



港華燃氣有限公司 Towngas China Company Limited

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

ANNUAL REPORT 2015



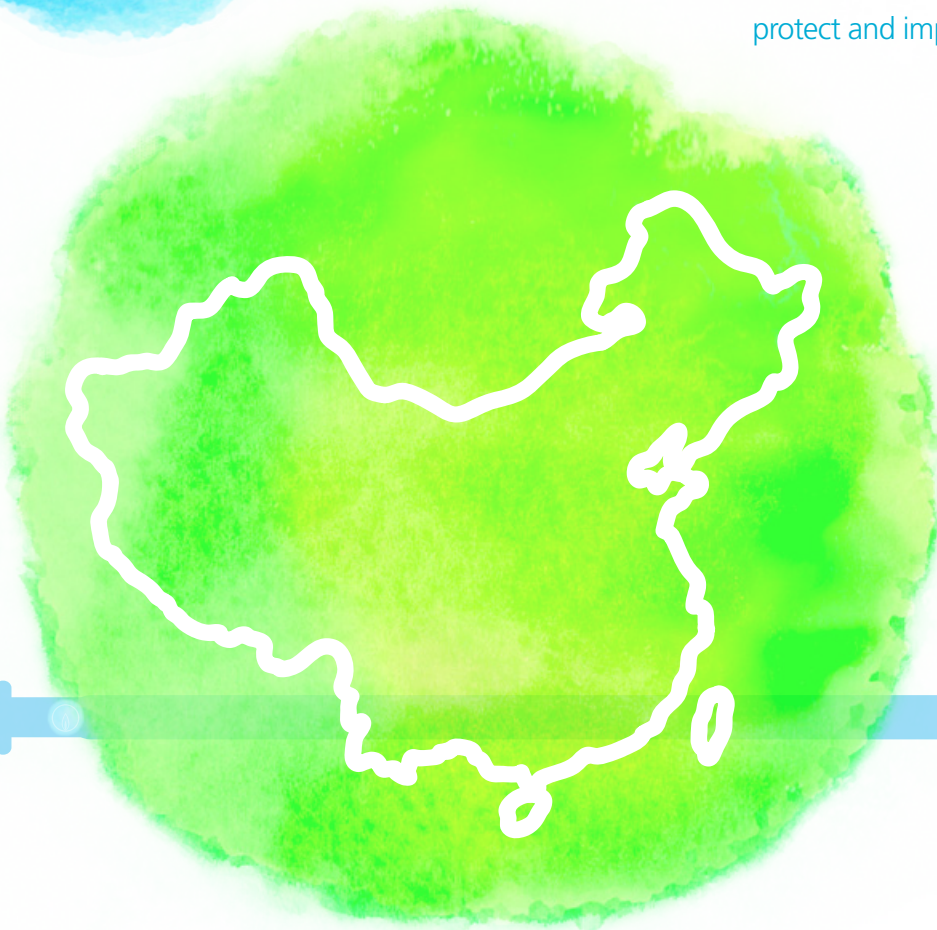


EXPANDING **NEW HORIZONS**

Guided by our management theme “Expanding New Horizons”, we continue to pursue every innovation to not only revitalise our services, but also to ensure that our diversified businesses will continue to grow.



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



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BUSINESS OVERVIEW

NO. OF PROJECTS **102**

Piped Gas Projects

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

Vehicle Gas Refilling Stations Qiqihar (Lianfu), Qiqihar (Xingqixiang)

Midstream Projects Taian Taigang, Xuancheng-Huangshan

Other Project Maanshan (Piping Prefabrication)





FIVE-YEAR FINANCIAL SUMMARY

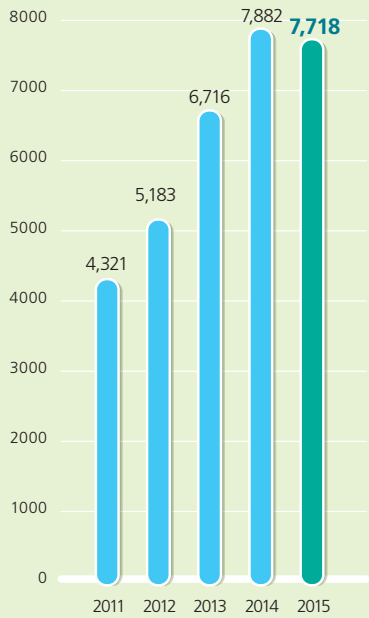
	For the year ended 31 December				
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
RESULTS					
Turnover	4,321,344	5,183,466	6,715,709	7,881,833	7,718,293
Profit before taxation	1,033,536	1,235,548	1,608,852	1,531,059	1,268,043
Taxation	(256,943)	(299,393)	(382,509)	(350,085)	(343,511)
Profit for the year	776,593	936,155	1,226,343	1,180,974	924,532
Profit for the year attributable to:					
Shareholders of the Company*	708,754	840,798	1,106,286	1,054,189	807,042
Non-controlling interests	67,839	95,357	120,057	126,785	117,490
Profit for the year	776,593	936,155	1,226,343	1,180,974	924,532
Earnings per share	HK cents	HK cents	HK cents	HK cents	HK cents
Basic	28.84	34.17	42.46	40.19	30.45
Diluted	28.82	34.10	42.34	40.08	30.43

	As at 31 December				
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
ASSETS AND LIABILITIES					
Total assets	18,183,406	21,255,284	25,628,676	27,350,239	28,870,524
Total liabilities	(7,884,151)	(9,968,323)	(12,150,413)	(12,905,761)	(14,170,668)
	10,299,255	11,286,961	13,478,263	14,444,478	14,699,856
Equity attributable to					
shareholders of the Company	9,615,314	10,481,716	12,531,303	13,253,951	13,478,084
Non-controlling interests	683,941	805,245	946,960	1,190,527	1,221,772
Total equity	10,299,255	11,286,961	13,478,263	14,444,478	14,699,856

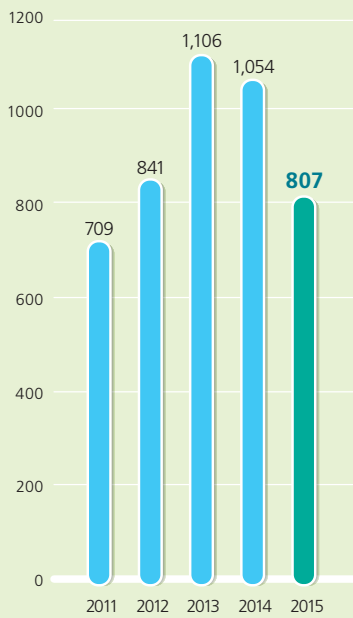
* the Company: Towngas China Company Limited

FINANCIAL HIGHLIGHTS

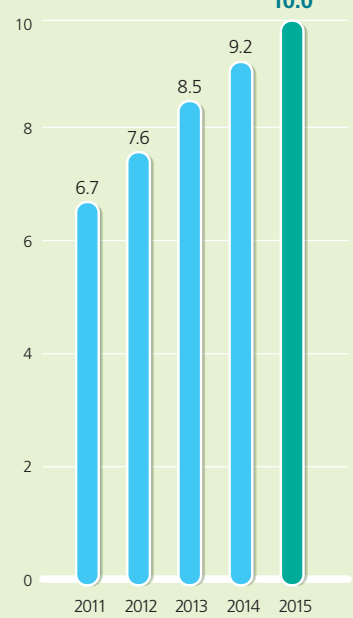
TURNOVER
(HK\$ Millions)



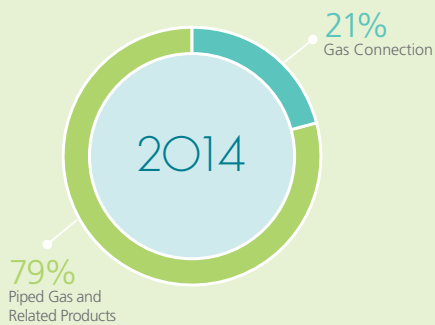
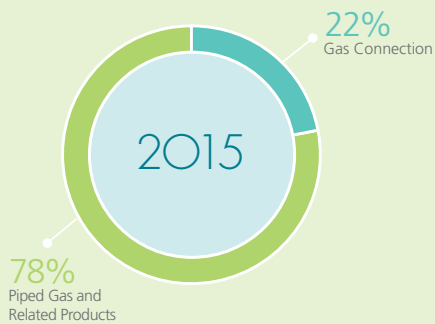
PROFIT ATTRIBUTABLE TO
SHAREHOLDERS OF THE COMPANY
(HK\$ Millions)



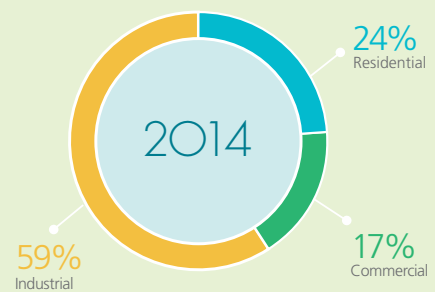
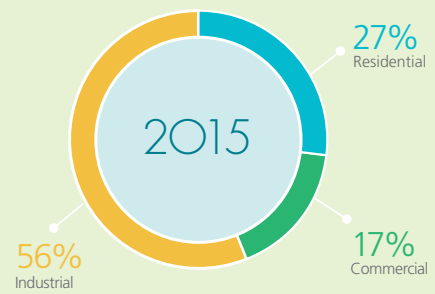
NUMBER OF CUSTOMERS
(ALL ENTITIES)
(Millions)



TURNOVER
ANALYSIS



PERCENTAGE OF GAS VOLUME
BY CUSTOMER MIX (ALL ENTITIES)



CHAIRMAN'S STATEMENT





Economic Landscape

In 2015, the extremely volatile international market had a strong impact on the development of China's natural gas market. Although the US economic recovery had begun to take hold, the sluggish and unstable global economy, coupled with increasing geopolitical risks, led to a continuous decline in energy prices, particularly international oil prices slumped and remained at low levels. Coupled with the weakness of the global economy and the continuing currency depreciation in various countries around the world and despite China's vigorous efforts to push forward its economic transformation into 2015, the country's imports and exports as well as its industrial sectors were greatly affected. This, in turn resulted in lower growth in the country's Gross Domestic Product (GDP), which reached 6.9% in 2015, against the target of 7%. The uncompetitive natural gas prices, caused by the lag in the adjustment of China's natural gas city-gate prices against 2015's plummeting oil prices, resulted in crippling gas sales volume of the city gas operators during the year.

In spite of this challenging business environment of 2015, the Group reported a slight increase in results thanks to the concerted efforts of our employees. The profit after tax attributable to shareholders of the Company, excluding one-off provisions such as the unrealised exchange loss and the disposal of coke plant in Changchun Gas Co., Ltd. ("Changchun Gas"), increased to HK\$1.202 billion, an increase of 1% as compared to that of 2014.

Natural Gas Price Reforms

In 2015, achievements were made in the reform of non-residential natural gas city-gate and residential natural gas end-user selling prices, laying the foundations for the marketisation of China's upstream, midstream and downstream natural gas industries. In the residential natural gas market, though the city-gate prices remained unchanged, the adoption of progressive price levels in numerous cities, helped to drive revenue for city gas operators from residential users. In the non-residential natural gas market, the Chinese government merged the prices of non-residential existing gas and incremental gas in April 2015 by slightly raising the natural gas city-gate prices for existing gas and substantially lowering the natural gas city-gate prices for incremental gas, resulting in a slight decrease in the overall natural gas city-gate prices for non-residential gas as compared to 2014. However, the significant decline in international oil prices from US\$100 per barrel in mid-2014 to US\$65 per barrel at the time, coupled with a slackening in energy demand due to lacklustre global economic conditions, resulted in the oversupply of natural gas in China from the second quarter of 2015. Non-residential natural gas city-gate prices were adjusted downwards by the Chinese government by RMB0.7 in November 2015. This move mitigates the impact of the slump in oil prices to gas sales and brought some industrial and commercial customers back to piped gas again.

CHAIRMAN'S STATEMENT

Market Prospects for the City Gas Business

Despite a domestic economic slowdown and the recent weaknesses in the natural gas market in China, the natural gas and city gas markets will maintain their steady development in the long term, given that the consumption of clean energy and the vigorous development of natural gas is an important focus in the Chinese government's policies. In the past two years, the government has announced a number of important development plans that will be carried out to 2020. These include the "National New-type Urbanisation Plan (2014–2020)", "Energy Development Strategy Action Plan (2014–2020)" and "Work Plan on Enhancing Prevention and Treatment of Air Pollution in the Energy Industry". The size of China's natural gas market is, therefore, expected to increase by 100 to 300 billion cubic metres during the thirteenth five-year plan (the "Thirteenth Five-Year"). In addition, in June 2015, China submitted a binding commitment to the United Nations in June 2015, pledging to cut carbon dioxide emissions per unit of GDP by a targeted 60% by 2030 from 2005 levels. According to the Thirteenth Five-Year Plan, natural gas and city gas will form the focus of the country's energy development strategy as a modern society. This indicates that more supportive policies will be issued by the government into the future.

Looking back the Twelfth Five-Year Plan Period, the Group was able to seize the opportunities to push forward the development of existing projects, expand the gas pipeline network and supervise the business expansion of project companies into new markets. At the same time, we worked to improve the quality of products and services in our existing markets. Entering the first year of the Thirteenth Five-Year Plan Period, we will maintain our efforts and work with national energy policies to promote the development of China's clean energy and piped gas industry.



CHINA'S TARGET

By 2030, carbon dioxide emissions to reduce from the 2005 levels

60%



Business Outlook of the Group

Despite the recent ongoing effects of the global economic recession, the Group's natural gas business will benefit from the Thirteenth Five-Year Plan with its goal to build a relatively affluent society by 2020. The increasing requirements for environmental protection and energy efficiency as well as accelerated rate of urbanisation in China during this period will drive the ongoing supply and demand for natural gas and city gas. As such, the Group expects to see satisfactory growth in natural gas sales in the next few years, particularly as a number of key natural gas pipeline projects in China commence operations in the Thirteenth Five-Year Plan Period.

With the adoption of the "Year of Marketing Strategy" as our management theme in early 2014, the Group encourages our project companies to push the replacement coal-fired boilers with the use of natural gas in the catering sector. In the residential market, the Group leveraged on the newly introduced progressive price level system and the ample supply of gas resources to actively explore the household heater and dryer market, which has led to extremely positive business results. In addition, we have strengthened our planning and technical capabilities in the supply of natural gas, while also advocating the advantage of natural gas as a price-competitive clean energy. The Group will take initiatives in developing the combined heat and power projects and improve the thermal efficiency of natural gas power generation, so as to increase our marketing effectiveness.

The Group has always been committed to the constant improvement of gas safety and customer services. As a result, we have established a leading position in the country's natural gas industry. In 2016, we will maintain this commitment, continuing to invest resources into these fields, while at the same time focusing on our corporate social responsibilities, strengthening staff training in customer services and professional skills, as well as gearing up for the opportunities in the China's city gas market in the country's welcoming Thirteenth Five-Year Plan Period.

Taking into account the enormous Chinese energy market and the increasing demand for clean energy, reduction in carbon emission and haze and improvement in air quality, so strongly promoted by the Chinese government, we believe that the Group is poised for a sustainable business with a thriving future.

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CHAN Wing Kin, Alfred

Chairman

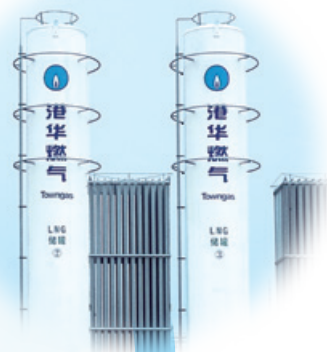
Hong Kong, 17 March 2016



FINANCIAL REVIEW

Profit after taxation attributable to shareholders of the Company excluding the unrealised exchange loss and the provision for the disposal of the coke plant of Changchun Gas amounted to HK\$1,202 million, an increase of 1% as compared to the corresponding period last year.

The Group recorded an unrealised exchange loss of HK\$301 million caused by fluctuation in Renminbi exchange rates in 2015. As Changchun Gas ceased to supply manufactured gas and changed to use natural gas as gas source, a provision of HK\$94 million for the disposal of the coke plant attributable to the Group was recorded.





Profit after taxation attributable to shareholders of the Company amounted to HK\$807 million, a decrease of 23% as compared to the corresponding period last year. Basic earnings per share amounted to HK30.45 cents, representing a decrease of 24% compared to the corresponding period of 2014.

Turnover

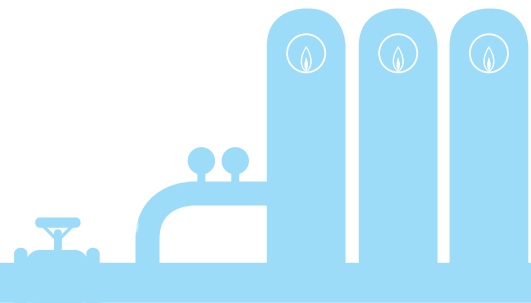
Turnover from the sales of piped gas and related products declined 3% from HK\$6,205 million in 2014 to HK\$6,011 million in 2015 due to devaluation of Renminbi and downward adjustments to the natural gas price as made by the Chinese Government in 2015. The total consolidated volume of gas sold during the year amounted to 1,719 million cubic metres, on a par with 2014. In the gas connection business, income from connection fees for the year amounted to HK\$1,708 million, a rise of 2% compared to 2014. This was attributable to approximately 389,000 consolidated new household connections in 2015.

Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used amounted to HK\$4,936 million, while that was HK\$5,128 million in 2014. The decrease in expenses was mainly attributable to the downward adjusted purchase price of natural gas and the devaluation of Renminbi in the current year.

Overhead Costs

Overhead costs in 2015 amounted to HK\$1,765 million, up 5% as compared to HK\$1,688 million in 2014. The increase was mainly due to the Group's business development together with escalations in wages and inflation. Staff costs and depreciation and amortisation expenses rose by 9% and 12%, respectively. At the same time, an increase of HK\$3 million in overheads was due to the inclusion of new subsidiaries in 2015.



FINANCIAL REVIEW

Staff Costs

Staff costs increased from HK\$788 million in 2014 to HK\$857 million in 2015. The increase in staff costs was due to the increase in the number of staff in line with our business development needs, the addition of new subsidiaries and higher average salaries on the mainland.

Finance Costs

Finance costs in 2015 amounted to HK\$181 million, an increase of 4% as compared to 2014. This rise in finance costs reflected the increase in loans mainly due to the acquisition of new projects and business development.

Available-for-sale Investments

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

Financial Position

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.



The compressed natural gas refilling station in Changchun City, Jilin Province supplies clean fuel for vehicles which helps to improve overall air quality.

As at 31 December 2015, the Group's total borrowings amounted to HK\$8,768 million, of which HK\$994 million represented loans from The Hong Kong and China Gas Company Limited ("HKCG") due between 2 to 5 years, HK\$3,183 million represented bank loans and other loans due within 1 year, HK\$4,558 million represented bank loans and other loans due between 1 to 5 years, and HK\$33 million represented bank loans and other loans due over 5 years. The Group entered into an interest rate swap contract to swap the 5 year variable-rate bank borrowing of HK\$350 million to the fixed-rate borrowing in 2011. Other than the HK\$1,730 million in bank loans and other borrowings which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The Group's borrowings consists of HK\$1,931 million borrowings dominated in Renminbi and the remaining HK\$6,837 million borrowings dominated mainly in Hong Kong dollars and United States dollars. The businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. As at 31 December 2015, the Group did not have any pledge on assets. As at the end of the period, the Group had a gearing ratio (net debt excluding the HKCG loans ("Net Debt") to equity attributable to shareholders of the Company plus Net Debt) of 28.6%.

As at 31 December 2015, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,376 million, of which 95% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2015, the Group's unutilised available facilities amounted to HK\$2,850 million.

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

Credit Ratings

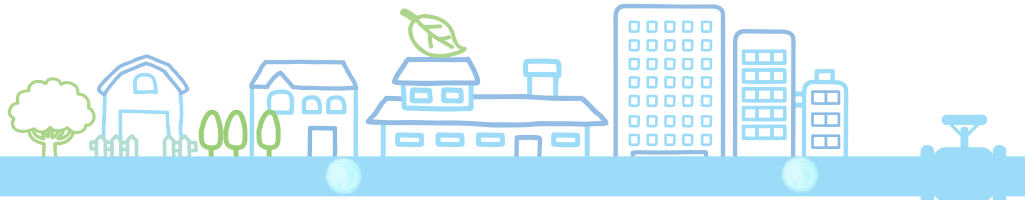
In June 2015, Standard & Poor's upgraded the long-term corporate credit rating of Towngas China from "BBB" to "BBB+", while maintaining its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". In July 2015, Moody's Investors Service upgraded the issuer rating of Towngas China from "Baa2" to "Baa1" with a "stable" outlook rating. These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of Towngas China's sound financial position.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2015.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2015 of HK ten cents per share (2014: HK ten cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.



REVIEW OF OPERATIONS



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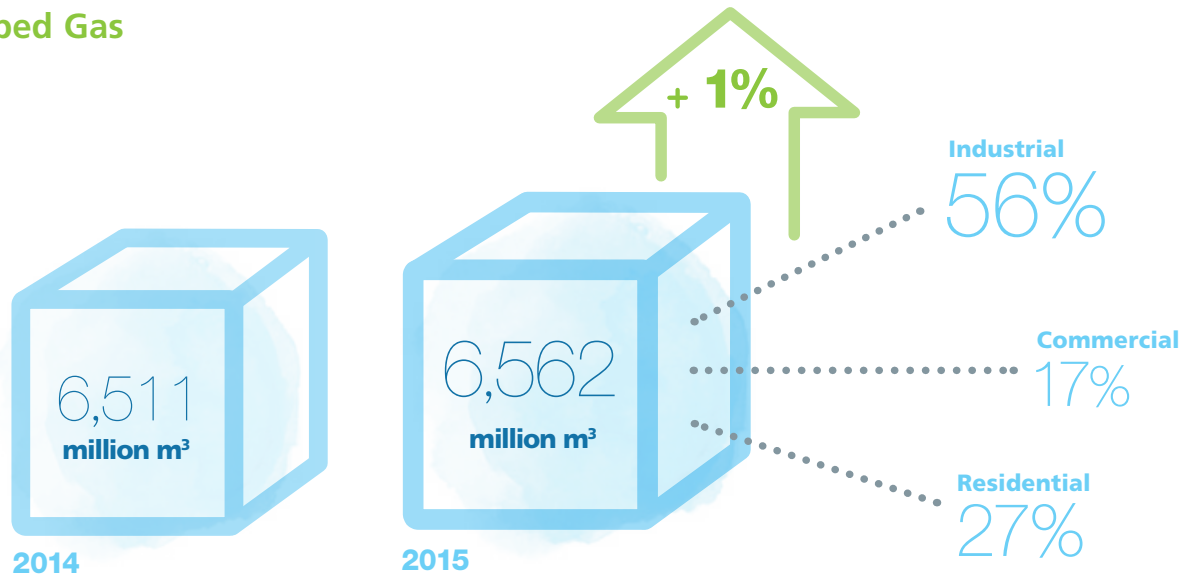
“ China’s GDP growth recorded a 25-year low of merely 6.9% in 2015. As the growth of the manufacturing sector in China continued to decelerate, coupled with the tumbling oil prices and other macroeconomic factors, as well as the lagging adjustment of piped natural gas prices, sales in the natural gas industry in China deteriorated.

Despite the sluggish economic environment, our businesses succeeded in achieving steady growth in 2015 due to the concerted efforts of the Group as a whole. In view of the Group’s forward-looking development strategies based on the prevailing circumstances, we not only continued to proactively expand our customer base, but also ventured into new business areas, thereby injecting additional growth momentum to the Group’s businesses. At the same time, we continued to leverage our inherent advantages leading to positive results in our different businesses. Among these, both the number of our customers and the sales of Bauhinia gas appliances grew steadily, while the total volume of city-gas sales remained stable. Our ability to achieve such results against the difficult backdrop of slowing economic growth was satisfactory indeed.

As always, we continued to pursue continuous innovation as well as Total Quality Management (TQM) in our daily operations. To enhance operational efficiencies, and ultimately drive business growth, every effort was also made to unleash the power of creativity and advancement while enhancing workflow. To this end, we promoted the importance of TQM among our regional offices and project companies across the country. As a result, staff implemented improvement initiatives throughout the Group leading to further enhancements in workflow in a number of aspects, ranging from engineering, and safety to services. Furthermore, the easy-to-understand formula ($G = i \times i$, Growth = innovation x implementation), which was specially designed to highlight the Group’s management direction, came to fruition last year in a number of wide-ranging categories. This substantially improved overall efficiencies and brought in an increasingly effective range of services to our customers.

In 2015, in addition to investing in our manpower resources, the Group remained committed to enhancing our corporate social responsibilities as we worked towards building a sustainable community and environment, while also pursuing our ongoing business growth.

Piped Gas



In 2015, the Group sold a total of 6,562 million cubic metres of piped gas, representing an overall increase of 1%, with a total number of 10.04 million customers. Industrial gas sales is 3,679 million cubic metres, accounting for 56% of the total volume of gas sold by the Group, while commercial gas sales is 1,111 million cubic metres, accounting for 17% of the total volume of gas sold by the Group, and residential gas sales accounted for 27% of the total volume of gas sold by the Group.

As the growth of the manufacturing sector in China continued to slacken, some large enterprise customers cut their production volume, affecting the overall industrial gas consumption. The Group seized business opportunities swiftly on the back of its abundant gas supply in vigorously expanding into the commercial gas market, so as to ensure the continued future growth of the gas sales of the Group.

2015

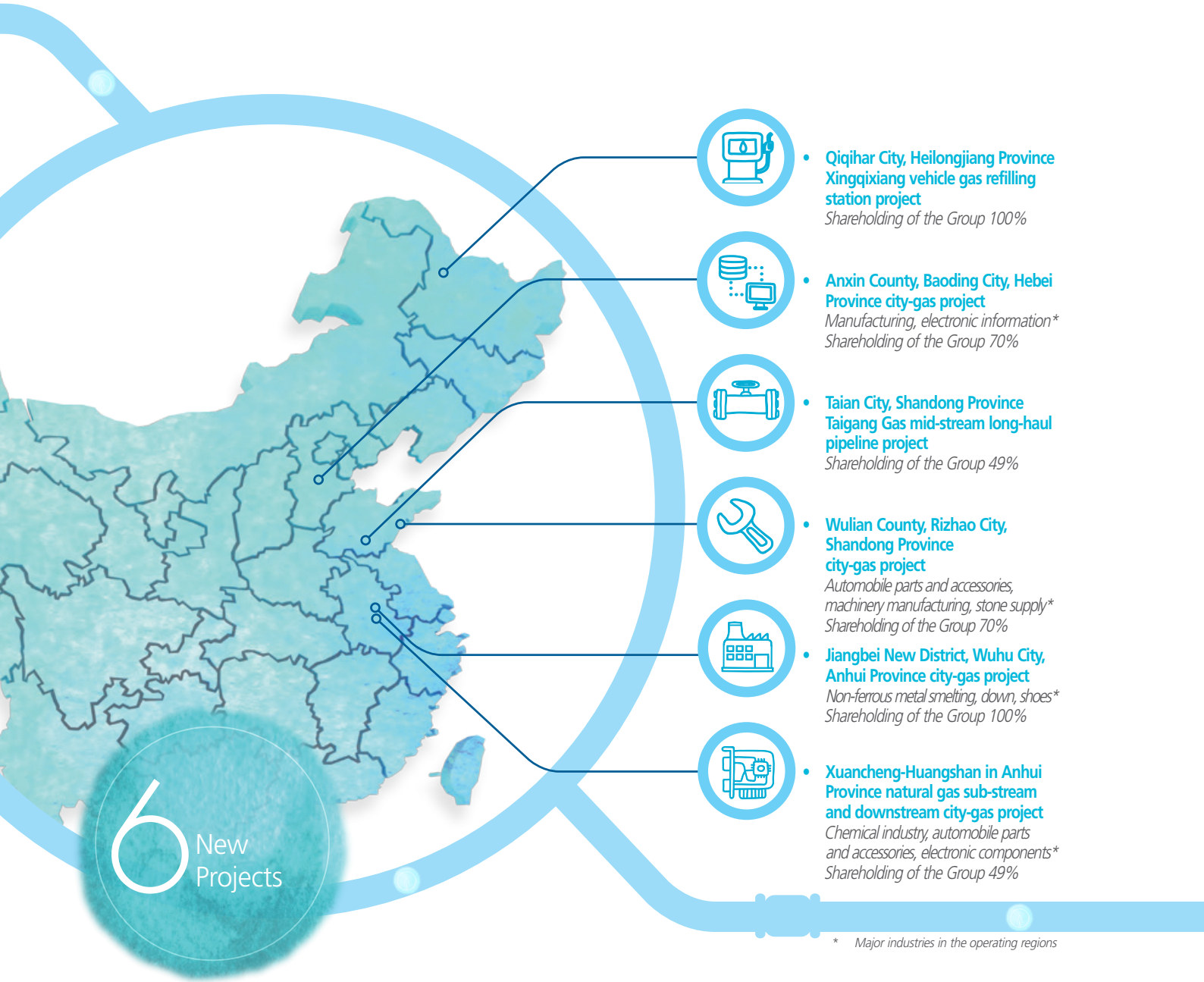
Total Number of Customers 10.04 Million



REVIEW OF OPERATIONS

New Projects

We continued to expand the geographic footprint of our business presence with the acquisition of a total of six new gas projects in Shandong Province, Hebei Province, Anhui Province and Heilongjiang Province, including city gas projects in Wulian County in Rizhao City, Shandong Province, Anxin County in Baoding City, Hebei Province, Jiangbei New District of Wuhu City, Anhui Province; Xuancheng-Huangshan natural gas sub-stream and downstream city-gas project, Anhui Province; Taigang Gas mid-stream long-haul pipeline project in Taian City, Shandong Province, and Xingqixiang vehicle gas refilling station project located in Qiqihar City, Heilongjiang Province, the second vehicle gas refilling station project of the Group in Qiqihar City.



- **Qiqihar City, Heilongjiang Province Xingqixiang vehicle gas refilling station project**
Shareholding of the Group 100%



- **Anxin County, Baoding City, Hebei Province city-gas project**
Manufacturing, electronic information*
Shareholding of the Group 70%



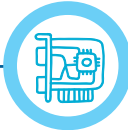
- **Taian City, Shandong Province Taigang Gas mid-stream long-haul pipeline project**
Shareholding of the Group 49%



- **Wulian County, Rizhao City, Shandong Province city-gas project**
Automobile parts and accessories, machinery manufacturing, stone supply*
Shareholding of the Group 70%



- **Jiangbei New District, Wuhu City, Anhui Province city-gas project**
Non-ferrous metal smelting, down, shoes*
Shareholding of the Group 100%



- **Xuancheng-Huangshan in Anhui Province natural gas sub-stream and downstream city-gas project**
Chemical industry, automobile parts and accessories, electronic components*
Shareholding of the Group 49%

6 New Projects

* Major industries in the operating regions

Industrial and Commercial Markets

The growth of China's industrial production decelerated as a result of the weakening global economic situation in 2015. At the same time, aiming to regulate the lavish consumption visible in certain circles, the central government implemented its Eight-point Code to curb spending and reduce excessive lavishness. This dealt a blow to the high-end catering industry. As such, the already difficult business climate in the industrial and commercial market sector, which accounts for around 73% of the Group's overall gas usage, worsened even further.

The Group, however, implemented targeted strategies to address the situation. This helped to consolidate our foundations for the further development of our industrial and commercial business.

Industrial

Revamp of Boilers

Benefiting from the national environmental protection policy and air quality improvement measures with its target to prohibit new boilers from using coal and convert all small boilers to use clean fuels by the end of 2017, we were able to proactively persuade industrial customers to opt for new gas-for-coal substitutions.

As a result and in view of the scale and scope of the many revamped boiler projects made during the year, our sales of natural gas is expected to record considerable growth in the year to come.



Supporting the development of clean energy, the production plant of Mengniu Dairy is equipped with natural gas boilers.



REVIEW OF OPERATIONS



Energy-efficient Kilns

Despite the fact that natural gas has not enjoyed many price advantages over coal, as the price of the latter has declined steadily over the years, we were able to successfully attract a number of industrial customers to make the switch to natural gas to benefit from its environmental benefits. We have worked closely with kiln specialists and professional institutions to develop kilns which use innovative technologies to enhance efficiencies. These energy-efficient kilns have not only helped customers to cut fuel and operational costs, they are also recognised as eco-friendly businesses. Additionally, the National Development and Reform Commission lowered non-residential natural gas city-gate prices in late 2015, which will pave the way forward for further developments in the industry.

During the year, many large-scale kiln revamps were completed. In Songyang County, Zhejiang Province, a stainless steel pipe manufacturer switched to an energy-efficient natural gas kiln. This has improved product quality and enhanced efficiencies.

Commercial

In the commercial market, the Group made a concerted effort to tap into the small and medium scale restaurant market. To this end, we laid pipelines in advance at the initial stages of road construction projects in provincial areas. We also streamlined the installation process, lowering thresholds and shortening the timeframe for project construction. This has enabled customers to use natural gas as soon as possible while also saving on our investment costs. As a result, in 2015, the number of our new commercial customers increased by a positive 2.4% in comparison to 2014.



This food court in Jiangsu Province is one of our small and medium scale catering customers who made the successful transition to natural gas.

Looking forward, the Group will continue to not only identify projects with high potential but also form partnerships with business associates to research and incubate more innovative solutions that will deliver energy-saving benefits. As we improve efficiencies in natural gas applications for our customers, we will in turn attract more industrial and commercial customers to switch to, and adopt, this clean source of energy. This will further expand our customer base which will accelerate growth and increase momentum in our businesses. At the same time, we are keeping an eye on the emerging opportunities arising from new policies and technologies, the combined heat and power business for example. The Group's strategies to foster cooperation with both local and international institutions will also bring in technological innovations, which will help to further expand both our businesses as well as our geographical footprint.

Residential

In 2015, the number of our residential customers, who account for approximately a quarter of the Group's total gas sales, recorded a substantial increase of 800,000.

Hand-in-hand with this growth, we expanded our customer service network, adding a total of 6 customer centres during the year to meet the ever-growing service demand. We also introduced a brand new app, "Ganghua Pay", allowing customers to check their personal accounts, details of their bills and make payment anytime, anywhere. Users can log onto our website via this mobile app on their smartphones, making these service procedures both more user-friendly and efficient.

Adhering to our "Customer-oriented, Professional and Efficient" service principle, we set both comprehensive and stringent service targets. Our service pledge affirms these service targets, which cover gas safety and reliability, the speed and convenience of service appointments, service quality as well as customer response. Performance results against these service targets are published regularly to promote further enhancement to our service quality.

In addition, we rolled out the first cross-evaluation mechanism among our project companies across the country during the year. Independent institutions were also commissioned to carry out "mystery shopper" customer satisfaction surveys to provide an even more objective view of our performance.

We maintain an ongoing flow of communication with our customers through multi-channels. These range from customer focus groups and service hotlines to customer opinion handling committees. These activities help us to gain comprehensive evaluations of our service quality and a better understanding of our customer needs, enabling us to provide better services and products, while also ensuring that the Group's service quality is best in class in the country.

During the year, we also launched a number of programmes to enhance our "customer experience" – our "Dandelion Scheme", an elite customer service-training scheme and "Service with a Smile Ambassador Competition" for example. Taking our service quality to the next level, we also launched the Group's first "We Smile" campaign, looking for individual stories and anecdotes to be published on social media platforms, to promote our caring, sincere and professional services.



Our "Service with a Smile Ambassadors" are chosen from amongst the many contestants nominated by our different project companies. The champion of the competition in 2015 demonstrates her caring services at our Customer Centre in Taian City, Shandong Province.

REVIEW OF OPERATIONS

Branding and Extended Services

The Group is not only focused on expanding our core gas business and selling Bauhinia gas appliances, we are also committed to providing a range of value-added services to our customers. Our aim is to enhance customer lifestyles with the premise “Quality Kitchen, Contemporary Living.”

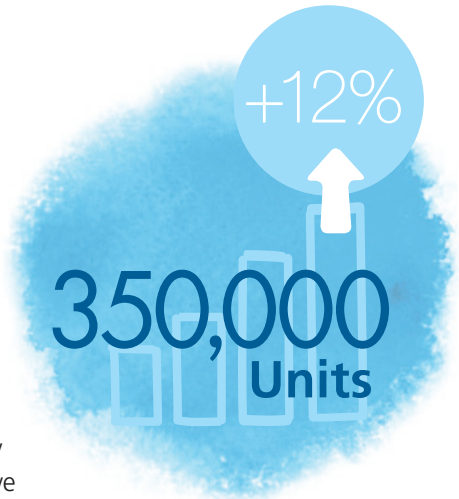
Branding

Bauhinia

Since its inception over a decade ago, Bauhinia has enjoyed tremendous popularity among our customers. This year, Bauhinia sales grew to approximately 350,000 units, a 12% increase over the same period last year.

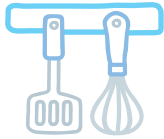
New generations of Bauhinia appliances are released regularly. This constant innovation enables us to stand out, well ahead of the competition. Bauhinia gas stoves with their national first-grade energy efficiency ratings in 2015, for example, provide customers with innovative products that promote a green lifestyle. The latest series of Bauhinia products also benefit from built-in microcomputers using cutting-edge technology to automatically adjust water, gas, air and temperature levels. These up-to-date facilities reduce carbon dioxide emissions while fully reflecting our green philosophy.

In the past year, we also won several customer service awards. This included being named as one of the “Top 10 After-sales Service in China” awardees, in recognition of our outstanding Bauhinia after-sales services.



On the occasion of its tenth anniversary, Bauhinia organised a “Cooking for Mom” competition to celebrate and promote flame-cooking while at the same time raising awareness of the safe use of gas.

Extended Services



Displaying its imported and beautifully designed kitchen cabinets, the Mia Cucina showcase in our customer centre in Taian City, Shandong Province, provides customer-oriented one-stop services.



In addition to our large base of 10 million customers and widespread customer service network, we expanded our services even further, venturing into new businesses to provide our customers with one-stop value-added services. Our new range of “Towngas Lifestyle” extended services and products were thus introduced. These include comprehensive gas insurance and quality home products as well as high-end kitchen cabinets, with more yet to come.

Gas Insurance

In line with our “Safety First” principle, we launched the Group’s first household gas insurance service in the second quarter of the year to offer our customers further value and “peace of mind”. Benefiting from our well-established and sophisticated bulk purchasing mechanisms, suppliers are selected under stringent screening criteria to provide comprehensive insurance coverage to ensure household safety. Since the successful introduction of this insurance initiative, more than 40,000 policy-holders have signed up for this service.

Quality Home Products

We have introduced an array of middle and high-end overseas kitchenware brands together with a number of fashion kitchenware products complying with the highest safety standards. In 2015, we set up a pilot showcase in our customer centre in the Eastern Region to sell quality household products that complement our “Quality Kitchen, Contemporary Living” philosophy. We also launched an online sales platform allowing customers to purchase fashionable, decorative yet useful home products and kitchenware anywhere and at anytime.

High-end Kitchen Cabinets

With the help of our parent company HKCG, we introduced the high-end kitchen cabinet brand Mia Cucina. Mia Cucina cabinets use first class materials imported from Europe, with an ergonomic, fashionable and minimalist design. Hand-in-hand with these cabinets, we provide professional services in design and installation, delivering tailored layouts to best suit the unique styles of individual customers. Currently, our Mia Cucina showroom in Taian City is helping our customers to create the perfect tailored workspace and quality standards of living to enjoy the many benefits of cooking.



REVIEW OF OPERATIONS

Safety

Safety underpins the sustainable development of any gas company. As an established leader in the city gas industry in China, we are famous for our stringent safety standards both in the sale and supply of gas as well as in our operations. In view of the tremendous importance that we attach to safety, a comprehensive safety and risk management regime has been specially designed to cover every aspect of our daily operations.

Following the strict occupational safety standards as set by our parent company, HKCG, we adopt an effective corporate safety and risk management scheme. We strictly enforce our "General Manager Safety Inspection System" and, adhering to the Group's guidelines, general managers are personally accountable for every aspect of safety and risk management in their project companies. They not only conduct monthly safety checks, they also supervise cross-checks among the different project companies twice a year. Led by the Chairman and Chief Executive Officer, members of the Safety Committee and management would pay visits and annual safety inspections to project companies in the different regions. During the year, the southwest region, Anhui, Jiangxi and the northeast regions were inspected. The Group also requires each project company to hold at least one joint drill with local police and fire service authorities every two years.

After years of commitment and hard work, all our remaining coke gas residential customers made the switch to natural gas in October 2015, laying the cornerstone for our full entry into the natural gas era.

We are committed to perfecting our safety management regime. As such, we are actively promoting our Engineering Supervisory Personnel Qualification System. Under this scheme, we provide training for engineering supervisors, helping them to obtain their safety supervisory training certificates. This move is enhancing standards in the industry even further.

The safe use of gas among our customers is one of our main priorities. Our customer service representatives therefore get in touch with customers, proactively scheduling safety checks once every 18 months. These checks, on the gas facilities and equipment at customers' premises, are carried out by our technicians as a precautionary measure. At the same time, we promote the safe use of gas to raise public awareness through animation clips. We

also implemented TQM (Total Quality Management) during the year to further enhance our safety and risk management systems.



Technician carries out regular checks on gas pipelines and other facilities to ensure safe gas supplies.

Engineering

As the major city gas supplier in China, the Group has designed and upholds stringent standards in every area, from production and engineering design to construction and technology application. As such, we have achieved considerable success in improving the overall level of service quality.

In the field of engineering technology and design, the Group formulated a series of guidelines to establish workflow standards in construction, installation and monitoring. During the year, the Group prepared and amended numerous guidelines, completing more than 20 new and revamped projects in accordance with these guidelines.

Streamlining on-site work procedures, Zhuojia Public Engineering (Maanshan) Company Limited was established to assemble precast units in full compliance with specified standards and requirements. This prefabrication process, which not only improves precision levels in pipeline installation but also the speed of installation, will enhance overall project efficiencies and lower the cost of installation and management works.

We pioneered to implement a production standardisation plan in the industry. Also, the Group continued to be invited to participate in the drafting of national, city and town-level industrial standards, making additional contributions to the development of the natural gas industry. During the year, the Group proposed amendments to nine national standards, which involved the codes and specifications of engineering technology, construction, acceptance, regular inspections, and the monitoring and protection of natural gas pipelines, such as the "Technical Specification for Trenchless Rehabilitation and Replacement Engineering of City Gas Pipelines". All our proposals were adopted by the authorities, both boosting and consolidating our industry leadership position. We were also invited to participate in the preparation of design codes and technical specifications on a number of city and town-level engineering projects – the "Code for Design of town gas distribution engineering" being a prime example.

Enhancing our daily operations, we actively pushed forward our gas pipeline network plan, to leverage regional synergies and improve peak shaving capabilities in gas storage. The plan not only improves the safety and reliability of gas supply, it also lowers our investment costs in engineering for the Group. Further integrating our engineering processes, the Group continued to employ intelligent information technology solutions in many aspects among our various project companies. This advanced technology, which includes an on-site inspection system together with other mobile applications among others, enhances the efficiency of on-site construction management.



REVIEW OF OPERATIONS

Human Resources

As at 31 December 2015, the Group employed a total of 21,548 staff.

We greatly value the importance of employee training and development and are fully committed to assisting staff to seize every opportunity to advance their careers. To this end, we have set up our own training institute and organised joint training courses with prestigious institutions to provide our employees across the entire Group spectrum with diversified training schemes, helping them to build their careers.

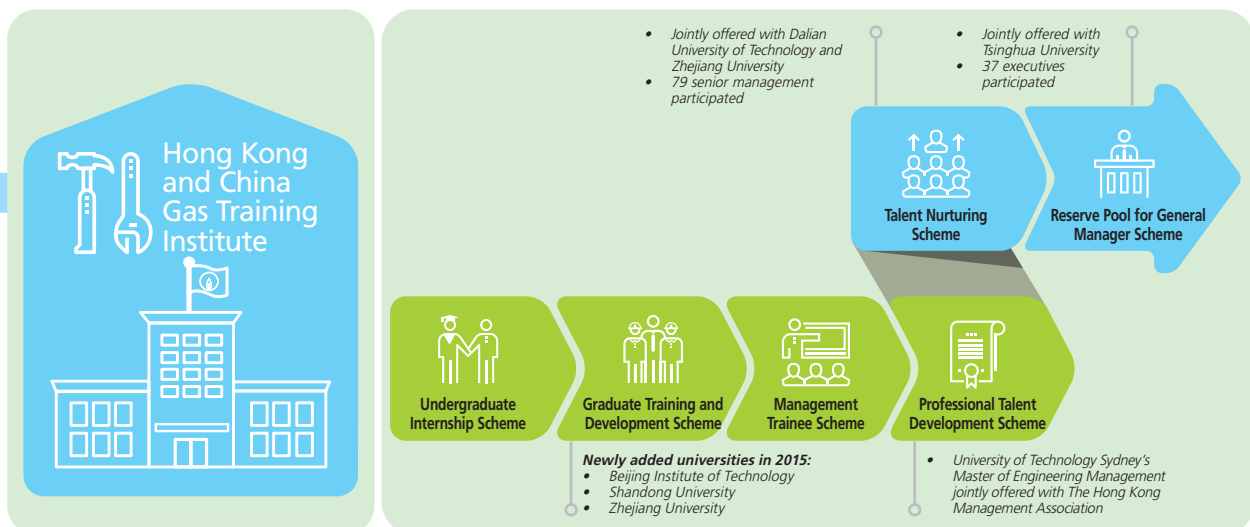


Hong Kong and China Gas Training Institute (Training Base for Eastern China Region) provides a wide-range of training in professional skills to nurture professional talent for the Group.

Our parent company, HKCG, established Hong Kong and China Gas Training Institute in the early years, setting up a total of five training bases in Shandong and other regions dedicated to providing Group employees with professional skills training. Examinations are also organised to help staff to obtain their professional qualifications. Regular experience sharing activities and in-house trainer programmes are also arranged amongst our project companies. During the year, over 3,200 staff participated in the Group's training schemes. The Hong Kong and China Gas Training Institute has also been invited to provide technical professionals to sit on judging panels at national and provincial-level industry competitions, consolidating our reputation as leading professionals in the industry.

The Group spares no effort to nurture talent, providing a wide range of joint training courses with well-known and highly distinguished domestic and overseas academic institutions. We also provide employees across the board with on-the-job training to help prepare them for their future careers. These programmes include the Undergraduate Internship Scheme, Graduate Training and Development Scheme, Management Trainee Scheme, Professional Talent Development Scheme, as well as the Talent Nurturing Scheme and Reserve Pool for General Manager Scheme.

We encourage our employees to maintain a positive work-life balance, while at the same time setting up an online learning platform for employees to pursue further studies during their leisure time. Our aim is to help them grow hand-in-hand with the development of the Group.



Corporate Social Responsibilities

While pursuing our business development, we also keep our corporate social responsibilities in mind. As such, we have integrated the principles of sustainable development into our daily operations and make every effort to balance environmental, social and economic factors in our corporate development strategies and in our day-to-day operations. Our goal is to make a contribution to the communities where we operate, and we are also committed to promoting the sustainable development of both the community and the environment.

Community Support

The Group has organised the Gentle Breeze Movement for charitable causes every year since its inception in 2013. We donate uniforms, sporting equipment, computers and other materials to schools located in remote mountainous areas, and help these schools refurbish their school buildings and build Towngas China Charity Libraries. Following the year's visits to impoverished villages in Guizhou, and with donations of over RMB1.35 million, a total of 18 schools benefitted from the Movement since its launch.

Our Towngas Rice Dumplings for the Community initiative is another flagship charitable programme. Every year we distribute rice dumplings to the elderly and people in need to celebrate the Dragon Boat Festival and promote a caring spirit within our neighbourhoods. Last year, 918 volunteers dedicated more than 3,400 hours to hand out over 27,000 rice dumplings and charity gifts, valued at more than RMB135,000, to community and welfare institutions, community care families and cleaning and construction workers. More than 8,600 people benefitted from this scheme.



This year, volunteers of the Gentle Breeze Movement not only visited villages in Guizhou Province, they also built a Towngas Library at one of the local primary schools.



Celebrating the Dragon Boat Festival, Mr. Wong Wai Yee, Peter, Executive Director and Chief Executive Officer, making dumplings with the elderly.

During the year, we continued to support the Firefly Programme run by the Shanghai Soong Ching Ling Foundation – BEA Charity Fund. The Fund helps rural schools with limited resources build multi-media classrooms and equip them with computers, internet connection facilities, books as well as desks and chairs. In 2015, we again donated over RMB200,000, in addition to hosting the opening ceremony for the fourth Firefly Centre in Longkou City, Shandong Province. We have been sponsoring this initiative since 2009.

We are highly concerned with regard to the education of the next generation, particularly the “left-behind children in rural China” whose parents work in the cities. As such we allocate resources from our daily operations to allow volunteers to support the China Guangcai Program Foundation and Beijing Global Village Environmental Education Centre. During the year, we sent three batches, consisting of a total of nine volunteers. Each batch spent six months in Yangqiao Village and Daping Village in Wuxi County, Chongqing City to provide tuition and care for these children who remain in their rural hometowns.

REVIEW OF OPERATIONS

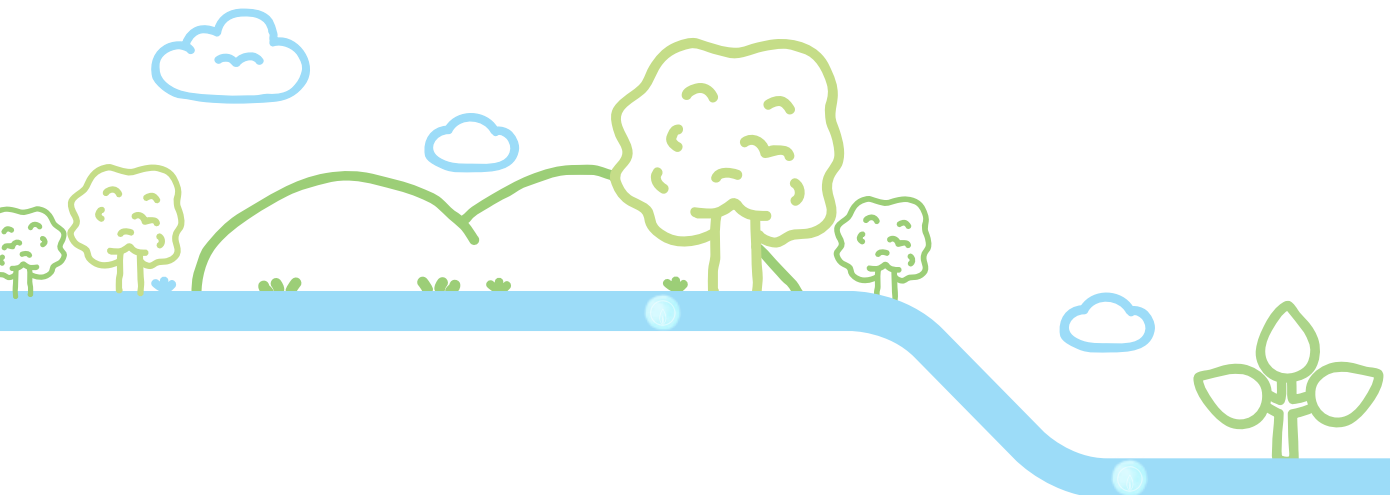
Environmental Protection



Towngas China Volunteer Teams participated in "A Date with Towngas China Forest" tree-planting campaign to create a greener environment.

As a clean energy supplier and with our social responsibilities in mind, we are not only committed to improving the energy efficiencies of our daily operations together with our products and services, we also participate in a number of environmental protection activities such as tree planting programmes.

Apart from these environmental protection activities, we also encourage our partners and customers to lead a green lifestyle. During the year for example, we launched our "A Date with Towngas China Forest" campaign, successfully inviting 11 partner institutions to work together with us towards a greener community. As a result, nearly 4,000 trees were planted, forming a green zone of some 8,000 square metres.



Long-term Development Strategy

The Group's mission is to provide our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.

Moving forward, we will continue to focus on gas-related investment, exploration, sales and operation management. We continue to uphold our principle of prudent financial management, while at the same time grasping every business opportunity to boost reasonable returns for our shareholders.

According to China's Thirteenth Five-Year Plan, the country's clean energy policies will continue to foster city-gas development in China. It will also play an important role in the government's response to climate change. Looking to the future, in view of the Group's inherent business advantages – our reputable gas brand and professional and reliable customer services, the Group will be able to seize market opportunities and further expand our business initiatives to sustain our well-established industry leading position.

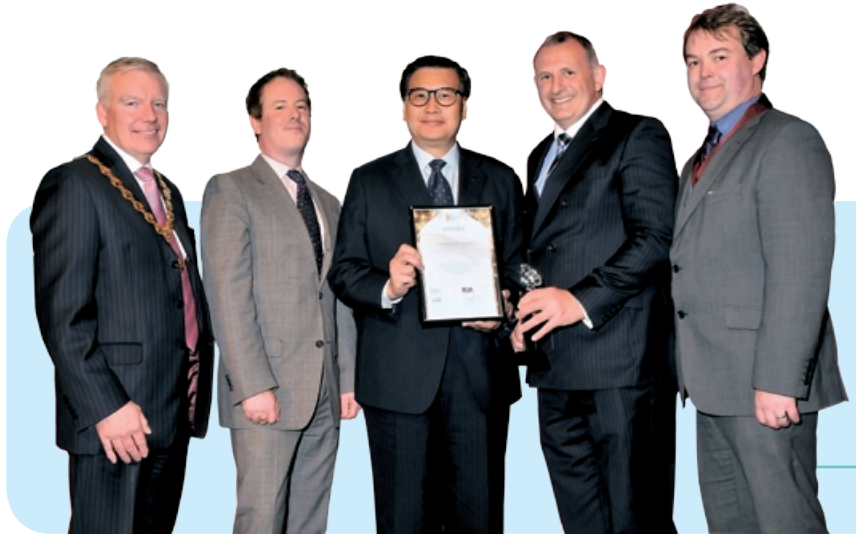
Meanwhile, the Group will continue to lead our project companies in our expansion into new arenas and the setting of new milestones. We will continue to fulfil our corporate social responsibilities, uphold our charity spirit and protect our environment, to spur our ongoing growth and sustainable business development.



AWARDS

Over the years, the Group has received numerous awards and recognition, locally and internationally.

In 2015, Mr. Chan Wing Kin, Alfred, Chairman and Executive Director of the Company, was honoured with two international awards in recognition of his outstanding management, which has led the Group to the constant scaling of ever-new heights. In May, Mr. Chan received the Leadership Award in the Gas Industry Awards 2015 presented by the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, the first Chinese business leader from Asia to earn this award. In October, Mr. Chan was also named as one of the 100 Best-Performing CEOs in the World in 2015 by *Harvard Business Review*, the first-ever leader of a public utility corporation to join this rank. He was also one of only three Chinese business leaders among the 100 CEOs on the list. In December, Mr. Chan was honoured with the Hall of Fame presented by The Hong Kong Institution of Engineers for his outstanding contributions to the engineering profession and the community. These awards signify the importance of both Mr. Chan's personal, as well as the Group's, achievements.



Being stringent towards product quality and unwaveringly committed to outstanding services, the Group was honoured a great number of awards in diverse fields, ranging from operation safety, treasury management, customer services and sustainable development. The Group scooped a number of awards in 2015, including:

Excellent Company with Quality and Service Credibility in China

China Association for Quality Inspection
Bauhinia Gas Appliances (Shenzhen)
Company Limited



2014-2015 China Marketing Award

The Economic Observer and the Hong Kong Management Association
Towngas China and Bauhinia's innovative sales campaign: "the revolution of shower"

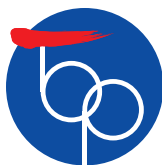


2015

02

Hong Kong Top Brand Mark

Hong Kong Brand Development Council
and the Chinese Manufacturers'
Association of Hong Kong
Bauhinia



香港名牌
HONG KONG
TOP BRAND

03

06

The Most Influential Company, Corporate Social Responsibility in China 2015 in CSR Brands in China 2015

Corporate Citizenship Committee of China Association of Social Workers,
CCTV's Business News Channel and the Tencent Charity Foundation
Towngas China



08

Leadership Award in the Gas Industry Awards 2015

Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom



Hall of Fame
The Hong Kong Institution of Engineers



The 100 Best-Performing CEOs in the World in 2015
Harvard Business Review

Highly Commended: 2015 Award for Treasury Excellence at the 4th Taozhu Gong Awards

EuroFinance, The Economist Group
Towngas China



Outstanding Award of Corporate Citizen in China 2015

Corporate Citizenship Committee of China Association of Social Workers
Towngas China



China Best IT Project Award 2015 at the China Top CIO Award 2015

IT Manager World, New Finance World, CIO.com.cn, China Computerworld
Towngas China



09

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2016

01

Top 10 Units in China for After-sales Service

China General Chamber of Commerce and the China Foundation of Consumer Protection
Bauhnia Gas Appliances (Shenzhen) Company Limited



2015 Outstanding Social Responsible Enterprise Award at the 11th China CSR International Forum

China News Service and *China Newsweek*
Towngas China



BOARD OF DIRECTORS



Kwan Yuk Choi,
James

Kee Wai Ngai,
Martin

Chan Wing Kin,
Alfred

Wong Wai Yee,
Peter

Cheng Mo Chi,
Moses

Ho Hon Ming,
John

Li Man Bun,
Brian David

Mr. Chan Wing Kin, Alfred, *B.B.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I., M.Sc.(Eng), B.Sc.(Eng)*, aged 65, has been the Chairman and an Executive Director of the Company since 1 March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is also the Vice Chairman of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Chan is the Chairman of The Hong Kong Management Association and a Vice Chairman of China Gas Association. He was appointed as a Member of the Standing Committee on Judicial Salaries and Conditions of Service by the Government of the Hong Kong Special Administrative Region for two years with effect from 1 January 2016. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006,

the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, and was named as one of “The 100 Best-Performing CEOs in the World” by Harvard Business Review in 2015. He was conferred as an Honorary Fellowship by The Hong Kong Institute of Education in April 2016. Mr. Chan is a Chartered Engineer, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom.

Mr. Wong Wai Yee, Peter, *C.P.A.(CANADA), C.M.A., A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*, aged 64, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer – Utilities Business of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Wong was named consecutively as one of “The Best CEO of Chinese Listed Companies” by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of the Institution of Gas Engineers & Managers of the United Kingdom. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Wong was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 39 years of experience in corporate finance, management and international working experience.

Mr. Ho Hon Ming, John, *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.)*, aged 59, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd. and Shenzhen Gas Corporation Ltd., both are listed companies on the Shanghai Stock Exchange. Mr. Ho is a General Committee member of the Chamber of Hong Kong Listed Companies and a member of the Taxation Committee of the Hong Kong General Chamber of Commerce. He is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho completed the Advanced Management Program from Harvard Business School in the United States. Mr. Ho has over 37 years of experience in accounting, corporate finance and investment.

Mr. Kee Wai Ngai, Martin, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 49. Mr. Kee graduated from the Department of Engineering, The University of Hong Kong and holds a master degree in Business Administration. He joined the Engineering Department of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) in 1990, and has been participating in HKCG’s business development in the Mainland since 1994. In 2003, Mr. Kee was appointed as the general manager of Changzhou Hong Kong and China Gas Company Limited. He has become the general manager of Nanjing Hong Kong and China Gas Company Limited since October 2006, and was appointed as the senior vice president in February 2009, responsible for the overall operation and management of the gas project companies in Jiangsu region, and was further responsible for managing the gas project companies in Anhui region in April 2012. He was then appointed as the executive vice president in October 2012, responsible for the operation and management of the gas project companies in Jiangsu, Anhui and Zhejiang regions, and is also in charge of the operation and management of the gas project companies in the southwest and Jiangxi regions starting from April 2015. He is a director of Nanjing Zhongbei (Group) Co., Ltd., which is a listed company on the Shenzhen Stock Exchange. Mr. Kee is a member of the 13th Nanjing Committee and previously a member of the 11th and 12th Changzhou Committee of the Chinese People’s Political Consultative Conference.

BOARD OF DIRECTORS

Dr. Cheng Mo Chi, Moses, *GBS, OBE, JP*, aged 66, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng serves as a member of the National Committee of the Chinese People's Political Consultative Conference, the Chairman of the Process Review Panel for the Securities and Futures Commission and the Chairman of the Insurance Authority. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited (formerly known as China Resources Enterprise, Limited), Guangdong Investment Limited, Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange. His other directorship in public listed company in the last 3 years includes Hong Kong Television Network Limited (formerly known as City Telecom (H.K.) Limited).

Mr. Li Man Bun, Brian David, *JP, FCA, MBA, MA (Cantab)*, aged 41, has been an Independent Non-Executive Director since 23 May 2007 and is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is also an Executive Director & Deputy Chief Executive of The Bank of East Asia, Limited ("BEA") (a listed company on the Hong Kong Stock Exchange). He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009. He was appointed Deputy Chief Executive of BEA in April 2009 in which capacity he is primarily responsible for BEA's China and international businesses. He is also an independent non-executive director of Hopewell Highway Infrastructure Limited and China Overseas Land & Investment Limited, both of which are listed companies on the Hong Kong Stock Exchange. Mr. Li currently holds a number of public and honorary positions, including being a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong, Chairman of the Traffic Accident Victims Assistance Advisory Committee of the Government of the Hong Kong Special Administrative Region ("HKSARG"), a member of the HKSARG Small and Medium Enterprises Committee, a member of the HKSARG Aviation Development and Three-runway System Advisory Committee, a member of Market Development Committee, Financial Services Development Council of the HKSARG, a member of the Hong Kong-Europe Business Council, a member of the Hong Kong-Taiwan Business Co-operation Committee, a member of Asian Financial Forum 2016 Steering Committee, a Committee member of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales ("ICAEW"), a member of the Inaugural Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, and a Council Member of The Hong Kong Management Association. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Full Member of the Treasury Markets Association. Mr. Li is also a Fellow of the ICAEW. He holds an MBA degree from Stanford University as well as MA and BA degrees from the University of Cambridge.

Mr. Kwan Yuk Choi, James, J.P., R.P.E.(Gas), C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc.(Eng), aged 64, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company with effect from 1 February 2013. He was re-designated as an Independent Non-Executive Director and appointed as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 29 May 2015. Mr. Kwan is also an independent non-executive director of MTR Corporation Limited, a public listed company in Hong Kong. He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. He was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Hong Kong Special Administrative Region. Mr. Kwan is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom. His other directorship in public listed company in the last 3 years includes Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange.

Notes:

1. The interests of Directors of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2015 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in the "Report of the Directors" of this Annual Report.
2. Save as disclosed in the Directors' respective biographical details under the "Board of Directors" section, the Directors (a) have not held any directorships in other public listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.
3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in note 12 to the consolidated financial statements.
4. The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2016 and the Company has on 17 March 2016 entered into a letter of appointment with them for a term of 3 years commencing on 23 May 2016. The term of office of Mr. Kwan Yuk Choi, James, an Independent Non-Executive Director, shall expire at the conclusion of the Company's annual general meeting (the "AGM") in 2016. It is proposed to re-elect Mr. Kwan Yuk Choi, James as an Independent Non-Executive Director for a term of 3 years commencing on the date of 2016 AGM. Their respective terms of office are subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the provisions of the Company's memorandum and the articles of association (the "Articles") in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM.
5. The Company published an announcement on 28 October 2015 setting out the information relating to a notice issued by the Jilin Bureau of the China Securities Regulatory Commission to an associate of the Company of which an Executive Director is a director.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement on page 67.

The Directors have recommended the payment of a final dividend out of the share premium account of HK ten cents per share (2014: HK ten cents per share) to shareholders whose names are on the register of members of the Company on Tuesday, 14 June 2016.

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

The circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Friday, 17 June 2016. Subject to approval by shareholders at the AGM to be held on Friday, 3 June 2016 and compliance with the Companies Law of the Cayman Islands, the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be distributed to shareholders on or about Monday, 18 July 2016. The register of members of the Company will be closed from Friday, 10 June 2016 to Tuesday, 14 June 2016 (both days inclusive), for the purpose of determining shareholders who qualify for the final dividend and during which period no transfer of shares of the Company will be registered.

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

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent on or about 18 July 2016 to the shareholders whose names appear on the register of members of the Company on 14 June 2016.

Business Review

The business review of the Group for the year ended 31 December 2015 including a fair review of the business, particulars of important events affecting the Group that have occurred since the end of the financial year of 2015, and an indication of likely future development in the Group's business, is set out in the sections headed "Chairman's Statement", "Financial Review" and "Review of Operations" on pages 6 to 27 respectively of this Annual Report.

Description of possible risks and uncertainties that the Group may be facing can be found in the "Financial Review" on pages 10 to 13 and Notes 4 to 6 to the consolidated financial statements on pages 92 to 97.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 94 to 97. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Financial Highlights" on page 5 of this Annual Report.

The Group complies with the Companies Law of the Cayman Islands, the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 71.

The Company's reserves available for distribution to shareholders as at 31 December 2015 amounted to HK\$4,567 million (2014: HK\$4,936 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2015 is set out on page 4.

Property, Plant and Equipment

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

REPORT OF THE DIRECTORS

Share Capital

During the year, the Company issued shares as follows:

1. As a result of the exercise of share options granted under the share option scheme of the Company, a total of 11,015,800 shares of the Company, fully paid, were issued for the aggregate subscription price of approximately HK\$40,593,000.
2. The Company declared a final dividend of HK ten cents per share for the year ended 31 December 2014 in cash (with scrip option) during the year. A total of 21,389,081 shares of the Company, fully paid, were issued and allotted in scrip form at HK\$7.802 per share. No consideration was received by the Company for the issue.

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

Directors

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

Executive Directors

Mr. Chan Wing Kin, Alfred (*Chairman*)
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)
Mr. Ho Hon Ming, John (*Company Secretary*)
Mr. Kee Wai Ngai, Martin (*Note 1*)

Independent Non-Executive Directors

Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David
Mr. Chow Vee Tsung, Oscar (*Note 2*)
Mr. Kwan Yuk Choi, James (*Note 3*)

Notes:

1. Mr. Kee Wai Ngai, Martin was appointed as an Executive Director at the 2015 AGM on 29 May 2015.
2. Mr. Chow Vee Tsung, Oscar resigned on 8 May 2015.
3. Mr. Kwan Yuk Choi, James was re-designated from a Non-Executive Director to an Independent Non-Executive Director on 29 May 2015.

Directors *(Continued)*

In accordance with article 95 of the Articles, Mr. Kwan Yuk Choi, James shall retire from the office at the forthcoming AGM and, being eligible, will offer himself for re-election.

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

In accordance with article 115 of the Articles, Mr. Kee Wai Ngai, Martin shall hold office from the date of the last AGM until the forthcoming AGM and, being eligible, will offer himself for re-election.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

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

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2015, the interests or short positions of the Directors and the chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and underlying Shares

Name of Company	Name of Director	Capacity	Interest in shares			Total interest in shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2015
			Personal interest	Family interest	Corporate interest				
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,618,000	–	–	3,618,000	–	3,618,000	0.14%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000	–	–	3,015,000	–	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,015,000	–	–	1,015,000	–	1,015,000	0.04%
HKCG	Kwan Yuk Choi, James	Beneficial owner	2,515,000	–	–	2,515,000	–	2,515,000	0.09%
	Chan Wing Kin, Alfred	Interest held jointly with spouse	220,408	–	–	220,408	–	220,408	0.00%
	Ho Hon Ming, John	Beneficial owner	34,516	–	–	34,516	–	34,516	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	77,809	88,157	–	165,966	–	165,966	0.00%

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

Directors' Rights to Acquire Shares or Debentures

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2015 were as follows:

Name of Director	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding options as at 01.01.2015	Exercised during the year	as at 31.12.2015	
						Number of Shares subject to outstanding options	Approximate percentage of the Company's issued shares
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400	–	–
	16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400	–	–
	16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200	–	–
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500	–	–
	16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500	–	–
	16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000	–	–
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500	–	–
	16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500	–	–
	16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000	–	–

Notes:

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

Save as stated above, as at 31 December 2015, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

Share Option Scheme of the Company

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

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

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

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

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

The 2005 Main Board Scheme ended on 27 November 2015, and no further options would be offered or granted after that date. As at the date of this report, no Share in respect of which options had been granted under the 2005 Main Board Scheme was outstanding (2014: 11,015,800), representing 0% (2014: approximately 0.42%) of the total number of issued shares of the Company as at the date of this report.

Details of specific categories of options are as follows:

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

Share Option Scheme of the Company (Continued)

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

Option type	Date of grant	Exercise period	Exercise price (HK\$)	Number of Shares subject to outstanding options as at 01.01.2015	Exercised during the year	Number of Shares subject to outstanding options as at 31.12.2015	Weighted average closing price of Shares immediately before the date(s) on which options were exercised (HK\$)	
Category 1:								
Directors								
Chan Wing Kin, Alfred	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400	–	8.73
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400	–	8.73
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200	–	8.73
Wong Wai Yee, Peter	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000	–	8.54
Ho Hon Ming, John	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500	–	8.54
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000	–	8.54
Total for Directors					9,648,000	9,648,000	–	
Category 2:								
Employees								
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	120,600	120,600	–	6.92	
	03.10.2006	04.04.2008 – 27.11.2015	2.796	523,600	523,600	–	6.48	
	03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	723,600	–	6.49	
Total for Employees					1,367,800	1,367,800	–	
All categories					11,015,800	11,015,800	–	

Notes:

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

Arrangements to Purchase Shares or Debentures

Other than the 2005 Main Board Scheme as disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

Equity-linked Agreements

Other than the 2005 Main Board Scheme as disclosed above, no equity-linked agreements were entered into by the Group, or existed during the year.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

There are no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, were entered into in the year or subsisted at the end of the year or at any time during the year.

Management Contracts

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

Permitted Indemnity Provision

The Company's Articles provides that every Director, auditor or other officer of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director, auditor or other officer of the Company in defending any proceedings, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for Directors and officers of the Company.

Competing Business

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

Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG; and Mr. Wong Wai Yee, Peter, an Executive Director of the Company, is an executive director of HKCG.

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

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

Substantial Shareholders

As at 31 December 2015, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or the chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued shares of the Company:

Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's total number of issued shares as at 31.12.2015
Lee Chau Kee	Interest of controlled corporations	1,666,590,813 <i>(Note 1)</i>	62.53%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,666,590,813 <i>(Note 2)</i>	62.53%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,666,590,813 <i>(Note 2)</i>	62.53%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,666,590,813 <i>(Note 2)</i>	62.53%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,666,590,813 <i>(Note 2)</i>	62.53%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,666,590,813 <i>(Note 2)</i>	62.53%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,666,590,813 <i>(Note 2)</i>	62.53%
HKCG	Interest of controlled corporations	1,666,590,813 <i>(Note 3)</i>	62.53%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,619,638,376 <i>(Note 3)</i>	60.77%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,619,638,376 <i>(Note 3)</i>	60.77%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	162,073,092 <i>(Note 4)</i>	6.08%

REPORT OF THE DIRECTORS

Substantial Shareholders *(Continued)*

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

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,666,590,813 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,666,590,813 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,619,638,376 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 44,398,131 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,554,306 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.
4. Commonwealth Bank was taken to be interested in these 162,073,092 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2015, were entitled to exercise or control the exercise of 5% or more of the voting power of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short Positions in Shares and Underlying Shares in the Company

As at 31 December 2015, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2015, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2015 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

Connected Transactions *(Continued)*

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and note 35 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Gas Purchase and Pipeline Materials Purchase Transactions

On 5 April 2013, the Company and HKCG entered into two master agreements respectively, namely:

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

each for a term commencing from 1 May 2013 to 31 December 2015 (both days inclusive). Particulars of the Gas Purchase Transactions, the Pipeline Materials Purchase Transactions and the 2013 CCT Master Agreements were disclosed in the announcement of the Company dated 5 April 2013. Further, as announced by the Company on 25 March 2015, the annual cap amount in respect of the Pipeline Materials Purchase Transactions for the financial year ending 31 December 2015 had been revised.

As the 2013 Gas Purchase Master Agreement and the 2013 Pipeline Materials Purchase Master Agreement were expired on 31 December 2015, on 3 December 2015, the Company and HKCG entered into two new master agreements respectively, namely:

- (1) an agreement (the "2015 Gas Purchase Master Agreement") relating to the Gas Purchase Transactions; and
- (2) an agreement (the "2015 Pipeline Materials Purchase Master Agreement", and together with the 2015 Gas Purchase Master Agreement collectively referred to as the "2015 CCT Master Agreements") relating to the Pipeline Materials Purchase Transactions,

each for a term commencing from 1 January 2016 to 31 December 2018 (both days inclusive). Particulars of the 2015 CCT Master Agreements were disclosed in the announcement of the Company dated 3 December 2015.

REPORT OF THE DIRECTORS

Connected Transactions *(Continued)*

Gas Purchase and Pipeline Materials Purchase Transactions *(Continued)*

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2013 CCT Master Agreements and 2015 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Gas Purchase Transactions and Pipeline Materials Purchase Transactions are subject to annual cap amounts of RMB61,000,000 (approximately HK\$75,281,000) and RMB75,000,000 (approximately HK\$92,558,000) respectively for the year ended 31 December 2015. The actual respective amounts of the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2015 were RMB8,772,000 (approximately HK\$10,826,000) and RMB31,762,000 (approximately HK\$39,198,000), which have not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2015 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

The Board also considers that the transactions have been conducted in accordance with the pricing policies under the relevant master agreements and the Company's internal control procedures are adequate and effective.

Connected Transactions *(Continued)*

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

On 5 September 2014, the Company entered into master agreements with three subsidiaries of HKCG respectively, namely:

- (1) an agreement (the “2014 Master Project Management Agreement”) for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 (Shenyang Sanquan Project Management Consulting Co., Ltd.) (“Shenyang Sanquan”), a non wholly-owned subsidiary of HKCG, to members of the Group (the “Project Management Transactions”);
- (2) an agreement (the “2014 Master System Software and Supporting Services Agreement”) relating to the user authorisation, installation, management and maintenance and the provision of technical supporting services in respect of system software developed by 港華科技(武漢)有限公司 (Hongkong and China Technology (Wuhan) Company Limited) (“HKCG (Wuhan)”), including but not limited to the Towngas Customer Information System, the Towngas Customer Services Centre Hotline System and the Production Operating Management System by HKCG (Wuhan), a non wholly-owned subsidiary of HKCG, to members of the Group (the “System Software and Supporting Services Transactions”); and
- (3) an agreement (the “2014 Master Cloud Computing System and Supporting Services Agreement”, and together with the 2014 Master Project Management Agreement and the 2014 Master System Software and Supporting Services Agreement collectively referred to as the “2014 CCT Master Agreements”) relating to the user authorisation, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems, including but not limited to, Towngas Customer Information System by 名氣通智能科技(深圳)有限公司 (Towngas Telecommunications (Shenzhen) Limited (“Towngas Telecom (Shenzhen)”), a wholly-owned subsidiary of HKCG, to members of the Group (the “Cloud Computing System and Supporting Services Transactions”),

each for a term commencing from 1 October 2014 to 31 December 2016 (both days inclusive). Particulars of the Project Management Transactions, the System Software and Supporting Services Transactions, the Cloud Computing System and Supporting Services Transactions and the 2014 CCT Master Agreements were disclosed in the announcement of the Company dated 5 September 2014.

As each of Shenyang Sanquan, HKCG (Wuhan) and Towngas Telecom (Shenzhen) is a subsidiary of HKCG, which in turn is a controlling shareholder of the Company, each of Shenyang Sanquan, HKCG (Wuhan) and Towngas Telecom (Shenzhen) is a connected person of the Company under the Listing Rules. The transactions contemplated under the 2014 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Connected Transactions *(Continued)*

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

The Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions were subject to annual cap amounts of RMB9,600,000 (approximately HK\$11,847,000), RMB29,400,000 (approximately HK\$36,283,000) and RMB10,000,000 (approximately HK\$12,341,000) respectively for the year ended 31 December 2015. The actual respective amounts of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2015 were RMB5,184,000 (approximately HK\$6,398,000), RMB8,241,000 (approximately HK\$10,170,000) and RMB4,686,000 (approximately HK\$5,783,000), which have not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2015 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

The Board also considers that the transactions have been conducted in accordance with the pricing policies under the relevant master agreements and the Company's internal control procedures are adequate and effective.

Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in note 35 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Borrowings

Particulars of borrowings of the Group as at 31 December 2015 are set out in note 29 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$944,000.

Public Float

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

Major Customers and Suppliers

During the year, the five largest suppliers in aggregate accounted for about 40.49% of the Group's operating cost for the year. Purchases from the largest supplier accounted for about 9.50% of the Group's operating costs. None of the Directors, their close associates or any shareholders of the Company (which to the knowledge of the Directors owned more than 5% of the issued shares of the Company) had an interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers was less than 30% during the year.

Pre-Emptive Rights

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

Emolument Policy

As at 31 December 2015, the Group had 21,548 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

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

The Company has adopted a share option scheme as incentive to Directors and eligible employees, and details of the scheme are set out in note 38 to the consolidated financial statements and under the heading "Share Option Scheme of the Company" in this Annual Report.

REPORT OF THE DIRECTORS

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2015.

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on pages 51 to 64 in this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2015 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

This report is signed for and on behalf of the Board.

Ho Hon Ming, John

Executive Director and Company Secretary

Hong Kong, 17 March 2016

CORPORATE GOVERNANCE REPORT

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

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

Corporate Governance Practices

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

The Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2015.

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

Board of Directors

Board Composition

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

Executive Directors

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

Independent Non-Executive Directors

Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David
Mr. Kwan Yuk Choi, James

CORPORATE GOVERNANCE REPORT

Board of Directors *(Continued)*

Board Composition *(Continued)*

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

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

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Kwan Yuk Choi, James, previously a Non-Executive Director, has been re-designated as an Independent Non-Executive Director with effect from the conclusion of the AGM in 2015. Having regard that Mr. Kwan Yuk Choi, James did not perform any executive role or management function in the Company or its holding company or any of their respective subsidiaries or any core connected persons of the Company before the re-designation, the Company considers that his previous position as a Non-Executive Director has no bearing on his independence as an Independent Non-Executive Director. As such, the Company is of the view that Mr. Kwan Yuk Choi, James is independent.

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

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between any members of the Board, and in particular, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Chairman and the Chief Executive Officer.

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

Board of Directors *(Continued)*

Board Composition *(Continued)*

Save as disclosed below, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules during the year ended 31 December 2015.

Following the resignation of Mr. Chow Vee Tsung, Oscar as an Independent Non-Executive Director with effect from the close of office on 8 May 2015, the Company had only two Independent Non-Executive Directors, the number of which fell below the minimum number required under Rule 3.10(1) of the Listing Rules. Upon the re-designation of Mr. Kwan Yuk Choi, James as an Independent Non-Executive Director with effect from the conclusion of the AGM in 2015, the number of Independent Non-Executive Director of the Board is three, which fulfills the requirement under Rule 3.10(1) of the Listing Rules.

The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2016 and the Company has on 17 March 2016 entered into a letter of appointment with them for a term of 3 years commencing on 23 May 2016. The term of office of Mr. Kwan Yuk Choi, James, an Independent Non-Executive Director, shall expire at the conclusion of the AGM in 2016. It is proposed to re-elect Mr. Kwan Yuk Choi, James as an Independent Non-Executive Director for a term of 3 years commencing on the date of 2016 AGM. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

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

CORPORATE GOVERNANCE REPORT

Board of Directors *(Continued)*

Functions of the Board

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

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

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development

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

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

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2015:

Directors	Type of Training
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	A, B
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	A, B
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	A, B
Mr. Kee Wai Ngai, Martin (<i>Note 1</i>)	A, B
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	A, B
Mr. Li Man Bun, Brian David	A, B
Mr. Chow Vee Tsung, Oscar (<i>Note 2</i>)	A, B
Mr. Kwan Yuk Choi, James (<i>Note 3</i>)	A, B

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

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

CORPORATE GOVERNANCE REPORT

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development *(Continued)*

Notes:

1. Mr. Kee Wai Ngai, Martin was appointed as an Executive Director at the 2015 AGM on 29 May 2015.
2. Mr. Chow Vee Tsung, Oscar resigned on 8 May 2015.
3. Mr. Kwan Yuk Choi, James was re-designated from a Non-Executive Director to an Independent Non-Executive Director on 29 May 2015.

Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2015 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the Code. Details of individual attendance of each of the Directors are set out below:

Directors	Attendance/Number of Meetings
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	4/4
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	4/4
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	4/4
Mr. Kee Wai Ngai, Martin (<i>Note 1</i>)	2/2
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4
Mr. Chow Vee Tsung, Oscar (<i>Note 2</i>)	1/1
Mr. Kwan Yuk Choi, James (<i>Note 3</i>)	4/4

Notes:

1. Mr. Kee Wai Ngai, Martin was appointed as an Executive Director at the 2015 AGM on 29 May 2015. Two Board meetings were held subsequent to his appointment during the year ended 31 December 2015.
2. Mr. Chow Vee Tsung, Oscar resigned on 8 May 2015. One Board meeting was held prior to his resignation during the year ended 31 December 2015.
3. Mr. Kwan Yuk Choi, James was re-designated from a Non-Executive Director to an Independent Non-Executive Director on 29 May 2015.

Board of Directors *(Continued)*

Chairman and Chief Executive Officer

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

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

Responsibilities of the Directors

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

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

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

CORPORATE GOVERNANCE REPORT

Board Committees

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

Remuneration Committee

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

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

During the year ended 31 December 2015, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2015;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2015.

The Remuneration Committee held two meetings during the year ended 31 December 2015 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/Number of Meetings
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar (resigned on 8 May 2015)	1/1
Mr. Kwan Yuk Choi, James (appointed on 29 May 2015)	1/1
Mr. Chan Wing Kin, Alfred	2/2

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

Board Committees *(Continued)*

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Cheng Mo Chi, Moses and Mr. Kwan Yuk Choi, James, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Li Man Bun, Brian David.

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

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

During the year ended 31 December 2015, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2014 and for the six months ended 30 June 2015;
- reviewed the amendments to its terms of reference;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2014 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2015 with individual attendance as follows:

Members of the Audit Committee	Attendance/Number of Meetings
Mr. Li Man Bun, Brian David	2/2
Dr. Cheng Mo Chi, Moses	2/2
Mr. Chow Vee Tsung, Oscar (resigned on 8 May 2015)	1/1
Mr. Kwan Yuk Choi, James (appointed on 29 May 2015)	1/1

CORPORATE GOVERNANCE REPORT

Board Committees *(Continued)*

Nomination Committee

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

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

During the year ended 31 December 2015, the Nomination Committee:

- recommended the nomination of Directors for re-election and election at the 2015 AGM;
- recommended the re-designation of a Non-Executive Director as an Independent Non-Executive Director;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held two meetings during the year ended 31 December 2015 with individual attendance as follows:

Members of the Nomination Committee	Attendance/Number of Meetings
Mr. Chan Wing Kin, Alfred	2/2
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar (resigned on 8 May 2015)	1/1
Mr. Kwan Yuk Choi, James (<i>Note</i>)	0/0

Note:

Mr. Kwan Yuk Choi, James was appointed as a member of the Nomination Committee on 29 May 2015. No meeting of the Nomination Committee was held during his term of office.

Model Code

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2015, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2015.

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

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2015. Deloitte also reviewed the 2015 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2015 amounted to HK\$6.88 million.

Non-audit service fees charged by Deloitte during 2015 are as follows:

Description of non-audit services performed	HK\$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2015	650,000
(2) Tax review	60,500
(3) Annual review on continuing connected transactions for the year ended 31 December 2015	70,000
Total	780,500

Directors' and Auditor's Responsibility in Preparing Financial Statements

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

The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 65 to 66 of this Annual Report.

CORPORATE GOVERNANCE REPORT

Going Concern Basis in Preparing Financial Statements

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

Effectiveness of Internal Control System

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

In respect of the year ended 31 December 2015, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The Whistleblowing Policy was established in 2013, with an aim to encourage employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report any misconduct, malpractice or irregularity to the Company, and which can be found on the Company's website.

The Board has adopted the Policy and Procedures on Disclosure of Inside Information establishing procedures and guidelines for Directors and the directors, officers and employees of members of the Group regarding the use, handling and dissemination of inside information in accordance with the applicable laws and regulations.

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

Company's Constitutional Documents

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

Company Secretary

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

Communication with Shareholders

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

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

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

At the 2015 AGM held on 29 May 2015, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the election and re-election of the Directors. The Chairman of the Board, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2015 AGM to answer questions from the Company's shareholders.

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

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2015 are set out below:

Directors	Attendance/Number of Meeting
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	1/1
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	1/1
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	1/1
Mr. Kee Wai Ngai, Martin (<i>Note 1</i>)	0/0
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar (<i>Note 2</i>)	0/0
Mr. Kwan Yuk Choi, James (<i>Note 3</i>)	1/1

CORPORATE GOVERNANCE REPORT

Communication with Shareholders *(Continued)*

Notes:

1. Mr. Kee Wai Ngai, Martin was appointed as an Executive Director at the 2015 AGM on 29 May 2015.
2. Mr. Chow Vee Tsung, Oscar resigned on 8 May 2015.
3. Mr. Kwan Yuk Choi, James was re-designated from a Non-Executive Director to an Independent Non-Executive Director from the conclusion of the 2015 AGM on 29 May 2015.

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders and putting forward proposals

Under the Articles, an extraordinary general meeting ("EGM") may be convened by the Board upon requisition by any two or more shareholders, or any one shareholder which is a recognised clearing house (or its nominee), of the Company holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The shareholders shall make a written requisition to the Board or the Company Secretary of the Company at the head office of the Company, specifying the shareholding information of the shareholders, their contact details and the proposal regarding any specified transaction/business and its supporting documents.

If within 21 days of receipt of such written requisition, the Board does not proceed to convene such EGM to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Making Enquiries to the Board

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

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED

港華燃氣有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 152, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 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 disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2016

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Turnover	7	7,718,293	7,881,833
Operating profit before returns on investments	8	1,017,645	1,066,039
Other (losses) gains, net	9	(161,887)	14,291
Share of results of associates		265,587	347,205
Share of results of joint ventures		327,202	277,556
Finance costs	10	(180,504)	(174,032)
Profit before taxation	11	1,268,043	1,531,059
Taxation	13	(343,511)	(350,085)
Profit for the year		924,532	1,180,974
Profit for the year attributable to:			
Shareholders of the Company		807,042	1,054,189
Non-controlling interests		117,490	126,785
		924,532	1,180,974
Proposed final dividend of HK ten cents (2014: HK ten cents) per ordinary share	14	266,506	263,266
		HK cents	HK cents
Earnings per share	15		
– Basic		30.45	40.19
– Diluted		30.43	40.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
Profit for the year	924,532	1,180,974
Other comprehensive (expense) income		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	(617,004)	(337,605)
<i>Item that may be reclassified subsequently to profit or loss</i>		
Fair value change on cash flow hedge	3,348	3,360
Fair value change on available-for-sale investment	33,250	–
	(580,406)	(334,245)
Total comprehensive income for the year	344,126	846,729
Total comprehensive income attributable to:		
Shareholders of the Company	280,954	766,265
Non-controlling interests	63,172	80,464
Total comprehensive income for the year	344,126	846,729

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	16	12,054,598	11,026,351
Leasehold land	17	502,146	449,682
Intangible assets	18	560,257	608,608
Goodwill	19	5,732,259	5,890,298
Interests in associates	20	2,940,684	2,836,497
Interests in joint ventures	21	2,071,013	1,936,057
Loans to joint ventures	21	92,796	56,012
Available-for-sale investments	22	259,506	170,763
		24,213,259	22,974,268
Current assets			
Inventories	24	558,421	565,951
Leasehold land	17	25,763	23,827
Loan to an associate	20	17,912	18,745
Loans to joint ventures	21	155,845	166,245
Trade and other receivables, deposits and prepayments	25	1,506,681	1,788,086
Amounts due from non-controlling shareholders	26	16,317	16,551
Time deposits over three months	25	237,938	344,914
Bank balances and cash	25	2,138,388	1,451,652
		4,657,265	4,375,971
Current liabilities			
Trade and other payables and accrued charges	28	4,159,819	4,136,399
Amounts due to non-controlling shareholders	26	151,299	188,092
Taxation		650,428	582,078
Borrowings – amount due within one year	29	3,183,174	2,482,814
Other financial liabilities	27	3,600	–
		8,148,320	7,389,383
Net current liabilities		(3,491,055)	(3,013,412)
Total assets less current liabilities		20,722,204	19,960,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Non-current liabilities			
Loans from the ultimate holding company	30	993,750	993,750
Borrowings – amount due after one year	29	4,591,433	4,075,077
Deferred taxation	31	437,165	440,603
Other financial liabilities	27	–	6,948
		6,022,348	5,516,378
Net assets		14,699,856	14,444,478
Capital and reserves			
Share capital	32	266,506	263,266
Reserves		13,211,578	12,990,685
Equity attributable to shareholders of the Company		13,478,084	13,253,951
Non-controlling interests		1,221,772	1,190,527
Total equity		14,699,856	14,444,478

The consolidated financial statements on pages 67 to 152 were approved and authorised for issue by the Board of Directors (“the Board”) on 17 March 2016 and are signed on its behalf by:

Chan Wing Kin, Alfred
DIRECTOR

Li Man Bun, Brian David
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to shareholders of the Company										Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Share option reserve	Hedge reserve	General reserves	Investment revaluation reserve	Retained earnings	Total	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	261,286	6,434,633	1,745,259	20,316	(10,308)	102,281	-	3,977,836	12,531,303	946,960	13,478,263	
Exchange differences arising on translation to presentation currency	-	-	(291,284)	-	-	-	-	-	(291,284)	(46,321)	(337,605)	
Fair value change on cash flow hedge	-	-	-	-	3,360	-	-	-	3,360	-	3,360	
Profit for the year	-	-	-	-	-	-	-	1,054,189	1,054,189	126,785	1,180,974	
Total comprehensive income for the year	-	-	(291,284)	-	3,360	-	-	1,054,189	766,265	80,464	846,729	
Issue of shares upon scrip dividend scheme	1,708	153,758	-	-	-	-	-	-	155,466	-	155,466	
Issue of shares upon exercise of share options	272	14,101	-	(4,210)	-	-	-	-	10,163	-	10,163	
Transfer	-	-	-	-	-	27,978	-	(27,978)	-	-	-	
Additions relating to acquisition of businesses (note 34)	-	-	-	-	-	-	-	-	-	157,368	157,368	
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	72,601	72,601	
Dividends paid to shareholders of the Company	-	(209,246)	-	-	-	-	-	-	(209,246)	-	(209,246)	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(66,866)	(66,866)	
	1,980	(41,387)	-	(4,210)	-	27,978	-	(27,978)	(43,617)	163,103	119,486	
At 31 December 2014	263,266	6,393,246	1,453,975	16,106	(6,948)	130,259	-	5,004,047	13,253,951	1,190,527	14,444,478	
Exchange differences arising on translation to presentation currency	-	-	(562,686)	-	-	-	-	-	(562,686)	(54,318)	(617,004)	
Fair value change on cash flow hedge	-	-	-	-	3,348	-	-	-	3,348	-	3,348	
Fair value change on available-for-sale investment	-	-	-	-	-	-	33,250	-	33,250	-	33,250	
Profit for the year	-	-	-	-	-	-	-	807,042	807,042	117,490	924,532	
Total comprehensive income for the year	-	-	(562,686)	-	3,348	-	33,250	807,042	280,954	63,172	344,126	
Issue of shares upon scrip dividend scheme	2,139	164,738	-	-	-	-	-	-	166,877	-	166,877	
Issue of shares upon exercise of share options	1,101	55,598	-	(16,106)	-	-	-	-	40,593	-	40,593	
Transfer	-	-	-	-	-	55,076	-	(55,076)	-	-	-	
Additions relating to acquisition of businesses (note 34)	-	-	-	-	-	-	-	-	-	11,079	11,079	
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	46,478	46,478	
Dividends paid to shareholders of the Company	-	(264,291)	-	-	-	-	-	-	(264,291)	-	(264,291)	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(89,484)	(89,484)	
	3,240	(43,955)	-	(16,106)	-	55,076	-	(55,076)	(56,821)	(31,927)	(88,748)	
At 31 December 2015	266,506	6,349,291	891,289	-	(3,600)	185,335	33,250	5,756,013	13,478,084	1,221,772	14,699,856	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	1,268,043	1,531,059
Adjustments for:		
Interest income	(26,362)	(33,245)
Imputed interest on loans to joint ventures and deferred consideration receivable	(2,811)	(9,744)
Interest expenses	176,832	170,334
Share of results of associates	(265,587)	(347,205)
Share of results of joint ventures	(327,202)	(277,556)
Dividends from available-for-sale investments	(64,174)	(65,450)
Release of leasehold land	16,963	13,107
Amortisation of intangible assets	20,479	20,607
Depreciation of property, plant and equipment	428,446	381,093
Gain on disposal of property, plant and equipment	(664)	(12,617)
(Gain) loss on disposal of leasehold land	(9,752)	2,549
Gain on partial disposal of interest in a joint venture	(91)	–
Allowance for doubtful debts	4,476	8,473
Exchange loss	301,479	140,678
Operating cash flows before movements in working capital	1,520,075	1,522,083
(Increase) decrease in inventories	(17,606)	2,929
Increase in trade receivables	(24,180)	(119,392)
Decrease (increase) in other receivables, deposits and prepayments	124,539	(5,088)
(Decrease) increase in trade payables	(42,449)	172,614
Increase in other payables and accrued charges	313,408	133,116
(Decrease) increase in amounts due to non-controlling shareholders	(26,607)	6,046
Cash generated from operations	1,847,180	1,712,308
Interest paid	(188,863)	(176,981)
Taxation paid	(241,732)	(277,054)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,416,585	1,258,273

	NOTE	2015 HK\$'000	2014 HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,943,112)	(1,997,984)
Acquisition of businesses (net of cash and cash equivalents acquired)	34	7,192	(544,606)
Consideration paid for acquisition of businesses acquired in prior periods		(153,231)	(449,842)
Acquisition of interest in a joint venture		(55,768)	–
Capital injection to associates		(71,465)	(18,593)
Capital injection to a joint venture		(955)	–
Decrease in time deposits over three months		106,976	29,357
Purchase of leasehold land		(92,302)	(65,871)
Purchase of available-for-sale investment		(65,681)	–
Loans to joint ventures		(106,156)	(13,944)
Dividends received from joint ventures		202,998	76,889
Dividends received from an associate		107,416	195,052
Repayment of loans from joint ventures		70,637	28,443
Dividends from available-for-sale investments		64,174	65,450
Deferred consideration received		114,063	40,000
Proceeds from disposal of property, plant and equipment		5,071	24,596
Interest received		26,362	33,245
Proceeds from disposal of leasehold land		10,282	2,863
Proceeds from partial disposal of interest in a joint venture		3,496	–
NET CASH USED IN INVESTING ACTIVITIES		(1,770,003)	(2,594,945)
FINANCING ACTIVITIES			
Repayments of bank and other loans		(3,465,623)	(3,029,823)
Dividends paid to shareholders of the Company		(97,414)	(53,780)
Dividends paid to non-controlling shareholders of subsidiaries		(89,484)	(66,866)
New bank and other loans raised		4,726,761	3,710,499
Capital contribution from non-controlling shareholders of subsidiaries		46,478	72,601
Issue of shares upon exercise of share options		40,593	10,163
NET CASH GENERATED FROM FINANCING ACTIVITIES		1,161,311	642,794
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		807,893	(693,878)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,451,652	2,230,363
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(121,157)	(84,833)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		2,138,388	1,451,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$3,491 million as at 31 December 2015. The Group's liabilities as at 31 December 2015 included borrowings of approximately HK\$3,183 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised facilities (the "Facilities") amounting to approximately HK\$3,200 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK\$3,156 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks and has good credibility.

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

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

The application of the above 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 are not yet effective but relevant to the Group:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception 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 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 27	Equity Method in Separate Financial Statements ¹
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²

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

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

³ Effective for annual periods beginning on or after a date to be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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. 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 goods and services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with 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.

The directors of the Company anticipates that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

3. Significant Accounting Policies

The consolidated financial statements have been prepared 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 of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 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.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at fair value, as explained in the accounting policies below.

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 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Basis of consolidation

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

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

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

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

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement", 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 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

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

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

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Goodwill

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

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

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

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

Investments in associates and joint ventures

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Investments in associates and joint ventures (Continued)

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

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

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Revenue recognition

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

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

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

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

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

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

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Construction in progress

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

Intangible assets

Intangible assets acquired in a business combination

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

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

Exclusive operating rights for city pipeline network

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

Distribution network

Distribution network are stated at cost less accumulated amortisation and any identified impairment loss.

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

3. Significant Accounting Policies (Continued)

Inventories

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

Construction contracts

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

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

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

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

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Bank and other borrowings

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

Other financial liabilities

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

Derivative financial instruments and hedging

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

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges or cash flow hedges.

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Cash flow hedges

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

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

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

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

Taxation

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

Leasing

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

The Group as lessee

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

Foreign currencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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

Borrowing costs

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

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

Retirement benefits costs

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

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is HK\$5,732,259,000 (2014: HK\$5,890,298,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2015, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK\$468,070,000 (2014: HK\$307,655,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

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

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2015, the carrying amount of trade receivables is HK\$743,598,000 (2014: HK\$743,444,000).

5. Capital Risk Management

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

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

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

The Gearing Ratio at the reporting date was as follows:

	2015	2014
	HK\$'000	HK\$'000
Debt ⁽ⁱ⁾	8,768,357	7,551,641
Time deposits over three months	(237,938)	(344,914)
Bank balances and cash	(2,138,388)	(1,451,652)
Net debt	6,392,031	5,755,075
Equity ⁽ⁱⁱ⁾	13,478,084	13,253,951
Net debt to equity ratio	47.4%	43.4%
Gearing Ratio ⁽ⁱⁱⁱ⁾	28.6%	26.4%

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

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

(iii) Being the proportion of ND of HK\$5,398,281,000 (2014: HK\$4,761,325,000) to equity plus ND of HK\$18,876,365,000 (2014: HK\$18,015,276,000).

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For the year ended 31 December 2015

6. Financial Instruments

Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,393,794	2,909,574
Available-for-sale instruments	259,506	170,763
Financial liabilities		
Amortised cost	10,219,615	9,134,320
Derivative financial instruments	3,600	6,948

Financial risk management objectives and policies

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

Currency risk

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

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

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

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2014: 3%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 3% (2014: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash, borrowings and loans from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit before taxation for the year where RMB strengthens by 3% (2014: 3%) against USD and HKD. For a 3% (2014: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2015 HK\$'000	2014 HK\$'000
Profit before taxation for the year	201,460	201,394

Interest rate risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loans from the ultimate holding company, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points (2014: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2014: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2015 would decrease/increase by HK\$17,596,000 (2014: HK\$17,148,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loans from the ultimate holding company.

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

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to joint ventures and loan to an associate are concentrated in four (2014: four) joint ventures and one (2014: one) associate respectively. However, the management, having considered the financial background and good creditability of the associate and joint ventures, believes there is no significant credit risk. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

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

Liquidity risk

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

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The Group relies on loans from the ultimate holding company, bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had unutilised available facilities of HK\$3,200 million (at 31 December 2014: HK\$1,200 million). As stated in note 1, the directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$3,491 million (at 31 December 2014: HK\$3,013 million).

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

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5+ years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2015 HK\$'000
2015								
Trade payables	–	383,169	293,301	265,294	–	–	941,764	941,764
Other payables	–	358,195	–	–	–	–	358,195	358,195
Amounts due to non-controlling shareholders	–	151,299	–	–	–	–	151,299	151,299
Loans from the ultimate holding company	2.86%	1,598	3,695	20,378	1,029,595	–	1,055,266	993,750
Bank loans	1.34%	1,012,329	70,146	2,179,916	4,795,999	17,096	8,075,486	7,728,519
Other loans	2.12%	573	160	27,199	2,964	17,665	48,561	46,088
		1,907,163	367,302	2,492,787	5,828,558	34,761	10,630,571	10,219,615
Derivative-net settlement Interest rate swap		–	1,543	2,104	–	–	3,647	3,600

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5+ years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2014 HK\$'000
2014								
Trade payables	–	418,271	272,394	337,518	–	–	1,028,183	1,028,183
Other payables	–	366,404	–	–	–	–	366,404	366,404
Amounts due to non-controlling shareholders	–	188,092	–	–	–	–	188,092	188,092
Loans from the ultimate holding company	2.86%	2,302	4,605	22,501	1,021,270	–	1,050,678	993,750
Bank loans	2.19%	10,194	1,089,615	1,475,434	4,370,504	21,371	6,967,118	6,506,249
Other loans	2.69%	2,984	219	28,268	9,024	14,233	54,728	51,642
		988,247	1,366,833	1,863,721	5,400,798	35,604	9,655,203	9,134,320
Derivative-net settlement Interest rate swap		–	1,040	3,120	3,120	–	7,280	6,948

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For the year ended 31 December 2015

6. Financial Instruments (Continued)

Fair value measurements

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31.12.2015	31.12.2014		
1) Listed equity investment classified as available-for-sale investments in the statement of financial position	Asset – HK\$98,931,000	Asset – nil	Level 1	Quoted market price
2) Interest rate swaps classified as other financial liabilities in the statement of financial position	Liabilities (designated for hedging) – HK\$3,600,000	Liabilities (designated for hedging) – HK\$6,948,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.

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

7. SEGMENT INFORMATION

Operating segments

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

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

7. Segment Information (Continued)

Operating segments (Continued)

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

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

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

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

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2015			
TURNOVER			
External	6,010,691	1,707,602	7,718,293
Segment results	454,560	714,703	1,169,263
Other losses, net			(161,887)
Unallocated corporate expenses			(151,618)
Share of results of associates			265,587
Share of results of joint ventures			327,202
Finance costs			(180,504)
Profit before taxation			1,268,043
Taxation			(343,511)
Profit for the year			924,532

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For the year ended 31 December 2015

7. Segment Information (Continued)

Operating segments (Continued)

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2014			
TURNOVER			
External	6,205,330	1,676,503	7,881,833
Segment results	471,189	746,162	1,217,351
Other gains, net			14,291
Unallocated corporate expenses			(151,312)
Share of results of associates			347,205
Share of results of joint ventures			277,556
Finance costs			(174,032)
Profit before taxation			1,531,059
Taxation			(350,085)
Profit for the year			1,180,974

Segment results included depreciation and amortisation of HK\$465,888,000 (2014: HK\$414,807,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

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

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

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2015 and 2014.

8. Operating Profit Before Returns on Investments

	2015 HK\$'000	2014 HK\$'000
Turnover	7,718,293	7,881,833
Less expenses:		
Gas fuel, stores and materials used	4,935,953	5,127,833
Staff costs	856,973	787,681
Depreciation, amortisation and release of leasehold land	465,888	414,807
Other expenses	441,834	485,473
	1,017,645	1,066,039

9. Other (Losses) Gains, Net

Other (losses) gains, net mainly comprised of:

	2015 HK\$'000	2014 HK\$'000
Dividend income from available-for-sale investments	64,174	65,450
Interest income	26,362	33,245
Exchange loss	(301,479)	(140,678)
Imputed interest income on deferred consideration receivable	2,052	4,860
Imputed interest income on loans to joint ventures	759	4,884
Gain on partial disposal of a joint venture	91	–

10. Finance Costs

	2015 HK\$'000	2014 HK\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	188,305	176,123
– bank and other borrowings not wholly repayable within five years	559	858
Bank charges	3,672	3,698
	192,536	180,679
Less: amounts capitalised	(12,032)	(6,647)
	180,504	174,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Profit Before Taxation

	2015 HK\$'000	2014 HK\$'000
Profit before taxation has been arrived at after charging and (crediting):		
Directors' remuneration (note 12)	10,906	10,803
Other staff costs	777,773	712,797
Retirement benefit scheme contributions (excluding directors)	68,294	64,081
Total staff costs	856,973	787,681
Allowance for doubtful debts	4,476	8,473
Amortisation of intangible assets	20,479	20,607
Release of leasehold land	16,963	13,107
Auditor's remuneration	9,940	9,528
Cost of inventories sold	5,448,876	5,603,735
Depreciation of property, plant and equipment	428,446	381,093
Operating lease rentals in respect of land and buildings	30,343	36,047
Gain on disposal of property, plant and equipment	(664)	(12,617)
(Gain) loss on disposal of leasehold land	(9,752)	2,549

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 8 (2014: 7) directors were as follows:

	Year ended 31 December 2015								Total HK\$'000
	Chan Wing Kin, Alfred HK\$'000	Cheng Mo Chi, Moses HK\$'000	Chow Vee Tsung, Oscar HK\$'000	Kwan Yuk Choi, James HK\$'000	Kee Wai Ngai, Martin HK\$'000	Ho Hon Ming, John HK\$'000 (Note e)	Li Man Bun, Brian David HK\$'000	Wong Wai Yee, Peter HK\$'000 (Note d)	
Directors' fees (Note a)	200	500	175	378	119	200	500	200	2,272
Other emoluments (Note b)									
Salaries and other benefits	-	-	-	-	-	1,111	-	1,190	2,301
Retirement benefit scheme contributions	-	-	-	-	-	111	-	119	230
Performance and discretionary bonus (Note c)	-	-	-	-	-	2,192	-	3,911	6,103
Total emoluments	200	500	175	378	119	3,614	500	5,420	10,906

12. Directors' and Employees' Emoluments (Continued)

	Year ended 31 December 2014							Total HK\$'000
	Chan Wing Kin, Alfred HK\$'000	Cheng Mo Chi, Moses HK\$'000	Chow Vee Tsung, Oscar HK\$'000	Kwan Yuk Choi, James HK\$'000	Ho Hon Ming, John HK\$'000 (Note e)	Li Man Bun, Brian David HK\$'000	Wong Wai Yee, Peter HK\$'000 (Note d)	
Directors' fees (Note a)	200	500	500	200	200	500	200	2,300
Other emoluments (Note b)								
Salaries and other benefits	–	–	–	–	1,063	–	1,138	2,201
Retirement benefit scheme contributions	–	–	–	–	106	–	114	220
Performance and discretionary bonus (Note c)	–	–	–	–	2,181	–	3,901	6,082
Total emoluments	200	500	500	200	3,550	500	5,353	10,803

Notes:

- The directors' fees were mainly for their services as directors of the Company and its subsidiaries.
- The other emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group.
- The performance and discretionary bonus are determined by the Board from time to time with reference to directors' duties and responsibilities and the Group's performance and profitability.
- Mr. Wong Wai Yee, Peter is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.
- Mr. Ho Hon Ming, John is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary.
- No other service contracts were entered into by any directors with the Company.

Employees' emoluments:

For the year ended 31 December 2015, the five highest paid individuals of the Group included two (2014: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2014: three) highest paid individuals are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefit	4,211	4,228
Performance related incentive payments	2,093	2,247
Contribution to retirement benefit scheme	311	293
	6,615	6,768

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For the year ended 31 December 2015

12. Directors' and Employees' Emoluments (Continued)

Employees' emoluments: (Continued)

The emoluments were within the following bands:

	Number of employees	
	2015	2014
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	1	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2015.

13. Taxation

	2015 HK\$'000	2014 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	319,968	314,818
Deferred taxation (note 31)		
– taxation charge for the year	23,543	35,267
	343,511	350,085

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

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2014: 15% to 25%).

Following the Catalogue of Encouraged Industries in Western Region which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China were granted a concessionary tax rate of 15% by the local tax bureau.

13. Taxation (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Profit before taxation	1,268,043	1,531,059
Tax at the applicable rate of 25% (2014: 25%) (Note)	317,011	382,765
Tax effect of expenses that are not deductible for tax purposes	137,516	90,003
Tax effect of income that are not taxable for tax purposes	(26,075)	(31,423)
Effect of different tax rates of subsidiaries operating in different regions	(16,040)	(12,138)
Tax effect of share of results of associates	(66,397)	(86,801)
Tax effect of share of results of joint ventures	(81,800)	(69,389)
Tax effect of utilisation of tax losses not previously recognised	(3,663)	(112)
Tax effect of tax losses not recognised	52,287	34,909
Withholding tax on undistributed profits	30,672	42,271
Tax charge for the year	343,511	350,085

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2015 (2014: 25%).

14. Dividends

During the year, a final dividend in respect of year ended 31 December 2014 of HK\$264,291,000 (2014: HK\$209,246,000 in respect of year ended 31 December 2013) was recognised as distribution, being HK ten cents per ordinary share (2014: HK eight cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2015 of HK ten cents (2014: HK ten cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. Earnings Per Share

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

	2015 HK\$'000	2014 HK\$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	807,042	1,054,189
	Number of shares	
	2015 '000	2014 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,649,961	2,623,056
Effects of dilutive potential ordinary shares: Share options	1,971	6,933
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,651,932	2,629,989

16. Property, Plant and Equipment

	Buildings HK\$'000	Gas pipelines HK\$'000	Plant and equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST					
At 1 January 2014	1,072,814	7,517,539	1,132,911	1,225,355	10,948,619
Currency realignment	(47,187)	(193,256)	(40,005)	(24,178)	(304,626)
Additions	95,352	405,351	186,157	1,317,771	2,004,631
Additions from acquisition of businesses	53,067	234,092	10,393	20,900	318,452
Disposals	(12,046)	(1,097)	(26,964)	–	(40,107)
Transfer	41,998	805,808	30,049	(877,855)	–
At 31 December 2014	1,203,998	8,768,437	1,292,541	1,661,993	12,926,969
Currency realignment	(56,617)	(400,872)	(61,141)	(72,683)	(591,313)
Additions	146,907	437,372	122,644	1,248,220	1,955,143
Additions from acquisition of businesses	–	–	2,480	2,508	4,988
Disposals	(3,539)	(2,475)	(25,912)	–	(31,926)
Transfer	81,035	994,298	44,835	(1,120,168)	–
At 31 December 2015	1,371,784	9,796,760	1,375,447	1,719,870	14,263,861
DEPRECIATION					
At 1 January 2014	141,016	1,057,677	394,681	–	1,593,374
Currency realignment	(4,863)	(28,362)	(12,496)	–	(45,721)
Provided for the year	47,814	215,763	117,516	–	381,093
Eliminated on disposals	(6,056)	(698)	(21,374)	–	(28,128)
At 31 December 2014	177,911	1,244,380	478,327	–	1,900,618
Currency realignment	(10,448)	(55,815)	(26,019)	–	(92,282)
Provided for the year	49,765	240,151	138,530	–	428,446
Eliminated on disposals	(2,496)	(1,375)	(23,648)	–	(27,519)
At 31 December 2015	214,732	1,427,341	567,190	–	2,209,263
CARRYING VALUES					
At 31 December 2015	1,157,052	8,369,419	808,257	1,719,870	12,054,598
At 31 December 2014	1,026,087	7,524,057	814,214	1,661,993	11,026,351

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

No property, plant and equipment of the Group was pledged as at 31 December 2015 and 2014.

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17. Leasehold Land

	2015 HK\$'000	2014 HK\$'000
Balance at the beginning of the year	473,509	363,921
Currency realignment	(20,409)	(8,246)
Additions	92,302	65,871
Additions relating to acquisition of businesses	–	70,482
Disposals	(530)	(5,412)
Charge for the year	(16,963)	(13,107)
Balance at the end of the year	527,909	473,509
Analysis for reporting purpose:		
Non-current portion	502,146	449,682
Current portion	25,763	23,827
	527,909	473,509

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

18. Intangible Assets

	HK\$'000
COST	
At 1 January 2014	233,973
Currency realignment	(5,614)
Additions relating to acquisition of businesses (note 34)	458,780
At 31 December 2014	687,139
Currency realignment	(31,472)
Additions relating to acquisition of businesses (note 34)	254
At 31 December 2015	655,921
AMORTISATION	
At 1 January 2014	59,352
Currency realignment	(1,428)
Provided for the year	20,607
At 31 December 2014	78,531
Currency realignment	(3,346)
Provided for the year	20,479
At 31 December 2015	95,664
CARRYING VALUES	
At 31 December 2015	560,257
At 31 December 2014	608,608

The intangible assets represent the Group's exclusive operating rights and distribution network for piped city gas.

The exclusive operating rights and distribution network are amortised on a straight-line basis over a period of 25 to 50 years.

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19. Goodwill

	HK\$'000
At 1 January 2014	5,797,674
Currency realignment	(147,532)
Additions relating to acquisition of businesses (note 34)	240,156
At 31 December 2014	5,890,298
Currency realignment	(266,618)
Additions relating to acquisition of businesses (note 34)	108,579
At 31 December 2015	5,732,259

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

	2015 HK\$'000	2014 HK\$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	341,807	357,697
Hong Kong & China Gas (Zibo) Limited	367,622	384,712
Hong Kong & China Gas (Yantai) Limited	248,282	259,824
Hong Kong & China Gas (Weifang) Limited	142,861	149,502
Hong Kong & China Gas (Weihai) Limited	284,414	297,636
Hong Kong & China Gas (Taian) Limited	251,633	263,331
Hong Kong & China Gas (Maanshan) Limited	298,677	312,562
Hong Kong & China Gas (Anqing) Limited	283,094	296,255
Mianyang Hong Kong and China Gas Co., Ltd.	304,327	318,475
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	231,293	242,045
Towngas (BVI) Holdings Limited ("Towngas BVI")*	423,944	443,652
Miluo Hong Kong and China Gas Company Limited	143,556	150,229
Fuxin Xinqiu Hong Kong & China Gas Co., Ltd. ("Xinqiu")	134,658	140,918
Jinan Pingyin Hong Kong & China Gas Co., Ltd.	129,164	135,169
Shenyang business ("Shenyang")	110,348	115,478
Mianzhu Hong Kong and China Gas Co., Ltd. ("Mianzhu") (formerly Sichuan Quanxin Gas Co., Ltd. ("Quanxin"))	109,536	114,628
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. ("Fengxi")	156,276	163,541
Boxing Hong Kong & China Gas Co., Ltd. ("Boxing")	93,003	97,327

19. Goodwill (Continued)

	2015 HK\$'000	2014 HK\$'000
Dafeng Hong Kong and China Gas Company Limited ("Dafeng")	261,735	273,903
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd. ("Zhongwei")	134,208	140,447
Baotou Hong Kong & China Gas Company Limited ("Baotou")	171,551	179,527
Xingyi Hong Kong & China Gas Company Limited ("Xingyi")	107,938	112,956
Wulian Hong Kong & China Gas Company Limited ("Wulian")	103,009	–
Others	899,323	940,484
	5,732,259	5,890,298

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

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8.0% (2014: 7.6%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2014: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2015 (2014: nil).

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20. Interests in Associates/Loan to an Associate

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

	2015 HK\$'000	2014 HK\$'000
Cost of investments in associates	1,783,054	1,693,860
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,157,630	1,142,637
	2,940,684	2,836,497
Loan to an associate		
– Current portion	17,912	18,745

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activity
		2015	2014	
Changchun Gas Company Limited 長春燃氣股份有限公司	PRC – Limited liability company	25%	25%	Production and distribution of natural gas, coal gas, metallurgical coke and coke oil
Bozhou WanHua Gas Company Ltd 亳州皖華燃氣有限公司	PRC – Sino-foreign equity joint venture	49%	49%	Provision of natural gas and related services and gas pipeline construction
Foshan Gas Group Ltd. 佛山市燃氣集團股份有限公司	PRC – Sino-foreign equity joint venture	43%	43%	Provision of natural gas and related services and gas pipeline construction
Anhui Province Wenergy Towngas Natural Gas Co., Ltd. 安徽省皖能港華天然氣有限公司	PRC – Sino-foreign equity joint venture	49%	–	Midstream
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	40%	40%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC – Limited liability company	40%	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	42%	42%	Provision of natural gas and related services and gas pipeline construction

20. Interests in Associates/Loan to an Associate (Continued)

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activity
		2015	2014	
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC – Sino-foreign equity joint venture	49%	49%	Provision of natural gas and related services and gas pipeline construction
Shijiazhuang Huabo Gas Co., Ltd. 石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	45%	45%	Provision of natural gas and related services and gas pipeline construction
Zhuojia Public Engineering (Maanshan) Co., Ltd. 卓佳公用工程(馬鞍山)有限公司	PRC – Sino-foreign equity joint venture	38%	–	Provision of gas pipe assembly
Zibo Lubo Gas Company Ltd. 淄博綠博燃氣有限公司	PRC – Sino-foreign equity joint venture	27%	27%	Provision of natural gas and related services and gas pipeline construction

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

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

Foshan Gas Group Ltd. ("Foshan")

	2015 HK\$'000	2014 HK\$'000
Current assets	1,053,038	1,229,924
Non-current assets	4,088,952	4,168,079
Current liabilities	(1,593,629)	(2,208,406)
Non-current liabilities	(1,126,335)	(925,273)
	2015 HK\$'000	2014 HK\$'000
Revenue	5,015,480	4,845,834
Profit and total comprehensive income for the year	458,854	401,365
Dividends received from the associate during the year	92,867	81,183

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20. Interests in Associates/Loan to an Associate (Continued)

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

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

	2015 HK\$'000	2014 HK\$'000
Net assets of Foshan	2,422,026	2,264,324
Less: non-controlling interests of Foshan	(589,984)	(576,065)
	1,832,042	1,688,259
Proportion of the Group's ownership interest in Foshan	787,778	725,951
Goodwill	45,214	47,316
Carrying amount of the Group's interest in Foshan	832,992	773,267

Aggregate information of associates that are not individually material

	2015 HK\$'000	2014 HK\$'000
The Group's share of profit and total comprehensive income	68,280	174,618
Aggregate carrying amount of the Group's interests in these associates	2,107,692	2,063,230

The loan to an associate is unsecured and carried at amortised cost with the following details:

Principal amount	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
				2015 HK\$'000	2014 HK\$'000
RMB15,000,000	RMB15,000,000 May 2016 (2014: April 2015)	5.88%	5.88%	17,912	18,745

21. Interests in Joint Ventures/Loans to Joint Ventures

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

	2015 HK\$'000	2014 HK\$'000
Cost of investments in joint ventures	1,154,608	1,140,245
Share of post-acquisition profits and other comprehensive income, net of dividends received	916,405	795,812
	2,071,013	1,936,057
Loans to joint ventures		
– Non-current portion	92,796	56,012
– Current portion	155,845	166,245
	248,641	222,257

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2015	2014	
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC – Limited liability company	50%	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	49%	50%	Provision of natural gas and related services and gas pipeline construction

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group	Principal activities	
		2015	2014	
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Wuhu Hong Kong & China Gas Company Limited 蕪湖港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 濰博港華燃氣有限公司	PRC – Sino-foreign equity joint venture	50%	50%	Provision of natural gas and related services and gas pipeline construction

Aggregate information of joint ventures that are not individually material

	2015 HK\$'000	2014 HK\$'000
The Group's share of profit and total comprehensive income	327,202	277,556
Aggregate carrying amount of the Group's interests in these joint ventures	2,071,013	1,936,057

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

Aggregate information of joint ventures that are not individually material (Continued)

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

Principal amount 2015	2014	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
					2015 HK\$'000	2014 HK\$'000
RMB5,720,000	RMB14,890,000	Repayable on demand (2014: Repayable on demand)	4.50%	4.50%	6,831	18,920
RMB35,000,000	RMB35,000,000	July 2017 (2014: July 2017)	6.12%	6.12%	41,791	43,739
RMB10,550,000	RMB10,550,000	January 2017 (2014: February 2016)	Nil	6.12%	12,792	12,273
RMB32,000,000	RMB52,000,000	August 2017 (2014: August 2015)	5.84%	5.84%	38,213	64,984
RMB44,784,000	RMB35,889,290	Repayable on demand (2014: Repayable on demand)	5.88%	5.88%	53,486	44,850
RMB10,000,000	–	November 2016 (2014: Nil)	4.35%	4.35%	11,942	–
RMB20,000,000	–	October 2016 (2014: Nil)	4.35%	4.35%	23,883	–
RMB50,000,000	–	December 2016 (2014: Nil)	4.79%	4.79%	59,703	–
–	RMB10,000,000	September 2015 (2014: September 2015)	–	7.87%	–	12,497
–	RMB20,000,000	December 2015 (2014: December 2015)	–	6.00%	–	24,994
					248,641	222,257

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22. Available-For-Sale Investments

	2015 HK\$'000	2014 HK\$'000
Listed shares in the PRC, at fair value	98,931	–
Unlisted shares in the PRC, at cost	160,575	170,763
	259,506	170,763

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

23. Deferred Consideration Receivable

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

	2015 HK\$'000	2014 HK\$'000
Current assets (included in trade and other receivables, deposits and prepayments)	–	112,011

During the year, imputed interest income from deferred consideration receivable is HK\$2,052,000 (2014: HK\$4,860,000) and the final settlement of HK\$114,063,000 has been received.

24. Inventories

	2015 HK\$'000	2014 HK\$'000
Finished goods	108,499	125,570
Materials and consumables	449,922	440,381
	558,421	565,951

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

	2015 HK\$'000	2014 HK\$'000
Trade receivables	734,598	743,444
Deferred consideration receivable	–	112,011
Prepayments	502,695	668,718
Other receivables and deposits	269,388	263,913
	1,506,681	1,788,086

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables of HK\$734,598,000 (2014: HK\$743,444,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
0 to 90 days	544,639	671,721
91 to 180 days	99,045	21,240
181 to 360 days	90,914	50,483
	734,598	743,444

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK\$32,453,000 (2014: HK\$23,133,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

Trade receivables *(Continued)*

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

	2015 HK\$'000	2014 HK\$'000
0 – 90 days	12,117	16,479
91 – 180 days	5,147	5,122
181 – 360 days	15,189	1,532
Total	32,453	23,133

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

	2015 HK\$'000	2014 HK\$'000
Balance at the beginning of the year	83,578	75,105
Impairment losses recognised on receivables	4,476	8,473
Balance at the end of the year	88,054	83,578

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

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

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

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

Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 1.17% to 3.05% (2014: 0.35% to 3.25%) per annum.

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

	2015 HK\$'000	2014 HK\$'000
United States Dollar	62,086	23,967
Hong Kong Dollar	56,349	99,327

26. Amounts Due from/to Non-Controlling Shareholders

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

27. Other Financial Liabilities

	2015 HK\$'000	2014 HK\$'000
Other financial liabilities		
<i>Derivative under hedge accounting</i>		
Cash flow hedge – Interest rate swap	3,600	6,948

The classification of the measure of the derivative financial instruments at 31 December 2015 and 2014 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Cash flow hedges

As at 31 December 2015 and 2014, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which has HK\$350,000,000 principal and will be matured in 2016. The terms of the interest rate swap contract has been negotiated to match the terms of the loan. The interest rate swap contract swaps the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

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28. Trade and Other Payables and Accrued Charges

	2015 HK\$'000	2014 HK\$'000
Trade payables	941,764	1,028,183
Receipt in advance	2,403,811	2,354,328
Consideration payable for acquisitions of businesses	106,366	127,861
Consideration payable to a joint venture (note a)	1,528	23,490
Other payables and accruals	705,113	600,433
Amount due to ultimate holding company (note b)	1,237	2,104
	4,159,819	4,136,399

Notes:

- (a) The amount represents consideration payable to a joint venture for acquisition of Pingyin business.
- (b) The amount is unsecured, interest-free and repayable on demand.

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

	2015 HK\$'000	2014 HK\$'000
0 to 90 days	673,382	754,712
91 to 180 days	100,631	123,977
181 to 360 days	88,848	79,586
Over 360 days	78,903	69,908
	941,764	1,028,183

29. Borrowings

	2015	2014
	HK\$'000	HK\$'000
Bank loans – unsecured	7,728,519	6,506,249
Other loans – unsecured	46,088	51,642
	7,774,607	6,557,891
Carrying amount repayable:		
On demand or within one year	3,183,174	2,482,814
More than one year but not exceeding two years	910,861	1,719,160
More than two years but not exceeding five years	3,647,523	2,329,250
More than five years	33,049	26,667
	7,774,607	6,557,891
Less: Amount due within one year shown under current liabilities	(3,183,174)	(2,482,814)
Amount due after one year	4,591,433	4,075,077

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount	
		2015	2014
		HK\$'000	HK\$'000
Floating-rate loans:			
Unsecured HKD bank loans	1.41%	4,970,760	5,476,734
Unsecured RMB bank loans	3.26%	570,058	404,584
Unsecured USD bank loans	1.47%	503,810	–
Fixed rate loans*:			
Unsecured HKD bank loans**	2.73%	350,000	350,000
Unsecured RMB bank loans	4.25%	1,333,891	274,931
Unsecured RMB other loans	2.65%	27,069	31,202
Unsecured other loans	1.12%	19,019	20,440
Total bank loans and other loans		7,774,607	6,557,891

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

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

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30. Loans from the Ultimate Holding Company

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

Principal outstanding	Maturity	Effective interest rate	Carrying amount	
			2015 HK\$'000	2014 HK\$'000
HK\$800,000,000 (2014: HK\$800,000,000)	June 2017 – February 2018 (according to date of draw down) (2014: June 2017 – February 2018) (according to date of draw down)	2.63% (2014: 2.62%)	800,000	800,000
US\$25,000,000 (2014: US\$25,000,000)	December 2020 (2014: December 2016)	3.84% (2014: 3.86%)	193,750	193,750
			993,750	993,750

31. Deferred Taxation

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

	Accelerated tax depreciation	Intangible assets	Undistributed profits of joint ventures/ associates/ subsidiaries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	46,252	46,438	183,133	275,823
Additions relating to acquisition of businesses (note 34)	26,530	114,695	–	141,225
Currency realignment	(151)	(142)	(593)	(886)
(Credit) charge for the year	(2,019)	(4,985)	42,271	35,267
Withholding tax paid	–	–	(10,826)	(10,826)
At 31 December 2014	70,612	156,006	213,985	440,603
Additions relating to acquisition of businesses (note 34)	–	63	–	63
Currency realignment	(2,014)	(1,994)	(7,064)	(11,072)
(Credit) charge for the year	(2,067)	(5,062)	30,672	23,543
Withholding tax paid	–	–	(15,972)	(15,972)
At 31 December 2015	66,531	149,013	221,621	437,165

At the end of the reporting period, the Group has unused tax losses of HK\$468,070,000 (2014: HK\$307,655,000) available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until 2018.

32. Share Capital

	Number of shares	HK\$'000
At 31 December 2015		
– Authorised:		
Shares of HK\$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK\$0.10 each	2,665,062,650	266,506

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32. Share Capital (Continued)

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

	Number of shares	HK\$'000
At 1 January 2014, 31 December 2014 and 2015	5,000,000,000	500,000

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

	Number of shares	HK\$'000
At 1 January 2014	2,612,849,830	261,286
Issue of shares upon scrip dividend scheme (note a)	17,087,939	1,708
Issue of shares upon exercise of share options (note b)	2,720,000	272
At 31 December 2014	2,632,657,769	263,266
Issue of shares upon scrip dividend scheme (note c)	21,389,081	2,139
Issue of shares upon exercise of share options (note d)	11,015,800	1,101
At 31 December 2015	2,665,062,650	266,506

Notes:

- (a) On 17 March 2014, a scrip dividend scheme was proposed by the board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 26 May 2014. On 11 July 2014, 17,087,939 shares of HK\$0.10 each were allotted and issued at HK\$9.098 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2013 final dividend under the scrip dividend scheme.
- (b) During the year ended 31 December 2014, the Company allotted and issued 200,000 and 2,520,000 shares of HK\$0.10 each for cash at the price of HK\$2.796 and HK\$3.811 per share respectively as a result of the exercise of share options.
- (c) On 17 March 2015, a scrip dividend scheme was proposed by the board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 29 May 2015. On 10 July 2015, 21,389,081 shares of HK\$0.10 each were allotted and issued at HK\$7.802 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2014 final dividend under the scrip dividend scheme.
- (d) During the year ended 31 December 2015, the Company allotted and issued 1,367,800 and 9,648,000 shares of HK\$0.10 each for cash at the price of HK\$2.796 and HK\$3.811 per share respectively as a result of the exercise of share options.

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

33. Reserves

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

34. Acquisition of Businesses

Acquisitions in 2015

During the year ended 31 December 2015, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combinations in:			
Yangxin Hong Kong & China Gas Company Limited ("Yangxin")	January 2015	51%	11,360
Wulian Hong Kong & China Gas Company Limited ("Wulian")	March 2015	70%	110,041

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. Acquisition of Businesses (Continued)

Acquisitions in 2015 (Continued)

Details of fair value of net identifiable assets acquired and goodwill arising on acquisition are as follows:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Purchase consideration	11,360	110,041	121,401
Non-controlling interests	10,229	850	11,079
Acquirees' fair value of net identifiable assets acquired (see below)	(20,875)	(3,026)	(23,901)
Goodwill arising on acquisition	714	107,865	108,579

The non-controlling interests recognised at the acquisition dates in respect of the acquisitions in 2015 were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$11,079,000.

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

Acquirees' fair values at acquisition dates:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Net assets acquired:			
Property, plant and equipment	2,604	2,384	4,988
Intangible assets	–	254	254
Inventories	5	–	5
Trade and other receivables, deposit, and prepayments (note)	1,647	676	2,323
Cash and bank balances	18,507	45	18,552
Trade and other payables and accrued charges	(1,888)	(270)	(2,158)
Deferred taxation	–	(63)	(63)
	20,875	3,026	23,901

Note: The trade and other receivables acquired with fair value of HK\$2,323,000 had gross contractual amounts of HK\$2,323,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

34. Acquisition of Businesses (Continued)

Acquisitions in 2015 (Continued)

Net cash outflow arising on acquisitions:

	Yangxin HK\$'000	Wulian HK\$'000	Total HK\$'000
Purchase consideration	11,360	110,041	121,401
Amounts unpaid and included in:			
– consideration payable for acquisitions	–	(34,584)	(34,584)
– amounts due to non-controlling shareholders	–	(75,457)	(75,457)
Bank balances and cash acquired	(18,507)	(45)	(18,552)
	(7,147)	(45)	(7,192)

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

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

During the year, acquired businesses contributed HK\$3,199,000 to the Group's turnover and incurred loss of HK\$6,159,000 for the period between the date of acquisitions and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2015 would have been HK\$7,718,293,000, and the amount of the profit for the year would have been HK\$923,868,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. Acquisition of Businesses (Continued)

Acquisitions in 2014

During the year ended 31 December 2014, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas in the PRC. The primary reason for the below acquisitions was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK\$'000
Business combinations in:			
Xingyi Hong Kong & China Gas Company Limited ("Xingyi")	January 2014	70%	118,385
Jiajiang Hong Kong & China Gas Company Limited ("Jiajiang")	January 2014	70%	66,368
Songyang Hong Kong & China Gas Company Limited ("Songyang")	January 2014	51%	56,807
Siping Hong Kong & China Gas Company Limited ("Siping")	January 2014	80%	61,380
Baotou Hong Kong & China Gas Company Limited ("Baotou")	February 2014	85%	227,244
Qianxinanzhou Ruiyang Compressed Natural Gas Company Limited ("Ruiyang")	April 2014	70%	26,317
Luliang Hong Kong & China Gas Company Limited ("Luliang")	May 2014	– *	116,019

* During the year ended 31 December 2014, the Group acquired the identifiable assets and liabilities associated with the business of sales and distribution of piped gas from the former owners.

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

34. Acquisition of Businesses (Continued)

Acquisitions in 2014 (Continued)

Details of fair value of net identifiable assets acquired and goodwill arising on acquisition are as follows:

	Xingyi HK\$'000	Jiajiang HK\$'000	Songyang HK\$'000	Siping HK\$'000	Baotou HK\$'000	Ruiyang HK\$'000	Luliang HK\$'000	Subtotal HK\$'000	Fair value adjustments HK\$'000 (note)	Total HK\$'000
Purchase consideration	118,385	66,368	56,818	61,380	227,244	26,317	116,019	672,531	–	672,531
Non-controlling interests	4,788	18,046	18,006	2,138	8,043	9,724	–	60,745	96,623	157,368
Acquirees' fair value of net identifiable assets acquired (see below)	(7,170)	(60,153)	(37,011)	(10,697)	(53,620)	(32,412)	(116,019)	(317,082)	(272,661)	(589,743)
Goodwill arising on acquisition	116,003	24,261	37,813	52,821	181,667	3,629	–	416,194	(176,038)	240,156

The non-controlling interests recognised at the acquisition dates in respect of the acquisitions in 2014 were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$60,745,000.

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

Acquirees' fair values at acquisition dates:

	Xingyi HK\$'000	Jiajiang HK\$'000	Songyang HK\$'000	Siping HK\$'000	Baotou HK\$'000	Ruiyang HK\$'000	Luliang HK\$'000	Subtotal HK\$'000	Fair value adjustments HK\$'000 (note)	Total HK\$'000
Net assets acquired:										
Property, plant and equipment	15,288	54,931	104,089	2,421	25,742	12	115,969	318,452	–	318,452
Leasehold land	1,663	573	14,305	1,481	7,543	44,917	–	70,482	–	70,482
Intangible assets	14,857	18,715	4,196	10,640	46,824	–	–	95,232	363,548	458,780
Inventories	2,198	3,817	869	–	1,880	–	6	8,770	–	8,770
Trade and other receivables, deposit, and prepayments	14,580	1,713	3,163	2,127	9,684	13,025	52	44,344	–	44,344
Cash and bank balances	430	7,174	9,185	829	103	96	–	17,817	–	17,817
Trade and other payables and accrued charges	(24,121)	(8,572)	(85,106)	(4,093)	(18,479)	(18,945)	(8)	(159,324)	–	(159,324)
Taxation	(1,200)	(1,852)	4,669	(48)	(2,232)	–	–	(663)	–	(663)
Borrowing	(12,811)	–	(6,406)	–	(3,661)	–	–	(22,878)	–	(22,878)
Deferred taxation	(3,714)	(12,042)	(11,953)	(2,660)	(13,276)	(6,693)	–	(50,338)	(90,887)	(141,225)
Dividend payable	–	(4,304)	–	–	(508)	–	–	(4,812)	–	(4,812)
	7,170	60,153	37,011	10,697	53,620	32,412	116,019	317,082	272,661	589,743

The trade and other receivables acquired with fair value of HK\$44,344,000 had gross contractual amounts of HK\$44,344,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Note: At the dates of acquisitions in 2013, goodwill of HK\$1,359,637,000 was determined provisionally based on the acquirees' provisional fair value of net identifiable assets acquired. During the year ended 31 December 2014, the identification and determination of fair values of the net identifiable assets acquired were completed.

The directors of the Company consider that the fair value adjustments upon completion of acquisition accounting in respect of the acquisitions in 2013 have no material impact on the results and the financial position of the Group for 2013. Thus, the amounts previously recognised at the acquisition dates were not retrospectively adjusted. The fair value adjustments, amortisation, the corresponding deferred tax effect and non-controlling interests on the fair value adjustments were adjusted during the year ended 31 December 2014.

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34. Acquisition of Businesses (Continued)

Acquisitions in 2014 (Continued)

Net cash outflow arising on acquisitions:

	Xingyi HK\$'000	Jiajiang HK\$'000	Songyang HK\$'000	Siping HK\$'000	Baotou HK\$'000	Ruiyang HK\$'000	Luliang HK\$'000	Total HK\$'000
Purchase consideration	118,385	66,368	56,818	61,380	227,244	26,317	116,019	672,531
Amounts unpaid and included in:								
– consideration payable for acquisitions	(44,539)	–	(6,574)	–	–	–	–	(51,113)
– amounts due to non-controlling shareholders	(24,744)	(24,044)	(6,574)	(3,633)	–	–	–	(58,995)
Bank balances and cash acquired	(430)	(7,174)	(9,185)	(829)	(103)	(96)	–	(17,817)
	48,672	35,150	34,485	56,918	227,141	26,221	116,019	544,606

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

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

During the year, acquired businesses contributed HK\$94,336,000 to the Group's turnover and incurred loss of HK\$29,304,000 for the period between the date of acquisitions and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2014 would have been HK\$7,891,219,000, and the amount of the profit for the year would have been HK\$1,177,944,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

35. Related Party Transactions

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

Name of related party	Nature of transaction	2015 HK\$'000	2014 HK\$'000
HKCG	Outstanding loan balances (See note 30)	993,750	993,750
	Interest expense	28,454	28,463
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	6,398	5,014
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	10,170	3,598
GH – Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	1,920	1,163
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	9,813	28,419
Anhui Province Natural Gas Development Company Limited (note b)	Purchase of compressed natural gas	77,393	106,638
Tongling Hong Kong and China Gas Company Limited (note c)	Purchase of compressed natural gas	–	15
	Sale of compressed natural gas	–	105
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	5,783	9,193
Shandong Hong Kong and China Gas Training Institute (note b)	Training services	1,417	1,133

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For the year ended 31 December 2015

35. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2015 HK\$'000	2014 HK\$'000
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	6,174	4,939
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	31,104	18,490
Taizhou Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	1,013	4,852
Pingxiang Hong Kong & China Gas Company Limited (note a)	Provision of management services	–	74
Nanjing Hong Kong and China Gas Company Limited (note c)	Provision of technical supporting services	49	277
Yixing Hong Kong & China Gas Company Limited (note a)	Compressed natural gas vehicle rental	100	507
Zhuhai S-Tech Technology Limited (note a)	Provision of software	65	162
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	1,425	2,724

Notes:

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

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

36. Operating Lease Commitments

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

	2015 HK\$'000	2014 HK\$'000
Within one year	17,372	16,966
In the second to fifth year inclusive	26,140	18,516
Over five years	29,836	30,371
	73,348	65,853

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

37. Commitments

	2015 HK\$'000	2014 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	117,771	112,824
– acquisition of businesses	272,522	11,472
– acquisition of an associate	39,806	41,656

38. Share Options

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

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

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

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

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For the year ended 31 December 2015

38. Share Options (Continued)

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

	Number of share options			Exercisable share options at the end of the year
	Outstanding at the beginning of the year	Exercised during the year	Outstanding at the end of the year	
For the year ended 31 December 2014				
Scheme				
2006 options (note)	1,567,800	(200,000)	1,367,800	1,367,800
2007 options (note)	12,168,000	(2,520,000)	9,648,000	9,648,000
	13,735,800	(2,720,000)	11,015,800	11,015,800
Weighted average exercise price (HK\$)	3.695	3.736	3.685	3.685
For the year ended 31 December 2015				
Scheme				
2006 options (note)	1,367,800	(1,367,800)	–	–
2007 options (note)	9,648,000	(9,648,000)	–	–
	11,015,800	(11,015,800)	–	–
Weighted average exercise price (HK\$)	3.685	3.685	–	–

The weighted average price of the Company's shares as at the dates of exercise of 200,000 options on 30 March 2015, 6,030,000 options on 27 April 2015, 3,618,000 options on 28 April 2015, 403,000 options on 28 April 2015, 202,000 options on 13 August 2015 and 562,800 options on 18 November 2015 were HK\$7.126, HK\$7.320, HK\$7.336, HK\$7.397 and HK\$6.760 respectively.

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

The Group did not recognise any expenses for the year ended 31 December 2015 (2014: nil) in relation to share options granted by the Company in previous year.

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

39. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2015 amounted to HK\$68,059,000 (2014: HK\$63,625,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2015, the Group made retirement benefit scheme contributions amounting to HK\$465,000 (2014: HK\$504,000).

40. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during the year ended 31 December 2015 as set out in note 32(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. Statement of Financial Position and Reserves of the Company

(a) Statement of the financial position of the Company:

	2015 HK\$'000	2014 HK\$'000
Non-current assets		
Property, plant and equipment	12	22
Investments in subsidiaries	2,302,805	2,409,859
	2,302,817	2,409,881
Current assets		
Other receivables, deposits and prepayments	60	66
Amounts due from subsidiaries	10,918,248	10,127,460
Bank balances and cash	182,688	117,039
	11,100,996	10,244,565
Current liabilities		
Other payables and accrued charges	22,394	22,534
Dividend payable	51	43
Amounts due to subsidiaries	760,974	598,508
Amounts due to the ultimate holding company	683	1,550
Borrowings – amount due within one year	1,373,251	1,000,000
	2,157,353	1,622,635
Net current assets	8,943,643	8,621,930
Total assets less current liabilities	11,246,460	11,031,811
Non-current liabilities		
Loans from the ultimate holding company	993,750	993,750
Loan from a subsidiary	4,915,324	4,422,343
Borrowings – amount due after one year	503,810	400,000
	6,412,884	5,816,093
Net assets	4,833,576	5,215,718
Capital and reserves		
Share capital	266,506	263,266
Reserves	4,567,070	4,952,452
	4,833,576	5,215,718

41. Statement of Financial Position and Reserves of the Company (Continued)

(b) Movement of share capital and reserves of the Company:

	Share capital HK\$'000	Share premium HK\$'000	Others* HK\$'000	Total HK\$'000
At 1 January 2014	261,286	6,434,633	(1,345,458)	5,350,461
Loss and other comprehensive expense for the year	–	–	(91,126)	(91,126)
Issue of shares upon scrip dividend scheme	1,708	153,758	–	155,466
Issues of shares upon exercise of share options	272	14,101	(4,210)	10,163
Dividends paid to shareholders	–	(209,246)	–	(209,246)
At 31 December 2014	263,266	6,393,246	(1,440,794)	5,215,718
Loss and other comprehensive expense for the year	–	–	(325,321)	(325,321)
Issue of shares upon scrip dividend scheme	2,139	164,738	–	166,877
Issues of shares upon exercise of share options	1,101	55,598	(16,106)	40,593
Dividends paid to shareholders	–	(264,291)	–	(264,291)
At 31 December 2015	266,506	6,349,291	(1,782,221)	4,833,576

* Others represent share option reserve, exchange reserve and accumulated losses.

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42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2015 and 2014 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
TCCL (Finance) Limited 港華燃氣(融資)有限公司	HK – Limited liability company	HK\$1	100%	100%	Financing
Towngas China Group Limited 港華燃氣集團有限公司	BVI – Limited liability company	US\$12,821	100%	100%	Investment holding
TCCL (PCB) Limited	Cayman Islands – Limited liability company/HK	US\$1	100%	–	Investment holding
TCCL (Project) Limited	HK – Limited liability company/HK	HK\$100	100%	100%	Investment holding

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited 包頭港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	85%	85%	Provision of natural gas and related services and gas pipeline construction
Baoding Foric Hong Kong & China Gas Company Limited 保定富瑞斯港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB52,500,000	70%	–	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB56,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB310,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd. 博興港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	65%	65%	Provision of natural gas and related services and gas pipeline construction
Cangxi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Cangxian Hong Kong & China Gas Co., Ltd. 滄縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited 長汀港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB22,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction

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42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Chaoyang Hong Kong and China Gas Co., Ltd. 朝陽港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,791,838	90%	90%	Provision of natural gas and related services and gas pipeline construction
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. 潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI – Limited liability company	US\$1	100%	100%	Investment holding
Chi Ping Hong Kong and China Gas Co., Ltd. 莊平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	85%	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Limited 池州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited 大豐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000 (2014: RMB60,000,000)	51%	51%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co., Ltd. 大連長興港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$14,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co., Ltd. 大連旅順港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$15,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店金宇港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Dayi Hong Kong and China Gas Co., Ltd. 大邑港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Feicheng Hong Kong and China Gas Company Limited 肥城港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hong Kong and China Gas Company Limited 阜新港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB77,200,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Fuxin Dali Gas Company Limited 阜新大力燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB13,900,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Xinqiu Hong Kong and China Gas Company Limited 阜新新邱港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB34,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$4,010,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited 公主嶺港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB53,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd 廣西中威管道燃氣發展集團有限責任公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2015

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Guilin Hong Kong and China Gas Co., Ltd. 桂林港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited 黑龍江港華聯孚能源有限公司	PRC – Sino-foreign equity joint venture	RMB7,150,000	55%	55%	Vehicle gas refilling stations
Hong Kong and China Gas (Dalian) Limited 香港中華煤氣(大連)有限公司	HK – Limited liability company	HK\$100	100%	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited 香港中華煤氣(營口)有限公司	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited 香港中華煤氣(駐馬店)有限公司	HK – Limited liability company	HK\$100	100%	100%	Investment holding

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Huangshan Hong Kong and China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong and China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$2,100,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Taiping Hong Kong and China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$3,500,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited 湖州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,500,000	98.85%	98.85%	Provision of natural gas and related services and gas pipeline construction
Jiajiang Hong Kong & China Gas Company Limited 夾江港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited 建平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Jiayang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Pingyin Hong Kong and China Gas Company Limited 濟南平陰港華燃氣有限公司	PRC – Limited liability company	RMB100,000,000	82.15%	82.5%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2015

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong and China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$6,400,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$5,440,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hong Kong and China Gas Co Ltd 龍口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$7,070,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited 陸良港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB52,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong and China Gas Co., Ltd. 馬鞍山博望港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$10,000,000	75.1%	75.1%	Provision of natural gas and related services and gas pipeline construction
Maanshan Jiangbei Hong Kong & China Gas Company Limited 馬鞍山江北港華燃氣有限公司	PRC – Limited liability company	US\$10,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Mengcun Hong Kong & China Gas Co., Ltd. 孟村回族自治縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Mianyang Heqing Towngas Co., Ltd. 綿陽河清港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB1,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB90,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd. 綿竹港華燃氣有限公司 (Formerly Sichuan Quanxin Gas Co., Ltd. 四川全新燃氣有限公司)	PRC – Sino-foreign equity joint venture	RMB12,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd. 綿竹玉泉港華燃氣有限公司 (Formerly Mianzhu Xinxin Natural Gas Co., Ltd. 綿竹市鑫新天然氣有限責任公司)	PRC – Sino-foreign equity joint venture	RMB1,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Miluo Hong Kong and China Gas Company Limited 汨羅港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2015

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Pengshan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC – Limited liability company	RMB16,590,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Co Ltd 青島東億港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co Ltd 青島中即港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB73,500,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong and China Gas Co., Ltd. 秦皇島港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	51%	51%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	61.67%	61.67%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$24,532,434	100%	100%	Provision of natural gas and related services and gas pipeline construction
Siping Hong Kong and China Gas Company Limited 四平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB45,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Songyang Hong Kong & China Gas Company Limited 松陽港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	51.35%	51.35%	Provision of natural gas and related services and gas pipeline construction
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB232,960,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Tongshan Hong Kong and China Gas Company Limited 銅山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB124,000,000 (2014: RMB60,000,000)	100%	100%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC – Sino-foreign equity joint venture	US\$7,000,000	76%	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited 港華燃氣(維爾京)控股有限公司	BVI – Limited liability company/HK	US\$1	100%	100%	Investment holding

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42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Towngas China (Fengxi) Limited 港華燃氣(楓溪)有限公司	HK – Limited liability company	HK\$100	100%	100%	Investment holding
Towngas China (Zhengpugang) Limited 港華燃氣(鄭蒲港)有限公司	HK – Limited liability company	HK\$100	100%	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Wholly foreign- owned enterprise	US\$200,000,000	100%	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Company Limited 武寧港華燃氣有限公司	PRC – Wholly foreign- owned enterprise	RMB40,000,000 (2014: RMB25,000,000)	100%	100%	Provision of natural gas and related services and gas pipeline construction
Wulian Hong Kong and China Gas Company Limited 五蓮港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	70%	–	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited 新津港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited 新津永雙港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	60%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong and China Gas Company Limited 興義港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Yanshan Hong Kong & China Gas Co., Ltd. 鹽山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Yangxin Hong Kong and China Gas Co., Ltd. 陽信港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB18,000,000	51%	–	Provision of natural gas and related services and gas pipeline construction
Yifeng Hong Kong and China Gas Co., Ltd. 宜豐港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2015

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2015	2014	
Indirectly-owned subsidiaries (continued)					
Yingkou Hong Kong and China Gas Company Limited 營口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US\$9,400,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Yuechi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Zhaoyuan Hong Kong and China Gas Company Limited 招遠港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB22,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	90%	90%	Provision of natural gas and related services and gas pipeline construction

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

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David (*Chairman*)
Cheng Mo Chi, Moses
Kwan Yuk Choi, James

Remuneration Committee

Cheng Mo Chi, Moses (*Chairman*)
Li Man Bun, Brian David
Kwan Yuk Choi, James
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred (*Chairman*)
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

Auditor

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

Registered Office

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

Head Office and Principal Place of Business

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar

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

Hong Kong Branch Share Transfer Office

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

Principal Bankers

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



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