



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

Stock Code 股份代號: 3633



2015

ANNUAL 年報
REPORT



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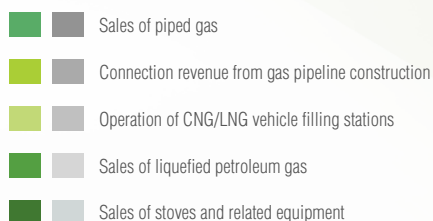
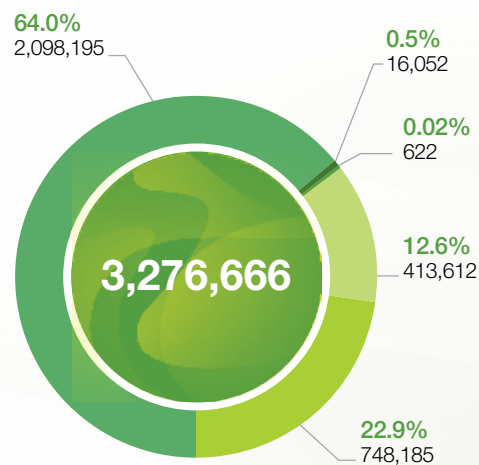
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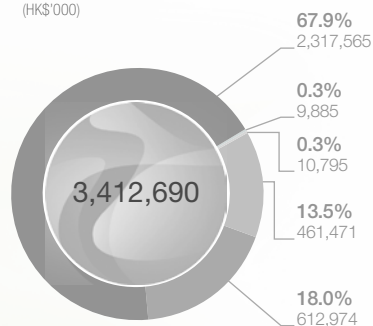
FINANCIAL HIGHLIGHTS

	For the year ended 31st December,		
	2015 HK\$'000	2014 HK\$'000	changes %
Turnover	3,276,666	3,412,690	(4.0)%
– Sales of piped gas	2,098,195	2,317,565	(9.5)%
– Connection revenue from gas pipeline construction	748,185	612,974	22.1%
– Operation of CNG/LNG vehicle filling stations	413,612	461,471	(10.4)%
Gross profit	784,833	850,040	(7.7)%
(Gross margin)	(24.0%)	(24.9%)	(-0.9%)
Profit attributable to owners of the Company	93,390	324,351	(71.2)%
(Net profit margin)	(2.9%)	(9.5%)	(-6.6%)
Earnings per share			
Basic	HK3.70 cents	HK12.85 cents	(71.2)%
Diluted	HK3.70 cents	HK12.84 cents	(71.2)%
EBITDA	608,342	759,287	(19.9)%
Net assets value per share	HK79 cents	HK79 cents	–
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange loss/gain)	258,289	324,003	(20.3)%

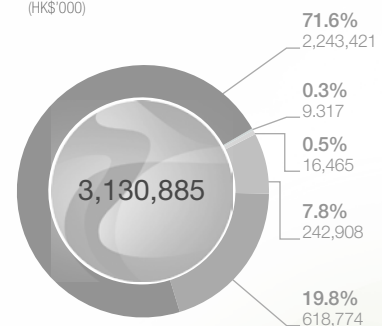
2015
(HK\$'000)



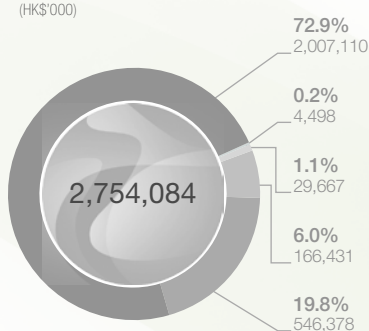
2014
(HK\$'000)



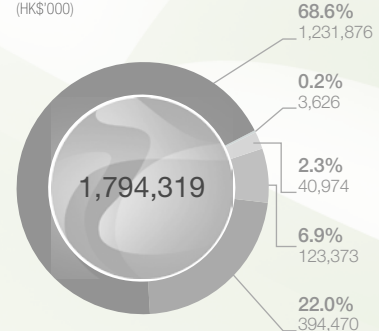
2013
(HK\$'000)



2012
(HK\$'000)



2011
(HK\$'000)



FINANCIAL HIGHLIGHTS

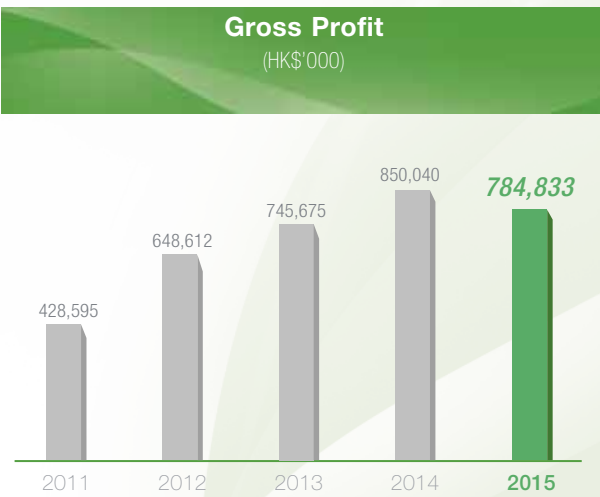
Turnover

(HK\$'000)



Gross Profit

(HK\$'000)



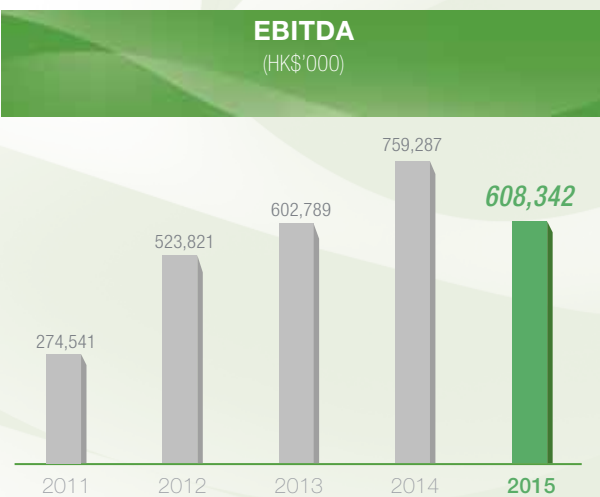
Profit attributable to owners of the Company

(HK\$'000)



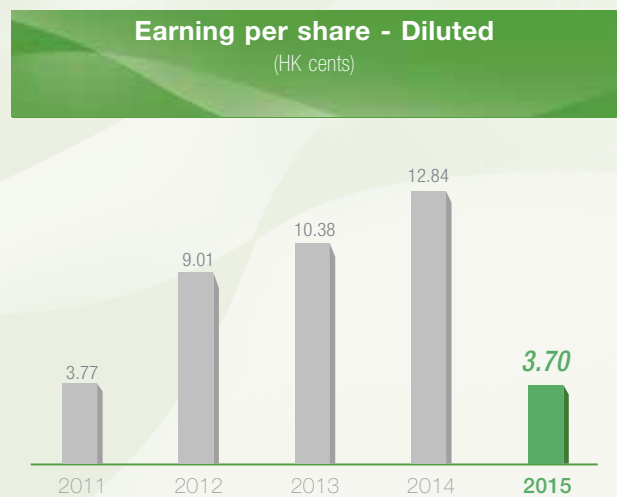
EBITDA

(HK\$'000)



Earning per share - Diluted

(HK cents)



CORPORATE INFORMATION

Executive Directors

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

Non-executive Directors

Mr. Xu Yongxuan (*Vice Chairman*)

Independent Non-executive Directors

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

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Hong Kong Legal Advisors

Reed Smith Richards Butler

Auditor

Deloitte Touche Tohmatsu

Corporate Website

www.zhongyugas.com

Stock Code

3633

Registered Office

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Hutchins Drive
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Head Office and Principal Place of Business in Hong Kong

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Shun Tak Centre
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Hong Kong

Principal Share Registrar and Transfer Office

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

Branch Share Registrar and Transfer Office in Hong Kong

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

Principal Bankers

The Hong Kong & Shanghai Banking Corporation Limited
Standard Chartered Bank
China Citic Bank International Limited
China Construction Bank (Asia) Corporation Limited
Malayan Banking Berhad
Bank of China
Agricultural Development Bank of China
China Minsheng Banking Corporation Limited
Bank of Communications
Industrial and Commercial Bank of China
China Everbright Bank
Xiamen International Bank

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present another set of annual results of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2015 (the "Year").

The Group is a mature and steady natural gas distributor with a proven track record of growth since 2010. Under the influence of revolutionary policies from the People's Republic of China (the "PRC"), the natural gas industry was continuously expanding in the past decade. To capture the opportunities arisen from the growing demand of clean energy in the PRC, the Group actively performed merger and acquisition in the past few years to expand the Group's market share and geographical coverage with an aim to outpace the industry growth. In 2015, the Group focused on consolidating its newly acquired projects, which are expected to bring in positive financial contribution starting from the second quarter of 2016.

Latest Development – Acquisition of 88.7% of Equity in Harmony Gas

In November 2014, the Group has completed its largest acquisition since 2008, in which we acquired 50% of equity in Harmony Gas Holdings Limited ("Harmony Gas"). Leveraging on Harmony Gas' ownership of 22 exclusive natural gas distribution projects, the Group successfully extended its coverage to high-demand natural gas areas such as Beijing City, Hebei and Jiangsu provinces. Harmony Gas projects have prime locations that are close to the main gas pipeline and are granted exclusive ownership rights by the PRC. Realising Harmony Gas' abundant growing potential, the Group decided to take a further step and performed a top-up acquisition in December 2015 for an additional 38.7% of Harmony Gas' equity, which will be completed in 2017. The Group will then become Harmony Gas' major shareholder holding 88.7% of its equity.



CHAIRMAN'S STATEMENT

After the acquisition, the Group started consolidating and paving pipeline connections to build a comprehensive pipeline network that penetrates into the covered regions. The Harmony Gas acquisition projects are expected to bring in positive cash flow starting from the second quarter of 2016.

Results

During the Year, the Group has recorded turnover of HK\$3,276.7 million, year-on-year decreased by 4.0% (2014: HK\$3,412.7 million). Gross profit declined from HK\$850.0 million in 2014 to HK\$784.8 million, with gross profit margin of 24.0% (2014: 24.9%). Profit attributable to owner of the Company declined by 71.2% to HK\$93.4 million as compared with HK\$324.4 million in 2014, while net profit margin decreased by 6.6 percentage points to 2.9% (2014: 9.5%). The decrease in net profit was mainly due to the significant unrealised exchange loss primarily arising from the Group's bank borrowings being denominated in the United States dollars as a result of the depreciation of the Renminbi in the second half of 2015. Excluding the net foreign exchange loss of HK\$164.9 million (2014: net foreign exchange gain of HK\$0.3 million), the adjusted profit from operations would be HK\$258.3 million, representing a decrease of 20.3%. Earnings per share and net assets per share amounted to HK\$0.037 and HK\$0.79 respectively (2014: HK\$0.1285; HK\$0.79).

Business Review

Our three major existing business segments, namely the sales of piped gas, gas pipeline construction and connection, and the operation of compressed natural gas & liquefied natural gas ("CNG/LNG") vehicle filling stations, recorded a slight decrease in total turnover in 2015. With the gradual integration of the Harmony Gas projects, the Group currently operates a total of 52 exclusive piped gas projects in the PRC and covers 10,073,000 connectable urban population across the PRC, increasing by 17.2%, as compared with the previous year. The seamless pipeline coverage and the proximity of the main pipeline echoed with the uprising demand of natural gas across the PRC and the Group believes that the integration

and development of the Harmony Gas projects will become a strong and robust growth driver in 2016.

Affected by economic slowdown, mild climate, and high gas prices, the total gas consumption in the PRC reached 193 billion cubic meters in 2015, rising 5.7% year-on-year, which recorded the 10-year low in terms of the growth rate, according to the National Development and Reform Commission ("NDRC"). However, in November 2015, the PRC government for the first time reduced the non-residential natural gas city-gate price by RMB 0.7/cubic meter. I believed the lower gas price provided a stronger incentive for non-residential users to use natural gas over coal and facilitated the Group to develop its new industrial and commercial customers, which sparked up the gas sales volume of the Group.

The performance of the operation of CNG/LNG vehicle filling stations has fallen below the Group's expectation. During the Year, the revenue generated from operation of CNG/LNG vehicle filling stations has dropped by 10.4%. Yet, the Group is still optimistic towards the development of operation of CNG/LNG vehicle filling stations due to the strong support from the PRC government and the upcoming trend of renewable energy vehicles. In 2015, the substantial decline in preferential car tax in all 1.6 liters vehicles stimulated the sales of renewable energy vehicles by 250% in the first half of 2015 as compared with the same period in 2014. The popularity of the renewable energy vehicles in the PRC genuinely increases the demand for CNG and hence the Group sees it as a promising organic growth driver to our natural gas filling stations operation.

Management Change

In October 2015, I tendered my resignation as a Joint Managing Director to the Board and remained as an Executive Director and Chairman of the Company. Mr. Peng Wei was appointed as a new Joint Managing Director and Executive Director.

The split of managerial responsibility is to allow me to have more time to focus on the strategic planning of the Group.

CHAIRMAN'S STATEMENT

Prospects

Environmental protection has increasing worldwide awareness and importance. China, as the world's largest carbon emitter, has pledged to cut its greenhouse gas emissions per unit of gross domestic production by 60-65% from the 2005 levels during the climate change talks in Paris in 2015. In the China's National People's Congress held on 5th March, 2015, Premier Li Keqiang cited targets to improve environmental standards across the board, and focused in particular on measures to tackle urban smog in the forthcoming 13th Five-Year Plan. Premier Li indicated that the government will limit factory emissions of tiny harmful particulate matter (PM2.5) – a major cause of air pollution – down by 25% and revealed other environmental targets, which include reducing emissions from coal burning industries and vehicles, promoting the use of electricity and natural gas in place of coal, and increasing in the proportion of clean energy.

Under the draft 13th Five-Year Plan, the PRC Government suggested to increase the total gas consumption to 360 billion cubic meters by 2020, growing at a rate of 17.0% each year. In addition, on 2nd March, 2016, the China Energy Research Society ("CERS") published the "China Energy Prospects 2030" and stated that the Chinese natural gas consumption is currently at a relatively low level and its future potential is enormous. The CERS predicted the PRC gas consumption will reach 480 billion cubic meters by 2030, growing at a 10-year CAGR of 5.2% between 2020 and 2030. Therefore, the Group is optimistic towards the upcoming development of the industry.

Looking forward in 2016, the acceleration in the integration of the Harmony Gas projects will be the Group's top priority, in which we will first speed up the construction of gas pipeline construction in the covered area. The Group mainly targets at industrial customers in various sectors which are of large consumption and less price sensitive. Diversity of

customers also minimises our reliance on certain sectors. On the other hand, the popularity of natural-gas-fueled vehicles is increasing, which will subsequently derive the demand for natural gas filling stations. Since most of the Harmony Gas projects currently have no CNG/LNG vehicle filling stations in the region, the Group will gradually construct such infrastructure for customers' easy access to natural gas, thus opening a sustainable income stream in the foreseeable years.

To further increase the Group's market penetration and geographic coverage, we will continue to cautiously seek favourable merger and acquisition possibilities in the market with an aggressive yet selective approach. With our focused vision of becoming the most valued clean energy distributor and operator in the PRC, the Board will continue to thrive in the natural gas market so as to create long-term value for our shareholders.

Appreciation

Last but not least, I would like to extend my sincere appreciation to our management and staff for their hard work and dedication during the Year. I would also like to thank our shareholders for their unfailing support and confidence in the Group.

Wang Wenliang

Chairman

Hong Kong

31st March, 2016

OPERATIONAL STATISTICS

As at 31 December 2015								
Province	Operational location	Connectable Urban Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
Henan	Jiaozuo City	1,010,000	288,571	230,667	70	733	1,183	5
	Qinyang City	130,000	37,143	18,637	14	78	-	1
	Wuzhi County	520,000	148,571	20,638	6	29	196	1
	Xiuwu County	90,000	25,714	8,029	33	49	225	4
	Luohe City	1,295,000	370,000	198,870	51	666	686	4
	Light Food Industrial Park in Luohe Economic Development District	-	-	-	10	-	-	-
	Luohe Shaoling District	-	-	-	18	-	-	-
	Luohe Songjiang Industrial Zone	-	-	-	15	-	-	-
	Luohe Houxie Village Industrial Zone	-	-	-	-	-	-	-
	Luohe West Industrial Zone	-	-	-	-	-	-	-
	Venture Center in Luohe Economic Development District	-	-	-	15	-	-	-
	Xiping County	32,800	9,371	-	-	-	-	-
	Jiyuan City	525,000	150,000	110,010	132	747	676	2
	Sanmenxia City	390,000	111,429	77,749	30	310	345	3
	Shanxian County	53,000	15,143	-	-	-	-	-
	Sanmenxia Industrial Park	-	-	-	7	-	-	-
	Lingbao City	120,000	34,286	1,187	3	-	45	-
	Yanshi City	150,000	42,857	25,345	63	77	236	1
	Yongcheng City	400,000	114,286	57,787	3	107	339	4
	Yongcheng Industrial Zone	35,000	10,000	-	1	-	-	-
Xinmi City	250,000	71,429	40,162	28	127	413	5	
Hebei	Yutian County	203,810	58,231	42,692	6	52	154	-
	Changli County	200,000	57,143	29,424	1	29	188	-
	Weixian County	120,869	34,534	19,588	-	3	131	-
	Xiahuayuan District	67,648	19,328	14,015	-	11	96	-
	Chengan County	158,000	45,143	12,465	1	9	113	-
	Wuqiao County	80,743	23,069	11,163	10	18	169	-
	Ningjin County	122,000	34,857	19,884	5	80	206	-
	Linzhang County	127,154	36,330	12,859	-	15	156	-
	Zaoqiang County	80,000	22,857	10,807	-	16	107	-
	Longyao County	20,000	5,714	4,074	-	11	32	-
	Xingtang County	50,000	14,286	4,742	-	9	74	-
	Gucheng County	170,000	48,571	21,950	1	45	145	-
	Nangong City	183,607	52,459	29,859	-	28	103	-
	Jize County	51,234	14,638	4,980	3	12	63	-
	Xinhe County	29,603	8,458	7,733	4	11	90	-

OPERATIONAL STATISTICS


As at 31 December 2015								
Province	Operational location	Connectable Urban Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
Jiangsu	Jingqiao Town, Nanjing City	48,000	13,714	-	6	-	7	-
	Donghai County	53,000	15,143	-	1	1	-	-
	Pei County	229,796	65,656	50,522	4	58	433	-
	Sihong County	221,000	63,143	44,847	3	102	355	-
	Sixian County	164,000	46,857	13,420	-	24	58	-
	Guannan County	164,546	47,013	21,197	-	33	161	-
	Nanjing City	-	-	-	-	-	-	-
Shandong	Linyi City (Note)	1,280,000	365,714	279,773	108	978	743	14
	Linyi Economic Development District	245,000	70,000	50,508	96	105	498	3
	Linshu County	9,000	2,571	-	50	3	133	2
	Tianqu Industrial Park in Dezhou City	-	-	-	4	4	39	1
Jilin	Baishan City	317,641	90,755	50,900	-	180	225	1
	Changbaishan International Tourist Resort Zone in Fusong County	147,588	42,168	5,090	-	55	93	-
Fujian	Shaowu City	165,000	47,143	6,894	-	3	44	2
Heilongjiang	Chengguan Town, Tieli City	198,000	56,571	4,398	-	-	18	-
Zhejiang	Daishan Economic Development District	-	-	-	-	-	-	-
Anhui	Wuhe County	165,000	47,143	21,818	1	41	89	-
		10,073,039	2,878,009	1,584,683	803	4,859	9,067	54

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



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW



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

Natural Gas Pricing Reform

In recent years, the National Development and Reform Commission (the “NDRC”) of the PRC announced different measures for marketisation of natural gas pricing. On 1st April, 2015, the NDRC reduced the city-gate price of incremental volume by RMB0.44 per cubic metre and increased the city-gate price of existing volume by RMB0.04 per cubic metre, in order to converge the city-gate prices of existing volume and

incremental volume. On 20th November, 2015, the NDRC lowered the maximum city-gate prices of natural gas for non-residential users by RMB0.7 per cubic metre. Moreover, the city-gate price then becomes a benchmark price, which is subject to negotiation between suppliers and buyers. The non-residential suppliers may charge up to 20% above the benchmark city-gate prices based on supply of and demand for natural gas.

The Group passed through the decreased cost to its non-residential users. The lower gas price provided a stronger incentive for non-residential users to use natural gas and facilitated the Group to develop its new industrial and commercial customers, which sparked up the gas sales volume of the Group.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Downstream Piped Gas Distribution

Harmony Gas Project

References are made to the announcement of the Company dated 8th December, 2015, (the "Announcement") in relation to acquisition of further interests in Harmony Gas, which holds 100% shareholding interests in the privatized Sino Gas International Holdings, Inc. (the "Harmony Gas Project"), and the Shareholders Agreement (as defined in the Announcement). Unless otherwise defined herein, capitalised terms used in this section of this announcement shall have the same meanings as defined in the Announcement.

On 8th December, 2015, Zhongyu Beijing (a wholly-owned subsidiary of the Company) and the Vendor entered into the Sale and Purchase Agreement pursuant to which Zhongyu Beijing conditionally agreed to acquire further interests in Harmony Gas held by the Vendor at the consideration of US\$78,722,395 which shall be satisfied by cash at the Completion Date. The parties also entered into the Shareholders Agreement.

Zhongyu Beijing is an existing 50% shareholder of Harmony Gas so the purchase of the Sale Shares will, on completion of the Sale and Purchase Agreement, increase Zhongyu Beijing's shareholding in Harmony Gas to 88.7%. Completion is expected to take place on a date parties will agree but, absent agreement, shall take place no later than 14th July, 2017. Even though completion of the Sale and Purchase Agreement will not take place in the year ended 31st December, 2015, as a result of the terms of the Shareholders Agreement, the Company consolidated the results of Harmony Gas and its subsidiaries from 8th December, 2015, the date when Harmony Gas became a subsidiary of the Company.

Harmony Gas and its subsidiaries own and operate 22 exclusive piped gas projects in PRC, covering connectable urban population in Hebei, Jiangsu, Jilin and Anhui provinces.



MANAGEMENT DISCUSSION & ANALYSIS BUSINESS REVIEW



Due to the steady growth in the natural gas market in the PRC, the Group is confident in its prospects in this market. The Directors are of the view that the Harmony Gas Project could provide an opportunity for the Group to further invest in natural gas business in the PRC in order to enhance its earning base and expand the geographical coverage of its operations.

Dezhou Wangyuan Project

In 2014, the Group acquired 100% equity interest in 德州中裕燃氣有限公司 (previously called 德州旺源燃氣有限公司 (“Dezhou Wangyuan”). During the year ended 31st December, 2015, the Group made additional capital injection of RMB15,000,000 to Dezhou Wangyuan. Dezhou Wangyuan is principally engaged in exclusively sales of piped gas in Tianqu industrial zone of Dezhou City, Shandong Province, the PRC. After developing for over a decade, Tianqu industrial zone is growing stronger. The zone is divided into six districts, namely the modern logistic district, chemical district, electronic information district, textile district, food processing district and the Tianqu business district respectively.

New CNG/LNG Vehicle Filling Stations Expansion

Newly established CNG/LNG vehicle filling stations

The Group continued to develop vehicles natural gas filling station business actively. During the financial year, 10 additional CNG/LNG vehicle filling stations were put into operation.

Major Operational Data

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

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

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

	2015	2014	Increase/ (Decrease)
Number of operational locations (Note a)*	52	52	–
– Henan Province	21	21	–
– Hebei Province	15	15	–
– Jiangsu Province	5	5	–
– Shandong Province	4	4	–
– Jilin Province	2	2	–
– Fujian Province	1	1	–
– Heilongjiang Province	1	1	–
– Zhejiang Province	1	1	–
– Anhui Province	2	2	–
Connectable urban population ('000) (Note b)*	10,073	8,594	17.2%
Connectable residential households ('000)*	2,878	2,455	17.2%
New piped gas connections by the Group made during the year			
– Residential households	160,794	146,997	9.4%
– Industrial customers	166	95	74.7%
– Commercial customers	656	670	(2.1)%
Accumulated number of connected piped gas customers*			
– Residential households	1,584,683	1,344,627	17.9%
– Industrial customers	803	625	28.5%
– Commercial customers	4,859	4,082	19.0%
Penetration rate of residential pipeline connection (Note c)	55.1%	58.3%	(3.2)%
Unit of piped natural gas sold ('000 m ³)	626,392	685,953	(8.7)%
– Residential households	149,042	124,150	20.0%
– Industrial customers	376,109	467,183	(19.5)%
– Commercial customers	74,219	66,979	10.8%
– Wholesale customers	27,022	27,641	(2.2)%

MANAGEMENT DISCUSSION & ANALYSIS
BUSINESS REVIEW

	2015	2014	Increase/ (Decrease)
Number of CNG/LNG Vehicle Filling Stations			
– Accumulated	54	44	10
– Under construction	24	19	5
Unit of natural gas sold to vehicles ('000 m ³)	95,949	98,877	(3.0)%
Total length of existing intermediate and main pipelines (km)*	9,067	7,880	15.1%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	1.99	1.94	2.6%
– Industrial customers	2.79	2.71	3.0%
– Commercial customers	3.04	3.05	(0.3)%
– Wholesale customers	2.16	2.14	0.9%
– CNG/LNG vehicle filling stations	3.46	3.70	(6.5)%
Average cost of natural gas (RMB per m ³)	2.29	2.24	2.2%
Average connection fee for residential households (RMB)	2,819	2,835	(0.6)%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

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

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

* The information in 2014 included the statistics of the Harmony Gas Project.



MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW



Overall

The Group's profit attributable to owners of the Company amounted to HK\$93,390,000 (2014: HK\$324,351,000). The decrease was mainly due to (i) net foreign exchange loss of HK\$164,899,000; (ii) share of loss of a joint venture of HK\$51,962,000 and (iii) decline in turnover during the year. In August 2015, the People's Bank of China announced a new mechanism to determine the RMB reference rate and RMB depreciated for around 6% during the year. This led to a significant unrealised exchange loss which mainly arising from the Group's bank borrowings denominated in United States dollars.

Excluding the net foreign exchange loss of HK\$164,899,000 (2014: net foreign exchange gain of HK\$348,000), the Group's adjusted profit attributable to owners of the Company would amount to HK\$258,289,000 (2014: HK\$324,003,000).

Turnover

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

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	Year ended 31st December				
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	Increase/ (Decrease)
Sales of Piped Gas	2,098,195	64.0%	2,317,565	67.9%	(9.5)%
Connection revenue from Gas Pipeline Construction	748,185	22.9%	612,974	18.0%	22.1%
Operation of CNG/LNG Vehicle Filling Stations	413,612	12.6%	461,471	13.5%	(10.4)%
Sales of Stoves and Related Equipment	16,052	0.5%	9,885	0.3%	62.4%
Sub-total	3,276,044	100.0%	3,401,895	99.7%	(3.7)%
Sales of Liquefied Petroleum Gas	622	0.0%	10,795	0.3%	(94.2)%
Total	3,276,666	100%	3,412,690	100%	(4.0)%

The turnover for the year amounted to approximately HK\$3,276,666,000 (2014: HK\$3,412,690,000). The continuous growth in sales of piped gas to commercial and residential customers and connection revenue from gas pipeline construction were offset by the decrease in sales of piped gas to industrial customers and the sales of natural gas from CNG/LNG vehicle filling stations.

Sales of Piped Gas

Sales of piped gas for the year ended 31st December, 2015 amounted to approximately HK\$2,098,195,000, representing a decrease of approximately 9.5% over the corresponding period last year.

Sales of piped gas for the year contributed approximately 64.0% of the total turnover of the Group. As compared with the percentage of approximately 67.9% during the corresponding period last year, sales of piped gas continued to be the major source of turnover of the Group. The following table set forth the breakdown of sales of piped gas by customers.

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Sales of piped gas by customers:

	Year ended 31st December,				
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	Increase/ (Decrease)
Industrial customers	1,354,493	64.6%	1,657,029	71.5%	(18.3)%
Residential households	388,074	18.5%	325,164	14.0%	19.3%
Commercial customers	282,934	13.5%	260,837	11.3%	8.5%
Wholesale customers	72,694	3.4%	74,535	3.2%	(2.5)%
Total	2,098,195	100%	2,317,565	100%	(9.5)%

Industrial customers

The sales of piped gas to its industrial customers for the year decreased by 18.3% to approximately HK\$1,354,493,000 from approximately HK\$1,657,029,000 for the corresponding period last year. During the year, the Group connected 166 new industrial customers. The average selling price of natural gas for industrial customers was increased by 3.0% to RMB2.79 per m³ (2014: RMB2.71 per m³) when compared to the corresponding period last year, which partly suppressed the gas consumption of industrial customers. During the year, the piped natural gas usage provided by the Group to its industrial customers reduced to 376,109,000 m³ (2014: 467,183,000 m³) as a result of the slowdown of economic growth of PRC.

The sales of piped gas to its industrial customers for the year contributed approximately 64.6% of the total sales of piped gas of the Group. As compared with the percentage of approximately 71.5% during the corresponding period last year, it continued to be the major source of sales of piped gas of the Group.

Residential households

The sales of piped gas to its residential households for the year increased by 19.3% to approximately HK\$388,074,000 from approximately HK\$325,164,000 for the corresponding period last year. The growth in sales of piped gas to residential households was supported by the growth in population due to urbanization in the Group's existing project cities in China. The Group provided new natural gas connections for 160,794 residential households. During the year, the piped natural gas usage provided by the Group to residential households was approximately 149,042,000 m³ (2014: 124,150,000 m³).

The sales of piped gas to its residential households for the year contributed approximately 18.5% of the total sales of piped gas of the Group (2014: 14.0%).

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Commercial customers

In addition to fulfilling the demand of residential customers for natural gas, the Group stepped up gas connection for commercial customers. The sales of piped gas to its commercial customers for the year increased by 8.5% to approximately HK\$282,934,000 from approximately HK\$260,837,000 for the corresponding period last year. The sales of piped gas to its commercial customers for the year contributed approximately 13.5% of the total sales of piped gas of the Group (2014: 11.3%). During the year, the Group connected 656 new commercial customers. As at 31st December, 2015, the number of commercial customers of the Group reached 4,859.

The average selling price of natural gas for commercial customers remained stable at RMB3.04 per m³ (2014: RMB3.05 per m³) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 10.8% to approximately 74,219,000 m³ drove the piped gas sales increment.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the year ended 31st December, 2015 amounted to approximately HK\$748,185,000, representing an increase of approximately 22.1% over the corresponding period last year. The following table set forth the breakdown of connection revenue from gas pipeline construction by customers.

Connection revenue from gas pipeline construction by customers

	Year ended 31st December,				
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	Increase/ (Decrease)
Residential households	563,019	75.3%	525,970	85.8%	7.0%
Non-residential customers	185,166	24.7%	87,004	14.2%	112.8%
Total	748,185	100%	612,974	100%	22.1%

During the year, connection revenue from gas pipeline construction for residential households increased by 7.0% to approximately HK\$563,019,000 from approximately HK\$525,970,000 for the corresponding period last year. The increase in connection revenue from gas pipeline construction for residential households was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households to 160,794 from 146,997 for the corresponding period last year.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year, connection revenue from gas pipeline construction for non-residential customers increased by 112.8% to approximately HK\$185,166,000 from approximately HK\$87,004,000 for the corresponding period last year, benefited from the escalating awareness of the use of clean energy.

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As at 31st December, 2015, the Group's penetration rates of residential pipeline connection amounted to 55.1% (2014: 58.3%) (represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the rapid growth of the population in urban areas due to urbanization, the Group will continue to increase its market coverage by active acquisition when suitable opportunities arise.

Operation of CNG/LNG Vehicle Filling Stations

International crude oil prices remained at a low level since late 2014. The competitive advantage of CNG/LNG vehicle filling stations was shrinking in short term. Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2015 amounted to approximately HK\$413,612,000, representing a decrease of approximately 10.4% over the corresponding period last year. The average selling price of natural gas for CNG/LNG vehicle filling stations was reduced by 6.5% to RMB3.46 per m³ (2014: RMB3.70 per m³) when compared to the corresponding period last year. The unit of natural gas sold to vehicles slightly decreased by 3.0% to approximately 95,949,000 m³ for the year ended 31st December, 2015 from approximately 98,877,000 m³ for the corresponding period last year.

During the year, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 12.6% of the total turnover of the Group. Despite the short-term difficulties faced by the industry, the Group is confident in the future development of the natural gas industry. As at 31st December, 2015, the Group had 54 CNG/LNG vehicle filling stations and commenced building an additional 24 CNG/LNG vehicle filling stations in the PRC. It is targeted that all new CNG/LNG vehicle filling stations will commence operation in 2016 or 2017.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2015 was approximately 24.0% (2014: 24.9%). The gross profit margin for the sales of piped natural gas was 15.6% (2014: 17.2%); for the gas pipeline construction was 58.7% (2014: 63.0%); and for the operation of CNG/LNG vehicle filling stations was 14.1% (2014: 20.7%).

The decrease in the gross profit margin for the sales of piped natural gas was mainly due to increase in upstream natural gas price and overhead costs, such as direct labour costs and depreciation. The decrease in the gross profit margin for the connection revenue from gas pipeline construction was mainly due to the increase in the average construction cost for non-residential customers. In view of the current economic environment in PRC, the non-residential customers were more prudent when negotiating the gas pipeline construction contracts. The decrease in the gross profit margin for the operation of CNG/LNG vehicle filling stations was mainly due to reduction of average selling price in current year, as a result of keen competition.

Other gains and losses

The Group recognised other net loss of HK\$73,633,000 in 2015 (2014: other net gain of HK\$29,454,000). The amount mainly represented net foreign exchange loss of HK\$164,899,000 (2014: net foreign exchange gain of HK\$348,000), offset by gain on obtaining control over Harmony Gas and its subsidiaries of HK\$86,749,000. In 2014, there was one-off reversal of impairment loss of HK\$29,380,000 recognised on other intangible assets. No such gain was noted in 2015.

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Other income

Other income increased to approximately HK\$46,050,000 in 2015 from approximately HK\$37,092,000 in 2014. The balance in 2015 represented the bank interest income of approximately HK\$6,924,000 (2014: HK\$5,154,000), interest income on amount due from a joint venture of approximately HK\$20,653,000 (2014: HK\$6,669,000), government subsidies of approximately HK\$3,411,000 (2014: HK\$11,635,000), interest income from investments in life insurance contracts of approximately HK\$2,376,000 (2014: HK\$1,112,000) and sundry income of approximately HK\$12,686,000 (2014: HK\$12,522,000).

Selling and distribution costs

Selling and distribution costs increased by 16.4% to approximately HK\$71,565,000 in 2015 from approximately HK\$61,501,000 in 2014. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and number of headcount for PRC subsidiaries; and (ii) the consolidation of selling and distribution costs of Harmony Gas.

Administrative expenses

Administrative expenses decreased by 1.7% to approximately HK\$209,334,000 in 2015 from approximately HK\$213,046,000 in 2014. The decrease was mainly attributable to (i) the reduction in professional fees as fewer new gas projects were acquired in current year; (ii) decrease in director emoluments; and (iii) the cost-saving measures conducted by the Group to improve cost-efficiency. These offset the impact of the consolidation of administrative expenses of Harmony Gas.

Share of results of a joint venture

During the year, the Group shared loss of Harmony Gas and its subsidiaries of HK\$51,962,000 (2014: share of profit of HK\$13,000).

Finance costs

Finance costs increased by 35.8% to approximately HK\$114,866,000 in 2015 from approximately HK\$84,565,000 in 2014. The increase was mainly attributable to the increase in average bank and other borrowings and amortisation on loan facilities fees regarding to bank borrowings.

Income tax expenses

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2015, withholding tax amounting to HK\$12,991,000 (2014: HK\$3,966,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

Accordingly, the income tax expenses in 2015 amounted to approximately HK\$157,637,000 (2014: HK\$167,285,000).

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

The Group's EBITDA was approximately HK\$608,342,000 in 2015, representing a decrease of 19.9% as compared with that of approximately HK\$759,287,000 in 2014.

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Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK\$93,390,000 in 2015, representing a decrease of 71.2% as compared with that of approximately HK\$324,351,000 in 2014.

Net Profit Margin

As at 31st December, 2015, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 2.9% (2014: 9.5%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK3.70 cents and HK3.70 cents respectively in 2015, as compared with that of HK12.85 cents and HK12.84 cents respectively in 2014.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK79 cents in 2015 (2014: HK79 cents).

The net assets value represents total assets minus total liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2015, the total assets of the Group increased by approximately HK\$1,810,487,000 or 26.2% to HK\$8,709,309,000 (2014: HK\$6,898,822,000).

As at 31st December, 2015, the Group has net current liabilities of approximately HK\$677,454,000 (2014: net current assets of HK\$184,975,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 31st December, 2015, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.7 (2014: 1.1).

As at 31st December, 2015, the total borrowings and obligations under finance lease increased by approximately HK\$938,746,000 or 27.2% to HK\$4,391,476,000 (2014: HK\$3,452,730,000).

As at 31st December, 2015, the Group had total net debts of approximately HK\$3,312,262,000 (2014: HK\$2,624,541,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposit. As at 31st December, 2015, the Group had net gearing ratio of approximately 145.8% (2014: 114.5%), measured as total net debts to total equity of approximately HK\$2,272,394,000 (2014: HK\$2,292,740,000).

Financial resources

During the year, the Company entered into several loan agreements with several banks in Hong Kong, pursuant to which the Company was made available to loan facilities of up to US\$52,000,000 and HK\$300,000,000 in total. The net loan proceeds are used for refinancing the existing indebtedness of the Group, financing the working capital and capital expenditure of the Group.

During the year ended 31st December, 2015, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2015, all of the bank borrowings were secured or unsecured and on normal commercial basis.

Capital structure

Please refer to notes 5, 30, 33 and 34 of the consolidated financial statements for details of the capital structure of the Group.

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Working capital

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

RELATED PARTY TRANSACTIONS

Details on the related party transactions are set out in note 43 to the consolidated financial statements. The related party transactions conducted by the Group during the year do not constitute "connected transactions" within the definition of Chapter 14A of the Listing Rules. As such, the Company is not required to comply with the disclosure requirements in accordance with Chapter 14A.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB") or the United States dollars and the Group conducted its business transactions principally in RMB. In August 2015, the People's Bank of China announced a new mechanism to determine the RMB reference rate and RMB depreciated for around 6% during the year. This led to a significant unrealised exchange loss arising from the Group's bank borrowings denominated in United States dollars. The Group is seeking suitable financial instruments for hedging purposes. As at 31st December, 2015, the Group did not employ any financial instruments for hedging purposes, as the management considered the cost of employing such financial instruments will outweigh the benefit.

EMPLOYEE INFORMATION

As at 31st December, 2015, the Group had a total of 3,129 employees (2014: 2,440) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK\$224,400,000 (2014: HK\$193,990,000). The increase was mainly due to the increase in the number of headcount of the Group's subsidiaries and salary increment. Around 99.8% of the Group's employees are located in the PRC.

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

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

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

As at the date of this report, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2014: 2,000,000) outstanding under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 0.08%).

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. As at the date of this report, no share options have been granted under the New Share Option Scheme and the maximum number of share options which may be granted under the New Share Option Scheme is 252,400,768. These share options, if granted and converted in full, represent approximately 9.996% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 9.996%).

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

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK\$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of share options granted was HK\$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the Old Share Option Scheme were exercised during the year. No options have yet been granted under the New Share Option Scheme. The movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year are disclosed in the title of share option in Directors's Report.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2015, the Group has pledged certain buildings in the PRC having a carrying value of HK\$3,147,000 (2014: HK\$3,530,000) to secure certain bank borrowings granted to the Group.

As at 31st December, 2015, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK\$44,660,000 (2014: HK\$48,614,000) to secure certain bank borrowings granted to the Group.

As at 31st December, 2015, pursuant to a letter of undertaking, the Group is required to maintain a deposit of RMB80,000,000 (equivalent to HK\$95,488,000) with a bank as a condition precedent to a short-term bank borrowing.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2015, the Board did not have any specific plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 31st December, 2015, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK\$77,771,000 (2014: HK\$61,818,000).

CONTINGENT LIABILITIES

As at 31st December, 2015, the Group did not have any contingent liabilities.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Mr. Wang Wenliang, aged 45, is the Chairman of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang was an executive director of China Gas between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Peng Wei, aged 50, is the Joint Managing Director of the Company. He was appointed as an executive Director on 16 October 2015 and is responsible for the general business operations and management. Mr. Peng holds a Master of Science degree from Peking University and a professional title of senior economist. In 2001, Mr. Peng joined China Taiping Insurance (HK) Company Limited ("CTPI (HK)"), as deputy general manager and since then, has held various senior management positions at CTPI (HK) including executive director, general manager and chief executive officer. Mr. Peng has also served as a managing director and assistant president of China Taiping Insurance Group Co. ("TPG") since June 2005, a vice president of TPG and China Taiping Insurance Group (HK) Company Limited since October 2008, and an executive director of China Taiping Insurance Holdings Company Limited ("TPH") (Stock Code: 966) from February

2010 to August 2013 and a deputy general manager of TPH since 2013. Mr. Peng was appointed as the chairman of Ming An Insurance (China) (2005), the chairman of China Taiping Insurance (Macau) (2009), the chairman of Taiping General Insurance Company Limited (2010), the chairman of Taiping Life Insurance Company Limited (2011), and the chairman of Taiping E-Commerce Company Limited (2013). Prior to joining TPG and its subsidiaries, Mr. Peng was a director and executive vice president of Sinosafe General Insurance Company Limited in Shenzhen, as well as the general manager of the Economics Development Department and Strategy Management Department of Overseas Chinese Town Holding Company in Shenzhen. Mr. Peng was the chairman of the Chinese Insurance Association of Hong Kong from February 2006 until February 2008.

Mr. Lui Siu Keung, aged 44, is the Joint Managing Director, the Chief Financial Officer and Company Secretary of the Company. He was appointed as an executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the financial, financing and investor relations activities of the Group. Mr. Lui has approximately twenty years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui was an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707) up to 10th March, 2015.

In October 2015, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Lui as a Joint Managing Director and Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Lui's annual emolument was adjusted upwards to HK\$3,600,000.

Mr. Lu Zhaoheng, aged 51, is the executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu is the National Registered Public Facilities Engineer and the member of China

BIOGRAPHICAL INFORMATION OF DIRECTORS

City Gas Council. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in July 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about thirty-one years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究院 (The City Planning Design Institute of Henan Province) and was mainly responsible for the planning, design and consultation regarding natural gas projects.

Non-executive Directors

Mr. Xu Yongxuan, aged 70, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

Independent Non-executive Directors

Mr. Li Chunyan, aged 52, is an independent non-executive Director, Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He is currently a registered lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the PRC. Mr. Li acted as legal adviser or independent non-executive director to the Henan Provincial People's Hospital, the Henan Province Television Station and other listed companies listed in the PRC and overseas. He was the independent non-executive director of Zhengzhou Yutong Bus Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600066) from April 2014 to the present. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

Dr. Luo Yongtai, aged 69, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor in management of Tianjin

University of Finance and Economics, the visa president of Tianjin Enterprise Culture Research Association and an expert of Thinking Tank in Tianjin Science and Technology Commission, as well as a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC. In recent years, he has led and completed various national, provincial and municipal projects. He is an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965) and an external director of Tianjin Ringpu Bio-Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300119). He held the positions in the following companies but resigned from all positions now: an independent director of Tianjin Realty Development (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600322), Tianjin TEDA Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 00652), Tianjin Quanyechang (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600821), Tianjin Binhai Teda Logistics (Group) Corporation Limited (stock code: 8348), as well as an independent director of Sichuan Datong Gas Development Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 00593).

Mr. Hung, Randy King Kuen, aged 50, is an independent non-executive Director and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 30 September 2004. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director and Chief Financial Officer of China Fiber Optic Network System Group Limited (Stock Code: 3777) and an independent non-executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877). Mr. Hung is also serving as a council member of the Hong Kong Institute of Directors, and Vice Chairman of the Hong Kong Investor Relations Association. Mr. Hung obtained an MBA degree in international management from the University of London and a bachelor's degree of accounting and a certificate in programming and data processing from the University of Southern California, a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance.

CORPORATE GOVERNANCE REPORT

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

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code") for the year ended 31st December, 2015. The following summarizes the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

Executive Directors:

Mr. Wang Wenliang ("Mr. Wang")
(Chairman)
Mr. Peng Wei
(Joint Managing Director)
Mr. Lui Siu Keung
(Joint Managing Director)
Mr. Lu Zhaoheng

Non-executive Director:

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent Non-executive Directors:

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

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

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

A. Board of Directors

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

A.1 Board composition

As at 31st December, 2015, the Board included eight Directors, of which four are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 26 and 27 in this report.

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

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A.2 Board meetings and information supply

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

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

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

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

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

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

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

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

For the year ended 31st December, 2015, the Board held thirteen board meetings and the Company held one general meeting. The attendance records of all board meetings and the general meeting are set out below:

	General meeting		Board meetings	
Executive Directors				
Mr. Wang Wenliang (<i>Chairman</i>)	1	100%	13	100%
Mr. Peng Wei (<i>Joint Managing Director</i>)*	N/A	N/A	3	100%
Mr. Lui Siu Keung (<i>Joint Managing Director</i>)	1	100%	13	100%
Mr. Lu Zhaoheng	1	100%	9	69%
Non-executive Directors				
Mr. Xu Yongxuan (<i>Vice Chairman</i>)	1	100%	9	69%
Independent Non-executive Directors				
Mr. Li Chunyan	1	100%	10	77%
Dr. Luo Yongtai	1	100%	10	77%
Mr. Hung, Randy King Kuen	1	100%	10	77%

* Mr. Peng Wei was appointed as an executive Director with effect from 16th October, 2015. Accordingly, the attendance record only shows the board meetings and general meeting that were held after his appointment.

CORPORATE GOVERNANCE REPORT

A.3 Chairman and chief executive

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

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

Mr. Wang Wenliang was originally the Chairman and the Joint Managing Director (who has similar role and responsibilities as those of a chief executive) of the Company. As a result, the dual role that Mr. Wang Wenliang had as the Chairman and a Joint Managing Director may constitute a deviation from CG Code Provision A.2.1. The Board was of the view that it was in the best interests of the Group to adopt a single leadership structure which would avoid the decision-making process from being unnecessarily hindered and also ensures that the Group can respond to business opportunities efficiently and promptly.

On 16th October, 2015, Mr. Wang Wenliang resigned as a Joint Managing Director but remain as an executive director and the

Chairman of the Company. Mr. Peng Wei has on the same day been appointed as a Joint Managing Director and an executive director of the Company. Mr. Wang Wenliang's resignation from the office of Joint Managing Director has allowed the separation of the roles of the Company's Chairman and the chief executive in accordance with CG Code Provision A.2.1.

A.4 Appointments and re-election

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

The Company renewed the service contracts with each non-executive Director on 11 July 2015. The renewed term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to

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retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A4. Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

At the 2014 AGM, Mr. Lu Zhaoheng, Mr. Li Chunyan and Dr. Luo Yongtai, three of the seven Directors subject to retirement by rotation, retired and were re-elected to the Board by the shareholders of the Company.

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

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he will receive a formal induction and other materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner according to the written responsibilities guideline, the independent non-executive Directors participate in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and

to develop a balanced understanding of the view of shareholders. Individual Directors may also seek external independent professional advice, at the Company's expense, on any specific matter. The Company also encourages all Directors to participate in programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

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

A.7 Directors and Officers' Liabilities Insurance

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

A.8 Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory

CORPORATE GOVERNANCE REPORT

requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2015 according to the records provided by the Directors is as follows:

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

B. Remuneration Matters

The Board has established a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee meets at least once a year. It will consult the Chairman about their remuneration proposals for other executive directors and the primary responsibilities of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to determine specific remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation policy (i.e. the model as described in Code Provision B.1.2(c)(i) was adopted); to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to ensure that no Director or any of this associates is involved in deciding his own remuneration.

Two remuneration meetings were held on 9th February, 2015 and 16th October, 2015 respectively to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

Independent Non-executive Directors

Mr. Li Chunyan (<i>Chairman</i>)	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	2	100%

C. Accountability and Audit

C.1 Financial reporting

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group is in accordance with statutory

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requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

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

C.2 Internal controls

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

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

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

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

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

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

The operational control is the other important part of the whole internal control system. To achieve effective result and avoid operational risks, human resource department employs

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

In 2015, after reviewing the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the CG Code.

C.3 Audit committee

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

approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2015, the Audit Committee held two meetings to check the effectiveness of the internal control system; to review all draft interim and annual financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors

Mr. Li Chunyan (<i>Chairman</i>)	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	2	100%

C.4 Auditor's remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2015 amounted to HK\$2,095,000.

D. Nomination Committee

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

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

For the year ended 31st December, 2015, Mr. Li Chunyan, an Independent Non-executive Director, acted as the Chairman of the Nomination Committee and Dr. Luo Yongtai and Mr. Hung, Randy King Kuen were members, both of whom were also Independent Non-executive Directors.

The Nomination Committee held one meeting during the year ended 31st December, 2015 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors, discuss the resignation of Mr. Wang Wenliang as a Joint Managing Director of the Company and the appointment of Mr. Peng Wei as a Joint Managing Director and an executive Director of the Company, and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

Independent Non-executive Directors

Mr. Li Chunyan (<i>Chairman</i>)	1	100%
Dr. Luo Yongtai	1	100%
Mr. Hung, Randy King Kuen	1	100%

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

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

Procedures by which enquiries may be put to the Board

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

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With growing environmental awareness in various sectors of society, the business scope and development strategies of energy enterprises have changed from traditional energy towards innovative and clean energy, with sustainable development as the long-term goal. The Group's sustainable development plan is not limited to business expansion but is also concerned with such areas as corporate governance reform, environmental protection and community amenities. As such, the Group aims to develop into a top-notch energy enterprise highly respected by all sectors of society.

Work Environment

The Group is committed to the belief that the success of a business lies in the perseverance and pragmatism of its staff. Only in a harmonious work environment can a company grow with its staff, hence enhancing business development. Therefore, the Group has always regarded its staff as partners, striving to satisfy their expectations on remuneration, benefits, career-related studies and career development. This ensures that they can share the honours and achievements in the course of our development.

Overview

As at 31st December, 2015, the Group had a total of 3,129 staff members, with a turnover rate of 4.75%. The table below shows the staff size based on age, gender, academic qualifications and region:

	Percentage of the staff
Gender	
Male	68%
Female	32%
Age	
30 or below	34%
31-40	37%
41-50	23%
51 or above	6%
Academic qualifications	
Junior high school or lower	5%
Senior high school or technical high school	40%
College	38%
Undergraduate or higher	17%
Region	
Henan	62%
Shandong	15%
Beijing and Hebei	11%
Other regions	12%

Recruitment, remuneration and promotion systems

With the ever-increasing scale of the gas businesses, the Group's demand for workforce is growing as well. As such, the Group recruits talents on campus, through internal referral and open recruitment, and has set up an assessment committee comprising staff members at different levels to shortlist suitable applicants according to internal criteria, so as to ensure that newly recruited staff members can meet the requirements of their positions.

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The Group formulates policies of remuneration and benefits using the "effort-based" principle. The salary levels of its staff are regularly reviewed against their duties, performance, qualifications and skills, so that their individual efforts and contributions are fairly rewarded. In addition, the Group has a clear hierarchy, with various skills and qualifications clearly stated for positions at different levels, so that staff can plan their career paths with reference to their personal strengths. As for vacancies at the middle or higher levels, the Group gives priority to existing employees who are eligible, ensuring that outstanding employees have internal promotion opportunities.

Work safety and skill training

Being well aware of the instrumental role of work safety in the stable development of a business, the Group therefore has drawn up a stringent work safety regime based on the Law of the People's Republic of China on Work Safety, and made every effort to identify the potential dangers in daily operations for formulating corresponding safety measures to guard against industrial accidents. The Group obtained Occupational Health and Safety Management System Certification in October 2015. In the meantime, the Group has also drawn up the Rules on Management of Daily Patrol and Rules on Gas Pipeline Network Safety Inspection, which require frontline staff to carry out daily inspection of the operation of the gas pipeline network with special equipment to prevent gas from leaking.

To heighten employees' safety awareness, the Group arranges work safety training for its staff every year and encourages every department to conduct training according to their needs. Apart from that, the Group will also provide certain departments with protective gear based on their needs and arrange senior technicians to instruct new employees, helping them to acquaint themselves with procedures for daily work and guidelines for frontline work. As a professional and responsible gas supplier, the Group strictly requires frontline technicians to obtain certificates of labour skills from the government, ensuring that the related personnel are equipped with the professional qualifications and safety knowledge about dangerous working conditions.

In addition, the Group has also set up a comprehensive training system to equip employees with industry knowledge and professional skills through internal training, outreach training, professional skill training and managerial knowledge training. The Group also invites senior technicians to guide trainees on taking skill tests, ensuring that employees can apply the knowledge and skills that they have learnt in practice and at work.

Adhering to labour standards

The Group enters into employment contracts by reference to the Labour Law, Labour Contract Law, Law on Protection of the Rights and Interests of Women and Special Rules on the Labour Protection of Female Employees to safeguard the statutory rights of female employees and to ensure that the requirements of gender equality are fully met. In addition, the Group requires the Human Resources Department to strictly adhere to labour laws and prohibits such illicit acts as employing child labour and forced labour.

Communication system with employees

Apart from safeguarding employees' statutory rights, the Group also allows them to be involved in management issues such as corporate planning. The Group has set up a trade union where the employees vote to elect the representative who will relay salary policies, development plans and other administrative issues to the management. This move will not only enhance the transparency of internal management, but will also encourage the understanding between the Company and its employees to prevent unnecessary conflicts or misunderstandings.

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Environmental Protection

The resources of the planet are limited, yet the demand for energy has only been on the increase because of the growing global population. If society is to continue with its stable development, we have to start with energy conservation and protecting the ecosystem in order to mitigate the impact on the environment. As part of the energy industry, not only does the Group strive to provide its customers with enough energy, but it also devotes itself to increasing the benefits of environmental protection in its daily operation, ensuring that the development of society and environmental conservation can coexist.

The Group has complied with the relevant environmental laws and regulations in the PRC in all material respects during the year under review.

Conserving energy and reducing emissions

As one of the best suppliers of clean energy in China, the Group has been keeping its promise to reduce emissions. Our daily operation does not result in the emission of any wastewater or exhaust fumes; it only releases a negligible amount of gas in the course of installing and replacing gas pipelines and detecting the concentration of gas. The environment is not in any way affected, though.

In terms of energy conservation, the Group has drawn up the Administrative Measures on Water Conservation at Zhongyu, a set of standards of energy consumption formulated by reference to the Law of the People's Republic of China on Energy Conservation and Water Law of the People's Republic of China and based on the operational needs of every department, whereby the Group could improve the efficiency of energy use and avoid wasting resources. In addition, the technique of variable frequency is employed in the daily operation of high-consumption gas compressors, which conserves energy together with the use of gas-fired electricity for the factory's machinery.

In a bid to encourage our employees to take the initiative to conserve energy, the Group will add energy conservation to one of the criteria in the annual appraisal, and will reward and compliment the departments and employees that meet the standards of electricity use. At the same time, the Group has already formulated detailed guidelines on the use of office

equipment, requiring employees to choose office supplies which satisfy the requirements of energy conservation. They have also been instructed to recycle recyclable resources, for example copy paper and document envelopes and to stick to the principle of "use it only when needed" when using electricity.

Preserving the environment

Since 2013, the Group has been involved in a couple of projects about environmental protection, including "A gas-led city and its azure sky project" and "From coal to gas project", installing gas-fired boilers and improving coal-fired boilers for family and industrial users, which reduced the emission of exhaust fumes and helped the government alleviate the problem of air pollution. Moreover, apart from formulating contingency guidelines for emergency to reduce the impact of gas leakage, the Group will also carry out environmental impact assessment for pipeline and gas-filling station construction projects and take corresponding measures based on the results of the environmental impact assessment in order that the projects will not cause serious damage to the ecosystem. In view of the deteriorating problem of global warming, the Group has actively promoted gas supply technology through various means to encourage the use of clean energy in the community, and has strived to reduce the emission of greenhouse gases and other air pollutants.

Operational governance

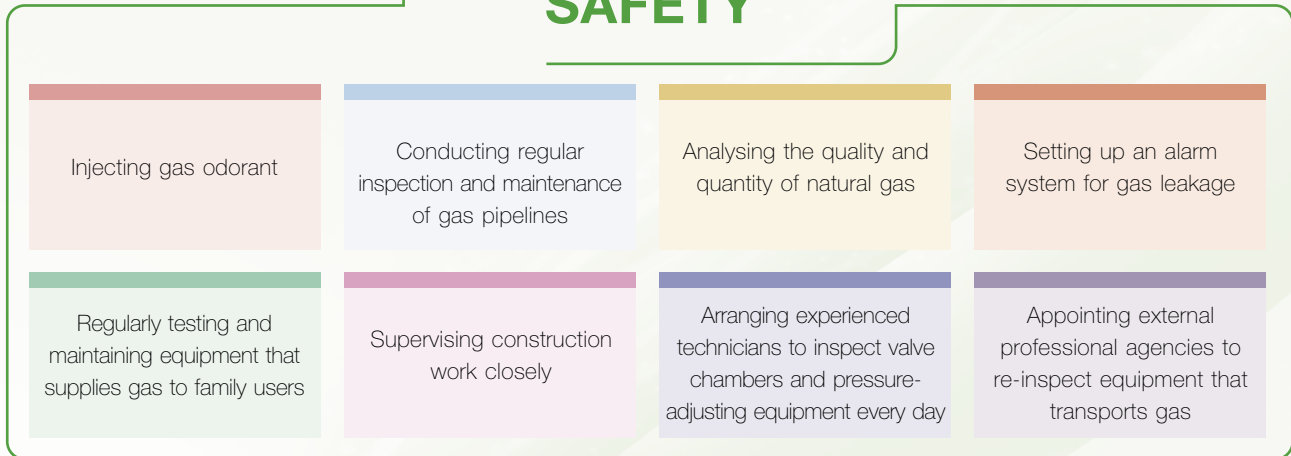
In recent years, the Chinese government has given full support for industries related to environmental protection businesses and attracted a number of corporates to open up clean energy markets, which resulted in increasingly intense competition. The Group is fully aware that if it has to stand out from its competitors, it has to continuously improve its operational governance standards and timely adjust its management systems to keep in line with market trends.

Supply Chain Management

As at the end of the first half of 2015, the Group operated in 9 provinces, providing 1.44 million families and 5,200 businesses with gas products and services, with PetroChina Company Limited as one of the main suppliers. Since the establishment

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of the Group, the Group's gas supply service has been renowned for its safety and stability, which was attributed to the stringent and precise supply chain management mechanism and systematic operating procedures.

The Group formulated the Administrative Measures on Bidding by reference to national and industry standards to set out clear bidding procedures for outsourcing services such as project design, investigation and construction. The most suitable contractor is then selected based on the budgeted cost, project specifications and qualification requirements, in order that facilities such as gas pipelines and gas-filling stations can meet the architectural standards of the country. In addition, the Group also set up comprehensive procurement policies for gas products and construction materials, selecting suitable suppliers through internal product approval processes. At the same time, the Group requires its subsidiaries to adhere to the above guidelines and stipulations, and regularly report the work to the headquarters, so that the supply chain management system is kept consistent across the board.

In the meantime, the Group has been carefully monitoring the quality of its suppliers and whether they play by the rules, ensuring the smooth operation of the supply chain and mitigating the operational risk of any suspension in the supply of gas. The Group has set up a comprehensive performance evaluation and product checking mechanism, including regular and surprise inspection of factories. The Group will also assign specialists to liaise with suppliers which are not yet up to standard, discussing improvements in the quality of services and products.

Responsibility for products

As one of the best suppliers of clean energy in China, the Group regards "safety first" as its core principle of operation, and set up in 2015 standards on "safety, the environment, and quality", bringing in stricter safety regulations concerning its gas services and products for the sake of users' health and safety. In addition, the Group drew up a series of safety measures and policies by reference to applicable national laws and industry practices in order to eradicate all potential dangers and risks.

Since the establishment of the Group, the Group's products and service have not had any serious issues, clearly evidencing the effectiveness of the safety measures taken by the Group. The Group invests a copious amount of money each year for improving and renewing old gas pipeline networks and equipment to ensure the normal operation of gas supply facilities. One of the subsidiaries, Jiaozuo Zhongyu Gas Company Limited, for example, improved the old gas pipeline network in Jiaozuo in 2014, after which it had planned to expend RMB70,000,000 on constructing a new 60-km gas pipeline, reconstructing 200-km low-pressure pipelines, replacing 90 offtake stations and improving indoor gas pipes for 57,000 users. This subsidiary of the Group leaves no stone unturned in improving the stability and safety of providing gas service.

The Group not only provides round-the-clock after-sales service, but it also has a well-rounded feedback platform for

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customers, whereby customers can express their opinions and file complaints either through the customer service hotline or on the Internet at any time. Customer service specialists of the Group will analyse every complaint in detail and contact the complainant to follow up with the complaint, while the customer service centre will file the complaints and report them to the management to discuss improvements. In addition, to protect the information and privacy of customers and reduce the risks of information leakage or loss, the Group has set up an advanced records room, which boasts an independent filing system protected by state-of-the-art electronic safety technologies and houses hard copy and soft copy as a means of dual backup.

Fighting against corruption

Doing business with integrity is the cornerstone of the stable development of the Group. Therefore, the Group has been actively promoting the corporate culture of anti-corruption and prompting its staff to stick to the codes of working with clean hands. With a view to stepping up efforts to fight against corruption and bribery, the Group has set up a department that monitors the compliance of different departments through internal auditing and administrative procedures, and will impose heavy penalties on or lay off employees that break any rules. Since the establishment of this monitoring department, the number of cases through internal reports has seen a decline. There has been no suspected irregularities since the beginning of the year, demonstrating the effectiveness of the Group's anti-corruption education and promotion activities.

Contributing to society

Upholding the principle of "taking from society and contributing to society", the Group is committed to contributing to society in terms of economic development, humanistic education and community building. Meanwhile, the Group promotes the caring spirit of helping each other and encourages harmony among different sectors in society.

Connected with society

Since its establishment, the Group has been promoting economic and humanistic development through different means in the cities where it operates. The Group also considers holding the community together and safeguarding the well-being of the citizens to be its missions. As such, the Group prefers employing the people in the areas where it operates and offers employment to the physically-challenged in accordance with the Measures on Employment of Persons with Disabilities in Henan on a Pro Rata Basis, ensuring the locals, including those with disabilities, enjoy ample and fair employment opportunities. Also, the Group hosts professional gas courses in conjunction with multiple universities, aiming to nurture talents in the energy sector and facilitate the development of society. In the meantime, the Group actively promotes clean energy technologies and encourages users of coal and oil to opt for gas, which will not only alleviate the problem of air pollution but also improve the living environment of the city and the village.

Charity

Since its establishment, the Group and its subsidiaries have donated money exceeding RMB5,400,000 to various charity bodies and provided them with relief supplies of over RMB10,260,000. Apart from relief supplies and donations, the Group has also actively participated in a number of charitable activities in the community, including visiting lone elderly during Chung Yeung Festival, donating the pay of the day project, setting up resting stations for workers and providing examinees with transportation assistance, thereby promoting a selfless and caring spirit and taking on corporate social responsibilities. Since 2011, a subsidiary of the Group, Luohe Zhongyu Gas Co., Ltd., has actively partaken in the project of Private Enterprises Supporting Talents, initiated by Luohe General Chamber of Commerce, offering scholarships to university students from a humble background and striving to help the disadvantaged. In the future, the Group will continue to give full play to its corporate spirit of philanthropy, participate in and support the development of the community, and fulfil its corporate responsibility.

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2015.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, an analysis using key performance indicators, a discussion of compliance with relevant laws and regulations that have a significant impact on the Group, the environmental policies and performance of the Group, an account of the Group's key relationship with its employees, customers and suppliers and an indication of likely future development in the Group's business can be found in the "Chairman's Statement", the "Management Discussion and Analysis" and the "Environmental, Social and Governance Report" sections of this annual report (which form part of this report of the Directors).

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 46 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51.

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

Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK\$201,000. The investment properties are primarily used as offices and shop in the PRC.

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

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 35 to the consolidated financial statements.

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2015, the Company's reserves available for distribution amounted to HK\$674,357,000 which consisted of share premium of HK\$895,736,000 and accumulated losses of HK\$221,379,000.

Purchase, Sale or Redemption of Shares

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

Directors

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

Executive Directors

Mr. Wang Wenliang (*Chairman*)
Mr. Peng Wei (*Joint Managing Director*)
(*appointed on 16th October, 2015*)
Mr. Lui Siu Keung (*Joint Managing Director*)
Mr. Lu Zhaoheng

DIRECTORS' REPORT

Non-executive Directors

Mr. Xu Yongxuan (*Vice-Chairman*)

Independent non-executive Directors

Mr. Li Chunyan

Dr. Luo Yongtai

Mr. Hung, Randy King Kuen

Pursuant to the provisions of the Company's Articles of Association and/or the Listing Rules, Mr. Peng Wei shall hold the office of Director until the AGM and, being eligible, offer himself for re-election as Director at the AGM.

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

Directors Service Contracts

The Company renewed the service contracts with each of the Directors of the Company, except for Mr. Peng Wei, on 11th July, 2015. The Company entered into service contract with Mr. Peng Wei on 16th October, 2015. The term of appointment for the Directors is three years and the Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements or contracts of significance in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2015, the interests and short positions of the Directors and the Joint Managing Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

DIRECTORS' REPORT

Long positions in the Shares of the Company

Name of Directors	Notes	Number of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	590,807,542	Beneficial and interest in controlled corporation	23.40%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	3	1,000,000	Beneficial	0.04%
Dr. Luo Yongtai	2	1,000,000	Beneficial	0.04%

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 16,112,000 Shares and 7,242,000 Shares are directly held by Mr. Wang Wenliang and his spouse respectively.
2. These underlying Shares are to be allotted and issued upon exercise of the rights attaching to the share options at an exercise price of HK\$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.
3. The Shares are directly held by the director.
4. As at 31st December, 2015, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 31st December, 2015, none of the Directors nor the Joint Managing Directors of the Company had or was deemed to have any interests and short positions in the shares, underlying

shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2015, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS'
REPORT

Long positions in the Shares of the Company

Name of Shareholder	Notes	Type of interests	Number of Shares	Approximate percentage of interests (Note 4)
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.04%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.04%
Hezhong	2	Beneficial	567,453,542	22.47%
Ms. Feng Haiyan	3	Interest of spouse	590,807,542	23.40%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2015, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.
2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.
3. Ms. Feng Haiyan directly holds 7,242,000 shares and is deemed to be interested in 583,565,542 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 31st December, 2015, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 31st December, 2015, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Options

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

DIRECTORS' REPORT

As at the date of this report, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2014: 2,000,000) outstanding under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 0.08%).

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Options granted under the New Share Option Scheme may be exercised during the period to be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the date of grant. An amount of HK\$1.00 is payable upon acceptance of the grant of options. The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

As at the date of this report, no share options have been granted under the New Share Option Scheme and the maximum number of share options which may be granted under the New Share Option Scheme is 252,400,768. These share options, if granted and converted in full, represent approximately 9.996% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 9.996%).

The purpose of the New Share Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Under the New Share Option Scheme, the Directors may

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

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

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

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

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the New Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not

DIRECTORS'
REPORT

(when aggregated with any shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the shareholders in a general meeting) exceed 1% of the shares of the Company in issue for the time being.

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

The following table discloses movements in the Company's share options granted under the Old Share Option Scheme and movement in such holdings during the year.

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of share options				
				Outstanding as at 1st January, 2015	Granted during the year under review	Exercised during the year under review	Lapsed/Cancelled during the year under review	Outstanding at 31st December, 2015
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	-	-	-	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	-	-	-	1,000,000
				2,000,000	-	-	-	2,000,000
Exercisable at the end of the year								2,000,000
Weighted average exercise price				HK\$0.49	-	-	-	HK\$0.49

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

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

Major Customers and Suppliers

For the year ended 31st December, 2015, our five largest suppliers comprised 57.4% of our total purchase for the year. The Group's largest supplier accounted for 22.3% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 12.3% of total turnover for the year. The Group's largest customer accounted for 3.9% of the total sales for the year.

Pre-emptive Rights

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

DIRECTORS' REPORT

Appointment of Independent Non-executive Directors

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

Emolument Policy

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 37 to the consolidated financial statements.

Indemnity Provision

Pursuant to article 165 of the Articles of Association of the Company, every director of the Company shall be entitled to be indemnified and assured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said directors.

Principal Risks and Uncertainties Facing by the Group

Please refer to note 5 to the consolidated financial statements for a summary of financial risks and the Environmental, Social and Governance Report for discussion on operational risks of the Group.

Competing Business

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

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2015.

Donations

During the year under review, the Group made charitable and other donations amounted to approximately RMB227,000.

Auditor

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

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
31st March, 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 147, which comprise the consolidated statement of financial position as at 31st December, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December, 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31st March, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Turnover	6	3,276,666	3,412,690
Cost of sales		(2,491,833)	(2,562,650)
Gross profit		784,833	850,040
Other gains and losses	8	(73,633)	29,454
Other income	9	46,050	37,092
Selling and distribution costs		(71,565)	(61,501)
Administrative expenses		(209,334)	(213,046)
Research and development costs		-	(422)
Finance costs	10	(114,866)	(84,565)
Share of results of a joint venture		(51,962)	13
Share of results of associates		(2,018)	-
Profit before tax		307,505	557,065
Income tax expenses	11	(157,637)	(167,285)
Profit for the year	12	149,868	389,780
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		(105,461)	(20,620)
Total comprehensive income for the year		44,407	369,160
Profit for the year attributable to:			
Owners of the Company		93,390	324,351
Non-controlling interests		56,478	65,429
		149,868	389,780
Total comprehensive income attributable to:			
Owners of the Company		12,616	305,811
Non-controlling interests		31,791	63,349
		44,407	369,160
Earnings per share	15		
Basic		HK3.70 cents	HK12.85 cents
Diluted		HK3.70 cents	HK12.84 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Investment properties	16	9,012	9,365
Property, plant and equipment	17	4,470,817	3,144,809
Goodwill	18	199,859	141,442
Other intangible assets	19	1,033,347	788,836
Long-term deposits, prepayments and other receivables	20	428,750	363,976
Prepaid lease payments	21	472,338	335,369
Interest in a joint venture	22	–	398,005
Interest in associates	23	155,418	–
Available-for-sale investments	24	6,301	6,523
		6,775,842	5,188,325
Current assets			
Inventories	25	103,521	91,541
Trade and bills receivables	26	318,762	204,066
Deposits, prepayments and other receivables	26	283,844	262,467
Entrusted loan receivable	27	23,872	25,352
Amount due from a joint venture	28	–	286,742
Amount due from an associate	28	59,680	–
Amounts due from related parties	28	14,053	–
Prepaid lease payments	21	13,693	9,775
Amounts due from customers for contract work	29	35,848	2,365
Tax recoverable		980	–
Pledged bank deposit	30	95,488	–
Bank balances and cash	30	983,726	828,189
		1,933,467	1,710,497
Current liabilities			
Deferred income and advance received	31	496,371	464,396
Trade payables	31	591,578	339,825
Other payables and accrued charges	31	199,172	205,353
Amount due to an associate	32	1,234	–
Amounts due to customers for contract work	29	51,313	11,814
Borrowings	33	1,172,315	424,211
Obligations under finance lease due within one year	34	33,285	–
Tax payables		65,653	79,923
		2,610,921	1,525,522
Net current (liabilities) assets		(677,454)	184,975
Total assets less current liabilities		6,098,388	5,373,300

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Capital and reserves			
Share capital	35	25,250	25,250
Reserves		1,981,414	1,968,798
Equity attributable to owners of the Company		2,006,664	1,994,048
Non-controlling interests		265,730	298,692
Total equity		2,272,394	2,292,740
Non-current liabilities			
Deferred income and advance received	31	6,034	6,409
Borrowings	33	3,063,890	3,028,519
Obligations under finance lease due after one year	34	121,986	–
Consideration payable	39	512,844	–
Deferred taxation	36	121,240	45,632
		3,825,994	3,080,560
		6,098,388	5,373,300

The consolidated financial statements on pages 51 to 147 were approved and authorised for issue by the Board of Directors on 31st March, 2016 and are signed on its behalf by:

WANG WENLIANG
DIRECTOR

LUI SIU KEUNG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2015

	Attributable to owners of the Company								Non-controlling interests				
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note)	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Capital contribution and share of results HK\$'000 (note 47)	Others HK\$'000	Total HK\$'000	Total HK\$'000
At 1st January, 2014	25,240	895,054	520	1,128	1,049	61,905	237,103	470,481	1,692,480	236,194	-	236,194	1,928,674
Profit for the year	-	-	-	-	-	-	-	324,351	324,351	65,429	-	65,429	389,780
Other comprehensive expense for the year	-	-	-	-	-	-	(18,540)	-	(18,540)	(2,080)	-	(2,080)	(20,620)
Total comprehensive income for the year	-	-	-	-	-	-	(18,540)	324,351	305,811	63,349	-	63,349	369,160
Transfer to statutory surplus reserve	-	-	-	-	-	137	-	(137)	-	-	-	-	-
Exercise of share options	10	682	(201)	-	-	-	-	-	491	-	-	-	491
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(369)	-	(369)	(369)
Acquisition of additional interest in a subsidiary	-	-	-	-	(4,734)	-	-	-	(4,734)	(10,296)	-	(10,296)	(15,030)
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	8,546	-	8,546	8,546
Transfer to accumulated profits upon deregistration of subsidiaries	-	-	-	-	-	-	9,798	(9,798)	-	-	-	-	-
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	1,268	-	1,268	1,268
At 31st December, 2014	25,250	895,736	319	1,128	(3,685)	62,042	228,361	784,897	1,994,048	298,692	-	298,692	2,292,740
Profit for the year	-	-	-	-	-	-	-	93,390	93,390	56,478	-	56,478	149,868
Other comprehensive expense for the year	-	-	-	-	-	-	(80,774)	-	(80,774)	(24,687)	-	(24,687)	(105,461)
Total comprehensive income for the year	-	-	-	-	-	-	(80,774)	93,390	12,616	31,791	-	31,791	44,407
Transfer to statutory surplus reserve	-	-	-	-	-	11,021	-	(11,021)	-	-	-	-	-
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(19,752)	-	(19,752)	(19,752)
Consideration payable committed to acquire additional interest in Harmony Gas Holdings Limited ("Harmony Gas")	-	-	-	-	-	-	-	-	-	-	(507,817)	(507,817)	(507,817)
Obtaining control over Harmony Gas and its subsidiaries	-	-	-	-	-	-	-	-	-	459,235	-	459,235	459,235
Transfer to accumulated profits upon obtaining control over Harmony Gas and its subsidiaries	-	-	-	-	-	-	15,610	(15,610)	-	-	-	-	-
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	3,581	-	3,581	3,581
At 31st December, 2015	25,250	895,736	319	1,128	(3,685)	73,063	163,197	851,656	2,006,664	773,547	(507,817)	265,730	2,272,394

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Operating activities			
Profit before tax		307,505	557,065
Adjustments for:			
Depreciation of property, plant and equipment		125,315	99,048
Amortisation and impairment of other intangible assets		51,903	11,526
Release of prepaid lease payments		8,753	7,083
Net (gain) loss on disposal/written-off of property, plant and equipment		(3,591)	2,669
Gain on disposal of leasehold land		–	(8,242)
Loss on deregistration of subsidiaries		–	8,546
Net (reversal of allowance) allowance for doubtful debts			
– trade receivables		(281)	(754)
– other receivables		641	641
Share of results of a joint venture		51,962	(13)
Share of results of associates		2,018	–
Reversal of impairment loss recognised on amounts due from customers for contract work		(1,085)	(2,152)
Reversal of impairment loss recognised on other intangible assets		–	(29,380)
Gain on obtaining control over Harmony Gas and its subsidiaries	39	(86,749)	–
Interest income		(29,953)	(12,935)
Finance costs		114,866	84,565
Increase in fair value of investment properties		(201)	(434)
Foreign exchange loss		160,876	–
Operating cash flows before movements in working capital		701,979	717,233
Decrease (increase) in inventories		5,756	(10,073)
Decrease (increase) in trade and bills receivables		28,073	(24,770)
Decrease (increase) in deposits, prepayments and other receivables		77,608	(74,714)
Decrease (increase) in amounts due from customers for contract work		12,671	(213)
(Decrease) increase in deferred income and advance received		(61,307)	149,292
(Decrease) increase in trade payables		(28,759)	22,449
Increase (decrease) in other payables and accrued charges		6,514	(39,102)
Increase (decrease) in amounts due to customers for contract work		17,982	(11,533)
Cash generated from operations		760,517	728,569
Interest received		29,953	12,935
Income taxes paid		(172,285)	(143,811)
Withholding tax paid		(12,991)	(3,966)
Net cash from operating activities		605,194	593,727

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Investing activities			
Purchases of property, plant and equipment		(602,617)	(562,189)
Proceeds from disposal of property, plant and equipment	45	8,453	1,606
Proceed from disposal of leasehold land		-	31,821
Withdrawal of pledged bank deposits		-	9,397
Business combinations	39	-	(54,337)
Obtaining control over Harmony Gas and its subsidiaries	39	126,572	-
Acquisition of assets and liabilities through acquisition of subsidiaries	31 & 40	(41,214)	(8,043)
Acquisition of additional interest in a subsidiary	38	-	(15,030)
Addition of prepaid lease payments		(147,128)	(81,759)
Investment in a joint venture		-	(397,992)
Addition of available-for-sale investment		-	(2,720)
Advance to a joint venture		(249,967)	(286,742)
Repayment from a joint venture		286,742	-
Deposit paid for acquisition of additional interest in a subsidiary		-	(6,655)
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		(81,309)	(221,599)
Investments in life insurance contracts		-	(72,333)
Investment in entrusted loan receivable		-	(25,352)
Net cash used in investing activities		(700,468)	(1,691,927)
Financing activities			
Interest paid		(138,636)	(121,789)
Loan facilities fee paid		(4,566)	(81,445)
New borrowings raised		776,377	3,164,241
New obligations under finance lease		186,706	-
Repayments of borrowings		(509,019)	(1,465,205)
Repayments of obligations under finance lease		(31,435)	-
Deposit paid for obtaining a finance lease		(8,952)	-
Proceeds from issue of shares upon exercise of share options		-	491
Dividend paid by subsidiaries to non-controlling interests		(19,752)	(369)
Capital contribution from non-controlling interest of a subsidiary		3,581	1,268
Net cash from financing activities		254,304	1,497,192
Net increase in cash and cash equivalents		159,030	398,992
Cash and cash equivalents at 1st January		828,189	429,546
Effect of foreign exchange rate changes		(3,493)	(349)
Cash and cash equivalents at 31st December, represented by bank balances and cash		983,726	828,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

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

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

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

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

Basis of preparation

As at 31st December, 2015, the Group has net current liabilities of HK\$677,454,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the consolidated financial statements should be prepared on a going concern basis, taking into account the estimated operating cash flows of the Group for the next twelve months from the end of the reporting period as well as the following reasons:

- (i) The Directors expect that bank borrowings of HK\$322,836,000, which are due within one year after the end of the reporting period, could be renewed upon the relevant maturity dates, based on their experience.
- (ii) New bank borrowings amounting to RMB228,720,000 (equivalent to HK\$273,001,000) have been obtained subsequent to 31st December, 2015, in which RMB208,720,000 (equivalent to HK\$249,129,000) were due after one year from the date of draw down.
- (iii) Additional two banking facilities denominated in United State Dollars ("USD") 32,000,000 (equivalent to HK\$248,026,000) and USD35,000,000 (equivalent to HK\$271,278,000) have been granted by two banks on 29th December, 2015 and 30th March, 2016 respectively. Up to the date when the Group's consolidated financial statements are authorised for issue, the Group has not drawn down any amount of the aforesaid available banking facilities which are due after one year from the date of draw down.

As a result of the measures described above, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 - 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 - 2013 cycle

The application of these amendments to 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.

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

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exceptions ¹
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹

¹ Effective for annual periods beginning on or after 1st January, 2016.

² Effective for annual periods beginning on or after 1st January, 2018.

³ Effective for annual periods to be determined.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

HKFRS 15 Revenue from contracts with customers (Continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In the opinion of the Directors, it is not practicable to provide a reasonable estimate of the effect for the application of HKFRS 15 until a detailed review has been completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to certain provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors’ reports, and to streamline with HKFRSs and have become effective for the financial year ended 31st December, 2015. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31st December, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31st December, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The principal accounting policies are set out below.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

Goodwill

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

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

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

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

Investments in associates and a joint venture

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and a joint venture (Continued)

The results and assets and liabilities of the associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. The financial statements of the associates and joint venture used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate and a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment 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 of disposal) 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 an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and a joint venture (Continued)

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

When a group entity transacts with an associate or a joint venture of the Group, 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.

Revenue recognition

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Service income is recognised when services are provided.

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

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

Property, plant and equipment

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Buildings under development for future owner-occupied purpose

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

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

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

Borrowing costs

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building for own use

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

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

Retirement benefits costs

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

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

When an available-for-sale financial asset that is measured at cost less impairment is considered to be impaired, impairment loss is recognised in profit or loss immediately.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

Financial liabilities including trade payables, other payables, accrued charges, amount due to an associate, obligations under finance lease, consideration payable and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

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

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

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 37.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. For share options that have a vesting period, at the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the 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. When 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Control over Harmony Gas

Note 39 describes that Harmony Gas and its subsidiaries have become subsidiaries of the Group during the current year although the Group has only 50% ownership interest in Harmony Gas. The Directors assessed whether or not the Group has control over Harmony Gas based on whether the Group has the practical ability to direct the relevant activities of Harmony Gas and its subsidiaries unilaterally. In making the judgement, the Directors considered: (i) the Group's absolute size of holding in Harmony Gas; (ii) revised shareholders agreement entered into during the current year that gives the Group a contractual right to appoint 4 out of 7 directors to the board of directors of Harmony Gas which simple majority vote is required for decisions regarding the key relevant activities of Harmony Gas; and (iii) revised shareholders agreement entered into during the current year that gives the Group a right to appoint the legal representative and all directors in each of the subsidiaries of Harmony Gas.

After assessment, the Directors concluded that the Group has sufficiently voting interest to direct the relevant activities of Harmony Gas and therefore the Group has control over Harmony Gas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

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

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

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

Estimated impairment of trade and bills 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). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2015, the carrying amount of trade and bill receivable is HK\$318,762,000 (net of allowance for doubtful debts of HK\$2,049,000) (2014: carrying amount of HK\$204,066,000, net of allowance for doubtful debts of HK\$2,330,000).

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2015, the carrying value of property, plant and equipment is approximately HK\$4,470,817,000 (2014: HK\$3,144,809,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

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

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 33 net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

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

Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
Financial assets		
Available-for-sale investments	6,301	6,523
Loans and receivables (including cash and cash equivalents)	1,591,167	1,394,484
Financial liabilities		
Amortised cost	5,504,781	3,966,010
Obligations under finance lease	155,271	–

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate, a joint venture and related parties, pledged bank deposit and bank balances, trade payables, other payables, accrued charges, amount due to an associate, obligations under finance lease, consideration payable and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**Financial risk management objectives and policies** (Continued)**Market risk***Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate pledged bank deposit, fixed-rate amount due from an associate, fixed-rate borrowings and fixed-rate obligations under finance lease, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and variable-rate borrowings. The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of variable bank borrowings are based on (1) a range of multiples of People's Bank of China ("PBOC") Prescribed Interest Rate; or (2) interest rate at London Interbank Offered Rate ("LIBOR") plus a premium; or (3) interest rate at Hong Kong Interbank Offered Rate ("HIBOR") plus a premium.

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2014: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK\$12,878,000 (2014: decrease/increase HK\$9,586,000).

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for certain bank balances, bank borrowings and consideration payable denominated in USD or HK\$, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HK\$ are set out below:

	Assets		Liabilities	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
USD	286,210	52,312	3,464,159	2,508,770
HK\$	68,006	8,183	373,070	–
	354,216	60,495	3,837,229	2,508,770

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)*Sensitivity analysis*

The Group is mainly exposed to the foreign currency risk in HK\$ and USD.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in RMB against USD or HK\$. 5% (2014: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective USD and HK\$ bank balances, bank borrowings and consideration payable, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	2015 HK\$'000	2014 HK\$'000
USD	132,679	102,557
HK\$	12,736	(342)

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of reporting period, in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31st December, 2015, other than the concentration of credit risk on the amounts due from an associate and related parties and entrusted loan receivable (2014: amount due from a joint venture and entrusted loan receivable), the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

Liquidity risk

As at 31st December, 2015, the Group has net current liabilities of HK\$677,454,000. As explained in note 1, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

Liquidity tables

	Weighted average effective interest rate	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2015 HK\$'000
2015							
Non-derivative financial liabilities							
Trade payables	-	362,427	229,151	-	-	591,578	591,578
Other payables and accrued charges	-	162,920	-	-	-	162,920	162,920
Consideration payable	12.295%	-	-	610,162	-	610,162	512,844
Amount due to an associate	-	1,234	-	-	-	1,234	1,234
Obligations under finance lease	5.249%	10,335	31,004	133,968	-	175,307	155,271
Bank borrowings							
- fixed rate	5.15%	70,763	243,116	99,661	28,979	442,519	408,715
- variable rate	3.87%	284,312	622,098	3,146,704	127,145	4,180,259	3,827,490
		891,991	1,125,369	3,990,495	156,124	6,163,979	5,660,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

	Weighted average effective interest rate	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2014 HK\$'000
2014							
Non-derivative financial liabilities							
Trade payables	-	281,726	58,099	-	-	339,825	339,825
Other payables and accrued charges	-	173,455	-	-	-	173,455	173,455
Bank borrowings							
- fixed rate	6.63%	150,733	228,538	246,795	-	626,066	565,344
- variable rate	4.72%	-	66,197	3,186,913	38,849	3,291,959	2,887,386
		605,914	352,834	3,433,708	38,849	4,431,305	3,966,010

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

Fair value

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

6. TURNOVER

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

	2015 HK\$'000	2014 HK\$'000
Sales of piped gas	2,098,195	2,317,565
Connection revenue from gas pipeline construction	748,185	612,974
Operation of CNG/LNG vehicle filling stations	413,612	461,471
Sales of liquefied petroleum gas	622	10,795
Sales of stoves and related equipment	16,052	9,885
	3,276,666	3,412,690

7. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; the construction and operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products or services rendered which is also consistent with the basis of organisation of the Group, except for the performance of Harmony Gas, which ceased to be a joint venture of the Group and has become a subsidiary of the Group since 8th December, 2015 as a result of change of the shareholders agreement. The Group considered Harmony Gas and its subsidiaries as a single operating and reportable segment as CODM reviewed the total revenue and overall result of Harmony Gas for the period from 8th December, 2015 to 31st December, 2015 separately.

Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

- (a) sales of piped gas;
- (b) connection revenue from gas pipeline construction;
- (c) operation of CNG/LNG vehicle filling stations;
- (d) sales of liquefied petroleum gas;
- (e) sales of stoves and related equipment; and
- (f) Harmony Gas and its subsidiaries: trading of natural gas and gas pipeline construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

7. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31st December, 2015

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Harmony Gas and its subsidiaries HK\$'000	Consolidated HK\$'000
Segment revenue	2,069,612	708,460	413,306	236	16,034	69,018	3,276,666
Segment profit (loss)	202,720	341,446	31,313	(45)	6,625	(875)	581,184
Unallocated other income							29,880
Unallocated other gains and losses							(72,925)
Unallocated central corporate expenses							(63,806)
Share of results of a joint venture							(51,962)
Finance costs							(114,866)
Profit before tax							307,505

For the year ended 31st December, 2014

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Consolidated HK\$'000
Segment revenue	2,317,565	612,974	461,471	10,795	9,885	3,412,690
Segment profit	278,846	320,237	100,704	391	6,386	706,564
Unallocated other income						18,015
Unallocated other gains and losses						(7,764)
Unallocated central corporate expenses						(75,198)
Share of results of a joint venture						13
Finance costs						(84,565)
Profit before tax						557,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

7. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

As at 31st December, 2014

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	4,495,419	189,081	482,869	21	784	5,168,174
Investment properties						9,365
Interest in a joint venture						398,005
Available-for-sale investments						6,523
Property, plant and equipment for corporate use						74,791
Prepaid lease payments for corporate use						3,650
Investments in life insurance contracts						72,333
Entrusted loan receivable						25,352
Amount due from a joint venture						286,742
Bank balances and cash						828,189
Other assets						25,698
Consolidated assets						6,898,822
LIABILITIES						
Segment liabilities	650,692	325,080	46,044	-	-	1,021,816
Tax payables						79,923
Borrowings						3,452,730
Deferred tax liabilities						45,632
Other liabilities						5,981
Consolidated liabilities						4,606,082

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

- except for the assets of Harmony Gas and its subsidiaries which are presented as a separate operating segment, all the Group's assets are allocated to operating segments, other than investment properties, interest in a joint venture, available-for-sale investments, property, plant and equipment, prepaid lease payments and deposits paid for property, plant and equipment for corporate use, investments in life insurance contracts, entrusted loan receivable, amount due from a joint venture, certain deposits, prepayments and other receivables, bank balances and cash; and
- except for the liabilities of Harmony Gas and its subsidiaries which are presented as a separate operating segment, all the Group's liabilities are allocated to operating segments, other than tax payables, obligations under finance lease, borrowings, deferred tax liabilities, consideration payable, certain other payables and accrued charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

7. SEGMENT INFORMATION (Continued)

Other segment information

2015

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Harmony Gas and its subsidiaries HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	455,499	-	41,804	-	-	23,178	520,481	149,998	670,479
Capital additions through obtaining control over Harmony Gas and its subsidiaries	-	-	-	-	-	1,422,726	1,422,726	-	1,422,726
Capital additions through acquisition of assets and liabilities through acquisition of a subsidiary	-	-	6,923	-	-	-	6,923	-	6,923
Net (gain) loss on disposal/written-off of property, plant and equipment	(3,521)	-	(11)	-	-	55	(3,477)	(114)	(3,591)
Release of prepaid lease payments	6,024	-	2,700	-	-	29	8,753	-	8,753
Depreciation of property, plant and equipment	110,248	-	6,955	-	-	2,783	119,986	5,329	125,315
Amortisation and impairment of other intangible assets	49,529	-	2,374	-	-	-	51,903	-	51,903
Reversal of impairment loss recognised on amounts due from customers for contract work	-	(1,085)	-	-	-	-	(1,085)	-	(1,085)
Net (reversal of allowance) allowance on doubtful debts	(281)	-	-	-	-	-	(281)	641	360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

7. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2014

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Capital additions	663,041	-	89,285	-	-	752,326	19,433	771,759
Capital additions through acquisition of a subsidiary	129,693	-	-	-	-	129,693	-	129,693
Net loss (gain) on disposal/written-off of property, plant and equipment	2,095	-	(67)	-	-	2,028	641	2,669
Release of prepaid lease payments	5,131	-	1,952	-	-	7,083	-	7,083
Depreciation of property, plant and equipment	86,805	-	5,724	67	-	92,596	6,452	99,048
Amortisation of other intangible assets	9,132	-	2,394	-	-	11,526	-	11,526
Reversal of impairment loss recognised on amounts due from customers for contract work	-	(2,152)	-	-	-	(2,152)	-	(2,152)
Net (reversal of allowance) allowance on doubtful debts	(56)	-	-	(698)	-	(754)	641	(113)

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of the total revenue of the Group.

All the non-current assets of the Group (excluding investments in life insurance contracts and club membership located in Hong Kong) for both years are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

8. OTHER GAINS AND LOSSES

	2015 HK\$'000	2014 HK\$'000
Net reversal of allowance (allowance) for doubtful debts		
– trade receivables	281	754
– other receivables	(641)	(641)
Net foreign exchange (loss) gain	(164,899)	348
Increase in fair value of investment properties	201	434
Reversal of impairment loss recognised on other intangible assets	–	29,380
Reversal of impairment loss recognised on amounts due from customers for contract work	1,085	2,152
Net gain (loss) on disposal/written-off of property, plant and equipment	3,591	(2,669)
Gain on obtaining control over Harmony Gas and its subsidiaries	86,749	–
Gain on disposal of leasehold land	–	8,242
Loss on deregistration of subsidiaries	–	(8,546)
	(73,633)	29,454

9. OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Bank interest income	6,924	5,154
Interest income on amount due from a joint venture	20,653	6,669
Government subsidies (Note)	3,411	11,635
Interest income from investments in life insurance contracts	2,376	1,112
Sundry income	12,686	12,522
	46,050	37,092

Note: During the year ended 31st December, 2015, the Group has received subsidies of HK\$3,411,000 (2014: HK\$11,635,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

10. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on borrowings:		
– wholly repayable within five years	128,667	120,532
– over five years	2,424	1,257
Interest on obligations under finance lease	7,545	–
	138,636	121,789
Imputed interest on consideration payable	5,027	–
Amortisation on loan facilities fees relating to bank borrowings	28,610	20,588
	172,273	142,377
Less: Amounts capitalised in construction in progress included in property, plant and equipment	(57,407)	(57,812)
	114,866	84,565

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.35% (2014: 4.59%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSES

	2015 HK\$'000	2014 HK\$'000
PRC Enterprise Income Tax:		
Current tax	147,014	161,535
Underprovision in prior years	1,823	205
Withholding tax levied on dividends paid previously not recognised	10,550	–
	159,387	161,740
Deferred tax (note 36)	(1,750)	5,545
	157,637	167,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

11. INCOME TAX EXPENSES (Continued)

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2015, withholding tax amounting to HK\$12,991,000 (2014: HK\$3,966,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

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

	2015 HK\$'000	2014 HK\$'000
Profit before tax	307,505	557,065
Tax at the domestic income tax rate of 25% (2014: 25%) (Note)	76,876	139,266
Tax effect of expenses not deductible for tax purpose	47,867	15,662
Tax effect of income not taxable for tax purpose	(18,311)	(4,192)
Underprovision in respect of prior years	1,823	205
Tax effect of share of results of a joint venture	12,991	(4)
Tax effect of share of results of associates	504	–
Tax effect of estimated tax losses not recognised	6,990	7,790
Utilisation of estimated tax losses previously not recognised	(543)	–
Withholding tax levied on dividends paid previously not recognised	10,550	–
Effect of different tax rates of group entities operating in other jurisdictions	18,890	8,558
Tax charge for the year	157,637	167,285

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

12. PROFIT FOR THE YEAR

	2015 HK\$'000	2014 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2,095	2,235
Amortisation and impairment of other intangible assets (included in cost of sales)	51,903	11,526
Release of prepaid lease payments	8,753	7,083
Depreciation of property, plant and equipment	125,315	99,048
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK\$36,559,000 (2014: HK\$32,638,000))	224,400	193,990
Operating lease rentals in respect of rented premises	4,855	4,139
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	163,221	156,206
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	1,835,309	2,091,435
	1,998,530	2,247,641
Gross rental income from investment properties with minimal outgoings	(715)	(777)
Gross rental income from equipment with minimal outgoings	(610)	(716)

13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and joint managing directors' emoluments

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

	2015 HK\$'000	2014 HK\$'000
Fees	1,000	928
Other emoluments:		
– Salaries and other benefits	10,230	9,154
– Discretionary and performance related incentive payments	6,780	12,430
– Contributions to retirement benefits scheme	52	58
Total emoluments	18,062	22,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**Directors' and joint managing directors' emoluments** (Continued)

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

	2015				Total HK\$'000	2014				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary and performance related incentive payments HK\$'000	Contributions to retirement benefits scheme HK\$'000		Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary and performance related incentive payments HK\$'000	Contributions to retirement benefits scheme HK\$'000	
			(note iii)				(note iii)			
Executive directors										
Mr. Wang Wenliang (note i)	-	4,770	-	-	4,770	-	4,680	5,650	-	10,330
Mr. Peng Wai (note ii)	-	881	-	-	881	-	-	-	-	-
Mr. Lui Siu Keung (note i)	-	3,170	6,780	18	9,968	-	3,000	6,780	17	9,797
Mr. Lu Zhaoheng	-	1,409	-	34	1,443	-	1,474	-	41	1,515
Non-executive director										
Mr. Xu Yongxuan	250	-	-	-	250	247	-	-	-	247
Independent non-executive directors										
Mr. Li Chun Yan	250	-	-	-	250	227	-	-	-	227
Dr. Luo Yongtai	250	-	-	-	250	227	-	-	-	227
Mr. Hung, Randy King Kuen	250	-	-	-	250	227	-	-	-	227
	1,000	10,230	6,780	52	18,062	928	9,154	12,430	58	22,570

Notes:

- (i) Mr. Wang Wenliang and Mr. Lui Siu Keung are also the joint managing directors of the Company and their emoluments disclosed above include those for services rendered by them as the joint managing directors. Mr. Wang Wenliang was resigned as a joint managing director of the Company with effect from 16th October, 2015.
- (ii) Mr. Peng Wai was appointed as an executive director and a joint managing director of the Company with effect from 16th October, 2015. His emoluments disclosed above include those for service rendered by him as the joint managing director.
- (iii) The discretionary and performance related incentive payments are determined by reference to the individual performance of the Directors and the Group's operating results, and approved by the remuneration committee. In each of the year ended 31st December, 2015 and 2014, Mr. Wang Wenliang waived emoluments of HK\$5,650,000.

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

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**Directors' and joint managing directors' emoluments** (Continued)

The non-executive director's emoluments shown above was mainly for his services as director of the Company and its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as Directors.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2014: three) were Directors whose emoluments are disclosed above. The emoluments of the remaining one (2014: two) individuals was as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	675	1,333
Contributions to retirement benefits scheme	35	76
	710	1,409

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

14. DIVIDENDS

No dividend was paid or proposed during 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

15. EARNINGS PER SHARE

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

	2015 HK\$'000	2014 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	93,390	324,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

15. EARNINGS PER SHARE (Continued)

	2015 '000	2014 '000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	2,525,008	2,524,597
Effect of dilutive potential ordinary shares: Share options issued by the Company	1,507	1,872
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,526,515	2,526,469

16. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2014	9,016
Exchange adjustments	(85)
Increase in fair value recognised in profit or loss	434
At 31st December, 2014	9,365
Exchange adjustments	(554)
Increase in fair value recognised in profit or loss	201
At 31st December, 2015	9,012

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

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

The fair value of the Group's investment properties at 31st December, 2015 and 2014 has been arrived at on the basis of a valuation carried out on the respective dates by 河南九鼎資產評估有限公司, independent qualified professional valuer not connected to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

16. INVESTMENT PROPERTIES (Continued)

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

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

Details of the Group's investment properties and information about the fair value hierarchy as at 31st December, 2015 and 2014 are as follows. One of the key inputs used in valuing the investment properties was the discount rates used, which is 7.43% (2014: 8.74%). An increase in the discount rate used would result in a decrease in fair value measurement of the investment properties, and vice versa.

		Fair value as at 31st December, 2015 HK\$'000	Fair value as at 31st December, 2014 HK\$'000
Commercial property units located in the PRC	Level 3	9,012	9,365

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

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For the year ended 31st December, 2015

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Pipelines HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST								
At 1st January, 2014	251,852	575,554	16,698	1,635,493	284,379	10,269	101,621	2,875,866
Exchange adjustments	(2,234)	(6,169)	(145)	(13,217)	(2,492)	(91)	(977)	(25,325)
Acquisition of a subsidiary (note 39)	4,357	2,803	-	6,656	6,916	60	280	21,072
Additions	34,465	588,868	1,139	10,590	43,474	4,028	7,436	690,000
Disposals/written-off	(3,948)	-	-	-	(2,308)	(75)	(2,658)	(8,989)
Transfer	42,967	(691,331)	-	585,335	62,764	265	-	-
At 31st December, 2014	327,459	469,725	17,692	2,224,857	392,733	14,456	105,702	3,552,624
Exchange adjustments	(21,191)	(34,917)	(1,007)	(151,865)	(25,865)	(1,001)	(8,307)	(244,153)
Acquisition of assets and liabilities through acquisition of a subsidiary (note 40)	3,791	-	-	-	790	6	-	4,587
Obtaining control over Harmony Gas and its subsidiaries (note 39)	28,060	229,368	2,705	686,119	15,901	2,165	34,034	998,352
Additions	26,918	601,321	-	17,237	15,831	1,850	15,765	678,922
Disposals/written-off	(12,963)	-	-	(687)	(8,967)	-	(2,549)	(25,166)
Transfer	18,402	(390,720)	-	338,128	34,117	73	-	-
At 31st December, 2015	370,476	874,777	19,390	3,113,789	424,540	17,549	144,645	4,965,166
DEPRECIATION								
At 1st January, 2014	39,529	-	2,894	157,376	72,278	5,602	38,882	316,561
Exchange adjustments	(406)	-	(17)	(1,503)	(734)	(57)	(363)	(3,080)
Provided for the year	12,638	-	-	51,654	21,943	1,551	11,262	99,048
Eliminated on disposals/written-off	(1,189)	-	-	-	(1,260)	(68)	(2,197)	(4,714)
At 31st December, 2014	50,572	-	2,877	207,527	92,227	7,028	47,584	407,815
Exchange adjustments	(3,836)	-	(102)	(16,217)	(7,103)	(526)	(3,248)	(31,032)
Provided for the year	13,178	-	2	73,117	26,666	1,596	10,756	125,315
Eliminated on disposals/written-off	(2,258)	-	-	(9)	(2,591)	(3)	(2,888)	(7,749)
At 31st December, 2015	57,656	-	2,777	264,418	109,199	8,095	52,204	494,349
CARRYING VALUES								
At 31st December, 2015	312,820	874,777	16,613	2,849,371	315,341	9,454	92,441	4,470,817
At 31st December, 2014	276,887	469,725	14,815	2,017,330	300,506	7,428	58,118	3,144,809

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

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

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

As at 31st December, 2015, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK\$59,386,000 (2014: HK\$52,388,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

As at 31st December, 2015, the Group has pledged certain buildings in the PRC having carrying value of HK\$3,147,000 (2014: HK\$3,530,000) to secure a bank borrowing granted to the Group.

18. GOODWILL

	2015 HK\$'000	2014 HK\$'000
Cost and carrying amount		
At 1st January	141,442	122,001
Exchange adjustments	(9,218)	(1,375)
Arising on acquisition of a subsidiary (note 39)	–	20,816
Obtaining control over Harmony Gas and its subsidiaries (note 39)	67,635	–
At 31st December	199,859	141,442

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For the year ended 31st December, 2015

18. GOODWILL (Continued)

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to individual cash generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK\$79,671,000 in aggregate (2014: HK\$84,559,000), connection of pipeline constructions ("Unit B") amounting to HK\$53,563,000 in aggregate (2014: HK\$56,883,000) and Harmony Gas ("Unit D") amounting to HK\$66,625,000 (2014: nil).

Impairment assessment of Units A and D are set out in note 19.

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

Unit B consisted of several CGUs which represent individual operation of certain subsidiaries engaging in the connection of pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of respective CGU. The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 5-year period (2014: 5-year period) at a discount rate of 13.00% (2014: 13.00%) was used. The cash flows of each CGU engaged in Unit B beyond the 5-year period (2014: 5-year period) of the financial budgets are extrapolated using a steady 2% (2014: 2%) growth rate for a number of years based on the useful life of the majority assets of each CGU. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGUs engaged in Unit B and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B to exceed the aggregate recoverable amount of Unit B. At the end of the reporting period, the recoverable amounts of each CGU engaged in Unit B exceeds its carrying amount, therefore, no impairment loss is considered necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

19. OTHER INTANGIBLE ASSETS

	Development costs HK\$'000	Exclusive rights of operation HK\$'000	Other operating rights HK\$'000	Total HK\$'000
COST				
At 1st January, 2014	47,741	673,970	185,345	907,056
Exchange adjustments	(657)	(6,551)	(1,869)	(9,077)
Acquisition of a subsidiary (note 39)	–	83,332	–	83,332
Written-off	(47,084)	–	–	(47,084)
At 31st December, 2014	–	750,751	183,476	934,227
Exchange adjustments	–	(43,949)	(11,214)	(55,163)
Obtaining control over Harmony Gas and its subsidiaries (note 39)	–	345,116	–	345,116
At 31st December, 2015	–	1,051,918	172,262	1,224,180
AMORTISATION AND IMPAIRMENT				
At 1st January, 2014	47,741	32,653	131,659	212,053
Exchange adjustments	(657)	(154)	(913)	(1,724)
Charged for the year	–	9,132	2,394	11,526
Reversal of impairment loss recognised	–	–	(29,380)	(29,380)
Written-off	(47,084)	–	–	(47,084)
At 31st December, 2014	–	41,631	103,760	145,391
Exchange adjustments	–	(1,746)	(4,715)	(6,461)
Charged for the year and impairment	–	49,529	2,374	51,903
At 31st December, 2015	–	89,414	101,419	190,833
CARRYING VALUES				
At 31st December, 2015	–	962,504	70,843	1,033,347
At 31st December, 2014	–	709,120	79,716	788,836

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For the year ended 31st December, 2015

19. OTHER INTANGIBLE ASSETS (Continued)

Development costs represent costs incurred for extraction of coalbed methane gas in the PRC, and the costs were fully impaired in prior years. During the year ended 31st December, 2014, CBM business has ceased operation and the respective development costs were fully written off.

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian, Jiangsu, Heilongjiang, Hebei, Zhejiang, Jilin and Anhui provinces and are amortised on a straight-line method over the period of a range of 12 to 39 years, which is the remaining finite useful life period being granted for exclusive operations in the relevant cities.

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

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

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

	2015 HK\$'000	2014 HK\$'000
Sales of piped gas ("Unit A")	622,537	709,120
Operation of CNG vehicle filling stations ("Unit C")	70,843	79,716
Harmony Gas ("Unit D")	339,967	–

Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of piped gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise intangible assets of HK\$622,537,000 (2014: HK\$709,120,000), goodwill of HK\$79,671,000 (2014: HK\$84,559,000), property, plant and equipment of HK\$2,047,391,000 (2014: HK\$1,992,001,000) and prepaid lease payments of HK\$160,880,000 (2014: HK\$142,896,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2015 and 2014:

Period of cash flow projections	5 years (2014: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	0.25% – 5.94% (2014: 0.82% – 6.97%)
Discount rates	11.00% – 13.60% (2014: 11.00% – 13.60%)

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For the year ended 31st December, 2015

19. OTHER INTANGIBLE ASSETS (Continued)

Impairment testing on Unit A (Continued)

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A to exceed the aggregate recoverable amount of Unit A.

At the end of the reporting period, the recoverable amount of each CGU of Unit A exceeds its carrying amount and no impairment loss is considered necessary except for one CGU ("CGU A"). The recoverable amount of CGU A with carrying value of intangible assets of HK\$152,350,000 (before impairment) is determined on the basis of the value in use calculation using the key assumptions as set out above. Due to the delay of the commencement of construction of pipelines, the revision of the estimate future cash flows resulted in a lower value in use as at 31st December, 2015. Hence, impairment loss of HK\$37,394,000 is recognised in profit or loss in the current year.

Impairment testing on Unit C

Unit C consists of several CGUs which represent the operation of different subsidiaries engaging in the operation of CNG vehicle filling stations. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise intangible assets of HK\$70,843,000 (2014: HK\$79,716,000), property, plant and equipment of HK\$73,118,000 (2014: HK\$62,510,000) and prepaid lease payments of HK\$46,415,000 (2014: HK\$50,639,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2015 and 2014:

Period of cash flow projections	5 years (2014: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets	0% (2014: 0%)
Discount rate	14.00% (2014: 14.00%)

There is no growth rate expected based on historical data. A key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Based on the revised estimates of the expected cash flows of two CGUs which commenced operation during the year ended 31st December, 2014, the recoverable amounts of the respective CGUs exceed their carrying amounts. Accordingly, a reversal of impairment loss of HK\$29,380,000 was recognised in profit or loss during the year ended 31st December, 2014. As at 31st December, 2015, the recoverable amount of each CGU of Unit C approximates its carrying amount and no impairment loss or reversal of impairment loss is considered necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

19. OTHER INTANGIBLE ASSETS (Continued)**Impairment testing on Unit D**

Unit D consists of several CGUs which represent the operations of different subsidiaries of Harmony Gas engaging in trading of natural gas. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit D comprise intangible assets of HK\$339,967,000, goodwill of HK\$66,625,000, property, plant and equipment of HK\$754,481,000 and prepaid lease payments of HK\$6,149,000. The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2015:

Period of cash flow projections	5 years
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0%
Discount rate	13.08%

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit D to exceed the aggregate recoverable amount of Unit D. At the end of the reporting period, the recoverable amount of each CGU of Unit D exceeds its carrying amount and no impairment loss is considered necessary.

20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Deposit paid for acquisition of additional interest in a subsidiary	6,266	6,655
Deposits paid for acquisition of property, plant and equipment	215,632	175,859
Deposits paid for acquisition of leasehold land	124,046	109,129
Investments in life insurance contracts	73,854	72,333
Other long-term deposit	8,952	–
	428,750	363,976

Deposit paid for acquisition of additional interest of a subsidiary

On 6th January, 2014, 中裕(河南)能源控股有限公司 ("Zhongyu Henan"), a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with an independent third party to further acquire 20% equity interest in 温縣中裕壓縮氣有限公司 ("Wen County Zhongyu") at a total cash consideration of approximately RMB5,250,000 (equivalent to HK\$6,655,000). Wen County Zhongyu is principally engaged in operation of CNG/LNG vehicle filling stations in the PRC. RMB5,250,000 (equivalent to HK\$6,655,000) was paid during the year ended 31st December, 2014. The transaction is yet completed as at 31st December, 2015, subject to certain conditions which are not yet satisfied at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Deposits paid for acquisition of property, plant and equipment

As at 31st December, 2015, deposit of RMB86,118,000 (equivalent to HK\$102,791,000) (2014: RMB74,387,000, equivalent to HK\$94,292,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

Investments in life insurance contracts

During the year ended 31st December, 2014, the Group entered into two life insurance contracts with HSBC Life (International) Limited to insure two executive directors of the Company.

Under the policies, the beneficiary and policy holder is the Company, and the total insured sum is approximately US\$32,000,000 (equivalent to HK\$248,205,000). The Company paid a gross premium in aggregate of US\$9,272,000 (equivalent to HK\$71,866,000), including premium charge at inception of the policies amounting to US\$556,347 (equivalent to HK\$4,315,000). The Company may request a partial surrender or full surrender of the policies at any time and receive cash back based on the cash value of the policies at the date of withdrawal, which is determined based on the gross premium paid plus accumulated guaranteed interest earned and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified surrender charge.

During the year ended 31st December, 2015, interest income from investments in life insurance contracts of HK\$2,376,000 (2014: HK\$1,112,000) was recognised in profit or loss.

At 31st December, 2015, the expected life of the policy remained unchanged from the initial recognition and the Directors considered that the financial impact of the option to terminate the policy was insignificant.

21. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC.

At 31st December, 2015, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK\$47,597,000 (2014: HK\$39,309,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

The Group has pledged certain prepaid lease payments in the PRC having carrying value of HK\$44,660,000 (2014: HK\$48,614,000) to secure certain bank borrowings granted to the Group.

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For the year ended 31st December, 2015

22. INTEREST IN A JOINT VENTURE

	2015 HK\$'000	2014 HK\$'000
Cost of unlisted investment in a joint venture	-	397,992
Share of post-acquisition results	-	13
	-	398,005

Details of the Group's joint venture as at 31st December, 2014 and 2015 are as follows:

Name of Company	Place of establishment	Form of business structure	Class of shares held	Proportion of nominal value of issued capital held by the Group		Principal activities
				2015	2014	
Harmony Gas	Cayman Islands	Incorporated	Ordinary	-	50%	Investment holding in subsidiaries which are engaged in trading of natural gas and gas pipeline construction in the PRC
				(note ii)	(note i)	

Notes:

- (i) The relevant activities that significantly affect the return of Harmony Gas required unanimous consent from all its shareholders. In addition, since the joint arrangement does not give shareholders rights to assets and obligations to liabilities of Harmony Gas, the Group had accounted for Harmony Gas as a joint venture as at 31st December, 2014.
- (ii) During the year ended 31st December, 2015, Harmony Gas ceased to be a joint venture of the Group and become a subsidiary as a result of change of shareholders agreement as disclosed in note 39.

Summarised financial information of the joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's management accounts for the period ended 31st December, 2014 prepared in accordance with HKFRSs. The joint venture is accounted for using the equity method in the Group's consolidated financial statements.

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For the year ended 31st December, 2015

22. INTEREST IN A JOINT VENTURE (Continued)**Summarised financial information of the joint venture****Harmony Gas and its subsidiaries**

	2014 HK\$'000
Current assets	433,435
Non-current assets	1,269,637
Current liabilities	(748,050)
Non-current liabilities	(106,781)
Net assets	848,241
Equity attributable to owners of Harmony Gas	796,010
Non-controlling interests	52,231
	848,241
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	35,147
Current financial liabilities (excluding trade and other payables)	(427,375)
Non-current financial liabilities (excluding other payables)	(78,590)
Revenue	60,151
Profit and total comprehensive income for the period attributable to:	
Owners of Harmony Gas	26
Non-controlling interests	2,095
	2,121
Group's share of results of the joint venture	13

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For the year ended 31st December, 2015

22. INTEREST IN A JOINT VENTURE (Continued)**Summarised financial information of the joint venture** (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Harmony Gas recognised in the Group's consolidated financial statements:

	2014 HK\$'000
Equity attributable to owners of Harmony Gas	796,010
Proportion of the Group's ownership interest in Harmony Gas at 50%	398,005
Carrying amount of the Group's interest in Harmony Gas	398,005

23. INTERESTS IN ASSOCIATES

	2015 HK\$'000	2014 HK\$'000
Cost of unlisted investments	159,806	–
Share of post-acquisition losses	(2,018)	–
Exchange adjustments	(2,370)	–
	155,418	–

Details of the Group's associates as at 31st December, 2015 are as follows:

Name of company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group (Note)	Principal activities
Beijing Zhongran Xiangke Oil and Gas Technology Co., Ltd. ("Zhongran Xiangke")	PRC	Sino-foreign joint venture	40%	Sales of natural gas and gas pipeline construction
Qujing City Fuel Gas Co., Ltd. ("Qujing")	PRC	Limited liability company	39%	Sales of natural gas and gas pipeline construction

Note: The above associates are held by subsidiaries of Harmony Gas and are presented separately as interests in associates since Harmony Gas become a subsidiary of the Group. Details are set out in note 39.

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For the year ended 31st December, 2015

23. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' management accounts for the period from 8th December, 2015, i.e. the date when the Group obtained control over Harmony Gas and its subsidiaries (note 39) to 31st December, 2015 prepared in accordance with HKFRSs. All of these associates are accounted for using the equity method in the Group's consolidated financial statements.

Zhongran Xiangke*Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group")*

	2015 HK\$'000
Current assets	266,154
Non-current assets	379,025
Current liabilities	(225,834)
Net assets	419,345
Equity attributable to owners of Zhongran Xiangke Group	374,265
Non-controlling interests	45,080
	419,345
Revenue	32,313
Profit and total comprehensive income for the period attributable to:	
Owners of Zhongran Xiangke Group	3,707
Non-controlling interests	979
	4,686
Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhongran Xiangke Group recognised in the consolidated financial statements:	
	2015 HK\$'000
Equity attributable to owners of Zhongran Xiangke Group	374,265
Proportion of the Group's ownership interest in Zhongran Xiangke Group at 40%	149,706
Carrying amount of the Group's interest in Zhongran Xiangke Group	149,706

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23. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of associates (Continued)

Qujing

Qujing and its subsidiaries (collectively "Qujing Group")

	2015 HK\$'000
Current assets	346,073
Non-current assets	782,342
Current liabilities	(965,223)
Non-current liabilities	(133,618)
Net assets	29,574
Equity attributable to owners of Qujing Group	14,646
Non-controlling interests	14,928
	29,574
Revenue	16,413
Loss and total comprehensive expense for the period attributable to:	
Owners of Qujing Group	(8,976)
Non-controlling interests	(1,231)
	(10,207)

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

	2015 HK\$'000
Equity attributable to owners of Qujing Group	14,646
Proportion of the Group's ownership interest in Qujing Group at 39%	5,712
Carrying amount of the Group's interest in Qujing Group	5,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

24. AVAILABLE-FOR-SALE INVESTMENTS

	Club membership HK\$'000	Unlisted equity security at cost less impairment HK\$'000	Total HK\$'000
At 1st January, 2014	–	3,840	3,840
Addition	2,720	–	2,720
Exchange adjustments	–	(37)	(37)
At 31st December, 2014	2,720	3,803	6,523
Exchange adjustments	–	(222)	(222)
At 31st December, 2015	2,720	3,581	6,301

The investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably.

25. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Construction materials	101,990	89,322
Finished goods	1,531	2,219
	103,521	91,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

The Group allows an average credit period of 30 days (2014: 30 days) to its trade customers. The bills receivables are matured within the range of 30 days to 180 days (2014: 30 days to 180 days) as at 31st December, 2015. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of piped gas and the billing dates for work performed for construction contracts:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	197,794	131,915
31 – 90 days	37,055	3,478
91 – 180 days	12,483	7,347
181 – 360 days	48,358	16,576
Trade receivables	295,690	159,316
0 – 90 days	15,367	36,814
91 – 180 days	7,705	7,936
Bills receivables	23,072	44,750
Trade and bills receivables	318,762	204,066

Included in deposits, prepayments and other receivables are advances to suppliers of natural gas and construction materials for customers' gas pipeline construction amounting to HK\$123,966,000 (2014: HK\$166,973,000).

Trade receivables of HK\$197,794,000 (2014: HK\$131,915,000) and bills receivables of HK\$23,072,000 (2014: HK\$44,750,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

As at 31st December, 2015, trade receivables of HK\$97,896,000 (2014: HK\$27,401,000) were past due but no impairment has been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable taking into account the debtors' settlement history. The Group does not hold any collateral over these balances. The average age of these trade receivables is 170 days (2014: 210 days).

Ageing of trade receivables which are past due but not impaired

	2015 HK\$'000	2014 HK\$'000
31-90 days	37,055	3,478
91-180 days	12,483	7,347
181-360 days	48,358	16,576
	97,896	27,401

Movement in the allowance for doubtful debts**Trade receivables**

	2015 HK\$'000	2014 HK\$'000
At 1st January	2,330	3,084
Decrease in allowance recognised in profit or loss	(281)	(754)
At 31st December	2,049	2,330

Other receivables

	2015 HK\$'000	2014 HK\$'000
At 1st January	7,695	7,054
Increase in allowance recognised in profit or loss	641	641
At 31st December	8,336	7,695

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period. Some of the trade receivables categorised as past due but not impaired as at the end of the reporting period were subsequently settled as at the date of the Group's consolidated financial statements were authorised for issuance. For those balances that have not been settled, the Directors are confident that there will be no recoverability issue taking into account that there was no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

27. ENTRUSTED LOAN RECEIVABLE

During the year ended 31st December, 2014, Zhongyu Henan entered into an entrusted loan agreement with China CITIC Bank Corporation Limited (the "Bank"). Pursuant to this agreement, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK\$25,352,000) ("Entrusted Asset") to a specific corporate borrower with maturity date of 29th October, 2015, carrying interest of 6% per annum. During the year ended 31st December, 2015, Zhongyu Henan and the Bank agreed to extend the repayment date of the entire entrusted loan receivable under the supplementary entrusted loan agreement from 29th October, 2015 to 26th October, 2016, carrying interest of 4.6% per annum.

As at 31st December, 2014 and 2015, the entrusted loan receivable is not past due nor impaired.

28. AMOUNTS DUE FROM A JOINT VENTURE, AN ASSOCIATE AND RELATED PARTIES

As at 31st December, 2014, the amount due from a joint venture was unsecured, interest bearing at 8% per annum and repayable on demand which was fully repaid during the year ended 31st December, 2015. Amounts in aggregate of HK\$249,967,000 was advanced to a joint venture during the year ended 31st December, 2015, which is unsecured, interest bearing at 7.5% per annum and repayable on demand and remained unsettled as of the date when the joint venture became a subsidiary of the Company (see note 39).

As at 31st December, 2015, amount due from an associate of RMB50,000,000 (equivalent to HK\$59,680,000) is unsecured, interest bearing at 7.5% per annum and repayable within one year. Amounts due from related parties are amounts due from a non-controlling shareholder of a subsidiary of the Group of HK\$12,055,000 and a related party (spouse of a non-controlling shareholder of a subsidiary of the Group) of HK\$1,998,000, which are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

	2015 HK\$'000	2014 HK\$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	297,694	298,359
Less: Progress billings	(296,951)	(290,515)
Less: Impairment losses recognised net of reversal (Note)	(16,208)	(17,293)
	(15,465)	(9,449)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	35,848	2,365
Amounts due to customers for contract work	(51,313)	(11,814)
	(15,465)	(9,449)

At 31st December, 2015, advances received from customers before the contract work is performed amounted to HK\$271,793,000 (2014: HK\$267,385,000) and were included in "deferred income and advance received" classified as current liabilities.

Note: The Directors reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the Directors, for amounts that are considered to be irrecoverable, impairment losses were recognised in full. For those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2015, the Group recognised a reversal of impairment loss of HK\$1,085,000 (2014: HK\$2,152,000).

30. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2014: 0.01% to 0.35%) per annum for the year ended 31st December, 2015. At 31st December, 2015, the bank balances and cash of HK\$629,510,000 (2014: HK\$767,694,000) are denominated in RMB.

As at 31st December, 2015, the bank balances and cash consisted of HK\$286,210,000 and HK\$68,006,000 (2014: HK\$52,312,000 and HK\$8,183,000) are denominated in USD and HK\$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2015, pursuant to a letter of undertaking, the Group is required to maintain a deposit of RMB80,000,000 (equivalent to HK\$95,488,000) with a bank as a condition precedent to a short-term bank borrowing. As at 31st December, 2015, the maturity of the deposit is less than one year and is classified as current asset. The pledged bank deposit carry interest at an average market rate of 0.385% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

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

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	320,105	259,003
31 – 90 days	42,323	22,723
91 – 180 days	61,213	12,318
Over 180 days	167,937	45,781
Trade payables	591,578	339,825

The average credit period on purchase of goods is 90 days (2014: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Deferred income and advance received classified as current liabilities represent amounts received from customers before the contract work is performed and advance payments from customers for purchase of natural gas from the Group. Deferred income and advance received classified as non-current liabilities are government grants of HK\$6,034,000 (2014: HK\$6,409,000) received by the Group, and will be released to profit or loss when the related costs (for which the grants are intended to compensate) are recognised in profit or loss. Due to redevelopment of Jiaozuo City, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo City.

As at 31st December, 2015, included in other payables and accrued charges are (i) deposits received from customers in relation to gas supply business of HK\$48,160,000 (2014: HK\$37,193,000); (ii) accrued expenses of HK\$36,250,000 (2014: HK\$31,900,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of a subsidiary of RMB2,600,000, equivalent to HK\$3,103,000 (2014: RMB29,500,000, equivalent to HK\$37,394,000 which was settled during the year ended 31st December, 2015); and (iv) unsettled consideration for the acquisition of a subsidiary of RMB20,650,000, equivalent to HK\$26,176,000 as disclosed in note 39.

32. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

33. BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Secured bank borrowings	923,339	354,582
Unsecured bank borrowings	3,279,657	3,098,148
Unsecured other borrowings	33,209	–
	4,236,205	3,452,730
Carrying amount repayable*:		
Within one year	1,172,315	424,211
More than one year, but not exceeding two years	2,230,180	674,395
More than two years but not exceeding five years	731,621	2,329,913
More than five years	102,089	24,211
	4,236,205	3,452,730
Less: Amounts due within one year shown under current liabilities	(1,172,315)	(424,211)
	3,063,890	3,028,519

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

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

	2015	2014
Effective interest rate:		
Fixed-rate borrowings	2.6% – 7.2%	5.60% – 7.80%
Variable-rate borrowings	3.44% – 8.4%	4.35% – 8.19%

The Group's certain variable-rate borrowings bear interest at a range of 110% to 130% of PBOC Prescribed Interest Rate per annum for both years. Interest of LIBOR plus a premium ranging from 2.5% to 3.13% (2014: 3% to 3.13%) per annum and interest of HIBOR plus a premium of 2.8% (2014: nil) per annum is charged on remaining outstanding variable-rate loan balances.

As at 31st December, 2015, the bank borrowing balances consisted of approximately HK\$2,951,315,000 (2014: HK\$2,508,770,000) and HK\$373,070,000 (2014: nil) are denominated in USD and HK\$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2015, certain bank borrowings were secured by the Group's prepaid lease payments, buildings and pledged bank deposits with the carrying amounts of HK\$44,660,000 (2014: HK\$48,614,000), HK\$3,147,000 (2014: HK\$3,530,000) and HK\$95,488,000 (2014: nil) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

34. OBLIGATIONS UNDER FINANCE LEASE

	2015 HK\$'000	2014 HK\$'000
Analysed for reporting purpose as:		
Current liabilities	33,285	–
Non-current liabilities	121,986	–
	155,271	–
	Minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2015 HK\$'000
Amount payable under finance leases:		
Within one year	41,339	33,285
In more than one year but not more than two years	41,339	35,200
In more than two years but not more than five years	92,629	86,786
	175,307	155,271
Less: Future finance charges	(20,036)	N/A
Present value of lease obligations	155,271	155,271
Less: Amount due for settlement within one year (shown under current liabilities)		(33,285)
Amount due for settlement after one year		121,986

The Group leased certain of its pipelines under finance lease. The lease term is five years. Interest rates underlying all obligations under finance lease were fixed at 5.249% per annum. No arrangement was entered into for contingent rental payments.

During the year ended 31st December, 2015, the Group obtained a finance lease of RMB150,000,000 (equivalent to HK\$186,706,000) in relation to the Group's pipelines with an aggregate carrying amount of RMB200,836,000 (equivalent to HK\$239,718,000).

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

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For the year ended 31st December, 2015

35. SHARE CAPITAL

	Number of shares		Amount	
	2015 '000	2014 '000	2015 HK\$'000	2014 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	10,000,000	10,000,000	100,000	100,000
Issued and fully paid				
At 1st January	2,525,008	2,524,008	25,250	25,240
Exercise of share options (note 37)	–	1,000	–	10
At 31st December	2,525,008	2,525,008	25,250	25,250

All the shares issued during the year ended 31st December, 2015 rank pari passu with the then existing shares in all respects.

36. DEFERRED TAXATION

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

	Revaluation of investment properties HK\$'000	Other intangible assets HK\$'000	Undistributed profits of subsidiaries HK\$'000	Total HK\$'000
At 1st January, 2014	1,561	17,212	4,937	23,710
Exchange adjustments	(15)	(411)	(47)	(473)
Acquisition of a subsidiary (note 39)	–	20,816	–	20,816
Charge to profit or loss (note 11)	109	5,436	–	5,545
Release of previously provided deferred tax upon payment	–	–	(3,966)	(3,966)
At 31st December, 2014	1,655	43,053	924	45,632
Exchange adjustments	(96)	(3,758)	(53)	(3,907)
Obtaining control over Harmony Gas and its subsidiaries (note 39)	–	83,706	–	83,706
Charge (credit) to profit or loss (note 11)	48	(1,798)	–	(1,750)
Release of previously provided deferred tax upon payment	–	–	(2,441)	(2,441)
At 31st December, 2015	1,607	121,203	(1,570)	121,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

36. DEFERRED TAXATION (Continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits amounting to HK\$1,339,842,000 (2014: HK\$1,029,448,000) of certain PRC subsidiaries in relation to the owners of the Company. The Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2015, the Group had unused estimated tax losses of HK\$270,793,000 (2014: HK\$251,964,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK\$215,295,000 (2014: HK\$200,460,000) that will expire in various dates up to 2020 (2014: 2019), other losses may be carried forward indefinitely.

37. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**Equity-settled share option schemes** (Continued)

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

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

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

Category of grantee	Exercise price per share HK\$	Date of grant	Exercisable period	At 1st January, 2014	Number of share options exercised during the year	At 31st
						December, 2014, 1st January, 2015, and 31st December, 2015
Directors	0.49	11th April, 2011	11th April, 2011 to to 10th April, 2021	3,000,000	(1,000,000)	2,000,000
Exercisable at the end of the year						2,000,000
Weighted average exercise price				HK\$0.49	HK\$0.49	HK\$0.49

Note: In respect of the share options exercised during the year ended 31st December, 2014, the weighted average closing price immediately before the date of exercise was HK\$2.18.

38. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 26th March, 2014, Zhongyu Henan and 焦作眾合建設投資有限公司 ("Jiaozuo Zhonghe"), the non-controlling shareholder of 修武中裕燃氣發展有限公司 ("Xiuwu Zhongyu") entered into an equity transfer agreement (the "Equity Transfer Agreement"), pursuant to which Jiaozuo Zhonghe has agreed to transfer its 40% equity interest in Xiuwu Zhongyu to Zhongyu Henan for a cash consideration of RMB11,800,000 (equivalent to HK\$15,030,000). Thereafter, the Group's effective interest in Xiuwu Zhongyu increased from 55.90% to 95.92%. The transaction was accounted for as an equity transaction. The difference between the consideration paid and the carrying amount of the Group's additional interest in Xiuwu Zhongyu of HK\$4,734,000 was debited to equity as other reserve during the year ended 31st December, 2014.

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For the year ended 31st December, 2015

39. ACQUISITION OF BUSINESS

Year ended 31st December, 2015

Obtaining control over Harmony Gas and its subsidiaries during the current year

On 8th December, 2015, Zhongyu Gas Investment (Beijing) Limited ("Zhongyu Gas (Beijing)", a wholly-owned subsidiary of the Group), which is an existing 50% shareholder of Harmony Gas, entered into the first amended and restated shareholders agreement ("Revised Shareholders Agreement") with another joint venture partner, an existing 38.7% shareholder of Harmony Gas (the "Seller").

Pursuant to the terms of the Revised Shareholders Agreement, key decisions regarding the relevant activities of Harmony Gas and its subsidiaries are to be made by the Group, accordingly, the control in Harmony Gas was passed to the Group. Since then Harmony Gas ceased to be a joint venture of the Group and become a non-wholly owned subsidiary of the Company.

Also, the Group has the obligation to purchase from the Seller additional 38.7% equity interest in Harmony Gas for a cash consideration of US\$78,722,395 (equivalent to HK\$610,162,000), that will result in the Group's equity interest in Harmony Gas increasing from 50% to 88.7% upon the completion of the further acquisition, which is required to take place on or before 14th July, 2017 according to the Sale and Purchase Agreement signed between Zhongyu Gas (Beijing) and the Seller. As a result, by applying a discount rate of 12.295% per annum, the present value of the liability is HK\$507,817,000 and has been recognised by the Group as at 8th December, 2015, to reflect the Group's commitment to purchase the additional equity interest with the corresponding debit being recognised in non-controlling interests.

Based on the Revised Shareholders Agreement, the Directors have concluded that the Group has obtained control over Harmony Gas and its subsidiaries after the Revised Shareholders Agreement was entered into effective from 8th December, 2015, for the following reasons:

- (a) Zhongyu Gas (Beijing) has the right to appoint 4 directors out of 7 of Harmony Gas which simple majority vote is required for decisions impacting the key relevant activities of Harmony Gas, the composition of the board of directors of Harmony gas has been changed accordingly as at 8th December, 2015;
- (b) Zhongyu Gas (Beijing) has the right to appoint the legal representative and all directors in each of the subsidiaries of Harmony Gas;
- (c) certain actions that require unanimous consent from all shareholders of Harmony Gas have been removed from the Revised Shareholders Agreement, including:
 - (i) declaration or payment of any dividends;
 - (ii) adoption or approval of annual budget and business plan; and
 - (iii) hiring, termination or determination of organisation of the member of the management.

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For the year ended 31st December, 2015

39. ACQUISITION OF BUSINESS (Continued)**Year ended 31st December, 2015** (Continued)**Obtaining control over Harmony Gas and its subsidiaries during the current year** (Continued)

Assets and liabilities of Harmony Gas and its subsidiaries at the date recognised by the Group when the Group obtained the control over Harmony Gas and its subsidiaries:

	HK\$'000
Property, plant and equipment	998,352
Other intangible assets	345,116
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments	34,564
Prepaid lease payments	11,623
Interests in associates	159,806
Inventories	17,736
Trade and bills receivables	142,488
Deposits, prepayments and other receivables	85,591
Amount due from an associate	60,584
Amounts due from related parties	14,265
Amounts due from customers for contract work	45,069
Pledged bank deposit	96,934
Bank balances and cash	126,572
Deferred income, advance received, other payables and accrued charges	(114,503)
Trade payables	(280,512)
Amount due to an associate	(1,252)
Amounts due to related parties	(249,967)
Amount due to customers for contract work	(21,517)
Borrowings	(549,421)
Tax payables	(8,183)
Deferred taxation	(83,706)
Non-controlling interests of the subsidiaries of Harmony Gas	(21,196)
	808,443
Goodwill arising:	
	HK\$'000
Consideration for obtaining control over Harmony Gas and its subsidiaries represented by the fair value of 50% equity interest in Harmony Gas and its subsidiaries	438,039
Plus: Non-controlling interests (Note)	438,039
Less: Identifiable net assets acquired	(808,443)
	67,635
Goodwill arising on obtaining control over Harmony gas and its subsidiaries	67,635

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For the year ended 31st December, 2015

39. ACQUISITION OF BUSINESS (Continued)**Year ended 31st December, 2015** (Continued)**Obtaining control over Harmony Gas and its subsidiaries during the current year** (Continued)

The fair value as well as the gross contractual amounts of the trade and bills receivables, deposits, prepayments and other receivables, amounts due from an associate and related parties and amounts due from customers for contract work acquired amounted to HK\$142,488,000, HK\$85,591,000, HK\$60,584,000, HK\$14,265,000 and HK\$45,069,000 respectively at the date when the Group obtains control over Harmony Gas and its subsidiaries. The best estimate of the contractual cash flows not expected to be collected is nil at the date when obtaining control over Harmony Gas and its subsidiaries.

Note: The non-controlling interests in the subsidiaries of Harmony Gas recognised at the date when the Group obtained control over Harmony Gas and its subsidiaries was measured by reference to the fair value of 50% equity interest in Harmony Gas and its subsidiaries. The difference between non-controlling interests' share of the fair value over the net asset value of Harmony Gas and its subsidiaries represented goodwill attributable to the non-controlling interests.

Goodwill arose in the acquisition of Harmony Gas 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 Harmony Gas. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

A gain of HK\$86,749,000 recognised in profit or loss (note 8), represented the difference between the fair value of the 50% equity interest in Harmony Gas and its subsidiaries (without control premium) and the carrying value that was previously classified as a joint venture of the Group.

Net cash inflow on obtaining control of Harmony Gas and its subsidiaries during the year ended 31st December, 2015:

	HK\$'000
Bank balances and cash acquired	126,572

Harmony Gas and its subsidiaries are principally engaged in trading of natural gas and gas pipeline construction. Included in the profit for the year ended 31st December, 2015 is a loss of HK\$875,000 attributable to Harmony Gas and its subsidiaries. Revenue for the year ended 31st December, 2015 includes HK\$69,018,000 generated from Harmony Gas and its subsidiaries.

Had the acquisition of Harmony Gas been completed on 1st January, 2015, total group revenue for the year would have been HK\$3,795,523,000 and profit for the year would have been HK\$140,243,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2015, nor is it intended to be a projection of future results.

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For the year ended 31st December, 2015

39. ACQUISITION OF BUSINESS (Continued)**Year ended 31st December, 2014****Acquisition of a subsidiary**

On 21st January, 2014, the Group acquired 100% of the registered share capital of 德州旺源燃氣有限公司 (“Dezhou Wangyuan”) for consideration of RMB76,150,000 (equivalent to HK\$97,466,000) from an independent third party, on that date control in Dezhou Wangyuan was passed to the Group. This acquisition has been accounted for using the purchase method. The company name was changed to 德州中裕燃氣有限公司 (“Dezhou Zhongyu”) after the completion of the acquisition. Dezhou Zhongyu is principally engaged in the sales of piped gas. Dezhou Zhongyu was acquired so as to continue the expansion of the Group’s operations.

Consideration transferred:

	HK\$'000
Cash	97,466

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

	HK\$'000
Property, plant and equipment	21,072
Prepaid lease payments	4,473
Other intangible asset – exclusive right of operation in sales of piped gas	83,332
Deposits, prepayments and other receivables	3,600
Bank balances and cash	6,586
Trade payables	(369)
Other payables and accrued charges	(14,828)
Bank borrowings	(6,400)
Deferred tax liability	(20,816)
	76,650

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	97,466
Less: Fair value of identifiable net assets acquired	(76,650)
	20,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

39. ACQUISITION OF BUSINESS (Continued)**Year ended 31st December, 2014** (Continued)**Acquisition of a subsidiary** (Continued)

Goodwill arose in the acquisition of Dezhou Zhongyu because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Dezhou Zhongyu. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Dezhou Zhongyu during the year ended 31st December, 2014:

	HK\$'000
Total cash consideration	97,466
Less: Cash and cash equivalent balances acquired	(6,586)
Less: Deposits paid during the year ended 31st December, 2013	(10,367)
Less: Unsettled consideration (included in other payables and accrued charges as at 31st December, 2014 and 2015)	(26,176)
	54,337

Included in the profit for the year ended 31st December, 2014 is HK\$10,600,000 attributable to Dezhou Zhongyu. Revenue for the year ended 31st December, 2014 includes HK\$83,110,000 generated from Dezhou Zhongyu.

Had the acquisition of Dezhou Zhongyu been completed on 1st January, 2014, total group revenue for the year would have been HK\$3,412,690,000, and profit for the year would have been HK\$389,780,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2014, nor is it intended to be a projection of future results.

The Directors expect the remaining consideration of HK\$26,176,000 will be settled in the next year when the scope of area covered by the acquired exclusive right of operation in sales of piped gas is finalised with the local government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

40. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

On 19th October, 2015, the Group acquired 100% of the registered share capital of 修武縣寧城能源利用有限公司 ("Xiuwu Ningcheng") for a cash consideration of RMB5,800,000 (equivalent to HK\$6,923,000) from independent third parties. The principal assets of Xiuwu Ningcheng are certain land and buildings and equipment. Xiuwu Ningcheng has not commenced business at the date of acquisition.

	HK\$'000
Net assets acquired	
Property, plant and equipment	4,587
Prepaid lease payments	2,336
	6,923
Net cash outflow arising on acquisition	
Cash consideration paid	6,923
Less: Unsettled consideration (included in other payables and accrued charges as at 31st December, 2015)	(3,103)
	3,820

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 "Business combination" as Xiuwu Ningcheng has not commenced business at the date of acquisition. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

41. OPERATING LEASES**The Group as lessee**

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

	2015 HK\$'000	2014 HK\$'000
Within one year	6,875	4,278
In the second to fifth year inclusive	10,649	7,842
Over five years	3,266	4,151
	20,790	16,271

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to twenty-five years (2014: one to twenty years) with fixed rental.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

41. OPERATING LEASES (Continued)**The Group as lessor**

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

	2015 HK\$'000	2014 HK\$'000
Within one year	742	701
In the second to fifth year inclusive	1,320	1,560
	2,062	2,261

Leases are negotiated for an average term of five years (2014: five years).

The Group's completed investment properties with a carrying amount of HK\$9,012,000 (2014: HK\$9,365,000) are held for rental purposes. All of the properties held have committed tenants for the next two to five years (2014: two to five years).

42. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK\$1,500 per person, which increased from \$1,250 to \$1,500 per person since 1st June, 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

43. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with Harmony Gas during the period from 1st January, 2015 to 7th December, 2015 (i.e. prior to the Group's obtaining control over Harmony Gas and its subsidiaries):

	2015 HK\$'000	2014 HK\$'000
Interest income	20,653	6,669
Connection revenue from gas pipeline construction	71,107	–

Compensation of key management personnel

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

44. CAPITAL COMMITMENTS

As at 31st December, 2015, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK\$77,771,000 (2014: HK\$61,818,000).

45. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2015, the Group has derecognised certain property, plant and equipment of HK\$12,555,000 due to redevelopment of Sanmenxia City. As the local government of Sanmenxia City agreed to compensate the same to the Group, the amount was recognised as other receivables and included in "deposits, prepayments and other receivables" as at 31st December, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31st December, 2015 and 2014

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company 2015 %	2014 %	
Zhongyu Gas Investment Limited	Hong Kong	Limited liability company	1 ordinary share of HK\$1 each	100 [#]	100 [#]	Investment holding
Zhongyu Gas Investment Limited ^{###}	British Virgin Islands	Incorporated	1 ordinary share of US\$1 each	100 [#]	100 [#]	Investment holding
Zhongyu Gas Investment (Beijing) Limited ^{###}	British Virgin Islands	Incorporated	1 ordinary share of US\$1 each	100 [#]	100 [#]	Investment holding
China City Gas Construction Holdings Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Explore Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China Gas Construction Expansion Co., Ltd. ^{###}	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Development Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Investment Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
浙江中裕燃气有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK\$65,892,000	100 ^{##}	100 ^{##}	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	2014	
				2015 %	2014 %	
中國城市能源投資控股(深圳)有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US\$100,000,000	100 ^{##}	— ^{##}	Investment holding
三門峽中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$50,000,000	90 ^{##}	90 ^{##}	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
新密中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$15,000,000	97 ^{##}	97 ^{##}	Trading of natural gas and gas pipeline construction
新密中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB63,000,000	99.8 ^{##}	99.4 ^{##}	Operation of CNG/LNG vehicle filling stations
偃師中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$25,000,000	95 ^{##}	95 ^{##}	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
永城中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$50,000,000	100 ^{##}	100 ^{##}	Trading of natural gas and gas pipeline construction
永城中裕運輸有限公司	PRC	Limited liability company	Registered capital RMB500,000	100 ^{##}	100 ^{##}	Dangerous goods transportation
臨沂中裕能源有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$160,000,000	100 ^{##}	100 ^{##}	Trading of natural gas and gas pipeline construction
臨沂中裕能源壓縮天然氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	51 ^{##}	— ^{##}	Operation of CNG/LNG vehicle filling stations
臨沂中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB15,160,000	100 ^{##}	100 ^{##}	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	2014	
				2015 %	2014 %	
東海縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	67 [#]	67 [#]	Trading of natural gas and gas pipeline construction
濟源中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB40,280,000	92.9 ^{##}	92.9 ^{##}	Trading of natural gas and gas pipeline construction
漯河中裕燃氣有限公司 ("Luohe Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	77.3 ^{##}	77.3 ^{##}	Trading of natural gas and gas pipeline construction
漯河中裕燃氣工程安裝有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	73.4 ^{##}	73.4 ^{##}	Gas pipeline construction
焦作中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$84,800,000	93.2 ^{##}	93.2 ^{##}	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
焦作中裕燃氣工程安裝有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	93.2 ^{##}	93.2 ^{##}	Gas pipeline construction
修武中裕燃氣發展有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	96.7 ^{##}	95.9 ^{##}	Trading of natural gas and gas pipeline construction
臨沂中裕燃氣有限公司 ("Linyi Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB42,000,000	51 [#]	51 [#]	Trading of natural gas and gas pipeline construction
中裕(河南)能源控股有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK\$600,000,000	100 [#]	100 [#]	Investment holding
邵武中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100 ^{##}	100 ^{##}	Operation of CNG/LNG vehicle filling stations
濟源中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 ^{##}	100 ^{##}	Operation of CNG/LNG vehicle filling stations

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For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	2014	
				2015 %	2014 %	
三門峽中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB8,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
南京晶橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
西平中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Research and development of natural gas technology
鄭州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Not yet commenced business
靈寶中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
德州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB25,000,000	100 [#]	100 [#]	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
北京中裕泰峰投資管理有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	100 [#]	100 [#]	Not yet commenced business
陝縣中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
溫縣中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	80 [#]	80 [#]	Trading of natural gas and gas pipeline construction
深圳市鵬凱吉星貿易有限公司	PRC	Limited liability company	Registered capital RMB100,000	100 [#]	100 [#]	Not yet commenced business

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46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company		
				2015 %	2014 %	
沁陽中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	100##	--##	Trading of natural gas and gas pipeline construction
武夷山中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	99.8##	99.8##	Trading of natural gas and gas pipeline construction
武陟中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB26,000,000	100##	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
鐵力市嘉華燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
焦作中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB15,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
修武縣寧城能源利用有限公司	PRC	Limited liability company	Registered capital RMB5,246,014	100##	--##	Not yet commenced business
漯河中裕壓縮氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
漯河裕聯加氣站經營有限公司	PRC	Limited liability company	Registered capital RMB9,300,000	100##	100##	Operation of CNG/LNG vehicle filling stations
南京中裕壓縮氣體有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
南京中裕天然氣加氣有限公司	PRC	Limited liability company	Registered capital RMB7,000,000	70##	70##	Operation of CNG/LNG vehicle filling stations

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46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	2014	
				2015 %	2014 %	
上海宣閩能源投資管理有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Investment holding
邵武市宣燃天然氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
Harmony Gas Holdings Limited ^{###}	Cayman Islands	Limited liability company	78,287,805 ordinary shares of US\$0.0001 each	50 [#]	— [#]	Investment holding
Prosperity Gas Holdings Ltd. ^{###}	Cayman Islands	Limited liability company	201 ordinary shares of US\$1 each	50 [#]	— [#]	Investment holding
Prosperity Gas 2 Co., Ltd.	Hong Kong	Limited liability company	1 ordinary shares of HK\$1 each	50 [#]	— [#]	Investment holding
Sino Gas International Holdings, Inc ^{###}	United States of America	Incorporated	1,000 common stock without par value	50 [#]	— [#]	Investment holding
Sino Gas Investment Development Limited ^{###}	British Virgin Islands	Incorporated	25,500 ordinary shares of US\$1 each	50 [#]	— [#]	Investment holding
Gas Investment China Co., Ltd. ^{###}	British Virgin Islands	Incorporated	21,500,000 ordinary shares of US\$1 each	50 [#]	— [#]	Investment holding
Tongyuan International Holding Limited	Hong Kong	Limited liability company	10,000 ordinary shares of HK\$1 each	25.5 [#]	— [#]	Investment holding
Sino Gas Construction Ltd. ^{###}	British Virgin Islands	Incorporated	209,730 ordinary shares of US\$1 each	13.0 [#]	— [#]	Investment holding
北京中燃偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB206,000,000	50 [#]	— [#]	Trading of natural gas

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46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company 2015 %	2014 %	
江蘇中燃偉業能源投資有限公司	PRC	Limited liability company	Registered capital RMB132,100,000	50 ^{##}	— ^{##}	Investment holding
江蘇偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB70,126,680	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
泗洪偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB36,613,250	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
五河縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,991,870	50 ^{##}	— ^{##}	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
泗縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB4,541,710	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
灌南縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB14,857,800	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
北京晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,239,600	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
昌黎偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
玉田縣中燃偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
蔚縣今力燃氣有限公司	PRC	Limited liability company	Registered capital RMB9,500,000	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction
張家口市下花園今力燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	50 ^{##}	— ^{##}	Trading of natural gas and gas pipeline construction

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For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company		
				2015 %	2014 %	
藁城市偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	50 [#]	-- [#]	Trading of natural gas and gas pipeline construction
鹿泉市晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	50 [#]	-- [#]	Trading of natural gas and gas pipeline construction
成安縣晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	50 [#]	-- [#]	Trading of natural gas and gas pipeline construction
白山市偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB15,000,000	50 [#]	-- [#]	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
白山市偉業車用燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	50 [#]	-- [#]	Operation of CNG/LNG vehicle filling stations
白山市偉業燃氣物資有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	50 [#]	-- [#]	Sales of gas equipment and materials
撫松縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	50 [#]	-- [#]	Trading of natural gas and gas pipeline construction
白山市意和建設工程有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	50 [#]	-- [#]	Gas pipeline construction
白山市偉業管道天然氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	50 [#]	-- [#]	Not yet commenced business
河北中燃偉業燃氣集團有限公司	PRC	Limited liability company	Registered capital RMB95,579,270	50 [#]	-- [#]	Trading of natural gas
吳橋縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB8,800,000	50 [#]	-- [#]	Trading of natural gas and gas pipeline construction

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For the year ended 31st December, 2015

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2015 and 2014 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	2014	
				2015 %	2014 %	
寧晉縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB11,700,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
臨漳縣偉業燃氣有限責任公司	PRC	Limited liability company	Registered capital RMB7,700,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
衡水偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,927,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
隆堯縣中燃偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,825,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
行唐縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB7,135,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
故城偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB14,500,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
南宮市偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB7,439,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
鷄澤縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,500,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
新河偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	50 [#]	-- ^{##}	Trading of natural gas and gas pipeline construction
廊坊開發區偉業危險貨物運輸有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	50 [#]	-- ^{##}	Dangerous goods transportation

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

The proportion of nominal value of issued share capital/registered capital indirectly held by the Company. Regarding the companies, of which the proportion of nominal value of issued share capital/registered capital held by the Company are less than 50%, the Group obtained control through investment in non-wholly owned subsidiaries of Harmony Gas.

The place of operation of the Company is Hong Kong.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income (expense) attributable to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	2015	2014	2015	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Linyi Zhongyu	PRC – Shangdong province	49%	49%	25,705	36,190	170,857	145,152
Luohe Zhongyu	PRC – Henan province	22.71%	22.71%	6,695	13,765	53,795	66,786
Harmony Gas and its subsidiaries	PRC	50%	–	(7,674)	–	430,365 (Note)	–
Individually immaterial subsidiaries with non-controlling interests						118,530	86,754
						773,547	298,692

Note: The amount shown excludes those attributable to non-controlling interests of Harmony Gas's subsidiaries.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. In addition, the summarised financial information of Harmony Gas and its subsidiaries below represents amounts for the period from 8th December, 2015 (the date when the Group obtained control over Harmony Gas and its subsidiaries (see note 39)) to 31st December, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)**(i) Linyi Zhongyu**

	2015 HK\$'000	2014 HK\$'000
Current assets	133,591	99,212
Non-current assets	471,433	452,781
Current liabilities	(256,336)	(255,764)
Equity attributable to owners of the Company	177,831	151,077
Non-controlling interests	170,857	145,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

(i) Linyi Zhongyu (Continued)

	2015 HK\$'000	2014 HK\$'000
Revenue	433,952	475,614
Expenses	(362,142)	(399,731)
Profit for the year	71,810	75,883
Profit attributable to owners of the Company	36,623	38,700
Profit attributable to the non-controlling interests	35,187	37,183
Profit for the year	71,810	75,883
Other comprehensive expense attributable to owners of the Company	(9,869)	(1,032)
Other comprehensive expense attributable to the non-controlling interests	(9,482)	(993)
Other comprehensive expense for the year	(19,351)	(2,025)
Total comprehensive income attributable to owners of the Company	26,754	37,668
Total comprehensive income attributable to the non-controlling interests	25,705	36,190
Total comprehensive income for the year	52,459	73,858
Dividends paid to non-controlling interests	-	-
Net cash from operating activities	92,982	152,780
Net cash used in investing activities	(60,714)	(158,545)
Net cash used in financing activities	(3,723)	(13,416)
Net cash inflow (outflow)	28,545	(19,181)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)**(ii) Luohe Zhongyu**

	2015 HK\$'000	2014 HK\$'000
Current assets	268,986	208,599
Non-current assets	362,856	353,002
Current liabilities	(275,290)	(232,208)
Non-current liabilities	(174,266)	(60,249)
Equity attributable to owners of the Company	128,491	202,358
Non-controlling interests	53,795	66,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

(ii) Luohe Zhongyu (Continued)

	2015 HK\$'000	2014 HK\$'000
Revenue	403,025	430,289
Expenses	(350,221)	(367,691)
Profit for the year	52,804	62,598
Profit attributable to owners of the Company	40,812	48,382
Profit attributable to the non-controlling interests	11,992	14,216
Profit for the year	52,804	62,598
Other comprehensive expense attributable to owners of the Company	(18,025)	(1,536)
Other comprehensive expense attributable to the non-controlling interests	(5,297)	(451)
Other comprehensive expense for the year	(23,322)	(1,987)
Total comprehensive income attributable to owners of the Company	22,787	46,846
Total comprehensive income attributable to the non-controlling interests	6,695	13,765
Total comprehensive income for the year	29,482	60,611
Dividends paid to non-controlling interests	19,686	–
Net cash from operating activities	125,500	4,684
Net cash (used in) from investing activities	(213,617)	121,038
Net cash from (used in) financing activities	52,065	(80,232)
Net cash (outflow) inflow	(36,052)	45,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

(iii) Harmony Gas and its subsidiaries

	2015 HK\$'000
Current assets	557,974
Non-current assets	1,608,589
Current liabilities	(1,159,947)
Non-current liabilities	(127,577)
Equity attributable to owners of the Company	430,365
Non-controlling interests of Harmony Gas	430,365
Non-controlling interests of Harmony Gas's subsidiaries	18,309
Revenue	69,018
Expenses	(74,333)
Loss for the period	(5,315)
Loss for the period attributable to	
– the owners of the Company	(1,363)
– non-controlling interests of Harmony Gas	(1,363)
– non-controlling interests of Harmony Gas's subsidiaries	(2,589)
Loss for the period	(5,315)
Other comprehensive expense for the period attributable to	
– the owners of the Company	(6,311)
– non-controlling interests of Harmony Gas	(6,311)
– non-controlling interests of Harmony Gas's subsidiaries	(298)
Other comprehensive expense for the period	(12,920)
Total comprehensive expense for the period attributable to	
– the owners of the Company	(7,674)
– non-controlling interests of Harmony Gas	(7,674)
– non-controlling interests of Harmony Gas's subsidiaries	(2,887)
Total comprehensive expense for the period	(18,235)
Net cash from operating activities	19,162
Net cash used in investing activities	(20,881)
Net cash from financing activities	8,260
Net cash inflow	6,541
Dividend paid to non-controlling interests of Harmony Gas subsidiaries	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

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

	2015 HK\$'000	2014 HK\$'000
Non-current assets		
Unlisted investments in subsidiaries	995,200	995,200
Investments in life insurance contracts	73,854	72,333
Available-for-sale investment	2,720	2,720
Amounts due from group companies	2,295,486	2,263,036
	3,367,260	3,333,289
Current assets		
Other receivables	17,669	22,910
Bank balances and cash	305,741	60,215
	323,410	83,125
Current liabilities		
Other payables and accrued charges	3,480	3,553
Bank borrowings	672,676	–
	676,156	3,553
Net current (liabilities) assets	(352,746)	79,572
Total assets less current liabilities	3,014,514	3,412,861
Capital and reserves		
Share capital (note 35)	25,250	25,250
Reserves (Note)	703,959	878,841
Total equity	729,209	904,091
Non-current liabilities		
Bank borrowings	2,285,305	2,508,770
	3,014,514	3,412,861

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 31st March, 2016 and are signed on its behalf by:

WANG WENLIANG
DIRECTOR

LUI SIU KEUNG
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

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

Note:

Reserves of the Company

	Share premium HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1st January, 2014	895,054	520	62,194	20,568	978,336
Loss for the year	–	–	–	(88,664)	(88,664)
Other comprehensive expense for the year	–	–	(11,312)	–	(11,312)
Total comprehensive expense for the year	–	–	(11,312)	(88,664)	(99,976)
Exercise of share options	682	(201)	–	–	481
At 31st December, 2014	895,736	319	50,882	(68,096)	878,841
Loss for the year	–	–	–	(153,283)	(153,283)
Other comprehensive expense for the year	–	–	(21,599)	–	(21,599)
Total comprehensive expense for the year	–	–	(21,599)	(153,283)	(174,882)
At 31st December, 2015	895,736	319	29,283	(221,379)	703,959

FINANCIAL SUMMARY

	For the year ended 31st December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover	3,276,666	3,412,690	3,130,885	2,754,084	1,794,319
Profit for the year attributable to					
Owners of the Company	93,390	324,351	262,248	226,021	86,114
Non-controlling interests	56,478	65,429	62,569	55,533	42,190
	149,868	389,780	324,817	281,554	128,304
	As at 31st December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Assets and liabilities					
Total assets	8,709,309	6,898,822	4,698,914	3,548,701	2,836,665
Total liabilities	(6,436,915)	(4,606,082)	(2,770,240)	(1,987,239)	(1,607,525)
	2,272,394	2,292,740	1,928,674	1,561,462	1,229,140
Equity attributable to the owners of the Company	2,006,664	1,994,048	1,692,480	1,390,235	1,088,441
Non-controlling interests	265,730	298,692	236,194	171,227	140,699
	2,272,394	2,292,740	1,928,674	1,561,462	1,229,140



中裕燃氣
ZHONGYU GAS

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

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