2012	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
					2013 HK\$'000	2012 HK\$'000
<b>RMB37,650,000</b>	RMB37,650,000	December 2014 (2012: December 2014)	Nil	6.12%	<b>45,405</b>	41,493
<b>RMB35,000,000</b>	RMB35,000,000	July 2014 (2012: July 2014)	Nil	6.12%	<b>43,208</b>	39,482
-	RMB42,530,000	July 2013 (2012: July 2013)	Nil	6.12%	-	50,204
<b>RMB10,550,000</b>	RMB10,550,000	February 2016 (2012: February 2016)	Nil	6.12%	<b>11,744</b>	10,731
<b>RMB52,000,000</b>	RMB52,000,000	August 2014 (2012: August 2013)	5.84%	5.84%	<b>66,581</b>	64,677
<b>RMB10,000,000</b>	RMB10,000,000	September 2014 (2012: September 2013)	7.87%	7.87%	<b>12,804</b>	12,438
-	RMB10,000,000	December 2013 (2012: December 2013)	6.00%	6.00%	-	12,438
<b>RMB20,000,000</b>	-	November 2014	6.00%	6.00%	<b>25,608</b>	-
<b>RMB24,138,123</b>	-	Repayable on demand	5.88%	5.88%	<b>30,907</b>	-
					<b>236,257</b>	231,463

The principal and interest will be receivable on the maturity date for each loan.

## 22. Available-For-Sale Investments

	2013 HK\$'000	2012 HK\$'000
Unlisted shares in the PRC, at cost	<b>170,248</b>	170,016

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment 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. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

## 23. Deferred Consideration Receivable

As part of the consideration for the disposal of certain subsidiaries during the year ended 31 December 2009, deferred consideration of HK\$379,000,000 is to be settled in cash by the purchaser under five annual instalments of HK\$40,000,000 each commencing from June 2010 for five years, and a balancing sum of HK\$179,000,000 in June 2015 (the "Balancing Sum"). The Balancing Sum of the consideration is subject to downward adjustment up to an amount of HK\$65 million, if on or before 15 June 2015, trade and other receivables of the disposed subsidiaries that were outstanding at the date of disposal have become uncollectible. The amount is secured against the entire share capital of the holding company of the operations disposed of and interest free. The fair value of the deferred consideration at date of initial recognition is determined based on the estimated future cash flows discounted at 3% per annum. The carrying amounts are analysed for reporting purpose as follows:

	2013 HK\$'000	2012 HK\$'000
Non-current assets	<b>123,066</b>	156,724
Current assets (included in trade and other receivables, deposits and prepayments)	<b>39,321</b>	39,321
	<b>162,387</b>	196,045

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

During the year, imputed interest income from deferred consideration receivable is HK\$6,278,000 (2012: HK\$7,272,000).

## 24. Inventories

	2013 HK\$'000	2012 HK\$'000
Finished goods	<b>151,594</b>	114,100
Materials and consumables	<b>436,687</b>	280,496
	<b>588,281</b>	394,596

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 25. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash

	2013 HK\$'000	2012 HK\$'000
Trade receivables	<b>644,465</b>	412,371
Deferred consideration receivable	<b>39,321</b>	39,321
Prepayments	<b>566,302</b>	387,959
Other receivables and deposits	<b>330,291</b>	217,158
	<b>1,580,379</b>	1,056,809

### Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables of HK\$644,465,000 (2012: HK\$412,371,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2013 HK\$'000	2012 HK\$'000
0 to 90 days	<b>579,840</b>	384,737
91 to 180 days	<b>27,747</b>	15,908
181 to 360 days	<b>36,878</b>	11,726
	<b>644,465</b>	412,371

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK\$14,705,000 (2012: HK\$10,264,000) which have been 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.

Aging of trade receivables which are past due but not impaired is as follows:

	2013 HK\$'000	2012 HK\$'000
0 – 90 days	<b>14,609</b>	5,026
91 – 180 days	<b>1,373</b>	2,385
181 – 360 days	<b>2,363</b>	2,853
Total	<b>18,345</b>	10,264

## 25. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash (Continued)

### Trade receivables (Continued)

Movement in the allowance for doubtful debts for trade and other receivables is as follows:

	2013 HK\$'000	2012 HK\$'000
Balance at the beginning of the year	46,055	34,076
Impairment losses recognised on receivables	29,050	11,979
Balance at the end of the year	75,105	46,055

The allowance for doubtful debts is all individually impaired receivables which represents amounts that have been long overdue and recoverability has been considered remote.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

### Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 0.1% to 2.5% (2012: 0.1% to 2.4%) per annum.

At the end of the reporting period, included in the time deposits over three months, bank balances and cash are the following amount denominated in currency other than the functional currency of the relevant entities to which it relates.

	2013 HK\$'000	2012 HK\$'000
United States Dollar	63,586	151,929
Hong Kong Dollar	69,280	48,951

## 26. Amounts due from/to Non-controlling Shareholders

The amounts due from/to non-controlling shareholders are unsecured, interest-free and repayable on demand.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 27. Other Financial Asset/Liabilities

	2013 HK\$'000	2012 HK\$'000
<b>Other financial asset</b>		
<i>Derivative not under hedge accounting</i>		
RMB forward contract	-	6,391
<b>Other financial liabilities</b>		
<i>Derivative under hedge accounting</i>		
Cash flow hedge – Interest rate swap	<b>10,308</b>	18,992

The classification of the measure of the derivative financial instruments at 31 December 2013 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

### Cash flow hedges

As at 31 December 2013, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which has HK\$350,000,000 principal and will be matured in 2016. The terms of the interest rate swap contract has been negotiated to match the terms of the loan. The interest rate swap contract swaps the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

As at 31 December 2013, fair value gain of HK\$8,684,000 (2012: loss of HK\$6,299,000) has been recognised in other comprehensive income and accumulated in equity and is expected to be released to the income statement at various dates in the coming maturity periods after the reporting period.

### Derivative not under hedge accounting

As at 31 December 2012, the Group had a foreign exchange forward contract to buy RMB200,000,000 for HKD. The contract was expired in 2013. For the year ended 31 December 2013, the change in fair value of the forward contract resulted in a profit of HK\$1,017,000 (2012: HK\$7,314,000) and was recognised in profit or loss included in other gains, net. The contract was settled in HKD at the exchange rate of HK\$1.21:RMB1.

The fair values of foreign currency forward contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

## 28. Trade and Other Payables and Accrued Charges

	2013 HK\$'000	2012 HK\$'000
Trade payables	<b>870,155</b>	592,348
Receipt in advance	<b>2,185,799</b>	1,620,465
Consideration payable for acquisitions of businesses	<b>212,519</b>	297,941
Consideration payable to a joint venture (note a)	<b>73,034</b>	–
Other payables and accruals	<b>809,401</b>	481,597
Amount due to ultimate holding company (note b)	<b>729</b>	5,914
	<b>4,151,637</b>	2,998,265

Notes:

(a) The amount represents consideration payable to a joint venture for acquisition of Pingyin business as disclosed in note 34.

(b) The amount is unsecured, interest-free and repayable on demand.

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

	2013 HK\$'000	2012 HK\$'000
0 to 90 days	<b>685,272</b>	440,373
91 to 180 days	<b>74,035</b>	40,066
181 to 360 days	<b>46,564</b>	43,550
Over 360 days	<b>64,284</b>	68,359
	<b>870,155</b>	592,348

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 29. Borrowings

	2013 HK\$'000	2012 HK\$'000
Bank loans – unsecured	<b>5,849,467</b>	5,029,939
Other loans – unsecured	<b>57,201</b>	61,913
	<b>5,906,668</b>	5,091,852
Carrying amount repayable:		
On demand or within one year	<b>2,418,883</b>	1,946,359
More than one year but not exceeding two years	<b>1,244,095</b>	1,107,375
More than two years but not exceeding five years	<b>2,212,404</b>	2,000,674
More than five years	<b>31,286</b>	37,444
	<b>5,906,668</b>	5,091,852
Less: Amount due within one year shown under current liabilities	<b>(2,418,883)</b>	(1,946,359)
Amount due after one year	<b>3,487,785</b>	3,145,493

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount 2013 HK\$'000	2012 HK\$'000
Floating-rate loans:			
Unsecured HKD bank loans	1.67%	<b>4,485,445</b>	3,590,068
Unsecured RMB bank loans	7.51%	<b>681,116</b>	767,082
Fixed rate loans*:			
Unsecured HKD bank loans**	2.73%	<b>350,000</b>	350,000
Unsecured RMB bank loans	3.54%	<b>332,907</b>	322,789
Unsecured RMB other loans	2.05%	<b>31,969</b>	31,055
Unsecured other loans	1.15%	<b>25,231</b>	30,858
Total bank loans and other loans		<b>5,906,668</b>	5,091,852

\* The majority of the Group's fixed rate loans are repayable after more than two years but not exceeding five years.

\*\* An interest rate swap agreement was entered into by the Group to swap floating interest rate on the loan for a fixed rate. Please see note 27 for details.

### 30. Loans from the Ultimate Holding Company

The amount represents unsecured loans denominated in USD and HKD which bear interest at the Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and are repayable according to the date of the relevant draw down of the loan.

Principal outstanding	Maturity	Effective interest rate	Carrying amount	
			2013 HK\$'000	2012 HK\$'000
HK\$800,000,000 (2012: HK\$800,000,000)	June 2017 – February 2018 (according to date of draw down) (2012: December 2014 – June 2017) (according to date of draw down)	2.93% (2012: 2.91%)	<b>800,000</b>	800,000
US\$25,000,000 (2012: US\$25,000,000)	December 2016 (2012: December 2016)	3.86% (2012: 3.88%)	<b>193,750</b>	193,750
			<b>993,750</b>	993,750

### 31. Deferred Taxation

The following is the major deferred tax liability recognised and movements thereon during the current year:

	Accelerated tax depreciation HK\$'000	Intangible assets HK\$'000	Undistributed profits of joint ventures/ associates/ subsidiaries HK\$'000	Total HK\$'000
At 1 January 2012	44,142	48,590	113,168	205,900
Acquired on acquisition of businesses	2,538	–	–	2,538
Currency realignment	277	282	686	1,245
(Credit) charge for the year	(1,837)	(2,111)	43,126	39,178
Withholding tax paid	–	–	(12,555)	(12,555)
At 31 December 2012	45,120	46,761	144,425	236,306
Acquired on acquisition of businesses	7,135	–	–	7,135
Disposal of a subsidiary	(5,956)	–	–	(5,956)
Currency realignment	1,373	1,411	8,222	11,006
(Credit) charge for the year	(1,420)	(1,734)	46,012	42,858
Withholding tax paid	–	–	(15,526)	(15,526)
At 31 December 2013	46,252	46,438	183,133	275,823

At the end of the reporting period, the Group has unused tax losses of HK\$232,923,000 (2012: HK\$137,811,000) available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until 2018.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 32. Share Capital

	Number of shares	HK\$'000
At 31 December 2013		
– Authorised:		
Shares of HK\$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK\$0.10 each	2,612,849,830	261,286

A summary of the movements in the authorised share capital is as follows:

	Number of shares	HK\$'000
At 1 January 2012	3,000,000,000	300,000
Increase	2,000,000,000	200,000
At 31 December 2012 and 2013	5,000,000,000	500,000

Pursuant to an ordinary resolution passed at the annual general meeting on 4 June 2012, the authorised share capital of the Company was increased from HK\$300 million to HK\$500 million by creation of additional 2,000 million shares of HK\$0.10 each.

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	HK\$'000
At 1 January 2012 and 31 December 2012	2,460,344,830	246,035
Issue of shares upon share placement ( <i>note a</i> )	150,000,000	15,000
Issue of shares upon exercise of share options ( <i>note b</i> )	2,505,000	251
At 31 December 2013	2,612,849,830	261,286

Notes:

- (a) On 16 January 2013, 150,000,000 new shares of the Company were issued by a share placement ("Placement") at a price of HK\$6.31 per share. The Company intends to use the net proceeds after deducting related commission and other expenses of HK\$930,308,000 from the Placement for the Group's general working capital and further investments of the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 4 June 2012.
- (b) During the year ended 31 December 2013, the Company allotted and issued 2,505,000 shares of HK\$0.10 each for cash at the price of HK\$3.811 per share as a result of the exercise of share options.

All the shares which were issued during the year ended 31 December 2013 rank pari passu with the then existing shares in all respects.



### 33. Reserves

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

### 34. Acquisition of Businesses

#### Acquisitions in 2013

During the year ended 31 December 2013, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combinations in:			
Feicheng Hong Kong and China Gas Company Limited ("Feicheng")	January 2013	– *	59,411
Shenyang business ("Shenyang")	January 2013	– *	162,095
Pingyin business ("Pingyin")	January 2013	– *	128,499
Boxing Hong Kong & China Gas Co., Ltd. ("Boxing")	January 2013	51%	114,580
Sichuan Quanxin Gas Co., Ltd. ("Quanxin")	January 2013	80%	168,948
Anxian County Lanyan Gas Co., Ltd. ("Lanyan")	January 2013	80%	10,382
Mianzhu Xinxin Natural Gas Co., Ltd. ("Xinxin")	January 2013	80%	5,209
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. ("Fengxi")	January 2013	60%	193,713
Yanshan Hong Kong & China Gas Co., Ltd. ("Yanshan")	April 2013	90%	68,010
Mengcun Hong Kong & China Gas Co., Ltd. ("Mengcun")	April 2013	90%	34,005
Cangxian Hong Kong & China Gas Co., Ltd. ("Cangxian")	April 2013	90%	68,010
Dafeng Hong Kong and China Gas Company Limited ("Dafeng")	May 2013	51%	367,089
Jianping Hong Kong and China Gas Company Limited ("Jianping")	August 2013	80%	91,079
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd. ("Zhongwei")	August 2013	100%	170,434

\* During the year, the Group acquired the identifiable assets and liabilities associated with the business of sales and distribution of piped gas from the former owners.

The acquisition-related costs were insignificant and were recognised as expenses in the current year, within other expenses of note 8.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 34. Acquisition of Businesses (Continued)

### Acquisitions in 2013 (Continued)

Details of provisional fair value of net identifiable assets acquired and provisional goodwill are as follows:

	Feicheng HK\$'000	Boxing HK\$'000	Quanxin HK\$'000	Lanyan HK\$'000	Xinxin HK\$'000	Shenyang HK\$'000	Fengxi HK\$'000	Pingyin HK\$'000	Yanshan HK\$'000	Mengcun HK\$'000	Cangxian HK\$'000	Dafeng HK\$'000	Jianping HK\$'000	Zhongwei HK\$'000	Total HK\$'000
	(note a)														
Purchase consideration	59,411	114,580	168,948	10,382	5,209	162,095	193,713	128,499	68,010	34,005	68,010	367,089	91,079	170,434	1,641,464
Non-controlling interests	-	4,121	10,120	626	584	-	9,571	-	1,138	1,147	1,139	11,027	8,462	-	47,935
Acquiree's provisional fair value of net identifiable assets acquired (see below)	(19,336)	(8,410)	(50,598)	(3,130)	(2,920)	(26,715)	(23,927)	(74,791)	(11,383)	(11,471)	(11,390)	(22,505)	(42,310)	(20,876)	(329,762)
Goodwill	40,075	110,291	128,470	7,878	2,873	135,380	179,357	53,708	57,765	23,681	57,759	355,611	57,231	149,558	1,359,637

Note a: The Group acquired the Pingyin business from a joint venture of the Group for cash consideration of HK\$84,967,000 and issuance of 35% equity interest in Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd ("Jinan Pingyin"), a subsidiary of the Group. The provisional fair value of the 35% equity interest in Jinan Pingyin, determined by reference to the provisional fair value of Jinan Pingyin at the date of the acquisition, amounted to HK\$43,532,000.

The non-controlling interests recognised at the acquisition dates were measured by reference to the proportionate share of provisional fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$47,935,000.

The net identifiable assets acquired in the transactions are as follows:

Acquirees' provisional fair values at acquisition dates:

	Boxing HK\$'000	Quanxin HK\$'000	Shenyang HK\$'000	Fengxi HK\$'000	Pingyin HK\$'000	Dafeng HK\$'000	Jianping HK\$'000	Zhongwei HK\$'000	Other businesses HK\$'000	Total HK\$'000
Net assets acquired:										
Property, plant and equipment	48,775	49,491	25,570	1,415	65,918	41,153	37,182	19,579	28,224	317,307
Leasehold land	-	1,156	467	-	4,021	7,017	3,566	634	455	17,316
Inventories	2,217	3,516	678	-	4,852	2,061	1,562	17	1,089	15,992
Trade and other receivables, deposit, and prepayments (note)	10,105	41,333	-	26	-	15,772	-	63,013	53,390	183,639
Cash and bank balances	42	12,264	-	22,934	-	12,012	-	231	3,151	50,634
Trade and other payables and accrued charges	(43,081)	(27,445)	-	(448)	-	(32,660)	-	(62,582)	(25,163)	(191,379)
Taxation	(920)	-	-	-	-	(2,105)	-	(16)	122	(2,919)
Borrowing	(8,728)	(6,234)	-	-	-	(10,760)	-	-	-	(25,722)
Dividend payable	-	(20,022)	-	-	-	(7,560)	-	-	(389)	(27,971)
Deferred taxation	-	(3,461)	-	-	-	(2,425)	-	-	(1,249)	(7,135)
	8,410	50,598	26,715	23,927	74,791	22,505	42,310	20,876	59,630	329,762

Note: The trade and other receivables acquired with a provisional fair value of HK\$171,215,000 had gross contractual amounts of HK\$171,215,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

### 34. Acquisition of Businesses (Continued)

#### Acquisitions in 2013 (Continued)

Net cash outflow arising on acquisitions:

	Boxing HK\$'000	Quanxin HK\$'000	Shenyang HK\$'000	Fengxi HK\$'000	Pingyin HK\$'000	Dafeng HK\$'000	Jianping HK\$'000	Zhongwei HK\$'000	Other businesses HK\$'000	Total HK\$'000
Purchase consideration	114,580	168,948	162,095	193,713	128,499	367,089	91,079	170,434	245,027	1,641,464
Less: equity instrument issued	-	-	-	-	(43,532)	-	-	-	-	(43,532)
Cash consideration	114,580	168,948	162,095	193,713	84,967	367,089	91,079	170,434	245,027	1,597,932
Amounts unpaid and included in:										
- consideration payable for acquisitions	-	-	(12,881)	-	-	-	(54,407)	(75,223)	-	(142,511)
- consideration payable to a joint venture	-	-	-	-	(73,034)	-	-	-	-	(73,034)
- amounts due to non-controlling shareholders	-	(92,097)	-	-	-	-	-	-	(39,401)	(131,498)
Bank balances and cash acquired	(42)	(12,264)	-	(22,934)	-	(12,012)	-	(231)	(3,151)	(50,634)
	114,538	64,587	149,214	170,779	11,933	355,077	36,672	94,980	202,475	1,200,255

Provisional goodwill arose from the above acquisitions because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business.

None of the provisional goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The provisional goodwill arising from the above acquisitions is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value of the identifiable assets acquired. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

During the year, acquired businesses contributed HK\$556,691,000 and HK\$48,143,000 to the Group's turnover and profit for the period between the date of acquisition and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2013 would have been HK\$6,824,441,000, and the amount of the profit for the year would have been HK\$1,226,861,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

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## 34. Acquisition of Businesses (Continued)

### Acquisitions in 2012

During the year ended 31 December 2012, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combinations in:			
Benxi business ("Benxi")	June 2012	– *	73,620
Yifeng business ("Yifeng")	July 2012	– *	33,608
Fuxin Xinqiu Hong Kong & China Gas Co., Ltd. ("Xinqiu")	August 2012	100%	162,922
Fuxin Dali Gas Company Limited ("Dali")	August 2012	100%	46,638
Changting Hong Kong & China Gas Co., Ltd. ("Changting")	October 2012	90%	64,207
Qinhuangdao Hong Kong & China Gas Co., Ltd. ("Qinhuangdao")	October 2012	51%	61,501
Jinan Pingyin	December 2012	– *	119,403

\* During the year ended 31 December 2012, the Group acquired the identifiable assets and liabilities associated with the business of sales and distribution of piped gas from the former owners.

The acquisition-related costs were insignificant and were recognised as expenses in the year ended 31 December 2012, within other expenses of note 8.

Details of fair value of net identifiable assets acquired and goodwill were as follows:

	Benxi HK\$'000	Yifeng HK\$'000	Xinqiu HK\$'000	Dali HK\$'000	Changting HK\$'000	Qinhuangdao HK\$'000	Jinan Pingyin HK\$'000	Total HK\$'000
Purchase consideration	73,620	33,608	162,922	46,638	64,207	61,501	119,403	561,899
Non-controlling interests	–	–	–	–	665	2,177	–	2,842
Acquiree's fair value of net identifiable assets acquired (see below)	(48,903)	(33,608)	(22,670)	(23,546)	(6,649)	(4,443)	(21,900)	(161,719)
Goodwill	24,717	–	140,252	23,092	58,223	59,235	97,503	403,022

The non-controlling interests recognised at the acquisition dates were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$2,842,000.

### 34. Acquisition of Businesses (Continued)

#### Acquisitions in 2012 (Continued)

The net identifiable assets acquired in the transactions were as follows:

Acquirees' fair values at acquisition dates:

	Benxi HK\$'000	Yifeng HK\$'000	Xinqiu HK\$'000	Dali HK\$'000	Changting HK\$'000	Qinhuangdao HK\$'000	Jinan Pingyin HK\$'000	Total HK\$'000
Net assets acquired:								
Property, plant and equipment	49,671	33,553	18,600	20,617	3,689	1,397	8,889	136,416
Leasehold land	–	2,468	4,577	1,221	–	3,249	914	12,429
Inventories	30	710	27	131	2,096	569	–	3,563
Trade and other receivables, deposit, and prepayments (note)	–	–	1,586	6,123	1,383	8,270	8,557	25,919
Cash and bank balances	–	–	46	789	609	2,105	7,066	10,615
Trade and other payables and accrued charges	(798)	(3,123)	(1,899)	(3,806)	(1,127)	(11,147)	(2,647)	(24,547)
Taxation	–	–	(43)	(94)	(1)	–	–	(138)
Deferred taxation	–	–	(224)	(1,435)	–	–	(879)	(2,538)
	48,903	33,608	22,670	23,546	6,649	4,443	21,900	161,719

Note: The trade and other receivables acquired with a fair value of HK\$25,919,000 had gross contractual amounts of HK\$25,919,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

#### Net cash outflow arising on acquisitions:

	Benxi HK\$'000	Yifeng HK\$'000	Xinqiu HK\$'000	Dali HK\$'000	Changting HK\$'000	Qinhuangdao HK\$'000	Jinan Pingyin HK\$'000	Total HK\$'000
Purchase consideration	73,620	33,608	162,922	46,638	64,207	61,501	119,403	561,899
Amounts unpaid and included in:								
– consideration payable for acquisitions	(49,080)	(7,872)	(80,403)	(28,301)	–	–	(119,403)	(285,059)
– amounts due to non-controlling shareholders	–	–	–	–	(57,786)	(30,750)	–	(88,536)
Bank balances and cash acquired	–	–	(46)	(789)	(609)	(2,105)	(7,066)	(10,615)
	24,540	25,736	82,473	17,548	5,812	28,646	(7,066)	177,689





# Notes to the Consolidated Financial Statements

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## 34. Acquisition of Businesses (Continued)

### Acquisitions in 2012 (Continued)

Goodwill arose from the above acquisitions because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions was expected to be deductible for tax purposes.

During the year ended 31 December 2012, acquired businesses contributed HK\$38,408,000 and HK\$1,511,000 to the Group's turnover and loss for the period between the date of acquisition and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2012 would have been HK\$5,361,104,000, and the amount of the profit for the year would have been HK\$954,666,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

### 35. Disposal of a Subsidiary

In May 2013, the Group disposed its 51% equity interest in Jinan Jihua Gas Co., Ltd. ("Jinan") to an associate of the Group, Shandong Jihua Gas Co., Ltd., for cash consideration of HK\$76,659,000. Since the Group lost control on Jinan, relevant assets and liabilities are derecognised from the Group's consolidated financial statements.

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	183,476
Inventories	6,098
Trade and other receivables, deposits and prepayments	28,212
Cash and bank balances	74,820
Trade and other payables and accrued charges	(44,116)
Taxation	(24,159)
Deferred taxation	(5,956)
	218,375
Non-controlling interests	(107,004)
	111,371
The loss on disposal is calculated as follows:	
Cash consideration	76,659
Net assets disposed of	(111,371)
Loss on disposal	(34,712)
Net cash inflow arising on disposal:	
Cash consideration	76,659
Less: bank balances and cash disposed of	(74,820)
	1,839

The revenue and operating losses of the disposed subsidiary included in the Group's consolidated financial statements amounted to HK\$46,392,000 and HK\$8,177,000, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 36. Related Party Transactions

Save as disclosed elsewhere in the consolidated financial statements, the following related party transactions took place during the year:

Name of related party	Nature of transaction	2013 HK\$'000	2012 HK\$'000
HKCG	Outstanding loan balances (See note 30)	<b>993,750</b>	993,750
	Interest expense	<b>30,813</b>	15,908
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	<b>5,405</b>	3,525
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	<b>4,551</b>	3,788
GH – Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	<b>3,132</b>	6,469
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	<b>50,289</b>	50,563
ECO Environmental Investments Limited (note a)	Office licence income	–	599
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	<b>77,931</b>	66,196
Jilin Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	–	2,474
Jilin Province Natural Gas Limited Company (note c)	Purchase of compressed natural gas vehicles	<b>3,974</b>	–
	Consideration for the acquisition of remaining 50% equity interest of Gongzhuling Gangtian Compressed Natural Gas Co., Ltd.	<b>6,143</b>	–
Tongling Hong Kong and China Gas Company Limited (note c)	Purchase of compressed natural gas	<b>100</b>	–
	Sale of compressed natural gas	<b>669</b>	–
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	<b>8,615</b>	5,138

### 36. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2013 HK\$'000	2012 HK\$'000
Gongzhuling Gangtian Compressed Natural Gas Co., Ltd. (note b)	Sale of compressed natural gas	800	410
Shandong Hong Kong and China Gas Training Institute (note b)	Training services	864	275
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	4,085	–
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	10,066	–
Taizhou Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	856	–

Notes:

- (a) HKCG has controlling interests in these companies.
- (b) HKCG has significant influences in these companies.
- (c) HKCG jointly controlled this company with an independent third party.

Emoluments paid to the key management personnel of the Company which represents the executive directors of the Company are set out in note 12.

### 37. Operating Lease Commitments

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

	2013 HK\$'000	2012 HK\$'000
Within one year	18,734	13,011
In the second to fifth year inclusive	9,680	7,208
Over five years	2,849	3,348
	<b>31,263</b>	23,567

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

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For the year ended 31 December 2013

## 38. Commitments

	2013 HK\$'000	2012 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	<b>103,817</b>	92,702
– acquisition of businesses	<b>589,417</b>	610,572
– acquisition of an associate	<b>4,609</b>	–

## 39. Share Options

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink Worldwide Holdings Limited ("Sinolink") pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 28 November 2005.

The share options under the Scheme (the "Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

The Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option.

### 39. Share Options (Continued)

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options			
	Outstanding at the beginning of the year	Exercised during the year	Outstanding at the end of the year	Exercisable share options at the end of the year
For the year ended 31 December 2012				
Scheme				
2006 options (note)	1,567,800	–	1,567,800	1,567,800
2007 options (note)	14,673,000	–	14,673,000	14,673,000
	16,240,800	–	16,240,800	16,240,800
Weighted average exercise price (HK\$)	3.713	–	3.713	3.713
<b>For the year ended 31 December 2013</b>				
Scheme				
2006 options (note)	<b>1,567,800</b>	–	<b>1,567,800</b>	<b>1,567,800</b>
2007 options (note)	<b>14,673,000</b>	<b>(2,505,000)</b>	<b>12,168,000</b>	<b>12,168,000</b>
	<b>16,240,800</b>	<b>(2,505,000)</b>	<b>13,735,800</b>	<b>13,735,800</b>
Weighted average exercise price (HK\$)	<b>3.713</b>	<b>3.811</b>	<b>3.695</b>	<b>3.695</b>

The weighted average price of the Company's shares at the dates of exercise of 1,500,000 options on 2 April 2013 and 1,005,000 options on 28 May 2013 were HK\$7.20 and HK\$8.00, respectively.



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For the year ended 31 December 2013

## 39. Share Options (Continued)

Had all the outstanding vested share options been fully exercised on 31 December 2013, the Company would have received cash proceeds of HK\$50,756,000 (2012: HK\$60,302,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK\$
2006 options (note)	03.10.2006	30%	04.10.2007 – 27.11.2015	2.796
		30%	04.04.2008 – 27.11.2015	2.796
		40%	04.10.2008 – 27.11.2015	2.796
2007 options (note)	16.03.2007	30%	16.03.2008 – 27.11.2015	3.811
		30%	16.03.2009 – 27.11.2015	3.811
		40%	16.03.2010 – 27.11.2015	3.811

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

The Group did not recognise any expenses for the year ended 31 December 2013 (2012: nil) in relation to share options granted by the Company in previous year.

Note:

The 2006 and 2007 option represented the share options granted under the Scheme.

## 40. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2013 amounted to HK\$57,787,000 (2012: HK\$46,646,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2013, the Group made retirement benefit scheme contributions amounting to HK\$484,000 (2012: HK\$461,000).

## 41. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2013 and 2012 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Directly-owned subsidiaries</b>					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
TCCL (Finance) Limited	HK – Limited liability company	HK\$1	<b>100%</b>	100%	Financing
Towngas China Group Limited	BVI – Limited liability company	US\$12,821	<b>100%</b>	100%	Investment holding

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## 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries</b>					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$20,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Anxian County Lanyan Gas Co., Ltd. 安縣藍焰燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB1,000,000	<b>80%</b>	–	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB56,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB210,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd. 博興港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	<b>65%</b>	–	Provision of natural gas and related services and gas pipeline construction
Cangxi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB20,000,000 (2012: RMB10,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Cangxian Hong Kong & China Gas Co., Ltd. 滄縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	<b>90%</b>	–	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited 長汀港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB22,000,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

#### 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Chaoyang Hong Kong and China Gas Co., Ltd. 朝陽港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,791,838	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. 潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	<b>60%</b>	–	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI – Limited liability company	US\$1	<b>100%</b>	100%	Investment holding
Chi Ping Hong Kong and China Gas Co., Ltd. 荏平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	<b>85%</b>	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Limited 池州港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB20,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited 大豐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	<b>51%</b>	–	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co., Ltd. 大連長興港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$14,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co., Ltd. 大連旅順港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$15,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店金宇港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction

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## 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Dayi Hong Kong and China Gas Co., Ltd. 大邑港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB20,000,000 (2012: RMB10,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Feicheng Hong Kong and China Gas Company Limited 肥城港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB32,000,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction
Fuxin Hong Kong and China Gas Company Limited 阜新港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB77,200,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Fuxin Dali Gas Company Limited 阜新大力燃氣有限責任公司	PRC – Wholly foreign- owned enterprise	RMB13,900,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Xinqiu Hong Kong and China Gas Company Limited 阜新新邱港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB34,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$4,010,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited 公主嶺港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB53,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd 廣西中威管道燃氣發展集團 有限責任公司	PRC – Wholly foreign- owned enterprise	RMB30,000,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction

#### 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Guilin Hong Kong and China Gas Co., Ltd. 桂林港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Hong Kong and China Gas (Dalian) Limited	HK – Limited liability company	HK\$100	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK – Limited liability company	HK\$100	<b>100%</b>	100%	Investment holding
Huangshan Hong Kong and China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB40,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong and China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$2,100,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Taiping Hong Kong and China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$3,500,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction



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## 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Huzhou Hong Kong and China Gas Company Limited 湖州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,500,000	<b>98.85%</b>	98.85%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited 建平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,000,000	<b>80%</b>	–	Provision of natural gas and related services and gas pipeline construction
Jiayang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000 (2012: RMB10,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Pingyin Hong Kong and China Gas Company Limited 濟南平陰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000 (2012: RMB65,000,000)	<b>82.5%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong and China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$6,400,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$5,440,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB30,000,000 (2012: RMB10,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hong Kong and China Gas Co Ltd 龍口港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$7,070,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction

#### 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Maanshan Bowang Hong Kong and China Gas Co., Ltd. 馬鞍山博望港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,000,000	<b>75.1%</b>	75.1%	Provision of natural gas and related services and gas pipeline construction
Maanshan Jiangbei Hong Kong & China Gas Company Limited 馬鞍山江北港華燃氣有限公司	PRC – Limited liability company	US\$10,000,000	<b>100%</b>	–	Provision of natural gas and related services and gas pipeline construction
Mengcun Hong Kong & China Gas Co., Ltd. 孟村回族自治縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	<b>90%</b>	–	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB90,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Xinxin Natural Gas Co., Ltd. 綿竹市鑫新天然氣有限責任公司	PRC – Sino-foreign equity joint venture	RMB1,000,000	<b>80%</b>	–	Provision of natural gas and related services and gas pipeline construction
Miluo Red-Horse Natural Gas Development Company Limited 汨羅市紅馬燃氣開發有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	<b>70%</b>	70%	Provision of natural gas and related services and gas pipeline construction
Pengshan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000 (2012: RMB10,000,000)	<b>70%</b>	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC – Limited liability company	RMB3,590,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000 (2012: RMB10,000,000)	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

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## 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Qingdao Dong Yi Hong Kong and China Gas Co Ltd 青島東億港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co Ltd 青島中即港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB73,500,000	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong and China Gas Co., Ltd. 秦皇島港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	<b>51%</b>	51%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	<b>61.67%</b>	61.67%	Provision of natural gas and related services and gas pipeline construction
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$24,532,434 (2012: US\$17,532,400)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Sichuan Quanxin Gas Co., Ltd. 四川全新燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB12,000,000	<b>80%</b>	–	Provision of natural gas and related services and gas pipeline construction
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB232,960,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction

#### 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC – Sino-foreign equity joint venture	US\$7,000,000	<b>76%</b>	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI – Limited liability company/HK	US\$1	<b>100%</b>	100%	Investment holding
Towngas China (Fengxi) Limited	HK – Limited liability company	HK\$100	<b>100%</b>	100%	Investment holding
Towngas China (Zhengpugang) Limited	HK – Limited liability company	HK\$100	<b>100%</b>	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Wholly foreign- owned enterprise	US\$200,000,000	<b>100%</b>	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000 (2012: RMB10,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Company Limited 武寧港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB25,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000 (2012: RMB22,000,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited 新津港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB12,000,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited 新津永雙港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB11,500,000	<b>60%</b>	60%	Provision of natural gas and related services and gas pipeline construction
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	<b>80%</b>	80%	Provision of natural gas and related services and gas pipeline construction

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 41. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB50,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Yanshan Hong Kong & China Gas Co., Ltd. 鹽山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	<b>90%</b>	–	Provision of natural gas and related services and gas pipeline construction
Yifeng Hong Kong and China Gas Co., Ltd. 宜豐港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB32,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Company Limited 營口港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	US\$9,400,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000 (2012: RMB12,500,000)	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction
Zhaoyuan Hong Kong and China Gas Company Limited 招遠港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB22,000,000	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB30,000,000 (2012: RMB18,810,000)	<b>100%</b>	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000 (2012: RMB18,890,000)	<b>90%</b>	90%	Provision of natural gas and related services and gas pipeline construction

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.





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