Financial Review

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

Financial Review

Turnover

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

Gas Fuel, Stores and Materials Used

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

Overhead Costs

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

Staff Costs

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

Finance Costs

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

Available-for-sale Investments

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

Share Placement

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

Financial Resources and Position

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

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

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

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

Credit Ratings

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

Contingent Liabilities

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

Currency Profile

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

Final Dividend

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