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 2020


Towngas China envisions to be
Asia's leading clean energy supplier and
quality service provider, with a focus on
**innovation** and **environmental friendliness**.

Whilst improving the environment,
we are also providing our customers with
reliable, efficient, safe and clean energy.

# Contents

# Business Overview

## NO. OF PROJECTS

(Inclusive of piped gas projects re-invested by the Group's companies)

**197**

## Distribution of Piped Gas Projects

| | |
|---|---|
| **Anhui** | Anqing, Bowang, 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, Liuzhou, Zhongwei (Fusui) |
| **Guizhou** | Xingyi |
| **Hebei** | Cangxian, Mengcun, Qinhuangdao, Shijiazhuang, Yanshan |
| **Heilongjiang** | Qiqihar |
| **Hubei** | Zhongxiang |
| **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, Laoshan Bay, Linqu, Longkou, Pingyin, Taian, Weifang, Weihai, Wulian, Yangxin, Zhaoyuan, Zibo, Zibo Lubo |
| **Sichuan** | Cangxi, Chengdu, Dayi, Jiajiang, Jianyang, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang |
| **Yunnan** | Luliang |
| **Zhejiang** | Huzhou, Songyang, Tongxiang, Yuhang |

## Distributed Energy System Projects

Sichuan Energy Investment,
Shenyang Economic and Technological Development Zone,
Qingdao Jimo Chuangzhi New District,
Xuzhou Industrial Park (Jiawang district),
Binzhou Yangxin Economic and Technological Development Zone,
Changchun,
Guilin,
Tangshan Chengnan Economic Development Zone,
Binzhou Boxing Economic Development Zone,
Xuzhou Biomedical Industrial Park,
Maanshan Economic and Technological Development Zone South District,
Dangtu Economic Development Zone Northern District,
Tangshan Fengnan Lingang Economic Development Zone,
Zhengzhou Xinmi Yinji International Tourism Resort,
Shenzhen Gas Building,
Lishui Songyang Wangcun Industrial Zone,
Changzhou Photovoltaic Industrial Park,
Anhui Electricity Company,
Tongling Economic and Technological Development Zone Eastern Park,
Fuxin Industrial Park,
Haicheng Xiliu Textile Industrial Park

## Upstream Project

Towngas Sichuan United Energy

## Midstream Projects

Taian Taigang,
Xuancheng-Huangshan,
Inner Mongolia Guyang,
Jinan-Liaocheng

## Vehicle Gas Refilling Stations

Qiqihar (Lianfu),
Qiqihar (Xingqixiang)

## Others

Maanshan Piping Prefabrication,
Towngas Natural Gas Sales,
U-Tech (Guang Dong) Engineering,
Liaoning Clean Energy Group,
Towngas Cosy Home (Chengdu)

Heilongjiang
Jilin
Liaoning
Inner Mongolia
Hebei
Shandong
Jiangsu
Shanghai
Henan
Hubei
Anhui
Sichuan
Chongqing
Zhejiang
Hunan
Jiangxi
Fujian
Guizhou
Yunnan
Guangxi
Guangdong

# Five-Year Financial Summary

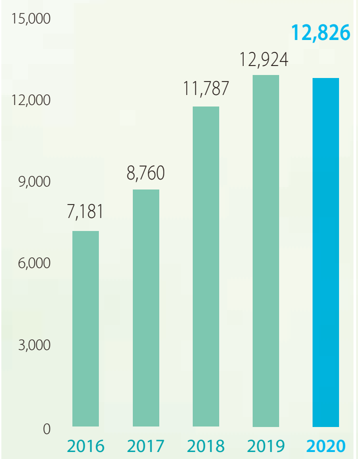
| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020<br>HK$'000** |
| **RESULTS** | | | | | |
| Revenue | 7,181,150 | 8,759,783 | 11,787,002 | 12,924,371 | **12,826,237** |
| Profit before taxation | 1,455,403 | 1,917,654 | 1,892,130 | 2,014,058 | **2,202,701** |
| Taxation | (362,133) | (405,373) | (478,981) | (501,485) | **(554,893)** |
| Profit for the year | 1,093,270 | 1,512,281 | 1,413,149 | 1,512,573 | **1,647,808** |
| Profit for the year attributable to: | | | | | |
| Shareholders of the Company* | 973,997 | 1,365,385 | 1,224,274 | 1,308,425 | **1,447,113** |
| Non-controlling interests | 119,273 | 146,896 | 188,875 | 204,148 | **200,695** |
| Profit for the year | 1,093,270 | 1,512,281 | 1,413,149 | 1,512,573 | **1,647,808** |
| | HK cents | HK cents | HK cents | HK cents | **HK cents** |
| Earnings per share | | | | | |
| Basic | 36.26 | 49.87 | 43.89 | 46.06 | **49.56** |
| Diluted | N/A | N/A | N/A | N/A | **N/A** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020<br>HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 28,027,110 | 32,774,810 | 34,014,606 | 38,194,886 | **42,892,963** |
| Total liabilities | (13,362,927) | (15,576,994) | (16,245,290) | (17,894,876) | **(20,244,361)** |
| | 14,664,183 | 17,197,816 | 17,769,316 | 20,300,010 | **22,648,602** |
| Equity attributable to shareholders of the Company | 13,499,351 | 15,845,033 | 16,229,197 | 18,612,056 | **20,722,899** |
| Non-controlling interests | 1,164,832 | 1,352,783 | 1,540,119 | 1,687,954 | **1,925,703** |
| Total equity | 14,664,183 | 17,197,816 | 17,769,316 | 20,300,010 | **22,648,602** |

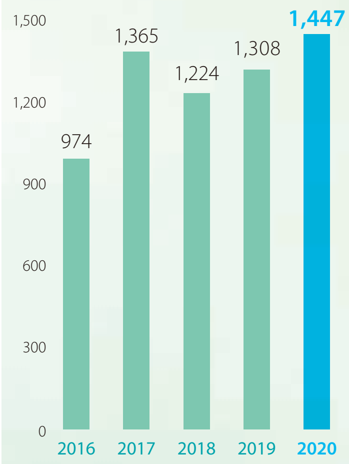
* the Company: Towngas China Company Limited

# Financial Highlights

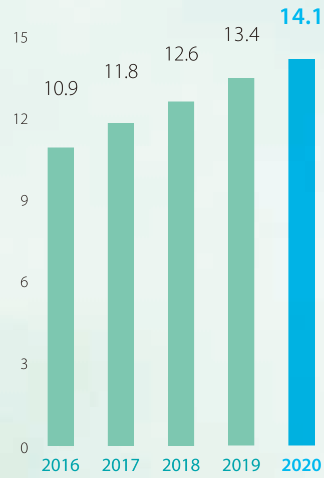
### Revenue
(HK$ Millions)



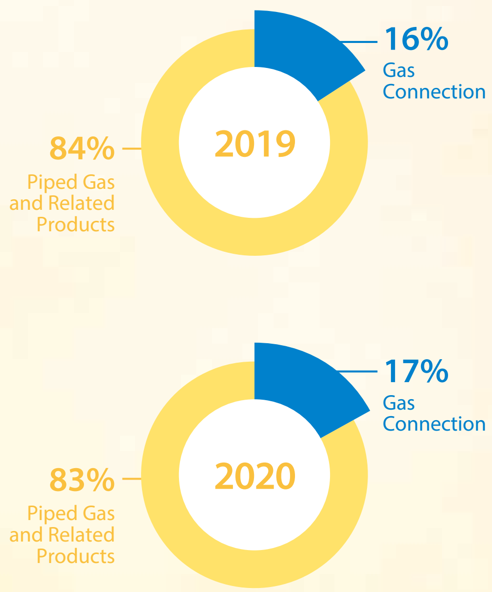

### Profit Attributable to Shareholders of the Company
(HK$ Millions)



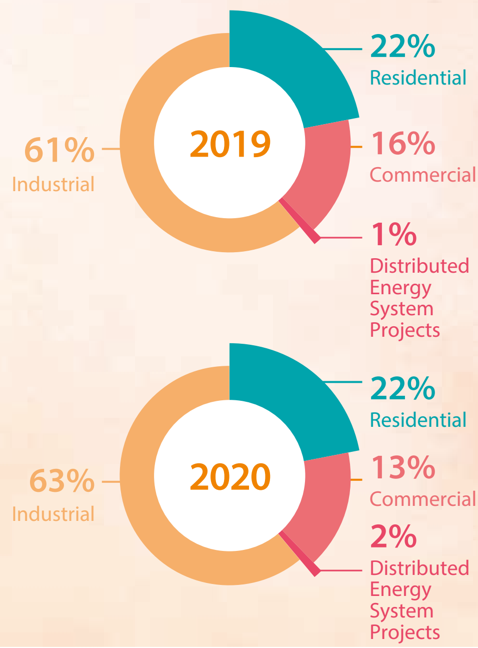

### Number of Customers (All Entities)
(Millions)




### Analysis of Revenue




### Percentage of Gas Volume by Customer Mix (All Entities)



# Chairman's Statement

## Economic Landscape

The COVID-19 pandemic (the "Pandemic") had a crippling effect on the global economy in 2020. The Chinese economy also faced its most serious challenge since reforms first started and the country opened up, recording a 6.8% year-on-year drop in growth in the first quarter of the year, the lowest single quarter growth since the use of gross domestic product ("GDP") as a macro-economic indicator.

The central government took effective measures to curb the spread of the Pandemic across mainland China with effects seen by the end of the first quarter. In April, work and production gradually resumed and business activities recovered. The central government promptly rolled out fiscal and monetary policies to boost economic recovery, including drastically cutting taxes and fees by RMB2.5 trillion throughout the year. It also increased the issue of government bonds to raise the budgetary deficit ratio of the central government. During the year, the People's Bank of China took two Loan Prime Rate cuts, while local government and state-owned banks provided varying interest subsidies on corporate loans, driving interest rates down as a result. On the back of the concerted efforts of the government and the community, the country's economy has seen continuous recovery since the second quarter. By the end of the year, all key economic indicators except social consumption had returned to pre-Pandemic levels. Furthermore, China's GDP increased by 2.3% year-on-year, making China the only major economy in the world to achieve positive economic growth. As the Chinese economy recovered and the United States dollars ("USD") index declined, the exchange rate of Renminbi ("RMB") against the USD strengthened, rising by over 7% in aggregate during the year.

During the year, China entered into several strategic agreements, ranging from "Regional Comprehensive Economic Partnership" to "China-EU Comprehensive Agreement on Investment" with several Asia-Pacific countries and the European Union, to help ease external fluctuations in the economic environment arising from the Sino-US trade friction. Also, though the Pandemic risks in mainland China still exist to an extent, prevention and control measures have become normal practice. As such, the Chinese economy is expected to gradually emerge from the crisis and embark on a new course of top-quality development, as the country enters the opening year of its fourteenth five-year plan ("14th Five-Year Plan").

## Reforms in the Marketisation of Natural Gas

In 2020, the market economy reforms for natural gas continued to abide by the principle of "regulating the core and relaxing the ends" to further promote the operation of the market system. In May 2020, the State Council of China promulgated the "Opinions of the Central Committee of Communist Party of China ("CCCPC") and the State Council on Accelerating the Improvement of the Socialist Market Economy System in the New Era" to steadfastly promote reforms in inherently monopolistic industries, accelerate market-driven competition, open up oil and gas pipeline networks to market players, and favourably relinquish control over the sources and sale prices of natural gas.

# Chairman's Statement

In March 2020, the National Development and Reform Commission (the "NDRC") officially promoted the new "Central Pricing Catalogue", moving the city-gate natural gas price from the main body of the catalogue to the appendix. It also recommends that the city-gate natural gas prices in the provinces with competitive capabilities can be determined by the market. This marked the starting point of the marketisation of city-gate natural gas prices in mainland China's upstream market. As trading volumes of natural gas in Shanghai and Chongqing's trading exchanges gradually rise, the source price of natural gas has increasingly been driven by the market. Accelerating these developments even further, the "Opinions on Promoting the Reform of Mineral Resources Management (Trial)" officially took effect on 1 May 2020, marking the full opening of the oil and gas exploration and exploitation market in the country's private enterprises and foreign-owned businesses.

On 1 October 2020, China Oil & Gas Pipeline Network Corporation ("PipeChina") officially commenced operation and began to implement consigner access management to open PipeChina's existing liquefied natural gas ("LNG") receiving terminals and natural gas pipelines to third-party vendors. With the pipeline networks of PetroChina Company Limited, China Petroleum & Chemical Corporation and China National Offshore Oil Corporation, as well as provincial pipeline networks in Guangdong, Hainan, Hubei, and other provinces successively integrating into the national pipeline network in batches, the nation-wide "Single Network" began to take shape. PipeChina's official operations commencement is providing the relevant infrastructure for the diversification of gas sources in mainland China and the nationwide delivery of natural gas resources, alleviating the prevailing monopolistic landscape in the current upstream market.

With regard to reforms in the downstream market, on the one hand, the government continued to strictly control charges and prices in a bid to lower gas costs of customers. Given the impact of the Pandemic in 2020, the NDRC and governments at various levels required gas suppliers to reduce their sale prices to hit targets. These included lowering pipeline transmission charges and the early adoption of off-season prices, while also reiterating that local government should monitor the pricing and cost of transmission of natural gas on provincial pipeline networks as well as the supply price of urban fuel gas. These efforts will ensure that the permitted profit margin will not exceed 7% or lower (as appropriate). To further rectify and regulate urban gas supply charges, five ministries and commissions, including the NDRC, jointly promoted the "Opinions on Regulating the Standards of Charges of Urban Water, Power, Gas and Heat Supply Industries to Promote Quality Development" in December 2020, for official implementation on 1 March 2021. On the other hand, local governments intend to facilitate the direct trading of natural gas between upstream and downstream markets as well as direct supplies to large-scale users, which may undermine the competitiveness of urban fuel gas companies. Within the Group, we are actively addressing the impact of government regulations and market competition by improving our business presence, enhancing full-supply chain capabilities and boosting smart operational processes, as well as by taking measures such as lowering costs and enhancing efficiencies.

## Outlook for the Natural Gas Market

The Pandemic in 2020 severely hampered short-term demand for natural gas consumption in mainland China, with the impact being especially marked in the first half of the year, gradually easing in the second half of the year. Natural gas consumption in the year reached 324 billion cubic metres, representing a 5.6% year-on-year increase, though growth overall was 2% lower than that in 2019.

The Group believes that as the impact of the Pandemic diminishes and as the country's economy gradually recovers, normal demand growth in the natural gas market will resume. "The CCCPC's Proposals for Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035" (the "14th Five-Year Plan Proposals") suggested that the fully-fledged green transformation in the economic and social development plan should be facilitated to expedite the promotion of green and low-carbon development. It has thus formulated an action plan for carbon emissions to peak by 2030. Although natural gas is a fossil fuel, it is also a clean energy, which will play a principal role in the transformation of energy development in China. According to plans, it is targeted to hold a 15% share in primary energy consumption by 2030, continuing to increase from this basis into the future. Furthermore, the "Administrative Measures for Carbon Emissions Trading (Trial)" has been implemented nation-wide on 1 February 2021 to increase the willingness of large industrial and energy-consuming enterprises to switch to clean energy. This move will boost the demand for natural gas in industrial and power generation environment.

With regard to the infrastructure, conditions for the development of natural gas in mainland China have steadily improved. The interconnected supply system, featuring the "West-to-East Gas Pipeline, North-to-South Gas Pipeline, Offshore Gas Pipeline to Coastal Areas and Nearby Gas Source" projects, have taken shape, better balancing supply and demand. The degree of interconnection of nation-wide pipeline networks, the receiving capacity with the expansion of LNG receiving stations, as well as the operational gas volume of underground gas storage facilities have all increased. Natural gas production in mainland China reached 188.8 billion cubic metres in 2020 while the daily piped gas supply capacity of the China-Russia East-Route Natural Gas Pipeline transporting gas to the Beijing-Tianjin-Hebei region via northeastern China increased by 27 million cubic metres. With the reliance on external natural gas being stabilised, the average price of imported gas sources fell steadily. These factors are extremely conducive to the long-term stable development of the natural gas market in mainland China.

The reforms of the natural gas market in the country as well as the transformation of energy development strategies will result in further changes to the natural gas market. These will include the new trend to diversify gas sources in the upstream market, the further regulation and consolidation of the city gas market, as well as integrated, efficient and smart applications of natural gas in the downstream market. To align ourselves with this new market landscape, we will further strengthen our presence in the natural gas industry chain, closely monitor the progress of regional market consolidation and fully promote smart applications of natural gas. This will allow us to better respond to industry challenges and seize our market opportunities.

## Environmental, Social and Governance (ESG)

In recent years, there has been an increasing emphasis on environmental, social and governance issues and performance around the world. Upholding our corporate vision and mission, we make every effort to set an example and act as a role model in our business operations. We thus seek to protect the health and safety of our stakeholders, care for our environment and serve the community.

The Group's Board of Directors promotes a proactive ESG agenda, regularly reviews important ESG issues, and has set up an ESG Committee composed of our chief executive officer and several senior executives. This committee is responsible for integrating ESG into our business and operations, promoting related plans, and regularly reporting the progress of relevant projects and related matters to the Board.

In 2020, Towngas China was selected as a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index Series for the tenth year, demonstrating the extensive recognition of the Group's ESG performance by the community.

In addition, we won numerous awards during the year, including the "Listed Company with the Best Investment Potential" from Hong Kong Ta Kung Wen Wei Media Group, The Hong Kong Institute of Chartered Secretaries and the Hong Kong Chinese Enterprises Association. We also received the "Cutting Edge Enterprise in Energy Innovation" award from Energy magazine, in recognition of our financial performance and the foresight of our business development strategies.

We attach great importance to integrity, strictly abiding by, and implementing, ethical principles in our business operations, as a core corporate value. With these clear objectives, our aim is to create long-term value for all our stakeholders, from investors and partners to suppliers, employees and the community.

## Our Business Outlook

Amid the 2020 Pandemic, our Group took proactive measures, uniting our staff at all levels to exercise sound disease prevention and control procedures, while remaining committed to our work. We worked hard to ensure a safe gas supply, actively helped customers to solve their concerns and problems, made every effort to render assistance to residents and the community, whilst at the same time, uniting to fight the virus, underpinned by our corporate values of "courtesy", "craftsmanship" and "integrity". During the year, our business faced great challenges, but we were able to maintain stable overall development, with both ongoing progress as well as several breakthroughs on a number of fronts.

Following the Group's entry into a capital increase agreement with Shanghai Gas Co., Ltd. ("Shanghai Gas") and Shenergy (Group) Company Limited ("Shenergy Group") in October 2020, all parties to the agreement have started to communicate on a number of business fronts. The progress of the collaboration is thus well on schedule. With a population of over 24 million, Shanghai is a huge gas market. Shanghai Gas has a customer base of 6.3 million and an annual natural gas sales volume of more than 9 billion cubic metres. Through the cooperation, we will not only extend our business footprint to Shanghai, the most economically developed city in China, but also create substantial synergies for our business presence in eastern China and the entire Yangtze River Delta. Furthermore, we will also benefit from the expansion of our scale of business and the enhancement of our quality of development. Yet another benefit is our ability to access and use the facilities of Yangshan Port LNG receiving terminal which is operated by Shanghai Gas. This will also help to expand our channels for the direct purchase of natural gas from abroad.

We also consolidated our capacities across the natural gas industry chain during the year. Jintan Gas Storage, owned by our parent company The Hong Kong and China Gas Company Limited ("HKCG"), saw its successful interconnection with the "West-to-East Gas Pipeline" and "Sichuan-to-East Gas Pipeline" networks. Gas from gas storage facilities to cater for peak requirements can thus be transmitted through these national pipeline networks, supplying over 140 million cubic metres of gas in 2020 to gas enterprises in the vicinity. Riding on the back of Tangshan Haohua Trading Co., Ltd., newly established by HKCG, as well as the joint investment initiative between HKCG and Caofeidian Suntien Liquefied Natural Gas Co., Ltd., we will be able to access gas storage services at the Tangshan LNG terminal and gas sources for imported LNG, to boost the capacity of our gas enterprises in China's northern and northeastern regions, ensuring that gas storage will cater for peak requirements. A new Group company, Towngas Sichuan United Energy Co., Ltd., was established in September 2020 to explore the use of shale gas in the upstream market, liquefaction exports and other trade related business. This new establishment will strengthen the capacity of our gas businesses in the southwestern regions, providing better gas storage to cater for peak requirements while also gaining greater access to stable and quality gas sources.

Aligning our business to the 14th Five-Year Plan, we will continue the development of distributed energy projects, aiming to provide users with affordable and highly efficient heating energy. In the meantime, we will continue to expand our commercial hot water sales, as well as our heating, cooling and heat supply businesses to boost the volume of gas sales.

Grasping the opportunities presented by the need for disease prevention and control, we strongly promoted the digital transformation of our offline business under the Towngas Lifestyle brand, enhancing the functionalities of our online service centre. An integrated Internet platform has been initially established, covering the gas cloud, smart Internet of Things, e-commerce and household services right on doorsteps. This innovative business model will facilitate the advancement of our extended business initiatives to achieve economies of scale. Towngas Lifestyle will consolidate our offline resources, focusing on our primary aim to provide the community with services for a healthy and comfortable lifestyle, coordinating with digital channels to create a new community business platform. In December 2020, the first Towngas China Home Lifestyle Centre under HKCG, "Moment+", officially opened in Hudong community in the Suzhou Industrial Park, Jiangsu province. Going forward, more shops will be opened in a number of regions to provide the public with premium lifestyle services. In addition, Towngas Lifestyle consolidated our gas insurance promotion resources during the year, to buck the trend and achieve significant growth in gas insurance sales. Our "Cosy Home" brand, providing residents with smart kitchen, heating and water purification products and services, was officially launched, while our safe gas appliances under the Bauhinia brand recorded stable sales. Sales of our Mia Cucina signature cabinets also achieved notable growth, with its business promotion initiatives, which extended to a number of cities and provinces including Shanghai, Guangdong, Anhui and Shandong.

Our engineering arm, U-Tech (Guang Dong) Engineering Construction Co., Ltd acquired Jiangsu Jinzhuo Construction Engineering Co., Ltd. in September 2020 to become its controlling shareholder. The acquisition has resulted in enhanced engineering service qualification, an expanded talent pool and rational business planning to coordinate the improvement of engineering service processes throughout the country. The move also expands the variety of our engineering services and reduces the impact of lower engineering installation fees and any slowdown of the market economy.

2021 sees the kick-off of China's 14th Five-Year Plan as well as our embarkation on a new stage in the Group's business development. The Group has put forth "Smart Innovation Year" as the development theme of 2021 and proactively laid out our business development blueprint under the 14th Five-Year Plan, leveraging the opportunities arising from China's development and industry transformation. As we drive our business towards a new stage of quality development, we continue to uphold our vision to be Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness.

**Alfred Chan Wing-kin**
*Chairman*

Hong Kong, 18 March 2021

# Financial Review

In 2020, total gas sales volume of the Group rose by

**8%** to

**over 12 billion cubic metres.**

**Profit after taxation attributable to shareholders of the Company rose by 11% to**

**HK$ 1,447 million**

**as compared to last year.**

Basic earnings per share amounted to

**HK49.56 cents.**

Total number of customers reached

**14.14 million,** with

**704,000**

**new customers.**

## Revenue

Revenue from the sales of piped gas and related products decreased 2% from HK$10,835 million in 2019 to HK$10,616 million in 2020. This decrease was primarily attributable to the decrease in the average gas sales prices. The total consolidated volume of gas sold during the year amounted to 3,599 million cubic metres, representing an increase of 6% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$2,210 million, up 6% as compared to 2019, with approximately 470,000 consolidated new household connections being made in 2020.

## Total Operating Expenses

Total operating expenses in 2020 amounted to HK$11,002 million, a decrease of 1% as compared to HK$11,169 million in 2019. The cost of gas fuel, stores and materials used decreased 2% from HK$8,905 million in 2019 to HK$8,743 million. The decrease was mainly attributable to the decrease in purchase price of natural gas during the year. Staff costs dropped by 7% while depreciation and amortisation expenses rose by 10%.

## Finance Costs

Finance costs in 2020 amounted to HK$426 million, a rise of 7% as compared to 2019. This rise in finance costs reflected the increase in loans mainly for the acquisition and set-up of new projects and business development.

## Equity Instruments at Fair Value through Other Comprehensive Income

Equity instruments at fair value through other comprehensive income mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"). Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised as other comprehensive income during the year.

# Financial Review

## 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.

As at 31 December 2020, the Group's bank loans and other loans amounted to HK$11,493 million (31 December 2019: HK$10,239 million), of which HK$5,137 million (31 December 2019: HK$3,433 million) represented bank loans and other loans due within 1 year, HK$6,343 million (31 December 2019: HK$6,790 million) represented bank loans and other loans due between 1 to 5 years, and HK$13 million (31 December 2019: HK$16 million) represented bank loans and other loans due over 5 years. Other than the HK$8,147 million (31 December 2019: HK$6,876 million) in bank loans and other loans 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 businesses of the Group 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. The Group's borrowings denominated in Renminbi amounted to HK$9,749 million (31 December 2019: HK$8,495 million) and the remaining HK$1,744 million (31 December 2019: HK$1,744 million) borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-Renminbi denominated loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi loans amounted to approximately HK$5 million (31 December 2019: HK$30 million) and approximately HK$21 million (31 December 2019: HK$19 million) from joint ventures and a non-controlling shareholder on a fixed interest rate basis respectively. As at 31 December 2020, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt to total equity plus net debt) of 28.9% (31 December 2019: 29.0%).

As at 31 December 2020, the Group's cash and cash equivalents together with time deposits amounted to HK$2,335 million (31 December 2019: HK$2,000 million), of which 99% (31 December 2019: 98%) are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2020, the Group's unutilised available credit facilities amounted to HK$7,716 million from banks and HKCG. The Group intends that the capital increase of Shanghai Gas will be funded from available internal funding, unutilised credit facilities from banks and HKCG, and potentially new banking credit facilities.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised credit 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

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas China at "BBB+" and its rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2020.

## Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2020 of HK fifteen cents per share (2019: HK fifteen 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.

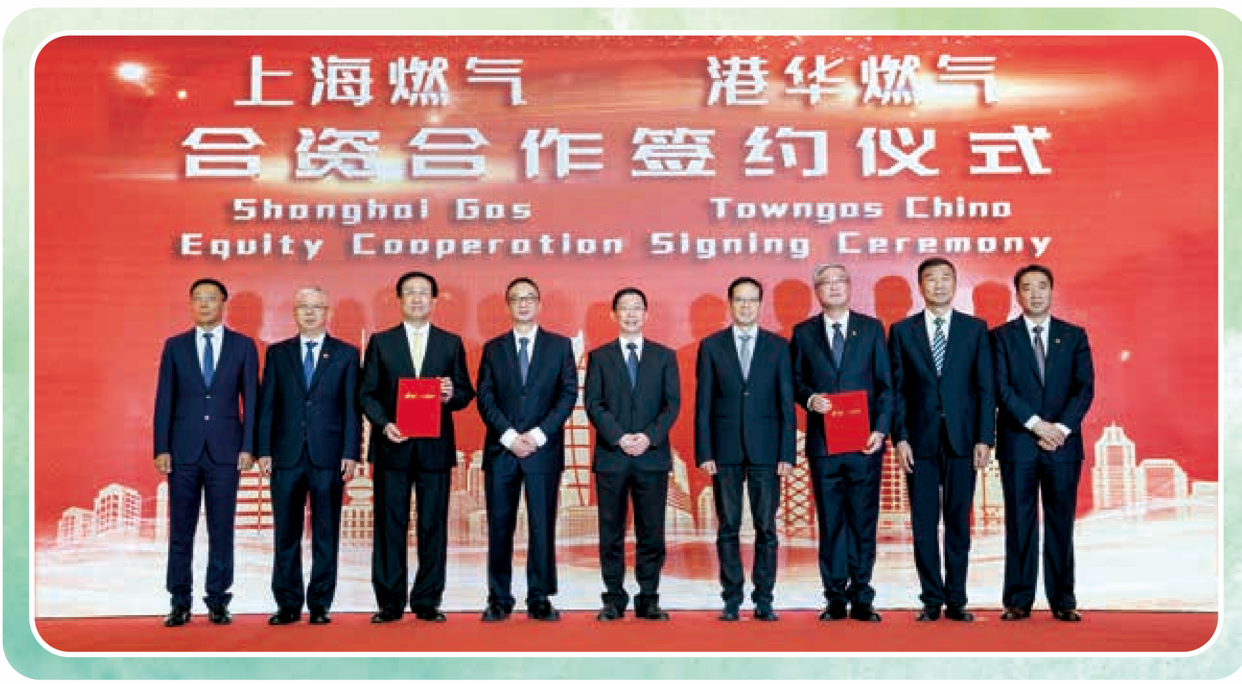
# Review of Operations

Economic development and social activity in many countries around the world were severely hit by the spread of COVID-19 in 2020. Early in the year, the Chinese government adopted decisively a range of Pandemic prevention and control measures. Among other things, these measures required all trades and professions to suspend work and production. As such, the Pandemic was brought under control in China towards the end of first quarter of the year. The domestic economy began to pick up from the second quarter as businesses resumed work and production recommenced in an orderly manner across the country. Annual GDP increased 2.3% year-on-year by the end of 2020, making China the only nation among the world's major economies to record positive economic growth.

As a socially responsible public utility, Towngas China employees took a proactive approach during the Pandemic, upholding its corporate culture of "courtesy, craftsmanship and integrity" throughout operations. The Group is proud to report that professionalism was maintained and every effort was made to ensure safe and stable gas supply, allowing urban residents to maintain a normal life, while at the same time working within Pandemic prevention and control restrictions. Despite the many challenges to the Group's operations and activities, its overall business development remained stable with progress and breakthroughs being made in a number of areas.

Industrial and commercial enterprises were unable to operate as usual during some periods in the first half of the year due to the Pandemic. This dealt a blow to gas sales in the first quarter of the year. In spite of this, the Group managed to record an 8% increase in annual gas sales overall, in view of the subsequent resumption of work and production.

With the various measures devised by the NDRC and all levels of government to reduce pipeline network transmission fees, impose off-season prices in advance and require gas suppliers to lower sales prices, the Group launched an array of gas bill relief measures specifically for industrial and commercial customers. These included not suspending gas supply despite payments in arrears — if a company failed to pay their gas bills in time as a result of the Pandemic, the payment due date was postponed according to the situation. These temporary policies and factors have had a slight impact on our business.



Despite the Pandemic and the challenging situation, the Group managed to reach a new milestone in its business development. On 27 October, it signed an agreement with Shanghai Gas for our acquisition of a stake in the latter for RMB4.7 billion. The ultimate goal was to allow both parties to own a reciprocal 25% share in each other's company within one year. When the deal is completed, Towngas China can appoint members to the board of directors and supervisory board as well as to the senior management of Shanghai Gas, playing a more active role in its development decisions and daily operation.

This strategic investment will extend the Group's business to Shanghai, one of the most affluent cities in the mainland, with a population of over 24 million. Shanghai Gas has 6.3 million local customers in this city, where there is high spending power as well as increasing aspirations for quality lifestyle. This development thus offers tremendous market potential for the Group's high-end gas appliances and kitchen cabinets as well as gas insurance and other extended business initiatives. The collaboration will substantially increase Towngas China's customer base to more than 20 million client accounts.

This positive development serves as an excellent example of successful integrated development programme in the Yangtze River Delta region. It also breaks new ground as the first project collaboration in the gas industry following China's promulgation of the relevant guidelines. In addition to Shanghai, the Group will be extending its business to the vicinity, including the Lingang New Area, Qingpu New Area and the demonstration zone for integrated development in the Yangtze River Delta region.

Furthermore, Shanghai Gas and its parent company, Shenergy Group, own the LNG storage and peak-shaving base in Wuhaogou and LNG terminal in Yangshan Port respectively, with an annual processing capacity of 7.5 million tonnes as well as a gas storage capacity of more than 1.2 million cubic metres. Together with the underground salt cavern gas storage in Jintan of Changzhou city, Jiangsu province, owned by HKCG, the Group's parent company, it provides the opportunity to purchase and store gas when the gas price is relatively cheap in summer, and to supply it to project companies when demand is higher in winter. This creates more economic benefits for project companies and helps them cater for peak requirements when gas can sometimes be in short supply.

# Review of Operations

## Sales of Piped Gas

In 2020, the Group's total piped gas sales volume rose 8% to 12,003 million cubic metres. Industrial gas sales increased by 12% to 7,581 million cubic metres, accounting for 63% of total gas sales; residential gas sales rose by 9% to 2,643 million cubic metres, accounting for 22% of total gas sales; and the equivalent of 264 million cubic metres of natural gas sales was recorded for the Group's distributed energy system ("DES") projects, accounting for 2% of total gas sales. Due to the Pandemic, commercial gas sales were seriously dampened during the year with a volume of 1,515 million cubic metres, accounting for 13% of total gas sales. The total number of Group customers reached 14.14 million, an increase of 704,000 customers year-on-year.

As at 31 December 2021, the Group's business covered 21 provinces, municipalities and autonomous regions across the nation. The Group has all along been making every effort to encourage industrial and commercial customers to replace coal in production with natural gas, which is cleaner. In recent years, the Group has actively adopted various production capacity solutions with high energy efficiency, including increasing the market share of DES and exploring the use of renewable energy, so as to respond to the nation's call for energy conservation and emission reduction to contribute to building a low-carbon eco-friendly community.

| Industrial | Residential | Commercial | Distributed Energy System Projects | Total Number of Customers in 2020 |
|---|---|---|---|---|
| 63% | 22% | 13% | 2% | 14.14 million |

## New Project Developments

During the year, the Group continued to push forward the development of its DES projects. It set up three additional DES projects — at the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province, Fuxin Industrial Park in Liaoning province and Xiliu Textile Industrial Park in Haicheng, also in Liaoning province. Together with previous projects already in place, the Group holds 21 DES projects in total. The Tongling Economic and Technological Development Zone is a development zone at national level, with huge potential in the heating market. Fuxin Industrial Park is located in Fuxin city, where pipelines for piped natural gas have not yet been connected. As such, the cost of steam for businesses in the park is extremely high. The heating project, together with the Group's local city-gas enterprise Fuxin Hongkong and China Gas Company Limited, will provide customers in the park with low-cost heating, to become the only heating and steam pipeline operator in the park. The heating project in Xiliu Textile Industrial Park will align itself with the local government's initiatives to improve the energy mix by phasing out existing coal-fired boilers. The three projects will reach a capacity equivalent to 100 million cubic metres of natural gas in five years.

At the same time, Towngas China, together with 12 Group companies in the southwest region, jointly launched the Towngas Sichuan United Energy project to build a shale gas liquefaction plant and gas storage facilities. Upon completion, the project will be able to cater for peak requirements for gas storage in the southwestern region. Going forward, the Group will achieve its goals to interconnect company pipeline networks in the region and provide direct supplies of regular gas from gas source locations to businesses in the vicinity.

Further serving customers in the southwestern region, the Group established Towngas Cosy Home (Chengdu) Technological Services Co., Ltd. ("Towngas Cosy Home"), an extended business platform project, during the year. With an expanding middle-class customer base and increasing consumption in the mainland, Towngas Cosy Home will consolidate enterprise resources in the region, aligning itself with the change and increase in market consumption with the launch of extended business services to provide a "cosy lifestyle". This will drive regional businesses to grow their business in the residential market and boost overall regional profit. The initiative is expected to accelerate the development of the Group's extended business.

## Industrial and Commercial Markets

In early 2020, the COVID-19 outbreak hit the world. To effectively control the virus, the Chinese government suspended production, closing all business premises early in the year. With the resumption of work not taking place until after the Chinese New Year holiday, there was a remarkable impact on both production and general consumption in the first quarter of the year. The Group's industrial and commercial market segments were similarly affected.

As the Chinese government introduced a series of lockdown measures in the early stages of the COVID-19 outbreak, to restrict people from being out and about, as well as to reduce human contact to fight the epidemic, most frontline industries, such as catering, tourism and hospitality industries, were virtually shut down. This therefore affected the gas sales volumes in our commercial segment, which amounted to 1,515 million cubic metres, down 14% from the same period in the previous year. Faced with this difficult business environment, the Group took a proactive stand — we contacted commercial customers to better understand their needs, in addition to introducing brand-new gas equipment to help them update their facilities for future development. This move was well received. The Group added approximately 9,900 new customers to our commercial portfolio in 2020.

The impact of COVID-19 on the industrial segment was relatively small and concentrated in the first quarter of 2020, despite the fact that work resumption after the Chinese New Year was delayed due to the virus. However, with many industries across the country resuming work and production in the second quarter, a number of manufacturers saw their output going up, recording year-on-year growth for the second half of the year. As such, throughout the year, the gas sales volumes in our industrial segment increased 12% over the same period in the previous year.

At the 75th United Nations General Assembly held during the year, the Chinese government announced that China would continue to make greater contributions to mitigate the impact of climate change through low-carbon transition. To this end, the country had set emission reduction targets, with the aim of peaking carbon dioxide emissions by 2030 and achieving carbon neutrality by 2060. This move demonstrates the determination of the Chinese government to promote energy conservation and emission reduction. The adoption of clean energy thus has a pivotal role to play in the country's future development. Riding this trend, we have made every effort to promote "coal-to-gas" conversions among our customers, in addition to working tirelessly to expand the application of DES in China. These national strategies will bring both new and more business opportunities for the Group.

# Review of Operations

## Coal-to-Gas Conversion for Boilers and Furnaces

The Group encourages customers to use natural gas as production fuel in place of highly polluting coal by different means. As greenhouse gas emissions from natural gas are some 50% lower than from coal, the increasing use of gas will help China achieve its carbon neutrality goal.

In addition to helping customers replace old equipment with natural gas-fuelled boilers and furnaces, we advise new customers on the setting up of relevant equipment in their plants to catch up with the "coal-to-gas" policy and reap the benefits of natural gas-fuelled equipment.

During the year, the Group's "coal-to-gas" projects for boilers and furnaces contributed 1,890 million cubic metres to our total gas sales volumes.

## Distributed Energy Systems

In view of the ever-increasing demand for energy, driven by China's rapid urbanisation, coupled with the government's long-term emission reduction targets set during the year, increasing the use of efficient and low-pollution energy has become an important aspect of China's energy development strategy. Our DES projects actively developed in recent years effectively meet the requirements of such a strategy.

In 2020, we added three DES projects, located in Tongling city, Anhui province and Fuxin city and Haicheng city, Liaoning Province. Together with our previously established developments, we currently hold a total of 21 DES projects.

Additionally, Towngas China Energy Investment Limited ("TCEI"), a Group subsidiary, has actively developed three clearly established business lines — regional heat supply, energy interconnection and smart energy for industrial and commercial customers, as well as breakthrough distributed photovoltaic applications. TCEI is establishing extensive cooperations with professional associations and businesses in the industry while enhancing expertise and technical capabilities, in an effort to create a sound ecosystem for energy business development.

## C-Tech Laundry

In 2019, Towngas China established the laundry service brand C-Tech Laundry to tap existing customer resources and explore business opportunities. The brand uses advanced natural gas-fuelled equipment to provide professional laundry services for commercial customers, and targets customers in service industries, such as the hospitality industry, in affluent areas.

C-Tech Laundry set up a new laundry plant in Hangzhou city during the year. Together with the plants established in the cities of Chengdu, Guilin and Shaoguan last year, it had four laundry plants in operation in 2020.

As the Pandemic retreats, we expect the economy and tourist visits to pick up across the country. This will create greater market demand for laundry services.

## Commercial Hot Water Systems

Apart from supplying customers with safe and reliable natural gas, we provide energy-efficient hot water systems for commercial customers in the mainland. These systems have been well received since their launch in 2017. In 2020, we sold approximately 2,000 sets of commercial hot water systems, hitting a new high and creating an increase of 11% in the same period over the previous year.

The water heaters in our commercial natural gas water heating system can be connected in parallel with one another to allow some or all of the water heaters to be turned on, based on the amount of hot water needed. Our systems thus provide more flexible solutions for customers. Furthermore, the systems can produce hot water instantly, thereby enhancing heating efficiency.

These commercial hot water systems are widely used in places ranging from beauty salons and saunas to hotels and showers, among many others. Going forward, we believe that the applications of such systems are set to grow continuously.

# Review of Operations

## Residential Market

Fighting the COVID-19 Pandemic, the Chinese government imposed a series of lockdown measures which required virtually all large events and social gatherings to be shelved or deferred. As a result, residents stayed at home much more than usual. Gas sales volumes in our residential market segment were thus significantly boosted. In 2020, the Group's residential gas sales volume increased year on year by 9% and accounted for 22% of our total gas sales volume. The number of our residential customers also increased to reach 14.14 million households, a year-on-year increase of 5%.

## Customer Services

Towngas China is committed to providing customers with high-quality services. At our customer centres, our customer service personnel provides one-stop solutions. These include appointments for stove installation, safety inspections and payment services. During the year, we set up a further three new customer centres, bringing the total number across the country to 163.


We attach tremendous importance to our culture of service excellence. To this end, we have established a company-wide service culture advocating for "Three Courtesies" where every frontline employee is required to serve customers with manners, etiquette and politeness. Making sure that our staff are able to meet these exacting standards, we provide professional training on a regular basis. In view of the COVID-19 restrictions, our relevant "Flying Dandelion Programme" could not be held in a physical classroom and thus was conducted online. We also made short videos of excellent customer service examples, uploading them onto our intranet as training material. This initiative allows our staff to log onto the learning platform on their mobile phones at anytime and anywhere.

## Smart Homes and Gas Appliances

Seeking to enrich the lives of our very large customer base, we continue to broaden Bauhinia's many product categories. Since launching the brand in 2005, we have provided our customers with both the most up-to-date and top quality appliances, and seen Bauhinia's sales volumes increase year on year. Thanks to the brand's exceptional quality and excellent product design, coupled with our continuous efforts to improve product functions, the total sales volume of Bauhinia products continued to grow, exceeding 360,000 units for the year.

With growing digitalisation and ever-increasing Internet connection speeds, artificial intelligence (AI) and Internet of Things (IoT) technologies have become more and more mature. Embracing the trend, we are applying the emerging technologies to the research and development of household products, as we move ever closer towards the concept of "smart homes". In 2020, we launched an anti-scorch cooking stove equipped with an intelligent temperature sensor, which can detect the temperature at the bottom of the pot during cooking, to lower the risk of accidents caused by forgetting to turn off the appliance. During cooking, if the water in the pot reaches boiling point and evaporates completely, the temperature in the pot would jump. Upon detection of this abnormal temperature rise, the appliance will automatically turn itself off, thus ensuring the safety of both customers and their homes.

During the year, Bauhinia sold about 140,000 gas cooking stoves, an increase of approximately 23% in the same period over the previous year.

Bauhinia also incorporated intelligent features and remote control functions into existing kitchenware products, including gas stoves, range hoods, water heaters and dual-purpose stoves. After connecting their appliances to the Bauhinia mobile app, customers can control them through mobile devices, such as mobile phones or tablets. If a customer forgets to turn off an appliance before leaving home, the app's built-in reminder function will send a notification so that the user can turn it off remotely via the app. This provides customers with better protection and a very positive user experience.

## Gas Clothes Dryers

To address the problem of drying clothes in humid or rainy weather, the Group introduced gas clothes dryers in Hong Kong in 2016. Since then the value and usefulness of such products have been well recognised. Riding on this positive trend, we launched large-scale marketing campaigns for gas clothes dryers last year in three key regions, East China, South China and Southwest China. These efforts have borne fruit and during the year, the Group's gas dryer sales increased to approximately 15,000 units.

Apart from selling gas clothes dryers through retail channels, we adopted a brand-new service model in 2020, where we set up self-service drying stations in communities where we operate to provide 24-hour clothes drying services for residents in the vicinity. Every dryer at these stations is equipped with a QR code, which customers can scan to pay with their mobile phones and enjoy this convenient drying service.

# Review of Operations

## Extended Services

With the rise of mobile Internet technology, there is growing demand for service convenience and product comfort. Keeping pace with the times, we created our Towngas Lifestyle brand to deliver a diversified range of extended Towngas services.

Our Towngas Lifestyle philosophy is to bring added convenience and provide one-stop service to our customers. A major initiative in this direction is our Virtual Customer Centre (VCC) platform which is constantly being upgraded to enable our customers to conveniently access a series of gas services online. Currently, 74 Towngas China project companies have joined the VCC platform as service providers.

Seizing opportunities arising from the development of "Internet Plus" in mainland China, we have set up online channels which enable the public to buy food and enjoy extended services anytime, anywhere. Towngas Lifestyle also combines technology and innovation to introduce a host of new applications such as gas cloud, smart IoT and home lifestyle services, providing an integrated service platform for our customers' needs.

## Towngas Lifestyle

In 2017, we introduced a membership system, the Towngas Lifestyle Membership Scheme, for customers who as members can not only access online customer services, but also enjoy a variety of special offers, such as discounts on extended services, including health foods, kitchenware, home services, gas insurance and kitchen cabinets, as well as services and information provided by third parties in collaboration with Towngas China. In 2020, Towngas Lifestyle launched a mobile app in addition to our WeChat Mini Programme. As at the end of the year, the number of members exceeded 6 million.


Given the boom in online shopping and the growing demand for quality ingredients from the Chinese market, our project companies took advantage of the Group's Taste Bauhinia brand and the business concept of "one city, three specialities" to source quality agricultural products in their areas of operation. Customers can thus buy local foods from various provinces and municipalities through the Towngas Lifestyle platform without leaving their homes.

Going forward, Towngas Lifestyle will consolidate its position as a health, food and general service provider integrated into the daily lives of our customers as their home lifestyle managers.

## Towngas China Home Lifestyle Services

Building on Towngas Lifestyle's large and loyal customer base, we launched our new Towngas China Home Lifestyle brand in June 2020, broadening the scope of services even further, with options such as home cleaning and home cooking available through the Towngas Lifestyle app.

We provide professional training for every team member of Towngas China Home Lifestyle, making every effort to ensure that the service team practise and promote our "customer-oriented" service concept. To this end, we also conduct a customer satisfaction survey after each service session. As at the end of the year, the survey results show that customer satisfaction levels were well over 90%.

Further improving the services of Towngas China Home Lifestyle, we will be opening "Moment+" Towngas China Home Lifestyle Centres in our many areas of operation throughout the country. Going forward, the plan is to provide a full range of domestic services such as elderly care to create synergy with our existing gas services.

## Mia Cucina

With improving living standards in mainland China, people are increasingly focused on enjoying a quality lifestyle. In particular, the demand for well-decorated homes keeps escalating. Our high-end kitchen cabinet brand, Mia Cucina, fulfils this need. The brand features quality materials and fashionable design, whilst also providing the best storage capacity in a limited space. It has thus enjoyed great popularity with both major developers and residential customers.

In future, Mia Cucina will extend its services beyond the kitchen. We plan to provide services such as customising and installing wardrobes and bathroom cabinets for instance. Customers will be able to enjoy a one-stop service package with better and more comprehensive home design, offering more cohesive and integrated functions and aesthetics.

# Review of Operations

## Safety and Risk Management

It is our mission to provide customers with efficient and safe energy. We thus do our utmost to achieve this end. Even when COVID-19 raged in early 2020, all our frontline employees remained steadfast to their responsibilities, with many of them increasing their service hours as needed. Towngas China also required all general managers of project companies to strengthen safety inspections and added "Special Inspection for the Prevention and Control of COVID-19" item to ensure the safety and stability of the Group's gas supply during the difficult Pandemic period.

## Safety Inspections

To improve safety levels, we introduced more stringent requirements during the year in our monthly general manager safety inspections, and also increased inspection frequency from once to twice a month. Public health items, as needed, were added to the checklist to normalise Pandemic prevention and control. Meanwhile, our corporate Safety and Risk Management Department set specific themes and focus areas for monthly inspections, with a view to eliminating hidden dangers in every aspect.

Further to our regular safety inspections, the Group's Safety Committee also organised unplanned inspections from time to time to keep project companies on the alert with regard to safety management. During the year, Safety Committee members conducted unplanned inspections on project companies in the northeastern region, visiting their business premises including natural gas gate stations and customer centres without prior notice. This initiative ensures that project companies continuously comply with and make improvements to our stringent safety standards.

## Underground Pipe Network Safety

The underground pipe network is the lifeblood of a gas company as it undertakes the important task of safely transmitting natural gas. In recent years, we have been replacing the grey cast iron pipes laid in the early days with high-strength, anti-corrosion steel and polyethylene (PE) pipes, and renovating older pipes that do not meet current standards as well as pipes with safety hazards, to further guarantee gas supply safety.

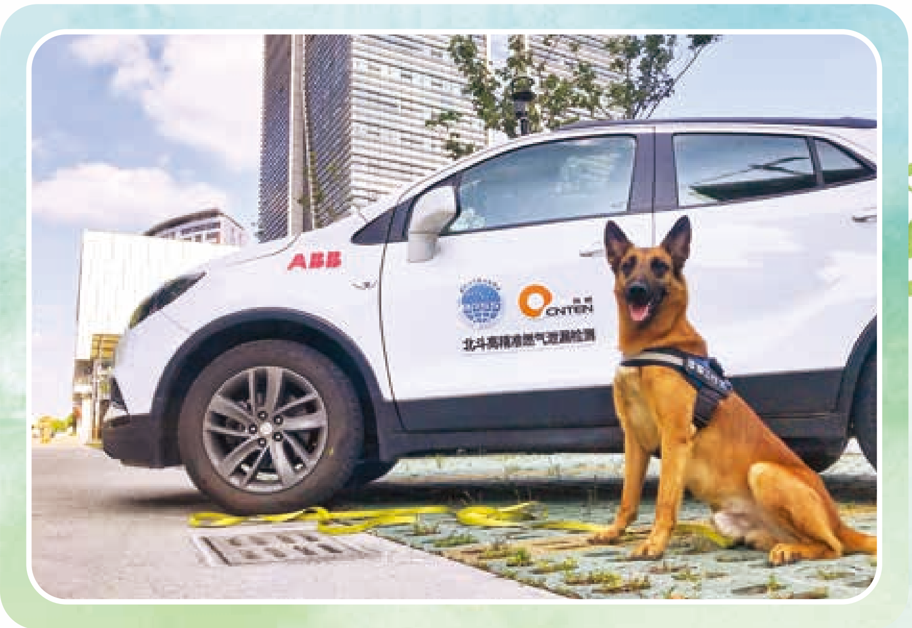
In 2020, engineering staff continued to carry out the relevant replacement work. To date, most of the grey cast iron pipes have been replaced, with about 30 kilometres of pipelines remaining for work.

## Innovative R&D and Construction Safety

In recent years, many innovative initiatives developed by Towngas China employees have been completed and applied to our engineering projects. These activities not only improve efficiency but also help ensure the safety of construction workers.

In 2020, employees proposed improvements to the traditional hanging basket for high-altitude operation, including adopting a seat-type basket that is convenient for pipeline construction operations, together with accessories which can improve safety. These include a suction cup that helps with positioning, reliable suspension equipment as well as automatic control and remote monitoring systems, allowing employees to work more comfortably and safely. The innovative initiative met national safety standards and won the first prize for safety innovation at the "2020 Gas Safety Seminar cum Gas Safety Innovation Achievement Exhibition" held by the China Gas Association.

The Group has recently introduced sniffer dogs for gas leak detection. Sniffer dogs are able to recognise the unique smell of natural gas odorants in the air and give early warning. During the year, we paired the dogs with high-precision leak detection vehicles. The sniffer dog carefully inspects the areas with suspected gas leaks identified by the leak detection vehicle to pin down the exact location of the leak. This innovative combination and application of two leak detection methods have greatly improved the efficiency of leak detection.



# Review of Operations

## Human Resources

At Towngas China, we are committed to upholding our people-oriented operations strategy. In addition to caring for the occupational safety and health of our employees, we seek to create an ideal work environment for our staff. We thus invest heavily in our manpower and resources, providing professional training for employees, so that they enjoy every opportunity to further their career development. During the year, offline training could not be carried out as usual due to the Pandemic. Accordingly, we strengthened the use of Towngas China Mobile Academy, our distance learning platform. Employees could log on to attend training sessions at their own pace, anytime and anywhere. As of 31 December 2020, the Group had a total of 22,506 employees.

In line with anti-COVID-19 requirements, offices were regularly disinfected. We also provided sufficient infection prevention supplies for employees. For example, surgical masks and alcohol disinfectant were provided to employees free of charge. Additionally, frontline employees were provided with professional protective clothing, goggles and alcohol disinfection pads, to ensure that employees can rest assured of their own safety when performing their duties and customers can enjoy peace of mind.

To ensure that the Group has a sufficient talent pool, our Human Resources and Administration Department tailor-makes appropriate training programmes based on seniority, rank and job nature. In 2020, we organised our first "Corporate Executives Talent Training Programme" for senior managers, enabling a deeper understanding of the operations and culture of the Group through the 18-month programme. Under the programme, the general manager and department heads of respective regional subsidiaries served as mentors, and training plans were customised suit to the work requirements of each participant, preparing them to take up decision-making positions within the Group in the future.

The Group also operates the Talent Ladder Scheme and Superior Quality Service Training Programme for mid-level managers and frontline employees respectively. Under the former, middle managers are assigned to different positions to enhance their understanding of different functional departments, with a view to providing support for their further promotion and development. And through the latter, frontline employees are taught to apply thought processes and tools for business process optimisation. Case studies within our operations are used to enhance participants' problem-solving skills and inspire innovative thinking.

## Corporate Social Responsibility

As a leading public utility, Towngas China upholds the principles of "benefitting society through active participation in social services; contributing to the community through dedicated efforts in environmental protection". As such, the Group makes every effort to set an example in its business operations, as it works to safeguard the health and safety of its stakeholders, protect the environment and serve the community.

The Board places great emphasis on investing resources in environmental protection, social welfare and corporate governance. To this end, an Environmental, Social and Governance Committee, consisting of senior management members, has been established. Their responsibilities are to regularly report to the Board the implementation of various projects. A department is dedicated to the coordination of community initiatives and environmental protection activities. This department is in turn supported by the Towngas China Volunteer Team consisting of employees from all of the Group's project companies. The Towngas China Volunteer Team now has more than 6,700 members. During the year, the Group's staff contributed more than 570,000 hours of public service.

### Pandemic Relief Support

In its efforts to help companies resume work and production as soon as possible and protect the health of the community, the Group took the initiative to channel both manpower and resources whenever and wherever possible. For example, when protective supplies were in short supply, the Group mobilised staff to source protective equipment such as surgical masks, protective clothing, gloves, goggles and alcohol disinfectant from around the world. These supplies were then donated to organisations in need and vulnerable groups.


Towngas China sought to pay the highest possible tribute to frontline medical workers who served the community tirelessly during the Pandemic. In addition to donating protective equipment, the Group leveraged its business strengths to donate and install gas stoves, water heaters and gas clothes dryers for medical institutions for free, seeking to support and better cater for the health workers' basic needs by providing a full range of facilities.

### Gentle Breeze Movement

Gentle Breeze Movement is one of Towngas China's iconic community initiatives. Since 2013, the movement sought to improve the quality of life of underprivileged families as well as the teaching environment by providing support for schools with limited resources. To this end, it participates in school renovation projects in addition to donating books and school supplies. Since the start of the initiative to the end of 2020, Towngas China has donated more than RMB3.15 million to over 30 schools.

In 2020, through this movement, the Group carried out educational support activities in Chongqing and Qingyuan city, Guangdong province. Xinmin Primary School is located in a remote area with poor facilities in Qijiang district, Chongqing city. In addition to donating books and school supplies, the Group volunteers provided scholarships for teachers and students who won prizes in the "Little Yue Fei" writing competition. The aim is to support the next generation to carry forward the spirit of loyalty and patriotism. At the same time, the Group also donated two tonnes of northeast rice produced by Bauhinia Farm to 22 schools in Qijiang district in support of the country's education initiatives.

A further educational support activity was the renovation of Dongmang Primary School in Qingyuan city, Guangdong province. In addition to repairing outdoor facilities such as the school gate and flag-raising platform, volunteers set up a "Towngas China Charity Library" for the school and donated a range of school equipment, including a campus broadcasting system, computers as well as desks and chairs, among others.

## Rice Dumplings for the Community

During the Dragon Boat Festival, the Group once again hosted its annual social welfare campaign, "Rice Dumplings for the Community". Over 1,000 corporate volunteers as well as their relatives and friends got together with local educational institutions and charities to source ingredients and make rice dumplings. More than 20,000 rice dumplings were made and donated to the underprivileged in celebration of the festival.

## Long-term Development Strategy

The year 2020 was without doubt a year full of challenges. The Pandemic and the Sino-US trade war posed serious challenges to China's macro-economy. However, this also demonstrated the strong commitment of the Chinese government to bringing the country's businesses and people together. This has enabled China's rapid economic recovery as everyone worked together in concert to overcome the year's many difficulties.

The year 2021 saw the introduction of China's 14th Five-year Plan, promoting energy transition and green development as inevitable steps to building an ecological civilisation. Additionally, the Chinese government is aiming to achieve carbon neutrality by 2060. Thus, China's energy consumption will become increasingly green. In this context, the business of natural gas, which is regarded as a clean energy source, will see growing opportunities. With its ongoing commitment to providing clean energy, Towngas China will continue to deepen its involvement in the country's city-gas markets. Furthermore, in addition to the hundred strong city-gas projects currently held by the Group in China, it has also been engaging in the DES market in recent years to increase its market share in the energy field. The Group believes that DES has the advantage of discharging less carbon dioxide emissions while at the same time providing higher energy efficiency. As such, it will be one of the main development directions of the Group.

To seize the opportunities presented by the 14th Five-year Plan and follow the smart transformation megatrend, Towngas China has launched a number of products with a brand-new "smart stoves" concept. In 2021, the Group will be promoting smart energy and extended services even further. It will also be building an integrated Internet platform comprising the gas cloud, smart Internet of Things ("IoT"), e-commerce and home lifestyle services. This will help drive the development of the Group's extended business services and provide lifestyle services for our customers. In terms of industrial development, the 14th Five-year Plan is greatly relevant to Towngas China's key business areas. Under this trend for green development, it is expected that natural gas and smart energy will present huge development opportunities, which in turn brings better and brighter prospects for the Group's business.

# Awards and Accolades

Throughout the years, Towngas China has taken the initiative to create value for stakeholders. At the same time, the Company commits manpower and resources to help those in need through organising community programmes and in-kind donations. The relevant measures have continuously enjoyed the wide recognition of various sectors of society. In 2020, the Group received numerous industry-leading awards for its sustainable development, financial performance, business operations, corporate culture, community involvement and more.

Key recognitions awarded to the Group for its excellent financial performance and visionary business development strategy include:

## Sustainable Development

### Constituent stock of the Hang Seng Corporate Sustainability Index Series

*Hang Seng Indexes Company Limited*

Towngas China attaches great importance to sustainable business development and proactively responds to stakeholders' expectations and calls. On the back of its outstanding performance in areas including environmental protection, social causes and corporate governance, it was again selected as a constituent stock of the Hang Seng Corporate Sustainability Index Series during the year, demonstrating the Group's leading position among peers in undertaking initiatives to promote sustainable development.

### Best Investment Value Award for Listed Companies

*Hong Kong Ta Kung Wen Wei Media Group, The Listed Companies Association of Beijing, The Hong Kong Institute of Chartered Secretaries, the Hong Kong Chinese Enterprises Association and the Chinese Securities Association of Hong Kong*

Towngas China is committed to holding itself responsible for business results, the environment and our society while attaining the greatest economic value. It strives to create sustainable development with shared value, and its outstanding performance has gained recognition from the capital market in mainland China.

### Young Enterprise in Energy Innovation

*Energy Magazine*

The Group focuses on the development of green and smart energy. By combining various technological applications for natural gas distributed energy and clean energy storage, it safeguards the blue and bright sky, strives to make the planet greener, and boosts the transformation and upgrade of the energy industry. Its efforts in protecting the environment are widely recognised.

### Special Award for China Distributed Integrated Energy Excellent Project 2020 (Shenzhen Gas Building Distributed Energy Station)

### Technological Innovation Award for China Distributed Integrated Energy 2020 (Natural Gas Distribution-based Multi-energy Complementary Microgrid Control System)

### Excellent Operation and Maintenance Management Award for China Distributed Integrated Energy 2020 (Towngas China Energy Investment Limited, "TCEI")

*Organising Committee for the China Distributed Energy Global Forum, China5E.com*

The Group continued to deliver high-quality integrated energy services, invested in various distributed energy projects and carried out the green development of the energy industry. The DES project and gas-based distributed multi-energy complementary micro-grid control system project at the Group's Shenzhen Gas Building were widely recognised during the year.

## Industry Development

**Top Ten Best Operation and Maintenance Companies**
**(Towngas China Energy Investment Limited, "TCEI")**

**The Best Case for Replication and Popularisation**
**(Shenzhen Gas Building Project, Shenzhen, Guangdong; Natural Gas Distributed Heating Supply Project at Liuhe Zhongyuan Daguan District, TCEI Tangshan, Hebei)**

*China City Energy Development Industrial Alliance, China Gas Association Distributed Energy Committee*

The awards aim to recognise companies for their active role in applying clean energy and contributing to energy transformation in order to boost high-quality urban development. The Company won these awards for its outstanding performance in clean energy promotion and technological innovation.

## Corporate Social Responsibility


**2020 China Five-star Corporate Citizen**


**2020 Corporate Citizen as Pandemic Prevention and Anti-pandemic Pioneer**


**2020 Chinese Corporate Citizen's Outstanding Charity Project (Gentle Breeze Movement)**

*Organising Committee on China Committee of Corporate Citizen's Exchange Summary Conference*

The award aims to recognise companies for their outstanding contributions to society during the Pandemic. As a public utility, Towngas China not only braved the difficulties amid the challenging situation but also took the initiative to undertake social responsibility by supporting anti-pandemic projects with practical action. Moreover, it continued to roll out the Gentle Breeze Movement during the year to improve the teaching environment at schools in remote areas.

# Risk Factors

In the risks discussed below, we highlight the factors that could have an adverse material effect on the Group's revenues, cash flows, market competitiveness and operations in mainland China.

For further details on how the Group manages its risks, please refer to the "Risk Management and Internal Control" section of our Corporate Governance Report on pages 65 to 68.

## Business Environment

In order to contain the rapid spread of the novel coronavirus (COVID-19) in 2020, widespread global lockdowns were imposed. In many countries, many businesses ranging from factories to restaurants closed, which dealt a heavy blow to the economy. Nearly all types of businesses were seriously affected, but the retail, travel and catering sectors were particularly hard hit.

COVID-19 triggered the deepest global economic recession in decades. While the ultimate outcome of the recession is still uncertain, the pandemic will result in contractions across the vast majority of emerging markets and developing economies. It will also affect labour productivity and industrial output.

Mainland China experienced a very difficult beginning in 2020 but delivered satisfactory results by the end of 2020, after bringing the pandemic under control. The country was the only major economy in the world to register growth for the year, with a GDP growth of 2.3%. Despite continuing Sino-US trade tensions, Mainland China's total export value increased 3.6%, beating the 0.5% increase in 2019. The Brent crude oil price dropped 35% from an average of USD64 per barrel in 2019 to USD42 per barrel in 2020.

Business challenges faced by the Group included a slowdown in gas demand as a result of the global economic downturn, competition from direct sales by upstream gas companies, as well as suppliers of liquefied natural gas (LNG) and alternative energy sources. Other threats to our business included drops in oil prices and changes in government policy (political, legal, regulatory, environmental or competition related), all of which could also affect our operations.

Our strategy for dealing with business risks continues to be critical for the sustainable growth and success of the Group. In line with this strategy, we remain prudent in our capital investments and seek ways to improve the productivity and cost effectiveness of all our operations. Credit monitoring is also reinforced to minimise the risk of customer default.

Furthermore, we are constantly exploring new gas applications and new business opportunities to achieve business diversification, while maintaining close communication with our operational partners and governments whose support is essential for our business growth.

In response to the potential impact of COVID-19, a variety of counter measures has been put in place to alleviate the impact on our operations and relieve the operating pressure of our customers. In addition, special measures have been taken to minimise the impact of the pandemic on our workforce, as mentioned later in this section.

## Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and broaden our access to LNG, we are continuing to evaluate the feasibility of developing LNG receiving and regasification terminal in the coastal regions which will enable us to have access to a range of competitive LNG supplies directly from the international market and help minimise supply risks. Besides, LNG storage facilities are in place to facilitate more efficient gas inventory management and reduce supply bottlenecks during high demand periods. A variety of energy sources have also been obtained, including natural gas supplied to northern and northeastern China from Russia as well as through the reinforcement of pipeline network interconnections.

To ensure reliable gas transmission, we have a sophisticated Supervisory Control and Data Acquisition (SCADA) system to monitor and control our pressure-regulating stations and network. We also have a comprehensive staff training programme, asset management systems, and contingency plans with regular practice drills, in preparation for unforeseen events that might affect our customers and the public. Moreover, the development of regulatory requirements for gas reserves applicable to our gas operations in mainland China are being closely monitored.

## Distribution Network Safety

Preventing gas leakages or explosions in our pipelines, networks and storage facilities is a top priority for Towngas China. Risks include the possibility of damage to critical facilities or related infrastructure from a third party, a security threat or extreme weather events such as typhoons, flooding or landslides. These and other factors affecting the safety of our infrastructure or causing an interruption to service would have a significant legal, financial and/or reputational impact on the Group.

Towngas China conducts regular reviews of all operating procedures to mitigate these risks and implements targeted strategies for addressing them. Our Total Quality Management system, for example, covers all critical transmission, distribution and storage facilities. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

## Information Security

Our business operations are dependent on information technology systems that are vulnerable to a critical system failure, leakage or loss of sensitive information, all of which would adversely affect the Group's business. Accordingly, we have put in place protective measures to manage data loss and monitor suspicious cyber activities. We also commission third parties to assess our security standards and identify areas for enhancement. Other security measures include contingency plans with regular drills to counter system failures as well as staff awareness programmes on cybersecurity and sensitive information handling to fully safeguard our operations against growing information security threats. Furthermore, the development of new regulatory requirements in mainland China relating to information security is also under close scrutiny for proper compliance.

## Ethics and Integrity

Maintaining strong corporate governance standards and operating ethically are among management's top concerns. Poor ethical behaviour by employees could damage our corporate reputation as well as adversely affect our long-established business relationships with stakeholders, including our customers and suppliers, which may have potential financial implications. In order to provide an ethical workplace with integrity, we have policies on the standards of behaviour we expect of our employees and provide them with regular training in these policies. We have also established formal channels for reporting suspected cases of fraud and encourage our business partners to follow the same ethical principles that we promote in our Anti-Fraud Policy.

## Health and Safety

We recognise the importance of maintaining high levels of occupational health and safety in all our operations. Serious accidents or the outbreak of a communicable disease, among other risks, could cause injury, loss of life and operational disruption that would result in huge recovery costs, litigation or reputational damage.

To mitigate and contain the risks directly or indirectly under our control, we encourage staff at all levels to monitor and report any hazards or potential threats. We also have comprehensive safety guidelines and measures that ensure our safety performance conforms to the highest industry standards. Our safety management system, certified for compliance with international standards, is reviewed and updated regularly. We also emphasise the importance of maintaining a comprehensive and effective safety culture by providing staff and contractors with systematic professional, technical and safety-related training.

In 2020, we put additional measures in place to protect our workforce during the outbreak of COVID-19. These included, but were not limited to, the adoption of a variety of special work arrangements to maintain social distancing and the provision of necessary personal protective equipment to our employees.

# Board of Directors

James Kwan Yuk-choi | Martin Kee Wai-ngai | Alfred Chan Wing-kin | Peter Wong Wai-yee | Moses Cheng Mo-chi | John Ho Hon-ming | Brian David Li Man-bun

**Mr. Alfred Chan Wing-kin**, *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*, aged 70, has been the Chairman and an Executive Director of the Company since March 2007. Mr. Chan is the Managing Director of HKCG (a listed public company and the controlling shareholder of the Company) and is a director of major local and overseas subsidiaries of HKCG. Mr. Chan is also the Vice Chairman of Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd., and was previously a Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd., all of which are listed public companies. He is an Honorary President of The Hong Kong Management Association and a Vice Chairman of China Gas Association. Mr. Chan is a Member of the Standing Committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region. He was previously the Deputy Chairman of the Council of The Hong Kong Institute of Education (now known as The Education University of Hong Kong) and a Member of the Board of Stewards of The Education University of Hong Kong Foundation. 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, "The CEO of the Year 2017" Award from China Newsweek in 2017 and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review from 2015 to 2019. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

**Mr. Peter Wong Wai-yee**, *C.P.A.(CANADA), C.M.A., C.P.A.(HK), A.C.G., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*, aged 69, has been an Executive Director and the Chief Executive Officer of the Company since March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer of the Utilities Business of HKCG (a listed public company 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.. He was previously the Vice Chairman of Foshan Gas Group Co., Ltd. (now known as Foran Energy Group Co., Ltd.) and a director of China-Singapore Suzhou Industrial Park Development Group Co., Ltd. ("CSSD") until his retirement at CSSD on 29 June 2020. All of which are listed public companies. He is a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. 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, a certified public accountant of Hong Kong and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of The Hong Kong Institute of Directors and 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, a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. He is a member of the Advisory Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University. Mr. Wong has over 44 years of experience in corporate finance, management and international working experience.

**Mr. John Ho Hon-ming**, *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.)*, aged 64, has been an Executive Director and the Company Secretary of the Company since March 2007. Mr. Ho has been appointed as an Executive Director of HKCG (a listed public company and the controlling shareholder of the Company) with effect from October 2020. Mr. Ho is also the Chief Financial Officer and the Company Secretary of HKCG and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd., Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd., all of which are listed public companies. Mr. Ho is the Vice Chairman of the General Committee of the Chamber of Hong Kong Listed Companies and the Vice Chairman 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, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of The Hong Kong Institute of Directors. Mr. Ho graduated from the University of Manchester in the United Kingdom with an honorable Bachelor of Arts degree in Economics and Social Studies (Accounting and Finance). He completed the Advanced Management Program from Harvard Business School in the United States, the Senior Executive Program offered by Harvard Business School, Tsinghua University School of Economics and Management and China Europe International Business School, and the Chief Executive Program from Singapore Institute of Management. Mr. Ho has over 42 years of experience in accounting, corporate finance and investments.

# Board of Directors

**Mr. Martin Kee Wai-ngai**, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 54, has been an Executive Director of the Company since May 2015 and was appointed as the Chief Operating Officer of the Company in July 2017. Mr. Kee graduated from the Department of Engineering, The University of Hong Kong and holds a master degree in Business Administration. He joined HKCG (a listed public company and the controlling shareholder of the Company) in 1990. In 2012, Mr. Kee was appointed as the executive vice president of Hong Kong & China Gas Investment Limited, responsible for the operation and management of the gas project companies in East China region. He was also appointed as the executive vice president of Hua Yan Water business in 2017. He is the Vice Chairman of Anhui Province Natural Gas Development Co., Ltd. and a director of Nanjing Public Utilities Development Co., Ltd., both of which are listed public companies. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Kee, a Chartered Engineer, is a member of The Institution of Gas Engineers & Managers of the United Kingdom, and was formerly the chairman of its Far East District Section. Mr. Kee is a member of the 14th Nanjing Committee of the Chinese People's Political Consultative Conference.

**Dr. Moses Cheng Mo-chi**, *GBM, GBS, OBE, JP*, aged 71, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Remuneration Committee and a member of the Board Audit and Risk Committee and the Nomination Committee of the Company. He is also an independent non-executive director of HKCG (a listed public company and the controlling shareholder 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 is now also serving as Chairman of the Insurance Authority. In addition, he is a Fellow of the Hong Kong Academy of Finance. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all of which are listed public companies in Hong Kong. His other directorship in listed public companies in the last 3 years includes Kader Holdings Company Limited.

**Mr. Brian David Li Man-bun**, *JP, FCA, MBA, MA (Cantab)*, aged 46, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Board Audit and Risk Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is Co-Chief Executive of The Bank of East Asia, Limited ("BEA") (a listed company on the Hong Kong Stock Exchange). He is responsible for the overall management and control of the BEA Group with a particular focus on its China and international businesses. He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009, and Deputy Chief Executive of BEA from April 2009 to June 2019. Mr. Li was appointed Executive Director of BEA in August 2014 and Co-Chief Executive of BEA in July 2019. He is also an independent non-executive director of Shenzhen Investment Holdings Bay Area Development Company Limited and China Overseas Land & Investment Limited, both of which are listed companies on the Hong Kong Stock Exchange. Mr. Li holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a Member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council, a member of the Aviation Development and Three-runway System Advisory Committee, and Vice Chairman of the Executive Committee of St. James' Settlement. Mr. Li is a member of the Hong Kong-Europe Business Council, a member of the Hongkong-Japan Business Co-operation Committee and a Vice Chairman of the Asian Financial Cooperation Association. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is also a Member of the Hong Kong Academy of Finance and a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University as well as a BA degree from the University of Cambridge.

**Mr. James Kwan Yuk-choi**, *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 69, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company in 2013. Mr. Kwan was re-designated as an Independent Non-Executive Director and appointed as a member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from May 2015. Mr. Kwan is also an independent non-executive director of MTR Corporation Limited (a listed public company). He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and a VTC Honorary Fellowship by the Vocational Training Council in 2015. 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.

*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 2020 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 listed public 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 13 to the consolidated financial statements.

4. The current term of office of Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, each an Independent Non-Executive Director, shall expire on 20 May 2022. It is proposed to re-elect Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi as Independent Non-Executive Directors for a term of 3 years commencing on the date of the Company's annual general meeting (the "AGM") in 2021. 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 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.

# 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 2020.

## 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 44 to the consolidated financial statements.

## Results and Final Dividend

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement on page 76.

The Directors have recommended the payment of a final dividend out of the share premium account of HK fifteen cents per share (2019: HK fifteen cents per share) to shareholders whose names are on the register of members of the Company on Friday, 4 June 2021.

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, 11 June 2021. Subject to approval by shareholders at the AGM to be held on Thursday, 27 May 2021 and compliance with the Companies Act 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 Tuesday, 13 July 2021. The register of members of the Company will be closed from Wednesday, 2 June 2021 to Friday, 4 June 2021 (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 Tuesday, 13 July 2021 to the shareholders whose names appear on the register of members of the Company on Friday, 4 June 2021.

## Business Review

The business review of the Group for the year ended 31 December 2020 including a fair review of the business, an indication of likely future development in the Group's business, and particulars of important events affecting the Group that have occurred since the end of the financial year of 2020 (if any), is set out in the sections headed "Chairman's Statement" on pages 6 to 11, "Financial Review" on pages 12 to 15 and "Review of Operations" on pages 16 to 31 of this Annual Report. A discussion on the Group's environmental policies and performance, an account of the Group's key relationships with its stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group can be found in "Review of Operations" on pages 16 to 31 and "Corporate Governance Report" on pages 54 to 69 as well as the standalone 2020 Environmental, Social and Governance Report.

Description of possible risks and uncertainties that the Group may be facing can be found in the "Financial Review" on pages 12 to 15, "Risk Factors" on pages 34 to 35 and Notes 4 to 6 to the consolidated financial statements on pages 116 to 131 of this Annual Report.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 120 to 129. 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.

## 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 80.

The Company's reserves available for distribution to shareholders as at 31 December 2020 amounted to HK$4,814 million (2019: HK$2,461 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 2020 is set out on page 4.

## Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

# Report of the Directors

## Share Capital

During the year, the Company declared a final dividend of HK fifteen cents per share for the year ended 31 December 2019 in cash (with scrip option). A total of 98,247,825 shares of the Company, fully paid, were issued and allotted in scrip form at HK$3.644 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 35 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. Alfred Chan Wing-kin *(Chairman)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*

### Independent Non-Executive Directors

Dr. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi

In accordance with article 112 of the Articles, Mr. Peter Wong Wai-yee, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, 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. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-Executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and are independent.

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 36 to 39 of this Annual Report.

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

As at 31 December 2020, the interests or short positions of the Directors and the chief executive in 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares

| | | | Interest in shares | | | | |
|---|---|---|---|---|---|---|---|
| **Name of Company** | **Name of Director** | **Capacity** | **Personal interest** | **Family interest** | **Corporate interest** | **Aggregate interest** | **Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2020** |
| Towngas China Company Limited | Alfred Chan Wing-kin | Beneficial owner | 4,041,693 | — | — | 4,041,693 | 0.14% |
| | Peter Wong Wai-yee | Beneficial owner | 3,201,000 | — | — | 3,201,000 | 0.11% |
| | John Ho Hon-ming | Beneficial owner | 1,133,862 | — | — | 1,133,862 | 0.04% |
| | James Kwan Yuk-choi | Beneficial owner | 2,265,000 | — | — | 2,265,000 | 0.08% |
| HKCG | Alfred Chan Wing-kin | Interest held jointly with spouse | 338,831 | — | — | 338,831 | 0.00% |
| | John Ho Hon-ming | Beneficial owner | 53,058 | — | — | 53,058 | 0.00% |
| | James Kwan Yuk-choi | Beneficial owner and interest of spouse | 115,500 | 135,523 | — | 251,023 | 0.00% |

Save as stated above, as at 31 December 2020, 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.

## Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Equity-linked Agreements

No equity-linked agreements were entered into by the Group, or existed during the year.

## Directors' Material Interests in Transactions, Arrangements or Contracts

Other than the transactions disclosed under the heading "Connected Transactions" below, there were 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 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 judgement is given in his/her favour, or in which he/she is acquitted.

The permitted indemnity provision was in force during the year and the Company has arranged appropriate directors' and officers' liabilities insurance coverage for the 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. Alfred Chan Wing-kin, the Chairman and an Executive Director of the Company, is the Managing Director of HKCG; Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, is an Executive Director of HKCG; Mr. John Ho Hon-ming, an Executive Director and the Company Secretary of the Company, is an Executive Director of HKCG; and Dr. Moses Cheng Mo-chi, an Independent Non-Executive Director of the Company, is an Independent Non-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 2020, so far as the Directors are aware, the interests or short positions of every person, other than the Directors or chief executive of the Company, in the issued shares of the Company (the "Shares") as recorded in the register of substantial shareholders required to be kept under section 336 of the SFO were as follows:

### Long positions in Shares

| Name of shareholder | Capacity | Aggregate interest in Shares | Approximate percentage of the number of Shares as at 31.12.2020 |
|---|---|---|---|
| Lee Shau-kee | Interest of controlled corporations | 2,025,099,415 *(Note 1)* | 68.21% |
| Rimmer (Cayman) Limited ("Rimmer") | Trustee | 2,025,099,415 *(Note 2)* | 68.21% |
| Riddick (Cayman) Limited ("Riddick") | Trustee | 2,025,099,415 *(Note 2)* | 68.21% |
| Hopkins (Cayman) Limited ("Hopkins") | Interest of controlled corporations | 2,025,099,415 *(Note 2)* | 68.21% |
| Henderson Development Limited ("HD") | Interest of controlled corporations | 2,025,099,415 *(Note 2)* | 68.21% |
| Henderson Land Development Company Limited ("HLD") | Interest of controlled corporations | 2,025,099,415 *(Note 2)* | 68.21% |
| Faxson Investment Limited ("Faxson") | Interest of controlled corporations | 2,025,099,415 *(Note 2)* | 68.21% |
| HKCG | Interest of controlled corporations | 2,025,099,415 *(Note 3)* | 68.21% |
| Towngas International Company Limited ("TICL") | Interest of controlled corporation | 1,850,656,677 *(Note 3)* | 62.33% |
| Hong Kong & China Gas (China) Limited ("HK&CG (China)") | Beneficial owner | 1,850,656,677 *(Note 3)* | 62.33% |
| Towngas Investment Company Limited ("TICL-HK") | Interest of controlled corporations | 174,442,738 *(Note 3)* | 5.88% |
| Planwise Properties Limited ("Planwise") | Beneficial owner | 171,524,099 *(Note 3)* | 5.78% |

## Substantial Shareholders *(Continued)*

### Long positions in Shares *(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 2,025,099,415 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 2,025,099,415 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 1,850,656,677 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("Superfun") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 174,442,738 Shares, which included (a) the 171,524,099 Shares held by Planwise; and (b) the 2,918,639 Shares held by Superfun by virtue of Part XV of the SFO.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2020, were entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

## Short Positions in Shares and Underlying Shares

As at 31 December 2020, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares.

## Other Persons

As at 31 December 2020, 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 of the Company as disclosed above) in the Shares or underlying Shares that was required to be disclosed under Divisions 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 2020 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 ("HKICPA"). 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 40 to the consolidated financial statements, as appropriate, in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### Gas Purchase Transactions and Pipeline Materials Purchase Transactions

On 5 December 2018, the Company and HKCG entered into two master agreements respectively, namely:

(1) an agreement (the "2018 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 "2018 Pipeline Materials Purchase Master Agreement", and together with the 2018 Gas Purchase Master Agreement, collectively referred to as the "2018 CCT Master Agreements") relating to the purchase of various pipeline construction materials, gas meters and measuring tools by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"),

each for a term commencing from 1 January 2019 to 31 December 2021 (both days inclusive). Particulars of the Gas Purchase Transactions, the Pipeline Materials Purchase Transactions and the 2018 CCT Master Agreements were disclosed in the announcement of the Company dated 5 December 2018. Further, as announced by the Company on 23 May 2019, the Company had revised the annual cap amounts in respect of the Gas Purchase Transactions for the financial years ending 31 December 2019, 2020 and 2021 respectively.

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 2018 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 exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Connected Transactions *(Continued)*

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

The Gas Purchase Transactions and the Pipeline Materials Purchase Transactions were subject to the annual cap amounts of RMB140,000,000 (approximately HK$157,640,000) and RMB220,000,000 (approximately HK$247,720,000) respectively for the year ended 31 December 2020. The actual respective amounts of the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2020 were RMB66,416,000 (approximately HK$74,784,000) and RMB155,473,000 (approximately HK$175,062,000) respectively, which had 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 the Pipeline Materials Purchase Transactions for the year ended 31 December 2020 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 in the interest of the shareholders of the Company as a whole.

The Board also considers that the transactions had 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 Transactions, System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, Sale of Distributed Energy Transactions, and Engineering Work Services Transactions

On 6 December 2019, the Company and two subsidiaries of HKCG, the Company and HKCG, and a wholly-owned subsidiary of the Company and HKCG entered into four master agreements respectively, namely:

(1) an agreement (the "2019 Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities projects 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"), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");

(2) an agreement (the "2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement") relating to the provision by 卓銳智高 (武漢) 科技有限公司 ("S-Tech (Wuhan)"), a wholly-owned subsidiary of HKCG, to members of the Group of (i) the user authorisation, installation, management and maintenance and the provision of technical supporting services in respect of the system software developed by S-Tech (Wuhan), including but not limited to Towngas Customer Information System, Geographic Information System, Supervisory Control and Data Acquisition, Mobility Meter Reading Application, Mobility Regular Safety Inspection Application and Mobility Maintenance Service Application and (ii) 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 (the "System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions");

(3) an agreement (the "2019 Master Sale of Distributed Energy Agreement") relating to the sale of distributed energy (including but not limited to electricity, steam, heating, cooling and hot water which are generated through the use of energy efficient technology to capture residual heat) by members of the Group to members of the HKCG Group (the "Sale of Distributed Energy Transactions"); and

(4) an agreement (the "2019 Master Engineering Work Services Agreement", and together with the 2019 Master Project Management Agreement, the 2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement and the 2019 Master Sale of Distributed Energy Agreement collectively referred to as the "2019 CCT Master Agreements") relating to the provision of engineering work services (including but not limited to non-excavation engineering work services, pipeline positioning measurement services, bidding agency services, cost consultation services, sale of innovative tools, urban pipeline engineering services, water supply, drainage and heating engineering work services, technical consultation services for engineering projects, and pipeline inspection services) by 卓裕 (廣東) 工程建設有限公司, a wholly-owned subsidiary of the Company, to members of the HKCG Group (the "Engineering Work Services Transactions"),

each for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive). Particulars of the Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions, the Engineering Work Services Transactions and the 2019 CCT Master Agreements were disclosed in the announcement of the Company dated 6 December 2019.

## Connected Transactions *(Continued)*

### Project Management Transactions, System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, Sale of Distributed Energy Transactions, and Engineering Work Services Transactions *(Continued)*

As HKCG is a controlling shareholder of the Company, and Shenyang Sanquan and S-Tech (Wuhan) are subsidiaries of HKCG, each of HKCG, Shenyang Sanquan and S-Tech (Wuhan) is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the 2019 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 exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions were subject to the annual cap amounts of RMB12,000,000 (approximately HK$13,512,000), RMB27,000,000 (approximately HK$30,402,000), RMB40,000,000 (approximately HK$45,040,000) and RMB19,000,000 (approximately HK$21,394,000) respectively for the year ended 31 December 2020. The actual respective amounts of the Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions were RMB5,554,000 (approximately HK$6,254,000), RMB14,630,000 (approximately HK$16,474,000), nil and RMB1,961,000 (approximately HK$2,208,000) respectively, which had 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, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions for the year ended 31 December 2020 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 in the interest of the shareholders of the Company as a whole.

The Board also considers that the transactions had 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 40 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 2020 are set out in Note 32 to the consolidated financial statements.

## Donations

During the year, the Group made charitable and other donations amounting to approximately HK$994,000.

## 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

The percentage of the operating cost attributable to the Group's five largest suppliers was less than 30% during the year. 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 2020.

## Emolument Policy

As at 31 December 2020, the Group had 22,506 employees, with 99% located in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. On-the-job training is provided as well as optimal benefits packages for employees, which include medical and retirement plans, year-end bonuses and other incentives. Employees are also encouraged to adopt a work-life balance, whilst improving the work environment on a continuing basis. The Group aims to help employees realise their full potential as well as their 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.

## Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2020.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 54 to 69 of this Annual Report.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2020 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.

**John Ho Hon-ming**
*Executive Director and Company Secretary*

Hong Kong, 18 March 2021

# Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintaining high standards of corporate governance. They will continue to exercise leadership, control, enterprise, integrity and judgement 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 CG 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 CG Code throughout the year ended 31 December 2020.

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. Alfred Chan Wing-kin *(Chairman)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*

#### Independent Non-Executive Directors

Dr. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi

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 the time involved. The Board believes that the balance of skills and experience are appropriate for safeguarding the interests of shareholders and the Group.

## Board of Directors *(Continued)*

### Board Composition *(Continued)*

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

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 the Stock Exchange.

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.

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 2020.

The current term of office of Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, each an Independent Non-Executive Director, shall expire on 20 May 2022. It is proposed to re-elect Mr. Brian David Li Man-bun and Mr. James Kwan Yuk Choi as Independent Non-Executive Directors for a term of 3 years commencing on the date of the 2021 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 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. All Board appointments will be made on a merit basis, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Please refer to the section headed "Nomination Committee" below for a summary of the Board Diversity Policy.

## Board of Directors *(Continued)*

### Functions of the Board

Headed by the Chairman, the Board is responsible for the 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 conducting 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 the 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.

## 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 2020:

| Directors | Type of Training |
|---|---|
| **Executive Directors** | |
| Mr. Alfred Chan Wing-kin *(Chairman)* | A, B |
| Mr. Peter Wong Wai-yee *(Chief Executive Officer)* | A, B |
| Mr. John Ho Hon-ming *(Company Secretary)* | A, B |
| Mr. Martin Kee Wai-ngai *(Chief Operating Officer)* | A, B |
| **Independent Non-Executive Directors** | |
| Dr. Moses Cheng Mo-chi | A, B |
| Mr. Brian David Li Man-bun | A, B |
| Mr. James Kwan Yuk-choi | A, B |

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

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

## Board of Directors *(Continued)*

### Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2020 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 CG Code. Details of individual attendance of each of the Directors are set out below:

| Directors | Attendance/Number of Meetings |
|---|---|
| **Executive Directors** | |
| Mr. Alfred Chan Wing-kin *(Chairman)* | 4/4 |
| Mr. Peter Wong Wai-yee *(Chief Executive Officer)* | 4/4 |
| Mr. John Ho Hon-ming *(Company Secretary)* | 4/4 |
| Mr. Martin Kee Wai-ngai *(Chief Operating Officer)* | 4/4 |
| **Independent Non-Executive Directors** | |
| Dr. Moses Cheng Mo-chi | 4/4 |
| Mr. Brian David Li Man-bun | 4/4 |
| Mr. James Kwan Yuk-choi | 4/4 |

## Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Alfred Chan Wing-kin and the Chief Executive Officer is Mr. Peter Wong Wai-yee. 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 the 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.

## Board of Directors *(Continued)*

### Responsibilities of the Directors

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

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- reviewing the financial statements and budget proposal of the Group;
- 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.

## Board Committees

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Board Audit and Risk 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.

## Board Committees *(Continued)*

### Remuneration Committee

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

Written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board. 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 2020, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2020;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2020.

The Remuneration Committee held one meeting during the year ended 31 December 2020 with individual attendance as follows:

| Members of the Remuneration Committee | Attendance/Number of Meetings |
|---|---|
| Dr. Moses Cheng Mo-chi | 1/1 |
| Mr. Brian David Li Man-bun | 1/1 |
| Mr. James Kwan Yuk-choi | 1/1 |
| Mr. Alfred Chan Wing-kin | 1/1 |

Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. On-the-job training is provided as well as optimal benefits packages for employees, which include medical and retirement plans, year-end bonuses and other incentives. Employees are also encouraged to adopt a work-life balance, whilst improving the work environment on a continuing basis. The Group aims to help employees realise their full potential as well as their contribution to the Group.

## Board Committees *(Continued)*

### Board Audit and Risk Committee

The Board Audit and Risk Committee comprises Mr. Brian David Li Man-bun, Dr. Moses Cheng Mo-chi and Mr. James Kwan Yuk-choi, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Brian David Li Man-bun.

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

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

During the year ended 31 December 2020, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2019 and for the six months ended 30 June 2020;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the risk management and internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2019 pursuant to the Listing Rules.

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2020 with individual attendance as follows:

| Members of the Board Audit and Risk Committee | Attendance/Number of Meetings |
|---|---|
| Mr. Brian David Li Man-bun | 2/2 |
| Dr. Moses Cheng Mo-chi | 2/2 |
| Mr. James Kwan Yuk-choi | 2/2 |

## Board Committees *(Continued)*

### Nomination Committee

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

Written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board. 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 (including the skills, knowledge and experience) and diversity of the Board, assessing the independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board. The Nomination Committee shall consider the candidate from a range of backgrounds based on meritocracy and against objective criteria set out by the Board.

#### Board Diversity Policy

The Board adopted a Board Diversity Policy and the summary is set out below:

Selection of candidates to the Board will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and the contribution that the selected candidates will bring to the Board.

#### Nomination Policy

The Board adopted a Nomination Policy which sets out the principles guiding the Nomination Committee to identify suitable candidate for nomination to the Board for appointment or to the shareholders of the Company for election as a Director of the Company. The policy contains a number of factors to which the Nomination Committee has to adhere when considering nominations. These factors include the candidate's skills, knowledge and experience, diversity perspectives set out in the Board Diversity Policy, the candidate's time commitment and standing, and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an Independent Non-executive Director. The policy also lays down the following nomination procedures: the Nomination Committee (a) will take appropriate measures to identify and nominate a candidate; (b) may consider a candidate recommended or offered for nomination by a shareholder of the Company; and (c) will, on making the recommendation, submit the candidate's biographical details to the Board for consideration.

## Board Committees *(Continued)*

### Nomination Committee *(Continued)*

During the year ended 31 December 2020, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2020 AGM;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board.

The Nomination Committee, having reviewed the Board's composition, nominated Mr. Alfred Chan Wing-kin, Mr. Martin Kee Wai-ngai and Dr. Moses Cheng Mo-chi to the Board for it to recommend to the Shareholders for re-election at the annual general meeting of the Company held on 21 May 2020. The nominations were made in accordance with the Nomination Policy and the selection criteria (including without limitation skills, knowledge and experience), having regard for the diversity of perspectives as listed out in the Board Diversity Policy.

The Nomination Committee held one meeting during the year ended 31 December 2020 with individual attendance as follows:

| Members of the Nomination Committee | Attendance/Number of Meeting |
|---|---|
| Mr. Alfred Chan Wing-kin | 1/1 |
| Dr. Moses Cheng Mo-chi | 1/1 |
| Mr. Brian David Li Man-bun | 1/1 |
| Mr. James Kwan Yuk-choi | 1/1 |

## 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 2020, 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 2020.

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 HKICPA for the year ended 31 December 2020. Deloitte also reviewed the 2020 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 2020 amounted to HK$7.77 million. During the year, payment to Deloitte in respect of non-audit services, mainly including taxation services, interim results review services and services in connection with the major transaction circular provided to the Group amounted to HK$1.72 million.

## 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 70 to 75 of this Annual Report.

## Going Concern Basis in Preparing Financial Statements

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

## Risk Management and Internal Control

### Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems.

Risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Policies and procedures are established to ensure that all payments and investments are properly authorised, critical assets and data are safeguarded as well as all company records are accurate and complete. In addition, the Group has a strict internal code of conduct and an Anti-Fraud Policy which provide guidance on the ethical behaviour when handling issues such as bribery and corruption, conflicts of interest, insider dealing, acceptance of gift and entertainment and fair dealing. The Board adopted a Whistleblowing Policy which provides reporting channels and guidance for employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report possible improprieties in matters of financial reporting or other matters. The Whistleblowing Policy and the Anti-Fraud Policy are available on the Company's website.

The Group's internal audit function, which is independent of the Group's management team, assesses and monitors the effectiveness of the Group's risk management and internal control systems and reports to the Board Audit and Risk Committee on a half-yearly basis. The function has unrestricted access to the company records that allows it to review all aspects of the Group's control and governance process. Yearly audit plan is prepared for review and approval by the Board Audit and Risk Committee. The scope of work includes financial and operational review, recurring and unscheduled audit, fraud investigation and compliance review. The opinion, as formulated by the function on the effectiveness of the risk management and internal control systems, together with the major findings and implementation progress of the audit recommendations, would be reported to the Board Audit and Risk Committee.

## Risk Management and Internal Control *(Continued)*

### Internal Control *(Continued)*

During the year ended 31 December 2020, the Board, through the Board Audit and Risk Committee, has conducted a bi-annual review of the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

The Board ensured that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance or material internal control defects, if any. The Board also considered that the Group's risk management and internal control systems are effective and adequate.

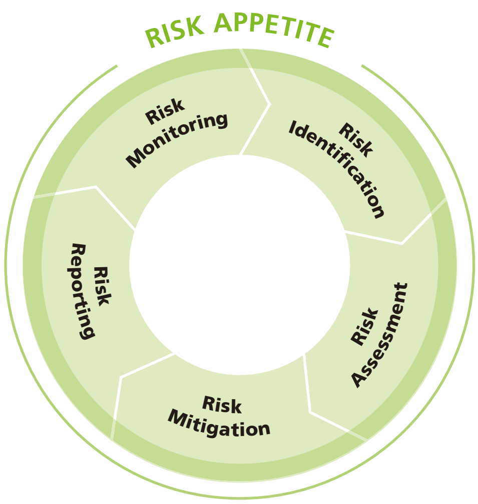
## Risk Management

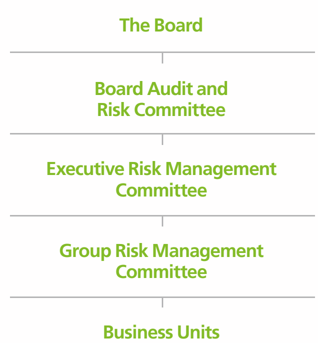
### Risk Management Framework

Rooted in its corporate vision and mission, the Group strives the best to provide its customers with a safe, reliable supply of gas as well as the caring, competent and efficient service they expect. Meanwhile, the Group is also working to pursue sustainable development and caring for the environment, people and community.

To ensure growth and long-term value for the key stakeholders, the Group considers risk governance as its top priority and is committed to establishing a robust system of risk identification and management which is central to its ongoing success.

The Group has in place an Enterprise Risk Management Framework (the "Framework") that depicts the system to effectively identify, assess, mitigate, report and monitor key business risks across all business units of the organisation. The system enables the management team to gain a clear view of the significant risks for better strategy setting and project execution which ultimately contribute to enhanced business performance.



## Risk Management and Internal Control *(Continued)*

### Risk Management *(Continued)*

#### Risk Appetite

To pursue the Group's mission and keep in line with the expectations of its stakeholders, the Group is willing to take reasonable and manageable risks that are consistent with its strategic business drivers and necessary to promote innovation and continued growth but would not expose the Group to the following:

1. Major incidents affecting safety and health of its staff, contractors and the general public;

2. Loss or failure of infrastructures and operations materially affecting production and supply;

3. Material financial loss impacting ability of the Group to carry out its business drivers;

4. Incidents leading to profound negative impact on corporate image or reputation;

5. Legal actions that are liable for major loss or suspension of operations; and

6. Incidents leading to severe impacts on the environment.

#### Risk Management Structure

The risk management structure sets out the mechanism by which authority is exercised, decisions are taken and organisation is effectively supervised. The Board Audit and Risk Committee supports the Board in overseeing the overall risk management system and provides assurance to the Board at least annually that the system is operating effectively. The Executive Risk Management Committee ("ERMC"), which is composed of key management executives, is responsible for the system formulation and its effective implementation to maintain risk exposures within the risk appetite. It is assisted by the Group Risk Management Committee ("GRMC"), which comprises risk owners who are also the key business management team. GRMC reviews the major risk exposure, monitors the implementation of risk-mitigating controls and reports to ERMC regularly on the results of risk management review.

#### Risk Management Process

The risk management process is embedded into the day-to-day operation and is an ongoing process carried out by everyone in the organisation across all business units.

Each company of the Group has its own risk management process and system. Regular communication is made among companies, regional offices and headquarters of the Group on the latest risk exposures and mitigation measures to ensure risks are effectively managed and issues are timely reported. Regular independent review would be performed to ensure the risk management system is operating effectively.

The GRMC would communicate and summarise the key risks (also taking emerging risks into account) across all businesses through senior executives, who continuously monitor all material risks faced by the companies of the Group in their corresponding regions and business streams.

## Risk Management and Internal Control *(Continued)*

### Risk Management *(Continued)*

#### Risk Management Process *(Continued)*

The summarised key risks would be reviewed continuously and reassessed within the Group by adopting the risk assessment criteria as set out in the Framework. Priorities would be given to high and medium risks on implementation of risk mitigating measures. A risk management update that highlights the summarised key risks and action plans would be submitted to and discussed by ERMC at least annually for monitoring purpose while top risks and measures would finally be selected for review by the Board Audit and Risk Committee on behalf of the Board. The Board Audit and Risk Committee, based on the review of top risks and adopted measures, ensures at least an annual review of the effectiveness of the risk management system has been conducted.

A description of the Group's risk factors is shown on pages 34 and 35 of this Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

## 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. John Ho Hon-ming. 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 maintaining a timely and accurate communication with the shareholders.

The Company uses a range of communication tools, such as AGM, 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 2020 AGM held on 21 May 2020, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman each of the Remuneration Committee and Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2020 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.

## Communication with Shareholders *(Continued)*

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2020 are set out below:

| Director | Attendance/Number of Meeting |
|---|---|
| **Executive Directors** | |
| Mr. Alfred Chan Wing-kin *(Chairman)* | 1/1 |
| Mr. Peter Wong Wai-yee *(Chief Executive Officer)* | 1/1 |
| Mr. John Ho Hon-ming *(Company Secretary)* | 1/1 |
| Mr. Martin Kee Wai-ngai *(Chief Operating Officer)* | 1/1 |
| **Independent Non-Executive Directors** | |
| Dr. Moses Cheng Mo-chi | 1/1 |
| Mr. Brian David Li Man-bun | 0/1 |
| Mr. James Kwan Yuk-choi | 1/1 |

## Dividend Policy

The Board has adopted a dividend policy in accordance with the applicable laws and regulations as well as Articles. The aim of this policy is to set out the principles that the Company intends to apply in relation to the declaration and payment of dividends. The Board shall also take into account, inter alia, the Group's operating results, cash flows, financial conditions, capital requirements, future development requirements, and any other factors that the Board may consider relevant in deciding whether to propose a dividend and in determining the dividend amount.

## 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)*

## Opinion

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 76 to 184, which comprise the consolidated statement of financial position as at 31 December 2020, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Recognition of gas connection income* | |
| We identified recognition of gas connection income as a key audit matter due to its quantitative significance to the consolidated income statement and management judgements involved in the recognition.<br><br>As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK$2,210 million from gas connection during the year ended 31 December 2020. Management judgements involved in the recognition of revenue from gas connection, which relates to contracts for construction of gas connection facilities, in accordance with HKFRS 15 "Revenue from Contracts with Customers" include identifying performance obligations, timing of revenue recognition (a point in time or over time), and progress towards complete satisfaction of the relevant performance obligation being satisfied over time. The accounting policies in relation to recognition of gas connection income are set out in note 3 to the consolidated financial statements. | Our procedures in relation to recognition of gas connection income included:<br><br>• Understanding the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion;<br><br>• Discussing with management with respect to the basis for recognising revenue of gas connection;<br><br>• Evaluating the terms set out in the relevant contracts, on a sample basis, to assess whether the revenue recognition is accounted for in accordance with HKFRS 15;<br><br>• Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis, and considering the historical accuracy of the Group's percentage of completion estimates based on the value of the services transferred to the customers to date through identifying if there are any significant subsequent adjustments on the same contracts across different years; and<br><br>• Verifying completion of selected contracts through evidencing delivery of completed contracts. |

## Key Audit Matters *(Continued)*

| **Key audit matter *(Continued)*** | **How our audit addressed the key audit matter *(Continued)*** |
| --- | --- |
| *Impairment assessment of goodwill* | |
| We identified impairment assessment of goodwill as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, combined with the significant judgements made by management in assessing the recoverable amounts of cash-generating units ("CGUs") comprising goodwill, which are derived from value in use calculations by using a discounted cash flow model.<br><br>At 31 December 2020, the Group has goodwill of approximately HK$5,625 million relating to CGUs principally engaged in the sales and distribution of piped gas and gas connection in the People's Republic of China. Based on the assessment made by management of the Group, an accumulated impairment provision of HK$157 million was recognised as at 31 December 2020. Details are disclosed in note 20 to the consolidated financial statements.<br><br>Management's assessment of goodwill impairment is highly judgemental and is dependent on certain significant inputs including the discount rates, growth rates, expected changes to selling prices, direct costs and expected impact of the regulatory changes. | Our procedures in relation to impairment assessment of goodwill included:<br><br>• Understanding the Group's impairment assessment process, including the impairment model, CGUs allocation and the preparation of the cash flow projections;<br><br>• Evaluating the appropriateness of impairment model applied by the management;<br><br>• Evaluating basis of management's cash flow forecasts by comparing the actual results of those CGUs to the previously forecasted results;<br><br>• Testing discount rates applied in the forecast by comparing them to economic data relevant to the industry;<br><br>• Assessing the reasonableness of growth rates applied in the forecast based on historical results and trends;<br><br>• Evaluating the reasonableness of the expected changes in selling prices and direct costs and expected impact of the regulatory changes with reference to historical performance in respect of each CGU; and<br><br>• Performing the sensitivity analysis on the key inputs to evaluate the magnitude of their impacts on the results of assessment of goodwill impairment. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

*(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Leung Chui Shan.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

18 March 2021

# Consolidated Income Statement

For the year ended 31 December 2020

| | NOTES | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 & 8 | **12,826,237** | 12,924,371 |
| Total operating expenses | 9 | **(11,001,870)** | (11,168,806) |
| | | **1,824,367** | 1,755,565 |
| Other income | 10A | **106,195** | 80,518 |
| Other gains (losses), net | 10B | **1,487** | (165,848) |
| Share of results of associates | | **362,688** | 359,313 |
| Share of results of joint ventures | | **334,168** | 383,217 |
| Finance costs | 11 | **(426,204)** | (398,707) |
| Profit before taxation | 12 | **2,202,701** | 2,014,058 |
| Taxation | 14 | **(554,893)** | (501,485) |
| Profit for the year | | **1,647,808** | 1,512,573 |
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | **1,447,113** | 1,308,425 |
| Non-controlling interests | | **200,695** | 204,148 |
| | | **1,647,808** | 1,512,573 |
| Proposed final dividend of HK fifteen cents (2019: HK fifteen cents) per ordinary share | 15 | **445,340** | 430,603 |
| | | **HK cents** | HK cents |
| Earnings per share | 16 | | |
| — Basic | | **49.56** | 46.06 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit for the year | **1,647,808** | 1,512,573 |
| Other comprehensive income (expense) for the year | | |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Exchange differences on translation from functional currency to presentation currency | **1,429,353** | (365,792) |
| Fair value change on investments in equity instruments at fair value through other comprehensive income | **(789,041)** | 1,965,045 |
| Income tax relating to items that will not be reclassified to profit or loss | **197,830** | (492,232) |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Cash flow hedge: | | |
| Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve | **(174,889)** | 39,614 |
| Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss | **163,835** | (40,017) |
| | **827,088** | 1,106,618 |
| Total comprehensive income for the year | **2,474,896** | 2,619,191 |
| Total comprehensive income for the year attributable to: | | |
| Shareholders of the Company | **2,183,432** | 2,471,357 |
| Non-controlling interests | **291,464** | 147,834 |
| Total comprehensive income for the year | **2,474,896** | 2,619,191 |

# Consolidated Statement of Financial Position

At 31 December 2020

| | NOTES | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **20,016,653** | 17,219,229 |
| Right-of-use assets | 18 | **882,716** | 799,774 |
| Intangible assets | 19 | **475,074** | 465,432 |
| Goodwill | 20 | **5,625,492** | 5,297,022 |
| Interests in associates | 21 | **4,887,677** | 4,263,989 |
| Interests in joint ventures | 22 | **3,198,329** | 2,756,425 |
| Loans to associates | 21 | **69,090** | 21,924 |
| Equity instruments at fair value through other comprehensive income | 23 | **1,721,875** | 2,399,044 |
| Deposit paid for acquisition of an associate | 41 | **415,776** | — |
| Other financial asset | 28 | **—** | 24,483 |
| | | **37,292,682** | 33,247,322 |
| **Current assets** | | | |
| Inventories | 24 | **643,117** | 587,262 |
| Loans to associates | 21 | **16,398** | 10,962 |
| Loans to joint ventures | 22 | **198,212** | 215,759 |
| Trade and other receivables, deposits and prepayments | 25 | **2,237,218** | 1,940,690 |
| Amounts due from non-controlling shareholders | 27 | **170,092** | 192,702 |
| Time deposits over three months | 26 | **109,290** | 62,752 |
| Bank balances and cash | 26 | **2,225,954** | 1,937,437 |
| | | **5,600,281** | 4,947,564 |
| **Current liabilities** | | | |
| Trade and other payables and accrued charges | 29 | **2,689,325** | 2,215,160 |
| Contract liabilities | 30 | **3,733,570** | 3,309,677 |
| Lease liabilities | 31 | **22,562** | 21,034 |
| Amounts due to non-controlling shareholders | 27 | **54,876** | 64,140 |
| Taxation payable | | **1,224,176** | 962,593 |
| Borrowings — amounts due within one year | 32 | **5,136,717** | 3,433,529 |
| Loan from a non-controlling shareholder | 33 | **—** | 19,485 |
| Loans from joint ventures | 33 | **5,231** | 30,370 |
| Other financial liability | 28 | **55,839** | — |
| | | **12,922,296** | 10,055,988 |
| **Net current liabilities** | | **(7,322,015)** | (5,108,424) |
| **Total assets less current liabilities** | | **29,970,667** | 28,138,898 |

| | NOTES | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Lease liabilities | 31 | **39,554** | 35,572 |
| Borrowings — amounts due after one year | 32 | **6,356,041** | 6,805,833 |
| Deferred taxation | 34 | **848,342** | 982,070 |
| Loan from a non-controlling shareholder | 33 | **20,890** | — |
| Other financial liabilities | 28 | **57,238** | 15,413 |
| | | **7,322,065** | 7,838,888 |
| **Net assets** | | **22,648,602** | 20,300,010 |
| **Capital and reserves** | | | |
| Share capital | 35 | **296,893** | 287,069 |
| Reserves | 36 | **20,426,006** | 18,324,987 |
| Equity attributable to shareholders of the Company | | **20,722,899** | 18,612,056 |
| Non-controlling interests | | **1,925,703** | 1,687,954 |
| **Total equity** | | **22,648,602** | 20,300,010 |

The consolidated financial statements on pages 76 to 184 were approved and authorised for issue by the Board of Directors ("the Board") on 18 March 2021 and are signed on its behalf by:

**Alfred Chan Wing-kin**
*DIRECTOR*

**Brian David Li Man-bun**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Exchange reserve** HK$'000 | **Hedge reserve** HK$'000 | **General reserves** HK$'000 (note 36) | **Investment revaluation reserve** HK$'000 | **Retained earnings** HK$'000 | **Total** HK$'000 | **Non-controlling interests** HK$'000 | **Total** HK$'000 |
| At 1 January 2019 | 281,003 | 6,114,717 | 230,514 | (16,277) | 302,208 | 158,148 | 9,149,133 | 16,219,446 | 1,540,119 | 17,759,565 |
| Exchange differences on translation from functional currency to presentation currency | — | — | (309,478) | — | — | — | — | (309,478) | (56,314) | (365,792) |
| Fair value change on investments in equity instruments at fair value through other comprehensive income | — | — | — | — | — | 1,965,045 | — | 1,965,045 | — | 1,965,045 |
| Income tax relating to items that will not be reclassified to profit or loss | — | — | — | — | — | (492,232) | — | (492,232) | — | (492,232) |
| Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve | — | — | — | 39,614 | — | — | — | 39,614 | — | 39,614 |
| Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss | — | — | — | (40,017) | — | — | — | (40,017) | — | (40,017) |
| Profit for the year | — | — | — | — | — | — | 1,308,425 | 1,308,425 | 204,148 | 1,512,573 |
| Total comprehensive (expense) income for the year | — | — | (309,478) | (403) | — | 1,472,813 | 1,308,425 | 2,471,357 | 147,834 | 2,619,191 |
| Issue of shares upon scrip dividend scheme (note 35) | 6,066 | 340,419 | — | — | — | — | — | 346,485 | — | 346,485 |
| Transfer | — | — | — | — | 40,859 | — | (40,859) | — | — | — |
| Acquisition of additional interest of a subsidiary | — | — | — | — | — | — | (3,728) | (3,728) | (9,304) | (13,032) |
| Capital contribution from non-controlling shareholders of subsidiaries | — | — | — | — | — | — | — | — | 100,090 | 100,090 |
| Dividends declared to shareholders of the Company (note 15) | — | (421,504) | — | — | — | — | — | (421,504) | — | (421,504) |
| Dividends paid to non-controlling shareholders of subsidiaries | — | — | — | — | — | — | — | — | (90,785) | (90,785) |
| | 6,066 | (81,085) | — | — | 40,859 | — | (44,587) | (78,747) | 1 | (78,746) |
| At 31 December 2019 | 287,069 | 6,033,632 | (78,964) | (16,680) | 343,067 | 1,630,961 | 10,412,971 | 18,612,056 | 1,687,954 | 20,300,010 |
| Exchange differences on translation from functional currency to presentation currency | **—** | **—** | **1,338,584** | **—** | **—** | **—** | **—** | **1,338,584** | **90,769** | **1,429,353** |
| Fair value change on investments in equity instruments at fair value through other comprehensive income | **—** | **—** | **—** | **—** | **—** | **(789,041)** | **—** | **(789,041)** | **—** | **(789,041)** |
| Income tax relating to items that will not be reclassified to profit or loss | **—** | **—** | **—** | **—** | **—** | **197,830** | **—** | **197,830** | **—** | **197,830** |
| Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve | **—** | **—** | **—** | **(174,889)** | **—** | **—** | **—** | **(174,889)** | **—** | **(174,889)** |
| Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss | **—** | **—** | **—** | **163,835** | **—** | **—** | **—** | **163,835** | **—** | **163,835** |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **1,447,113** | **1,447,113** | **200,695** | **1,647,808** |
| Total comprehensive income (expense) for the year | **—** | **—** | **1,338,584** | **(11,054)** | **—** | **(591,211)** | **1,447,113** | **2,183,432** | **291,464** | **2,474,896** |
| Issue of shares upon scrip dividend scheme (note 35) | **9,824** | **348,190** | **—** | **—** | **—** | **—** | **—** | **358,014** | **—** | **358,014** |
| Transfer | **—** | **—** | **—** | **—** | **70,833** | **—** | **(70,833)** | **—** | **—** | **—** |
| Acquisition of a subsidiary (note 37) | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **18,709** | **18,709** |
| Capital contribution from non-controlling shareholders of subsidiaries | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **38,127** | **38,127** |
| Dividends declared to shareholders of the Company (note 15) | **—** | **(430,603)** | **—** | **—** | **—** | **—** | **—** | **(430,603)** | **—** | **(430,603)** |
| Dividends paid to non-controlling shareholders of subsidiaries | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(110,551)** | **(110,551)** |
| | **9,824** | **(82,413)** | **—** | **—** | **70,833** | **—** | **(70,833)** | **(72,589)** | **(53,715)** | **(126,304)** |
| At 31 December 2020 | **296,893** | **5,951,219** | **1,259,620** | **(27,734)** | **413,900** | **1,039,750** | **11,789,251** | **20,722,899** | **1,925,703** | **22,648,602** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **2,202,701** | 2,014,058 |
| Adjustments for: | | |
| Interest income | **(28,058)** | (20,130) |
| Interest expenses | **420,820** | 391,983 |
| Share of results of associates | **(362,688)** | (359,313) |
| Share of results of joint ventures | **(334,168)** | (383,217) |
| Dividend income from equity instruments at fair value through other comprehensive income | **(29,261)** | (30,515) |
| Amortisation of intangible assets | **18,546** | 18,712 |
| Depreciation of right-of-use assets | **57,074** | 53,912 |
| Depreciation of property, plant and equipment | **686,717** | 620,630 |
| Impairment provision of goodwill | **—** | 148,000 |
| Impairment loss of trade receivables, net of reversal | **33,026** | 16,121 |
| Gain on disposal of property, plant and equipment | **(296)** | (3,261) |
| Loss (gain) on disposal of right-of-use assets | **231** | (2,445) |
| Change in fair value of other financial asset and liabilities | **—** | 64,825 |
| Exchange gain, net | **(1,422)** | (41,271) |
| Operating cash flows before movements in working capital | **2,663,222** | 2,488,089 |
| Increase in inventories | **(18,426)** | (22,178) |
| Increase in trade receivables | **(184,139)** | (46,876) |
| Increase in other receivables, deposits and prepayments | **(12,200)** | (232,255) |
| Decrease (increase) in amounts due from non-controlling shareholders | **32,757** | (89,393) |
| Increase (decrease) in trade payables | **115,791** | (6,105) |
| Increase in contract liabilities | **207,260** | 319,518 |
| Increase in other payables and accrued charges | **203,475** | 177,839 |
| Decrease in amounts due to non-controlling shareholders | **(12,551)** | (30,782) |
| Cash generated from operations | **2,995,189** | 2,557,857 |
| Interest paid | **(433,967)** | (420,808) |
| Taxation paid | **(361,394)** | (383,745) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **2,199,828** | 1,753,304 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | NOTE | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(2,316,489)** | (2,203,455) |
| Deposit paid for acquisition of an associate | | **(394,100)** | — |
| Acquisition of equity instruments at fair value through other comprehensive income | | **(8,909)** | (83,896) |
| Acquisition of a subsidiary/a business (net of cash and cash equivalents acquired) | 37 | **18,179** | (42,506) |
| Payments for right-of-use assets | | **(51,396)** | (122,559) |
| Capital injection to associates | | **(11,761)** | (2,175) |
| Capital injection to joint ventures | | **(168,449)** | (78,997) |
| Increase in time deposits over three months | | **(40,424)** | (7,520) |
| Advance to an associate | | **(48,488)** | (22,635) |
| Advance to a joint venture | | **(40,290)** | (36,664) |
| Repayment of loans to joint ventures | | **69,603** | 94,964 |
| Dividends received from associates | | **176,071** | 148,366 |
| Dividends received from joint ventures | | **277,701** | 204,615 |
| Dividend income from equity instruments at fair value through other comprehensive income | | **29,261** | 30,515 |
| Interest received | | **28,058** | 20,130 |
| Proceeds from disposal of property, plant and equipment | | **5,097** | 10,680 |
| Proceeds from disposal of right-of-use assets | | **185** | 4,218 |
| Net settlement of other financial assets/liabilities | | **—** | (126,197) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(2,476,151)** | (2,213,116) |
| **FINANCING ACTIVITIES** | | | |
| New bank and other loans raised | | **3,397,712** | 10,162,392 |
| Repayments of bank and other loans | | **(2,733,723)** | (9,280,321) |
| Dividends paid to shareholders of the Company | | **(72,589)** | (75,019) |
| Dividends paid to non-controlling shareholders of subsidiaries | | **(110,551)** | (90,785) |
| Repayment of lease liabilities | | **(29,976)** | (23,316) |
| Capital contribution from non-controlling shareholders of subsidiaries | | **38,127** | 100,090 |
| Acquisition of additional interest in a subsidiary | | **—** | (13,032) |
| Advance from a non-controlling shareholder | | **—** | 19,790 |
| Advances from joint ventures | | **—** | 77,704 |
| Repayment of loans from joint ventures | | **(25,613)** | (71,187) |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | | **463,387** | 806,316 |

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 187,064 | 346,504 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 1,937,437 | 1,611,487 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 101,453 | (20,554) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH | 2,225,954 | 1,937,437 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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$7,322 million as at 31 December 2020. The Group's liabilities as at 31 December 2020 included borrowings of approximately HK$5,137 million that are repayable within one year from the end of the reporting period.

As at 31 December 2020, the Group had unutilised facilities amounting to approximately HK$7,716 million from banks and ultimate controlling shareholder (the "Facilities"), respectively. As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised Facilities amounting to approximately HK$6,588 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$5,137 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

As mentioned in note 41, the Company entered into a capital increase agreement to acquire 25% equity interest in the Shanghai Gas Co., Ltd. ("Shanghai Gas") at a consideration of RMB4,700,000,000 (equivalent to HK$5,583,274,000). The acquisition is expected to complete during the year ending 31 December 2021 and the consideration will be financed by presently available facilities and facilities from HKCG, based on the assumptions that the potential term loan facilities can be successfully executed.

Taking into account of the internally generated funds, the available Facilities and potential term loan 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

Except as described below, the application of the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the amendments to HKFRSs in the current year 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.

### 2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

### 2.2 Impacts on application of Amendments to HKFRS 3 "Definition of a Business"

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

#### 2.2 Impacts on application of Amendments to HKFRS 3 "Definition of a Business" *(Continued)*

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group as the acquisition disclosed in note 37 is concluded to be an acquisition of a business.

#### 2.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

For the purpose of determining whether a forecast transaction (or a component thereof) in a cash flow hedge is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

The application of the amendments impacts the Group's accounting in the following ways:

Under the on-going interest rate benchmark reform, there is uncertainty over the negotiation with the counterparties on the introduction of fall back clauses. The amendments modify certain hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

#### 2.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform" *(Continued)*

*Assessment of hedging relationship and effectiveness*

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

*Cash flow hedges*

For the purpose of reclassifying the amount accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concession[4] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020[2] |

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

## 2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### New and amendments to HKFRSs in issue but not yet effective *(Continued)*

Except for the amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

**Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform — Phase 2"**

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform — Phase 2" relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 "Financial Instruments: Disclosures" to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16 "Leases";

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") bank loans which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

### New and amendments to HKFRSs in issue but not yet effective *(Continued)*

**Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) "**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the "Amendments to HKAS 1" to align the corresponding wordings with no change in conclusion.

As at 31 December 2020, the Group's right to defer settlement for certain borrowings are subject to compliance with covenants within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such covenants at 31 December 2020. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess whether application of the amendments will have an impact on the classification of these borrowings. The impacts on application, if any, will be disclosed in the Group's future consolidated financial statements. Except for as disclosed above, the application of the amendments will not result in reclassification of the Group's other liabilities as at 31 December 2020.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence the decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at fair values at the end of each report period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16, 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.

## 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.

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

When necessary, adjustments are made to 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)*

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. 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 HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## 3. Significant Accounting Policies *(Continued)*

### Business combinations or asset acquisitions

#### Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

#### Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

#### Business combinations

Acquisitions of businesses, other than business combination under common control 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);

- 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; and

## 3. Significant Accounting Policies *(Continued)*

### Business combinations or asset acquisitions *(Continued)*

#### Business combinations *(Continued)*

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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 relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

### 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.

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, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

## 3. Significant Accounting Policies *(Continued)*

### Goodwill *(Continued)*

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

### 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 or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

## 3. Significant Accounting Policies *(Continued)*

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 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 is not allocated to any asset, including goodwill, that 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.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, 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. 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 the relevant 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) upon disposal/partial disposal of the relevant associate or joint venture.

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, 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 from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

## 3. Significant Accounting Policies *(Continued)*

### Revenue from contracts with customers *(Continued)*

#### Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which recognises revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, contracts in which the Group bills the construction work performed for gas connection facilities), the Group recognises revenue in the amount to which the Group has the right to invoice.

#### Performance obligations for contracts with customers

*Sales and distribution of piped gas and related products*

Revenue from sales and distribution of piped gas is recognised when control of the piped gas has transferred to the customers, being at the point the gas is delivered to the customers.

Revenue from sales of goods is recognised when control of the goods has transferred to the customers, being at the point the goods are delivered to the customers.

*Gas connection*

Revenue from gas connection, which relates to contracts for construction of gas connection facilities, is recognised when control of the services underlying the performance obligations in the contracts are transferred to the customers.

### Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method, as follows:

| | |
|---|---|
| Buildings | 15–30 years |
| Gas and other 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. Significant Accounting Policies *(Continued)*

### Property, plant and equipment *(Continued)*

#### Ownership interest in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified 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.

### Leases

#### Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

#### The Group as a lessee

*Right-of-use assets*

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

## 3. Significant Accounting Policies *(Continued)*

### Leases *(Continued)*

**The Group as a lessee *(Continued)***

*Right-of-use assets* (Continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments represent fixed payments (including in-substance fixed payment) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

## 3. Significant Accounting Policies *(Continued)*

### Leases *(Continued)*

#### The Group as a lessee *(Continued)*

*Lease modifications* (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

### 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 acquired in a business combination 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 is 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.

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

## 3. Significant Accounting Policies *(Continued)*

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a 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.

### Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets is estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

## 3. Significant Accounting Policies *(Continued)*

### Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill) *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 or cash-generating unit or a group of cash-generating units in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Financial assets

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

*Classification and subsequent measurement of financial assets (Continued)*

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except derivatives designated in cash flow hedging relationships and except that at the initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

*Classification and subsequent measurement of financial assets* (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL except for derivatives designated as cash flow hedges.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains (losses), net" line item.

*Impairment of financial assets*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including loans to associates, loans to joint ventures, trade and other receivables, deposits, amounts due from non-controlling shareholders, time deposits over three months and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk assessment since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognise lifetime ECL for trade receivables.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

*Impairment of financial assets* (Continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

**Financial assets *(Continued)***

*Impairment of financial assets* (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

**Financial assets *(Continued)***

*Impairment of financial assets* (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

The Group uses a practical expedient in estimating ECL on not credit-impaired trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group and loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset (which is the gross carrying amount less any impairment allowance).

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

# 3. Significant Accounting Policies *(Continued)*

## Financial instruments *(Continued)*

### Financial assets *(Continued)*

*Derecognition of financial assets*

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### Financial liabilities and equity

*Classification as debt or equity*

Debt and equity instruments 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.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

*Financial liabilities at FVTPL* (Continued)

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

*Other financial liabilities*

Other financial liabilities including trade and other payables, borrowings, lease liabilities, amounts due to non-controlling shareholders, loan from a non-controlling shareholder and loans from joint ventures are subsequently measured at amortised cost, using the effective interest method.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

*Derivative financial instruments*

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 Group 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 attributable to the hedged risk.

For the purpose of determining whether a forecast transaction is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually specified) are based is not altered as a result of interest rate benchmark reform.

*Assessment of hedging relationship and effectiveness*

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

*Assessment of hedging relationship and effectiveness* (Continued)

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and the hedged risk (contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

*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 the hedge reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually specified) are based is not altered as a result of interest rate benchmark reform.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedge reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

*Discontinuation of hedge accounting*

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, 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 transactions is ultimately recognised in profit or loss or the hedged item otherwise affects profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

*Derecognition of financial liabilities*

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

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

*Non-substantial modifications of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

### 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 because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. Significant Accounting Policies *(Continued)*

### Taxation *(Continued)*

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

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

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

Deferred tax 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

## 3. Significant Accounting Policies *(Continued)*

### Taxation *(Continued)*

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.

### 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

### 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.

## 3. Significant Accounting Policies *(Continued)*

### Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other grants are presented under "other income".

### 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. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

### Critical judgements in applying accounting policies

**Control over 唐山港能投智慧能源有限公司 ("Tangshan Energy"), Changzhou Towngas China Energy Co., Ltd. ("Changzhou Energy"), 徐州工業園區中港熱力有限公司 ("徐州工業園") and Tangshan Fengnan Towngas China Energy Co., Ltd. ("Tangshan Fengnan") (the "PRC Entities")**

The PRC Entities are subsidiaries of the Group although the Group holds 49%, 45%, 49.8% or 45% ownership interests and voting rights in the PRC Entities and the remaining equity interests of the PRC Entities are owned by shareholders that are unrelated to the Group. Details of these are set out in note 44.

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### Critical judgements in applying accounting policies *(Continued)*

**Control over 唐山港能投智慧能源有限公司 ("Tangshan Energy"), Changzhou Towngas China Energy Co., Ltd. ("Changzhou Energy"), 徐州工業園區中港熱力有限公司 ("徐州工業園") and Tangshan Fengnan Towngas China Energy Co., Ltd. ("Tangshan Fengnan") (the "PRC Entities")** ***(Continued)***

The directors of the Company assessed whether or not the Group has control over the PRC Entities based on whether the Group has practical ability to direct the relevant activities of the entity unilaterally. In making the judgement, management considered the Group's power in making decisions over the relevant activities of the PRC Entities at different times throughout its life in accordance with memorandum of associations, such as the approval of the operation plan and budget, appointing, remunerating and terminating the key management personnel. After assessment, management concluded that the Group has control over the PRC Entities as the relevant activities of each of the PRC Entities are approved by a simple majority of the board of directors and the Group is able to appoint more than half of the board of directors of each of the PRC Entities.

### Key sources of estimation uncertainty

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

#### Impairment assessment of goodwill

In 2017 and 2019, the National Development and Reform Commission issued "Guiding Opinion on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinion on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" respectively (collectively "Guiding Opinions"), which set out proposed return rates for both gas distribution and gas connection businesses of city-gas enterprises. The Group has taken into account the impact of Guiding Opinions when carrying out assessment on the goodwill of individual city-gas projects in the PRC.

The assessment for each of the city-gas projects is based on value in use approach using the discounted cash flow method. The estimated cash flows used in the assessment are derived based on the most recent financial budget for the next 5 years approved by management. Cash flows beyond five year period until the end of the relevant concession periods are determined by considering both internal and external factors relating to the cash-generating units ("CGUs"). The Group is of the view that, in order to achieve a smooth transition to both the gas project operators and the society, the existing gas pricing mechanism would continue to be adopted for several years, after which the gas price will be adjusted to reflect the return rates indicated in the "Guiding Opinions". The connection fee margin was also revisited by management to address the rationale that drove the issue of the Guiding Opinions. Discount rates ranging between 8.5% to 11.5% (2019: 8.2% to 11.0%) were used to reflect the specific risks relating to the investments. In relation to the city-gas business in the PRC operated by the Group's subsidiaries, the carrying value of goodwill related to these individual city-gas projects as at 31 December 2020 amounted to HK$5,625,492,000 (2019: HK$5,297,022,000), net of an impairment provision of HK$157,176,000 (2019: HK$148,000,000).

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

#### Impairment assessment of goodwill *(Continued)*

The assumptions used in the assessment are highly judgemental and are heavily dependent on the timing and the extent of how the pricing mechanism as detailed in the Guiding Opinions will be implemented as well as the discount rates used. The assessment is sensitive to changes in estimates. Details are disclosed in note 20.

#### Income taxes

As at 31 December 2020, 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$545,637,000 (2019: HK$649,721,000) 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 or taxable temporary differences 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.

#### ECL assessment of trade receivables

The Group uses provision matrix to calculate ECL for the not credit-impaired trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar common risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information, including but not limited to the expected economic conditions in the PRC and macroeconomic factors affecting the ability of the customers to settle the debtors, that is reasonable and supportable available without undue costs or effort and expected subsequent settlements. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

These assessments and measurements are sensitive to changes in estimates. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates. Details are disclosed in note 6.

## 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 debts, which includes borrowings, loans from joint ventures and loan from a non-controlling shareholder disclosed in notes 32 and 33 respectively, net of cash and cash equivalents and total equity, comprising issued share capital, reserves and non-controlling interests.

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 monitors capital on the basis of the gearing ratio, which is determined as the proportion of net debt to equity plus net debt (the "Gearing Ratio").

The Gearing Ratio at the reporting date was as follows:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Debt[i] | **11,518,879** | 10,289,217 |
| Time deposits over three months | **(109,290)** | (62,752) |
| Bank balances and cash | **(2,225,954)** | (1,937,437) |
| Net debt | **9,183,635** | 8,289,028 |
| Equity[ii] | **22,648,602** | 20,300,010 |
| Net debt to equity ratio | **40.5%** | 40.8% |
| Gearing Ratio[iii] | **28.9%** | 29.0% |

(i) Debt is defined as long-term and short-term borrowings, loans from joint ventures and loan from a non-controlling shareholder, as detailed in notes 32 and 33 respectively.

(ii) Total equity includes all capital and reserves of the Group and non-controlling interests.

(iii) Being the proportion of net debt of HK$9,183,635,000 (2019: HK$8,289,028,000) to total equity plus net debt of HK$31,832,237,000 (2019: HK$28,589,038,000).

## 6. Financial Instruments

### Categories of financial instruments

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **4,337,396** | 3,784,366 |
| Equity instruments at FVTOCI | **1,721,875** | 2,399,044 |
| Derivative financial instruments | **—** | 24,483 |
| **Financial liabilities** | | |
| Amortised cost | **13,779,656** | 12,154,266 |
| Derivative financial instruments | **113,077** | 15,413 |
| Lease liabilities | **62,116** | 56,606 |

### Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, loans to associates, loans to joint ventures, trade and other receivables, deposits, amounts due from non-controlling shareholders, time deposits over three months, bank balances and cash, other financial assets, trade and other payables, amounts due to non-controlling shareholders, loan from a non-controlling shareholder, loans from joint ventures, borrowings, lease liabilities 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 other 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 and bank and other borrowings 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 and bank and other borrowings, denominated in United States dollars ("USD") and HKD at the end of the reporting period are set out in notes 26 and 32.

The Group entered into cross currency interest rate swap contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Those cross currency interest rate swap contracts are designated as effective hedging instrument for a variable-rate bank borrowing denominated in USD with hedge accounting used (see note 28 for details). The Group reviewed the continuing effectiveness of the designated hedging instruments at least at the end of each reporting period. The Group mainly uses regression analysis and comparison of change in fair value of the hedging instrument and the hedged item for assessing the hedge effectiveness. The Directors considered the Group's net exposure to foreign currency risk to the extent that it is under an effective hedging relationship as insignificant.

The management continues to monitor foreign exchange exposure and will consider hedging other 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% (2019: 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 (excluding derivative financial instruments) and adjusts their translation at the end of each reporting period for a 3% (2019: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash and borrowings denominated in a currency other than the functional currency of the respective group entities. The sensitivity analysis excludes the effect on foreign currency denominated borrowings that are under an effective hedging relationship as the Group's net exposure to currency risk arising from the hedging relationship is insignificant. A positive number below indicates an increase in profit before taxation where RMB strengthens by 3% (2019: 3%) against USD and HKD. For a 3% (2019: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings to which hedge accounting is not applied.

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Profit before taxation | **987** | 1,052 |

No sensitivity analysis has been presented for derivatives that are designated as hedging instruments because the Group's net exposure to currency risk arising from the hedging relationship is insignificant.

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, short-term fixed deposits, loans to joint ventures, loans to associates, loan from a non-controlling shareholder, loans from joint ventures and lease liabilities. 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. 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 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 HIBOR arising from the Group's HKD and RMB bank loans, LIBOR arising from the Group's USD and HKD bank loans and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.

## 6. Financial Instruments *(Continued)*

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

#### Interest rate risk *(Continued)*

The Group entered into cross currency interest rate swaps to reduce or hedge against its exposures to the interest rate on the variable-rate bank borrowings. The Group's cross currency interest rate swap contracts are designated as effective hedging instrument for a variable-rate bank borrowing as detailed above. The Directors considered the Group's net exposure to interest rate risk to the extent that it is under an effective hedging relationship as insignificant.

The management continues to monitor interest rate exposure and will consider hedging other significant interest rate exposure should the need arise.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. As listed in note 32, several of the Group's LIBOR and HIBOR to specify bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (excluding derivative financial instruments) at the end of the reporting period. The sensitivity analysis excludes the effect on variable-rate bank borrowings that are under an effective hedging relationship as the Group's net exposure to interest rate risk arising from the hedging relationship is insignificant. For remaining variable-rate bank loans, 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 (2019: 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 (2019: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2020 would decrease/increase by HK$4,040,000 (2019: HK$4,084,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings to which hedge accounting is not applied.

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

No sensitivity analysis has been presented for derivatives that are designated as hedging instruments because the Group's net exposure to interest rate risk arising from the hedging relationship is insignificant.

#### Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities measured at FVTOCI. In addition, the Group also invested in certain unquoted equity securities for long term strategic purposes which had been designated as FVTOCI. The Group currently does not have a hedging policy in relation to the price risk. However, the management will consider hedging the risk exposure should the need arise.

## 6. Financial Instruments *(Continued)*

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

**Other price risk *(Continued)***

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. Sensitivity analysis for the unquoted equity securities with fair value measurement categorised within Level 3 is disclosed in the fair value measurement section of this note.

If the prices of the respective listed equity securities with fair value measurement categorised within Level 1 had been 3% higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$48,298,000 (2019: HK$69,121,000) as a result of the changes in fair value of the investments.

### Credit risk and impairment assessment

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 amounts of the Group's financial assets (excluding equity instruments at FVTOCI) as stated in the consolidated statement of financial position.

The Group's internal credit risk grading assessment comprises the following categories:

| Category | Description | Trade receivables | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL — not credit-impaired | 12m ECL |
| Watch list | Debtor frequently repays but usually settles after due date | Lifetime ECL — not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL — not credit-impaired | Lifetime ECL — not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired | Lifetime ECL — credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Lifetime ECL — credit-impaired | Lifetime ECL — credit-impaired |

## 6. Financial Instruments *(Continued)*

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

**Credit risk and impairment assessment *(Continued)***

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

| Financial assets at amortised cost | Notes | Internal credit rating | 12m ECL or lifetime ECL | Gross carrying amount as at 31 December 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|---|---|
| Loans to associates | 21 | Low risk | 12m ECL | **85,488** | 32,886 |
| Loans to joint ventures | 22 | Low risk | 12m ECL | **198,212** | 215,759 |
| Trade receivables | 25 | (Note) | Lifetime ECL — not credit-impaired | **1,136,606** | 911,489 |
| | | Loss | Lifetime ECL — credit-impaired | **132,442** | 120,895 |
| | | | | **1,269,048** | 1,032,384 |
| Other receivables and deposits | 25 | Low risk | 12m ECL | **447,109** | 455,996 |
| Amounts due from non-controlling shareholders | 27 | Low risk | 12m ECL | **170,092** | 192,702 |
| Time deposits over three months | 26 | N/A | 12m ECL | **109,290** | 62,752 |
| Bank balances and cash | 26 | N/A | 12m ECL | **2,225,954** | 1,937,437 |

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items grouped by past due status for trade receivables. When there are indicators that the relevant trade receivables maybe credit impaired, the relevant amount will be assessed for ECL individually.

The Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due.

The Group used estimated loss rates based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

## 6. Financial Instruments *(Continued)*

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

#### Credit risk and impairment assessment *(Continued)*

*Trade receivables*

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 performs impairment assessment under ECL model on trade balances based on provision matrix. In this regard, the Directors consider that the Group's credit risk is effectively managed.

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

*Provision matrix — debtors' aging*

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The Group used estimated loss rates ranging from less than 0.1% to 34% (2019: less than 0.1% to 30%) for trade receivables not credit-impaired based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information, including but not limited to the expected economic conditions in the PRC and macroeconomic factors affecting the ability of the customers to settle the debtors, that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided HK$33,026,000 (2019: HK$16,121,000) impairment allowance, net of reversals, for trade receivables based on the provision matrix.

## 6. Financial Instruments *(Continued)*

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

**Credit risk and impairment assessment *(Continued)***

*Provision matrix — debtors' aging* (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | Lifetime ECL (not credit-impaired) HK$'000 | Lifetime ECL (credit-impaired)* HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 January 2019 | 19,542 | 112,216 | 131,758 |
| Exchange realignment | (337) | (1,992) | (2,329) |
| Impairment losses reversed | — | (6,884) | (6,884) |
| Impairment losses recognised for new financial assets originated | 5,450 | 17,555 | 23,005 |
| As at 31 December 2019 | 24,655 | 120,895 | 145,550 |
| Exchange realignment | 1,843 | 3,534 | 5,377 |
| Impairment written-off | — | (16,156) | (16,156) |
| Impairment losses recognised for new financial assets originated | 8,857 | 24,169 | 33,026 |
| As at 31 December 2020 | 35,355 | 132,442 | 167,797 |

* Full provision was made for respective credit-impaired trade receivables.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

*Time deposits over three months and bank balances*

The credit risks on time deposits over three months and bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

*Loans to joint ventures, loans to associates and amounts due from non-controlling shareholders*

The credit risks of loans to joint ventures, loans to associates and amounts due from non-controlling shareholders are concentrated in three (2019: five) joint ventures, five (2019: one) associates and nine (2019: nine) non-controlling shareholders respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associates and non-controlling shareholders, believes the credit risk is minimal and the loss allowance is immaterial. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

## 6. Financial Instruments *(Continued)*

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

#### Credit risk and impairment assessment *(Continued)*

*Other receivables and deposits*

Based on the ECL assessment, the credit exposures for other receivables and deposits are considered as low risk and the loss allowance is immaterial because the counterparties have consistently low historical default rate in connection with payments.

#### Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised Facilities of HK$6,588 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$7,322 million (2019: HK$5,108 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

## 6. Financial Instruments *(Continued)*

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

#### Liquidity risk *(Continued)*

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

| | 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 31.12.2020 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| Trade payables | — | 180,611 | 387,274 | 549,019 | 237,955 | 63,192 | 1,418,051 | 1,418,051 |
| Other payables | — | 787,850 | — | — | — | — | 787,850 | 787,850 |
| Lease liabilities | 5% | 1,888 | 3,792 | 17,556 | 26,184 | 22,988 | 72,408 | 62,116 |
| Amounts due to non-controlling shareholders | — | 54,876 | — | — | — | — | 54,876 | 54,876 |
| Loan from a non-controlling shareholder | 1% | — | — | — | 21,523 | — | 21,523 | 20,890 |
| Loans from joint ventures | 2.15% | 5,240 | — | — | — | — | 5,240 | 5,231 |
| Bank loans | 3.29% | 2,026,335 | 885,499 | 2,521,687 | 7,170,751 | 9,526 | 12,613,798 | 11,456,239 |
| Other loans | 1.36% | 1,748 | — | 23,300 | 7,205 | 5,473 | 37,726 | 36,519 |
| | | 3,058,548 | 1,276,565 | 3,111,562 | 7,463,618 | 101,179 | 15,011,472 | 13,841,772 |
| Derivatives — gross settlement | | | | | | | | |
| Cross currency interest rate swap | | | | | | | | |
| — inflow | | (2,930) | (6,139) | (13,902) | (1,778,694) | — | (1,801,665) | N/A |
| — outflow | | 9,544 | 19,098 | 47,355 | 1,904,574 | — | 1,980,571 | N/A |
| | | 6,614 | 12,959 | 33,453 | 125,880 | — | 178,906 | 113,077 |

## 6. Financial Instruments *(Continued)*

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

#### Liquidity risk *(Continued)*

| | Weighted average effective interest rate | Repayable on demand or less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | 5 + years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2019 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2019 | | | | | | | | |
| Trade payables | — | 208,103 | 365,431 | 407,285 | 193,783 | 45,623 | 1,220,225 | 1,220,225 |
| Other payables | — | 580,684 | — | — | — | — | 580,684 | 580,684 |
| Lease liabilities | 5% | 1,840 | 3,681 | 16,564 | 37,196 | 4,325 | 63,606 | 56,606 |
| Amounts due to non-controlling shareholders | — | 64,140 | — | — | — | — | 64,140 | 64,140 |
| Loan from a non-controlling shareholder | 1% | — | — | 19,680 | — | — | 19,680 | 19,485 |
| Loans from joint ventures | 2.58% | 30,435 | — | — | — | — | 30,435 | 30,370 |
| Bank loans | 3.78% | 2,518,650 | 159,191 | 1,050,863 | 7,809,522 | 11,056 | 11,549,282 | 10,203,172 |
| Other loans | 1.36% | 1,670 | 80 | 21,967 | 6,874 | 7,753 | 38,344 | 36,190 |
| | | 3,405,522 | 528,383 | 1,516,359 | 8,047,375 | 68,757 | 13,566,396 | 12,210,872 |
| Derivatives — gross settlement | | | | | | | | |
| Cross currency interest rate swap | | | | | | | | |
| — inflow | | (6,809) | (9,501) | (32,107) | (1,819,697) | — | (1,868,114) | N/A |
| — outflow | | 8,986 | 13,900 | 49,037 | 1,814,555 | — | 1,886,478 | N/A |
| | | 2,177 | 4,399 | 16,930 | (5,142) | — | 18,364 | 9,070 |

## 6. Financial Instruments *(Continued)*

### Fair value measurements

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

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

| Financial assets/ financial liabilities | | Fair value as at 31.12.2020 | Fair value as at 31.12.2019 | Fair value hierarchy | Valuation techniques and key inputs |
|---|---|---|---|---|---|
| 1) | Listed equity investments classified as FVTOCI in the consolidated statement of financial position | **Asset HK$1,609,942,000** | Asset HK$2,304,042,000 | Level 1 | Quoted market price |
| 2) | Cross currency interest rate swaps classified as other financial asset/liabilities in the consolidated statement of financial position | **Asset Nil**<br>**Liabilities HK$113,077,000** | Asset HK$24,483,000<br>Liabilities HK$15,413,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. |

| Financial assets/ financial liabilities | Fair value as at 31.12.2020 | Fair value as at 31.12.2019 | Fair value hierarchy | Valuation technique and key inputs | Significant unobservable inputs |
|---|---|---|---|---|---|
| Unquoted equity investments | **Assets HK$111,933,000** | Assets HK$95,002,000 | Level 3 | Market comparable approach | Market multiples ranging from 0.6 to 1.7 (2019: 1.0 to 1.6) and discount for lack of marketability ranging from 0% to 30% (2019: 0% to 30%) (note) |

Note: The higher the market multiples, the higher the fair value, and vice versa. The higher the discount, the lower the fair value, and vice versa. A reasonably possible change in the unobservable inputs used would not result in a significantly higher or lower fair value measurement.

## 6. Financial Instruments *(Continued)*

### Fair value measurements *(Continued)*

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

*Reconciliation of Level 3 fair value measurements of financial assets*

| | HK$'000 |
|---|---|
| Balance at 1 January 2019 | 337,708 |
| Addition | 83,896 |
| Fair value change recognised to other comprehensive income | 284,636 |
| Currency realignment | (13,407) |
| Transfer to Level 1 | (597,831) |
| Balance at 31 December 2019 | 95,002 |
| Addition | 8,909 |
| Fair value change recognised to other comprehensive income | 2,019 |
| Currency realignment | 6,003 |
| Balance at 31 December 2020 | 111,933 |

*Fair value measurements and valuation processes*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs to the model. The management reports the findings to the Directors half yearly to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group owns 11.7% equity interest in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") that is classified as equity instrument at FVTOCI and is measured at fair value at each reporting date. The fair value of the equity instrument at FVTOCI as at 31 December 2020 amounted to HK$1,543,074,000 (2019: HK$2,259,150,000). The fair value of the equity instrument at FVTOCI as at 1 January 2019 used a valuation technique with significant unobservable inputs and hence was classified as Level 3 of fair value hierarchy. Chengdu Gas had become a listed entity on the Shanghai Stock Exchange on 17 December 2019 with its shares traded in active market. Therefore, the fair value of Chengdu Gas as at 31 December 2019 was determined based on a published price quotation available on the Shanghai Stock Exchange and was classified as Level 1 fair value hierarchy.

Except as described above, there were no other transfer between Level 1, 2 and 3 during both years.

**Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis**

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. Revenue

The Group's revenue from contracts with customers was all generated in the PRC and has been disaggregated as (i) sales and distribution of piped gas and related products of HK$10,616,039,000 (2019: HK$10,835,119,000) and (ii) gas connection of HK$2,210,198,000 (2019: HK$2,089,252,000) for the year ended 31 December 2020, as disclosed in note 8.

As at 31 December 2020, the amounts of transaction price allocated to the remaining performance obligations of gas connection (unsatisfied or partially unsatisfied) are expected to be recognised as revenue within one year and over one year are HK$1,697,014,000 and HK$1,413,364,000 (2019: HK$1,601,962,000 and HK$1,070,246,000), respectively, and the Group's contract liabilities of HK$1,151,533,000 (2019: HK$914,242,000) relating to sales and distribution of piped gas and related products, in which the respective performance obligations have not been satisfied, are expected to be recognised as revenue within one year.

## 8. 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.

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.

## 8. Segment Information *(Continued)*

### Operating segments *(Continued)*

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other income, other gains (losses), 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 2020** | | | |
| **REVENUE** | | | |
| Revenue recognised at a point in time | 10,616,039 | 1,651,794 | 12,267,833 |
| Revenue recognised over time | — | 558,404 | 558,404 |
| External | 10,616,039 | 2,210,198 | 12,826,237 |
| Segment results | 1,065,428 | 909,852 | 1,975,280 |
| Other income | | | 106,195 |
| Other gains (losses), net | | | 1,487 |
| Unallocated corporate expenses | | | (150,913) |
| Share of results of associates | | | 362,688 |
| Share of results of joint ventures | | | 334,168 |
| Finance costs | | | (426,204) |
| Profit before taxation | | | 2,202,701 |
| Taxation | | | (554,893) |
| Profit for the year | | | 1,647,808 |

## 8. 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 2019** | | | |
| **REVENUE** | | | |
| Revenue recognised at a point in time | 10,835,119 | 1,552,166 | 12,387,285 |
| Revenue recognised over time | — | 537,086 | 537,086 |
| External | 10,835,119 | 2,089,252 | 12,924,371 |
| Segment results | 1,033,527 | 893,605 | 1,927,132 |
| Other income | | | 80,518 |
| Other gains (losses), net | | | (165,848) |
| Unallocated corporate expenses | | | (171,567) |
| Share of results of associates | | | 359,313 |
| Share of results of joint ventures | | | 383,217 |
| Finance costs | | | (398,707) |
| Profit before taxation | | | 2,014,058 |
| Taxation | | | (501,485) |
| Profit for the year | | | 1,512,573 |

Segment results included depreciation and amortisation of HK$762,337,000 (2019: HK$693,254,000), 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 both years.

## 9. Total Operating Expenses

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Gas fuel, stores and materials used | **8,743,202** | 8,905,355 |
| Staff costs | **1,017,976** | 1,091,156 |
| Depreciation and amortisation | **762,337** | 693,254 |
| Other expenses | **478,355** | 479,041 |
| | **11,001,870** | 11,168,806 |

## 10A. Other Income

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Dividend income from equity instruments at fair value through other comprehensive income | **29,261** | 30,515 |
| Government grants | **24,510** | 13,747 |
| Interest income | **28,058** | 20,130 |
| Others | **24,366** | 16,126 |
| | **106,195** | 80,518 |

## 10B. Other Gains (Losses), Net

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Exchange gain, net | **1,422** | 41,271 |
| Gain on disposal of property, plant and equipment | **296** | 3,261 |
| (Loss) gain on disposal of right-of-use assets | **(231)** | 2,445 |
| Change in fair value of other financial asset and liabilities | **—** | (64,825) |
| Impairment provision of goodwill | **—** | (148,000) |
| | **1,487** | (165,848) |

## 11. Finance Costs

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Interest on bank and other borrowings | **433,967** | 406,640 |
| Bank charges | **5,384** | 6,724 |
| Interest on lease liabilities | **3,063** | 3,211 |
| | **442,414** | 416,575 |
| Less: amounts capitalised | **(16,210)** | (17,868) |
| | **426,204** | 398,707 |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 3.68% (2019: 4.08%) to expenditure on qualifying assets.

## 12. Profit Before Taxation

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration (note 13) | **18,077** | 17,265 |
| Other staff costs | **987,986** | 988,886 |
| Retirement benefit scheme contributions for other staff | **11,913** | 85,005 |
| Total staff costs | **1,017,976** | 1,091,156 |
| Impairment loss of trade receivables, net of reversal | **33,026** | 16,121 |
| Amortisation of intangible assets | **18,546** | 18,712 |
| Depreciation of right-of-use assets | **57,074** | 53,912 |
| Auditor's remuneration | **13,109** | 12,889 |
| Cost of inventories sold | **9,515,749** | 9,638,211 |
| Depreciation of property, plant and equipment | **686,717** | 620,630 |

## 13. Directors' and Employees' Emoluments

### Directors' emoluments:

The emoluments paid or payable to each of the 7 (2019: 7) directors were as follows:

| | Year ended 31 December 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive Directors | | | | Independent Non-Executive Directors | | | |
| | Alfred Chan Wing-kin HK$'000 | Peter Wong Wai-yee HK$'000 (Note d) | John Ho Hon-ming HK$'000 (Note e) | Martin Kee Wai-ngai HK$'000 (Note f) | Moses Cheng Mo-chi HK$'000 | Brian David Li Man-bun HK$'000 | James Kwan Yuk-choi HK$'000 | Total HK$'000 |
| Directors' fees (Note a) | **200** | **200** | **200** | **200** | **500** | **500** | **500** | **2,300** |
| Other emoluments (Note b) | | | | | | | | |
| Salaries and other benefits | **—** | **1,299** | **1,213** | **1,173** | **—** | **—** | **—** | **3,685** |
| Retirement benefit scheme contributions | **—** | **130** | **121** | **117** | **—** | **—** | **—** | **368** |
| Performance and discretionary bonus (Note c) | **—** | **5,565** | **3,191** | **2,968** | **—** | **—** | **—** | **11,724** |
| Total emoluments | **200** | **7,194** | **4,725** | **4,458** | **500** | **500** | **500** | **18,077** |

| | Year ended 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive Directors | | | | Independent Non-Executive Directors | | | |
| | Alfred Chan Wing-kin HK$'000 | Peter Wong Wai-yee HK$'000 (Note d) | John Ho Hon-ming HK$'000 (Note e) | Martin Kee Wai-ngai HK$'000 (Note f) | Moses Cheng Mo-chi HK$'000 | Brian David Li Man-bun HK$'000 | James Kwan Yuk-choi HK$'000 | Total HK$'000 |
| Directors' fees (Note a) | 200 | 200 | 200 | 200 | 500 | 500 | 500 | 2,300 |
| Other emoluments (Note b) | | | | | | | | |
| Salaries and other benefits | — | 1,299 | 1,213 | 1,173 | — | — | — | 3,685 |
| Retirement benefit scheme contributions | — | 130 | 121 | 117 | — | — | — | 368 |
| Performance and discretionary bonus (Note c) | — | 5,172 | 2,974 | 2,766 | — | — | — | 10,912 |
| Total emoluments | 200 | 6,801 | 4,508 | 4,256 | 500 | 500 | 500 | 17,265 |

## 13. Directors' and Employees' Emoluments *(Continued)*

### Directors' emoluments: *(Continued)*

Notes:

(a) The Directors' fees of Executive Directors were mainly for their services as Directors of the Company and its subsidiaries and the Directors' fees of Independent Non-Executive Directors were mainly for their services as Directors of the Company.

(b) The other emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group.

(c) 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.

(d) Mr. Peter Wong Wai-yee 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.

(e) Mr. John Ho Hon-ming is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary.

(f) Mr. Martin Kee Wai-ngai is also the Chief Operating Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Operating Officer.

(g) No other service contracts were entered into by any Directors with the Company.

### Employees' emoluments:

For the year ended 31 December 2020, the 5 highest paid individuals of the Group included 3 (2019: 3) Directors of the Company, details of their emoluments are included above. The emoluments of the remaining 2 (2019: 2) highest paid individuals are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **2,850** | 2,927 |
| Performance related incentive payments | **2,802** | 2,471 |
| Retirement benefit scheme contributions | **198** | 220 |
| | **5,850** | 5,618 |

The emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2020** | 2019 |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| HK$3,000,001 to HK$3,500,000 | **—** | 1 |
| HK$3,500,001 to HK$4,000,000 | **1** | — |

During both years, 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 both years.

## 14. Taxation

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| — current year | **537,566** | 474,665 |
| Deferred taxation (note 34) | | |
| — taxation charge for the year | **17,327** | 26,820 |
| | **554,893** | 501,485 |

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

The EIT rates applicable for the Group's PRC subsidiaries ranged from 15% to 25% (2019: 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.

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

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Profit before taxation | **2,202,701** | 2,014,058 |
| Tax at the applicable rate of 25% (note) | **550,675** | 503,515 |
| Tax effect of expenses that are not deductible for tax purposes | **206,817** | 218,243 |
| Tax effect of income that are not taxable for tax purposes | **(23,631)** | (31,554) |
| Effect of different tax rates of subsidiaries operating in different regions | **(44,118)** | (49,049) |
| Tax effect of share of results of associates | **(90,672)** | (89,828) |
| Tax effect of share of results of joint ventures | **(83,542)** | (95,804) |
| Tax effect of utilisation of tax losses not previously recognised | **(24,141)** | (19,013) |
| Tax effect of tax losses not recognised | **28,805** | 27,632 |
| Withholding tax on undistributed profits | **34,700** | 37,343 |
| Tax charge for the year | **554,893** | 501,485 |

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for both years.

## 15. Dividends

During the year, a final dividend in respect of the year ended 31 December 2019 of HK$430,603,000 (2019: HK$421,504,000 in respect of the year ended 31 December 2018) was recognised as distribution, being HK fifteen cents per ordinary share (2019: HK fifteen cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK fifteen cents (2019: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders at the annual general meeting and compliance with the Companies Act of the Cayman Islands.

## 16. Earnings Per Share

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

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company | **1,447,113** | 1,308,425 |

| | **Number of shares** | |
|---|---|---|
| | **2020** | 2019 |
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,920,079** | 2,840,607 |

No diluted earnings per share for both years were presented as there were no potential ordinary shares in issue for both years.

## 17. Property, Plant and Equipment

| | Buildings HK$'000 | Gas and other pipelines HK$'000 | Plant and equipment and others HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 January 2019 | 1,961,364 | 13,772,798 | 1,701,624 | 1,922,575 | 19,358,361 |
| Currency realignment | (38,378) | (269,525) | (32,961) | (38,408) | (379,272) |
| Additions | 94,829 | 457,816 | 122,711 | 1,545,967 | 2,221,323 |
| Acquisition of a business (note 37) | 812 | 14,180 | 2,280 | 25 | 17,297 |
| Disposals | (7,107) | (4,719) | (38,697) | — | (50,523) |
| Transfers | 76,860 | 1,154,056 | 28,146 | (1,259,062) | — |
| At 31 December 2019 | 2,088,380 | 15,124,606 | 1,783,103 | 2,171,097 | 21,167,186 |
| Currency realignment | 146,643 | 1,028,085 | 123,068 | 153,836 | 1,451,632 |
| Additions | 45,615 | 447,126 | 107,279 | 1,732,679 | 2,332,699 |
| Acquisition of a subsidiary (note 37) | — | — | — | 438 | 438 |
| Disposals | (1,522) | (2,005) | (28,773) | — | (32,300) |
| Transfers | 193,495 | 1,125,696 | 64,717 | (1,383,908) | — |
| At 31 December 2020 | 2,472,611 | 17,723,508 | 2,049,394 | 2,674,142 | 24,919,655 |
| **DEPRECIATION** | | | | | |
| At 1 January 2019 | 371,932 | 2,236,579 | 835,802 | — | 3,444,313 |
| Currency realignment | (8,919) | (46,758) | (18,206) | — | (73,883) |
| Provided for the year | 79,358 | 400,196 | 141,076 | — | 620,630 |
| Eliminated on disposals | (2,614) | (2,216) | (38,273) | — | (43,103) |
| At 31 December 2019 | 439,757 | 2,587,801 | 920,399 | — | 3,947,957 |
| Currency realignment | 36,206 | 189,242 | 70,379 | — | 295,827 |
| Provided for the year | 88,962 | 454,475 | 143,280 | — | 686,717 |
| Eliminated on disposals | (561) | (672) | (26,266) | — | (27,499) |
| At 31 December 2020 | 564,364 | 3,230,846 | 1,107,792 | — | 4,903,002 |
| **CARRYING VALUES** | | | | | |
| At 31 December 2020 | 1,908,247 | 14,492,662 | 941,602 | 2,674,142 | 20,016,653 |
| At 31 December 2019 | 1,648,623 | 12,536,805 | 862,704 | 2,171,097 | 17,219,229 |

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

## 18. Right-of-use Assets

| | Leasehold land HK$'000 | Leased properties and others HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 31 December 2020** | | | |
| Carrying amount | 825,714 | 57,002 | 882,716 |
| **As at 31 December 2019** | | | |
| Carrying amount | 749,915 | 49,859 | 799,774 |
| **For the year ended 31 December 2020** | | | |
| Depreciation charge | (22,423) | (34,651) | (57,074) |
| **For the year ended 31 December 2019** | | | |
| Depreciation charge | (20,949) | (32,963) | (53,912) |

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Total cash outflow for leases | **81,372** | 145,875 |
| Additions to right-of-use assets | **81,375** | 139,238 |

For both years, the Group leases various offices, warehouses, staff dormitory, equipment and vehicles for its operations. Lease contracts other than land leases are entered into for fixed terms ranging from 12 months to 30 years (2019: 12 months to 30 years) while for land leases are entered into for fixed terms ranging from 15 years to 70 years (2019: 15 years to 70 years). Lease terms are negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 19. Intangible Assets

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2019 | 638,033 |
| Currency realignment | (11,189) |
| At 31 December 2019 | 626,844 |
| Currency realignment | 38,564 |
| At 31 December 2020 | 665,408 |
| **AMORTISATION** | |
| At 1 January 2019 | 145,364 |
| Currency realignment | (2,664) |
| Provided for the year | 18,712 |
| At 31 December 2019 | 161,412 |
| Currency realignment | 10,376 |
| Provided for the year | 18,546 |
| At 31 December 2020 | 190,334 |
| **CARRYING VALUES** | |
| At 31 December 2020 | 475,074 |
| At 31 December 2019 | 465,432 |

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.

## 20. Goodwill

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2019 | 5,522,253 |
| Currency realignment | (97,598) |
| Acquisition of a business (note 37) | 20,367 |
| At 31 December 2019 | 5,445,022 |
| Currency realignment | 337,646 |
| At 31 December 2020 | 5,782,668 |
| **IMPAIRMENT** | |
| At 1 January 2019 | — |
| Impairment provision recognised | 148,000 |
| At 31 December 2019 | 148,000 |
| Currency realignment | 9,176 |
| At 31 December 2020 | 157,176 |
| **CARRYING VALUES** | |
| At 31 December 2020 | 5,625,492 |
| At 31 December 2019 | 5,297,022 |

## 20. Goodwill *(Continued)*

Goodwill acquired in a business combination is allocated to 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-groups") represents a separate CGU for the purpose of goodwill impairment testing. The CGUs are principally engaged in the sales and distribution of piped gas and gas connection in the PRC. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Sub-groups headed by: | | |
| Hong Kong & China Gas (Qingdao) Limited | **340,020** | 320,166 |
| Hong Kong & China Gas (Zibo) Limited | **365,701** | 344,348 |
| Hong Kong & China Gas (Yantai) Limited | **226,897** | 213,649 |
| Hong Kong & China Gas (Weifang) Limited | **116,649** | 109,838 |
| Hong Kong & China Gas (Weihai) Limited | **282,928** | 266,408 |
| Hong Kong & China Gas (Taian) Limited | **218,873** | 206,093 |
| Hong Kong & China Gas (Maanshan) Limited | **297,116** | 279,767 |
| Hong Kong & China Gas (Anqing) Limited | **281,615** | 265,171 |
| Mianyang Hong Kong & China Gas Co., Ltd. | **302,737** | 285,060 |
| 成都新都港華燃氣有限公司 | **230,084** | 216,649 |
| Towngas (BVI) Holdings Limited ("Towngas BVI")* | **421,728** | 397,104 |
| 阜新新邱港華燃氣有限公司 | **126,600** | 119,208 |
| Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd. | **128,489** | 120,986 |
| Shenyang business | **109,771** | 103,361 |
| 綿竹港華燃氣有限公司 | **108,964** | 102,601 |
| 潮州楓溪港華燃氣有限公司 | **155,459** | 146,382 |
| Boxing Hong Kong & China Gas Co., Ltd | **92,517** | 87,115 |
| Dafeng Hong Kong and China Gas Company Limited | **260,367** | 245,165 |
| 廣西中威管道燃氣發展集團有限責任公司 | **133,506** | 125,711 |
| Baotou Hong Kong & China Gas Company Limited | **170,655** | 160,690 |
| Xingyi Hong Kong & China Gas Company Limited | **107,374** | 101,104 |
| Others | **1,147,442** | 1,080,446 |
| | **5,625,492** | 5,297,022 |

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

## 20. Goodwill *(Continued)*

The recoverable amounts of CGUs are determined from value in use calculations. The value in use calculations are derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, expected changes to selling prices and direct costs and expected impact of the regulatory changes. The management considered the COVID-19 pandemic have no significant impact to these assumptions. Management estimates discount rates of 8.5% to 11.5% (2019: 8.2% to 11%) 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.

Cash flows beyond 5-year period have been extrapolated using growth rates from 5% to 10% (2019: 5% to 10%) per annum, which is based on industry growth forecasts. Impairment provision of HK$148,000,000 was recognised during the year ended 31 December 2019 (2020: nil), which was mainly resulting from certain loss-making CGUs and the estimated adjustment of proposed return rates for sale and distribution of piped gas.

### Sensitivity analysis

The effect of the reasonably possible change in key assumptions on the calculation of value in use of the CGUs of the sales and distribution of piped gas and gas connection, which would cause the carrying amounts to exceed their recoverable amounts is disclosed below.

If the discount rate is increased by 50 basis points and all other variables are held constant, the carrying amounts of the CGUs would be decreased by approximately HK$199 million (2019: HK$201 million).

## 21. Interests in Associates/Loans to Associates

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

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Cost of investments in associates | **2,317,114** | 2,190,649 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **2,570,563** | 2,073,340 |
| | **4,887,677** | 4,263,989 |
| Fair value of listed investments | **6,383,563** | 4,707,378 |
| Loans to associates | | |
| — Non-current portion | **69,090** | 21,924 |
| — Current portion | **16,398** | 10,962 |
| | **85,488** | 32,886 |

## 21. Interests in Associates/Loans to Associates *(Continued)*

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

| Name of company | Place of establishment and operation | Equity interest attributable to the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|
| Anhui Province Wenery Towngas Natural Gas Company Limited | PRC — Sino-foreign equity joint venture | **49.0%** | 49.0% | Midstream |
| Changchun Gas Co., Ltd.* | PRC — Company limited by shares | **28.2%** | 28.2% | Provision of natural gas and related services and gas pipeline construction |
| Dalian DETA Hong Kong and China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | **40.0%** | 40.0% | Provision of natural gas and related services and gas pipeline construction |
| Foran Energy Group Co., Ltd. (formerly Foshan Gas Group Co., Ltd.)** | PRC — Company limited by shares | **38.7%** | 38.7% | Provision of natural gas and related services and gas pipeline construction |
| 撫州市撫北天然氣有限公司 | PRC — Limited liability company | **40.0%** | 40.0% | Provision of natural gas and related services and gas pipeline construction |
| 臨朐港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | **42.4%** | 42.4% | Provision of natural gas and related services and gas pipeline construction |
| 四川能投分布式能源有限公司 | PRC — Limited liability company | **24.4%** | 24.4% | Provision of natural gas distributed energy |
| Shandong Jihua Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | **49.0%** | 49.0% | Provision of natural gas and related services and gas pipeline construction |
| 石家莊華博燃氣有限公司 | PRC — Sino-foreign equity joint venture | **45.0%** | 45.0% | Provision of natural gas and related services and gas pipeline construction |
| Zhuojia Public Engineering (Maanshan) Co., Ltd. | PRC — Sino-foreign equity joint venture | **37.5%** | 37.5% | Provision of gas pipe assembly |
| Zibo Lubo Gas Company Limited | PRC — Sino-foreign equity joint venture | **27.0%** | 27.0% | Provision of natural gas and related services and gas pipeline construction |

* Its shares are listed on the Shanghai Stock Exchange and its financial information is publicly available.

** Its shares are listed on the Shenzhen Stock Exchange and its financial information is publicly available. The company name was changed in March 2020.

## 21. Interests in Associates/Loans to Associates *(Continued)*

### Aggregate information of associates that are not individually material to the Group

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| The Group's share of profit for the year | **362,688** | 359,313 |
| Aggregate carrying amount of the Group's interests in these associates | **4,887,677** | 4,263,989 |

The loans to associates are unsecured and interest bearing at fixed rates ranging from 4.35% to 5.00% (2019: 4.75%) per annum. Included in the loans are HK$6,479,000 (2019: nil) repayable on demand, HK$9,919,000 (2019: HK$10,962,000) repayable within one year and HK$69,090,000 (2019: HK$21,924,000) repayable after one year.

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

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cost of investments in joint ventures | **1,463,614** | 1,213,752 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **1,734,715** | 1,542,673 |
| | **3,198,329** | 2,756,425 |
| Loans to joint ventures | **198,212** | 215,759 |

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

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

| Name of company | Place of establishment and operation | Equity interest attributable to the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|
| Anhui Towngas Keda Power Sales Co., Ltd. | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas distributed energy |
| Anqing Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision for natural gas and related services and gas pipeline construction |
| 重慶港華燃氣有限公司 | PRC — Limited liability company | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| Hangzhou Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| Maanshan Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| 泰安市泰港燃氣有限公司 | PRC — Sino-foreign equity joint venture | **49.0%** | 49.0% | Midstream |
| Taian Taishan Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **49.0%** | 49.0% | Provision of natural gas and related services and gas pipeline construction |
| Tongling Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | **40.0%** | — | Provision of natural gas distributed energy |
| Weifang Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| Weihai Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| Wuhu Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |
| Zibo Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | **50.0%** | 50.0% | Provision of natural gas and related services and gas pipeline construction |

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

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

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| The Group's share of profit for the year | **334,168** | 383,217 |
| Aggregate carrying amount of the Group's interests in these joint ventures | **3,198,329** | 2,756,425 |

The loans to joint ventures are unsecured and interest bearing at a fixed rate of 4.35% (2019: fixed rates ranging from 4.35% to 4.78%) per annum. As at 31 December 2020, the loans are repayable on demand. As at 31 December 2019, the loans of HK$182,201,000 and HK$33,558,000 were repayable on demand and repayable within one year, respectively.

## 23. Equity Instruments at FVTOCI

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Listed shares in the PRC | **1,609,942** | 2,304,042 |
| Unlisted shares in the PRC | **111,933** | 95,002 |
| | **1,721,875** | 2,399,044 |

These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business. These investments are not held for trading, instead, they are held for long-term strategic purposes. The Directors have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

One of the investees included in equity instruments at FVTOCI is Chengdu Gas. The Group's investment cost was HK$160,663,000 (2019: HK$160,663,000) and holds 11.7% interest (104,000,000 shares) (2019: 11.7% interest (104,000,000 shares)) in Chengdu Gas as at 31 December 2020. Change in fair value of Chengdu Gas was recognised in other comprehensive income of the Group. As at 31 December 2020, the fair value of Chengdu Gas was HK$1,543,074,000 (2019: HK$2,259,150,000) (constitutes 3.6% of total assets of the Group) with reference to its stock price and fair value movement of a decrease of HK$811,530,000 (2019: an increase of HK$1,968,909,000) was recognised during the year ended 31 December 2020.

## 24. Inventories

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Finished goods | **151,591** | 130,727 |
| Materials and consumables | **491,526** | 456,535 |
| | **643,117** | 587,262 |

## 25. Trade and Other Receivables, Deposits and Prepayments

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Trade receivables (net of allowance for credit losses) | **1,101,251** | 886,834 |
| Prepayments | **631,212** | 561,195 |
| Other receivables and deposits | **504,755** | 492,661 |
| | **2,237,218** | 1,940,690 |

At 1 January 2019, trade receivables from contracts with customers amounted to HK$871,480,000 (net of allowance for credit losses of HK$131,758,000).

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK$1,269,048,000 (2019: HK$1,032,384,000) and allowance for credit losses of HK$167,797,000 (2019: HK$145,550,000). 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 net of allowance of credit losses presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| 0 to 90 days | **883,463** | 682,276 |
| 91 to 180 days | **39,115** | 77,053 |
| Over 180 days | **178,673** | 127,505 |
| | **1,101,251** | 886,834 |

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$13,565,000 (2019: HK$14,688,000) which are past due as at the reporting date. Out of the past due balances, HK$6,458,000 (2019: HK$7,236,000) has been past due 90 days or more and is not considered as in default based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC and macroeconomic factors affecting the ability of the customers to settle the debtors and expected subsequent settlements. The Group does not hold any collateral over these balances.

Details of the impairment assessment of trade and other receivables are set out in note 6.

## 26. Time Deposits Over Three Months and Bank Balances and Cash

The deposits and bank balances carry interest at prevailing market rates ranging from 0.00% to 3.70% (2019: 0.00% to 2.25%) per annum.

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

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| USD | **10,611** | 35,081 |
| HKD | **22,285** | 14,673 |

## 27. Amounts Due From/To Non-Controlling Shareholders

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

## 28. Other Financial Asset/Liabilities

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| **Other financial asset** | | |
| *Derivatives (under hedge accounting)* | | |
| Cash flow hedge — cross currency interest rate swap contract under non-current assets | **—** | 24,483 |
| **Other financial liabilities** | | |
| *Derivatives (under hedge accounting)* | | |
| Cash flow hedge — cross currency interest rate swap contract under current liabilities | **55,839** | — |
| Cash flow hedge — cross currency interest rate swap contracts under non-current liabilities | **57,238** | 15,413 |
| | **113,077** | 15,413 |

The classification of the measurement of the derivative financial instruments at 31 December 2020 and 2019 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 asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

## 28. Other Financial Asset/Liabilities *(Continued)*

### Cash flow hedge

During the year ended 31 December 2019, the Group entered into cross currency interest rate swap contracts with total notional amounts of HK$575,000,000 and USD50,000,000, respectively to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the HK$ bank loan with principal amount of HK$575,000,000 and USD bank loan with principal amount of USD50,000,000, respectively. The critical terms of the cross currency interest rate swap and the corresponding HK$ and USD bank loan were closely aligned and the Directors considered that the cross currency interest rate swap was a highly effective hedging instrument and qualified as cash flow hedge. During the year ended 31 December 2020, the fair value change of HK$174,889,000 (2019: HK$39,614,000) on derivative instruments designated as cash flow hedge was recorded in hedge reserve, and a fair value change of HK$163,835,000 (2019: HK$40,017,000) on derivative instruments designated as cash flow hedge was reclassified to finance costs as a debit of HK$54,008,000 (2019: credit of HK$820,000) and to exchange differences as a debit of HK$109,827,000 (2019: credit of HK$39,197,000) in profit or loss.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

The major terms of the cross currency interest rate swaps were set out below:

| Notional amount | Maturity | Exchange rate | Interest rate | | Exchange frequency | | Total hedged item |
|---|---|---|---|---|---|---|---|
| | | | Receive | Pay | Receive | Pay | |
| **At 31 December 2020 and 2019** | | | | | | | |
| **Cross currency interest rate swaps** | | | | | | | |
| USD100,000,000 (Note) | 2021 | USD1 to RMB6.8685 | LIBOR+0.53% | 4.43% | Quarterly from initial date until maturity date | Quarterly from initial date until maturity date | Bank loan principal and interest payments |
| HKD575,000,000 | 2022 | HKD1 to RMB0.8540 | HIBOR+0.80% | 3.815% | Quarterly from initial date until maturity date | Quarterly from initial date until maturity date | Bank loan principal and interest payments |
| USD50,000,000 (Note) | 2024 | USD1 to RMB6.9270 | LIBOR+0.80% | 4.05% | Quarterly from initial date until maturity date | Quarterly from initial date until maturity date | Bank loan principal and interest payments |

Note: The Group has floating rate bank borrowings, linked to USD LIBOR, which cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

## 28. Other Financial Asset/Liabilities *(Continued)*

### Cash flow hedge *(Continued)*

The Group is exposed to the USD LIBOR within its hedge accounting relationships, which are subject to interest rate benchmark reform. The hedged item represented the USD LIBOR floating rate borrowings.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition away from USD LIBOR to the Secured Overnight Financing Rate (SOFR). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group's treasury team monitors where IBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. The Group aims to have its transition in place before the end of 2021.

None of the Group's current USD LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement these when appropriate.

The Group will continue to apply the amendments to HKFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

## 29. Trade and Other Payables and Accrued Charges

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Trade payables | **1,418,051** | 1,220,225 |
| Consideration payable for acquisitions of businesses | **78,187** | 73,724 |
| Other payables and accruals | **1,192,770** | 920,205 |
| Amount due to ultimate holding company (note) | **317** | 1,006 |
| | **2,689,325** | 2,215,160 |

Note: The amount is unsecured, interest-free and repayable on demand.

## 29. Trade and Other Payables and Accrued Charges *(Continued)*

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **803,056** | 706,935 |
| 91 to 180 days | **209,887** | 122,759 |
| 181 to 360 days | **142,431** | 172,570 |
| Over 360 days | **262,677** | 217,961 |
| | **1,418,051** | 1,220,225 |

## 30. Contract Liabilities

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Sales and distribution of piped gas and related products | **1,151,533** | 914,242 |
| Gas connection | **2,582,037** | 2,395,435 |
| | **3,733,570** | 3,309,677 |

As at 1 January 2019, contract liabilities amounted to HK$3,043,956,000.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

| | Sales and distribution of piped gas and related products<br>HK$'000 | Gas connection<br>HK$'000 |
|---|---|---|
| **For the year ended 31 December 2020** | | |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 914,242 | 644,312 |
| **For the year ended 31 December 2019** | | |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 756,526 | 830,495 |

## 30. Contract Liabilities *(Continued)*

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

### Sales and distribution of piped gas and related products

The Group typically receives prepayments from customers for piped gas and related products before the respective sales and distribution.

### Gas connection

The Group receives deposits from customers before the construction work commences, and this will give rise to contract liabilities at the start of a contract.

## 31. Lease Liabilities

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| **Lease liabilities payable:** | | |
| Within one year | **22,562** | 21,034 |
| Within a period of more than one year but not more than two years | **9,911** | 18,869 |
| Within a period of more than two years but not more than five years | **11,631** | 13,475 |
| Within a period of more than five years | **18,012** | 3,228 |
| | **62,116** | 56,606 |
| Less: Amounts due for settlement with 12 months shown under current liabilities | **(22,562)** | (21,034) |
| Amounts due for settlement after 12 months shown under non-current liabilities | **39,554** | 35,572 |

## 32. Borrowings

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Bank loans — unsecured | **11,456,239** | 10,203,172 |
| Other loans — unsecured | **36,519** | 36,190 |
| | **11,492,758** | 10,239,362 |
| Carrying amount repayable: | | |
| On demand or within one year | **5,136,717** | 3,433,529 |
| More than one year but not exceeding two years | **4,823,258** | 1,430,955 |
| More than two years but not exceeding five years | **1,519,480** | 5,359,060 |
| More than five years | **13,303** | 15,818 |
| | **11,492,758** | 10,239,362 |
| Less: Amount due within one year shown under current liabilities | **(5,136,717)** | (3,433,529) |
| Amount due after one year shown under non-current liabilities | **6,356,041** | 6,805,833 |

The bank and other loans mainly comprise of:

| | Effective interest rate | Carrying amount 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Floating-rate loans: | | | |
| Unsecured HKD bank loans | 2.23% (2019: 3.08%) | **567,297** | 560,864 |
| Unsecured RMB bank loans | 3.26% (2019: 4.87%) | **1,616,111** | 1,633,774 |
| Unsecured USD bank loans | 2.80% (2019: 2.80%) | **1,162,950** | 1,168,650 |
| Fixed rate loans: | | | |
| Unsecured RMB bank loans | 3.90% (2019: 4.09%) | **8,109,881** | 6,839,884 |
| Unsecured RMB other loans | 1.50% (2019: 1.50%) | **22,854** | 21,519 |
| Unsecured other loans | 1.15% (2019: 1.15%) | **13,665** | 14,671 |
| Total bank loans and other loans | | **11,492,758** | 10,239,362 |

## 33. Loans from a Non-Controlling Shareholder and Joint Ventures

At the end of the reporting period, all loans from joint ventures are denominated in RMB. The loans carry interest at a fixed rate of 2.15% (2019: 2.58%) per annum and are unsecured and repayable on demand.

At the end of the reporting period, the loan from a non-controlling shareholder was denominated in RMB. The loan carries interest at a fixed rate of 1% (2019: 1%) per annum and is unsecured. During the year, the repayment date of the loan has been extended from December 2020 to December 2023.

## 34. Deferred Taxation

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

| | Accelerated tax depreciation HK$'000 | Intangible assets HK$'000 | Undistributed profits of joint ventures/ associates/ subsidiaries HK$'000 | ECL provision/ fair value revaluation of equity instruments at FVTOCI HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | 71,961 | 127,907 | 258,420 | 37,612 | 495,900 |
| Currency realignment | (724) | (580) | (6,732) | (665) | (8,701) |
| (Credit) charge to profit or loss | (1,928) | (4,565) | 37,343 | (4,030) | 26,820 |
| Charge to other comprehensive income | — | — | — | 492,232 | 492,232 |
| Withholding tax paid | — | — | (24,181) | — | (24,181) |
| At 31 December 2019 | **69,309** | **122,762** | **264,850** | **525,149** | **982,070** |
| Currency realignment | **2,346** | **1,898** | **25,163** | **32,564** | **61,971** |
| (Credit) charge to profit or loss | **(4,593)** | **(4,524)** | **34,700** | **(8,256)** | **17,327** |
| Credit to other comprehensive income | **—** | **—** | **—** | **(197,830)** | **(197,830)** |
| Withholding tax paid | **—** | **—** | **(15,196)** | **—** | **(15,196)** |
| At 31 December 2020 | **67,062** | **120,136** | **309,517** | **351,627** | **848,342** |

At the end of the reporting period, the Group has unused tax losses of HK$545,637,000 (2019: HK$649,721,000) 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 the year 2025 (2019: year 2024).

At the end of the reporting period, the Group has certain temporary differences associated with undistributed earnings of subsidiaries for which no deferred tax liabilities have been recognised as it is probable that such differences will not reverse in the foreseeable future.

## 35. Share Capital

| | Number of shares | HK$'000 |
|---|---|---|
| At 31 December 2020 | | |
| — Authorised: | | |
| Shares of HK$0.10 each | 5,000,000,000 | 500,000 |
| — Issued and fully paid: | | |
| Shares of HK$0.10 each | 2,968,934,833 | 296,893 |

## 35. Share Capital *(Continued)*

Details of the authorised share capital is as follows:

| | Number of shares | HK$'000 |
|---|---|---|
| At 1 January 2019, 31 December 2019 and 31 December 2020 | 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 2019 | 2,810,027,892 | 281,003 |
| Issue of shares upon scrip dividend scheme (note a) | 60,659,116 | 6,066 |
| At 31 December 2019 | 2,870,687,008 | 287,069 |
| Issue of shares upon scrip dividend scheme (note b) | 98,247,825 | 9,824 |
| At 31 December 2020 | 2,968,934,833 | 296,893 |

Notes:

(a) On 19 March 2019, 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 Company's annual general meeting held on 21 May 2019. On 4 July 2019, 60,659,116 shares of HK$0.10 each were allotted and issued at HK$5.712 each to Shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2018 final dividend under the scrip dividend scheme.

(b) On 16 March 2020, 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 Company's annual general meeting held on 21 May 2020. On 6 July 2020, 98,247,825 shares of HK$0.10 each were allotted and issued at HK$3.644 each to Shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2019 final dividend under the scrip dividend scheme.

All the shares which were issued during the years ended 31 December 2019 and 2020 rank pari passu with the then existing shares in all respects.

## 36. 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.

## 37. Acquisition of a Subsidiary/a Business

*For the year ended 31 December 2020*

During the year ended 31 December 2020, the Group acquired 45% interest in Changzhou Energy which is principally engaged in the operation of energy supply and other related business in the PRC from an independent third party for a consideration of HK$15,309,000. Management considered that the Group has control over Changzhou Energy as the relevant activities such as the approval of the operation plan and budget, appointing, remunerating and terminating the key management personnel are approved by a simple majority of the board of directors and the Group is able to appoint more than half of the board of directors of Changzhou Energy. Accordingly, Changzhou Energy is accounted for as a subsidiary. The primary reason for the acquisition is for the expansion of the Group's business and to increase returns to its shareholders.

### The net identifiable assets acquired in the transaction are as follows:

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 438 |
| Other receivables | 92 |
| Bank balances and cash | 33,488 |
| | 34,018 |

| | HK$'000 |
|---|---|
| Result on the acquisition: | |
| Acquiree's fair values of net identifiable assets | 34,018 |
| Consideration paid | (15,309) |
| Non-controlling interests | (18,709) |
| | — |

### Net cash inflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | (15,309) |
| Bank balances and cash acquired | 33,488 |
| | 18,179 |

No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020 is presented as the contributions are insignificant.

## 37. Acquisition of a Subsidiary/a Business *(Continued)*

*For the year ended 31 December 2019*

During the year ended 31 December 2019, the Group acquired a business which is principally engaged in the operation of natural gas and other related business in the PRC from 青島匯森石油天然氣有限公司 for a consideration of HK$42,506,000. The primary reason for the below acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

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

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

| | HK$'000 |
|---|---|
| Purchase consideration | 42,506 |
| Acquiree's fair value of net identifiable assets acquired (see below) | (22,139) |
| Goodwill arising on acquisition | 20,367 |

### The net identifiable assets acquired in the transaction were as follows:

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 17,297 |
| Right-of-use assets | 4,834 |
| Trade receivables | 251 |
| Trade payables | (243) |
| | 22,139 |

### Cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | (42,506) |

Goodwill arose from the above acquisition 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. No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019 was presented as the contributions are insignificant.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

## 38. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during both years as set out in note 35.

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 1 to 12 years while for leasehold land for 15 years to 70 years. On the lease commencement, the Group recognised HK$29,979,000 (2019: HK$11,845,000) of right-of-use assets and HK$29,979,000 (2019: HK$11,845,000) of lease liabilities.

## 39. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank and other loans HK$'000 | Loan from a non-controlling shareholder HK$'000 | Loans from joint ventures HK$'000 | Dividend payable HK$'000 | Lease liabilities HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 9,504,332 | — | 24,642 | — | 83,466 | 9,612,440 |
| Financing cash flows | 882,071 | 19,790 | 6,517 | (165,804) | (23,316) | 719,258 |
| New leases entered | — | — | — | — | 11,845 | 11,845 |
| Termination of lease | — | — | — | — | (15,241) | (15,241) |
| Interest expenses | — | — | — | — | 3,211 | 3,211 |
| Exchange differences | (147,041) | (305) | (789) | — | (3,359) | (151,494) |
| Dividend declaration | | | | | | |
| — shareholders of the Company | — | — | — | 421,504 | — | 421,504 |
| — non-controlling shareholders | — | — | — | 90,785 | — | 90,785 |
| Issue of shares upon scrip dividend scheme | — | — | — | (346,485) | — | (346,485) |
| At 31 December 2019 | 10,239,362 | 19,485 | 30,370 | — | 56,606 | 10,345,823 |
| Financing cash flows | 663,989 | — | (25,613) | (183,140) | (29,976) | 425,260 |
| New leases entered | — | — | — | — | 29,979 | 29,979 |
| Interest expenses | — | — | — | — | 3,063 | 3,063 |
| Exchange differences | 589,407 | 1,405 | 474 | — | 2,444 | 593,730 |
| Dividend declaration | | | | | | |
| — shareholders of the Company | — | — | — | 430,603 | — | 430,603 |
| — non-controlling shareholders | — | — | — | 110,551 | — | 110,551 |
| Issue of shares upon scrip dividend scheme | — | — | — | (358,014) | — | (358,014) |
| At 31 December 2020 | 11,492,758 | 20,890 | 5,231 | — | 62,116 | 11,580,995 |

Note: The amounts reclassified from hedge reserve are excluded in the reconciliation.

## 40. Related Party Transactions

Other than as disclosed elsewhere in the consolidated financial statements, the Group has following transactions with related parties:

| Name of related party | Nature of transaction | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Anhui Province Natural Gas Development Co., Ltd. (note b) | Purchase of compressed natural gas | **140,072** | 142,139 |
| 安徽皖能清潔能源有限公司 (note b) | Purchase of natural gas | **41,271** | 27 |
| 常州東利港華氣體有限公司 (note b) | Purchase of natural gas | **49,336** | 46,745 |
| Chaozhou Hong Kong and China Gas Company Limited (note a) | Processing service charges of natural gas | **933** | 235 |
| Chaozhou Hong Kong and China Gas Company Limited (note a) | Purchase of pipeline construction materials and tools | **1,484** | 943 |
| Chaozhou Hong Kong and China Gas Company Limited (note a) | Sale of natural gas | **9,106** | — |
| 港華國際能源貿易有限公司 (note a) | Purchase of natural gas | **98,687** | 18,895 |
| GH-Fusion Corporation Limited (note b) | Purchase of pipeline construction materials and tools | **1,884** | 1,499 |
| Guangzhou Hong Kong and China Gas Company Limited (note a) | Sale of natural gas | **28,976** | 39,852 |
| Hong Kong & China Gas Investment Limited (note a) | Charges paid for expatriate service | **9,138** | 9,295 |
| 江蘇海企港華燃氣股份有限公司 (note b) | Purchase of pipeline construction materials and tools | **2,668** | 2,721 |
| 江蘇海企港華燃氣股份有限公司 (note b) | Purchase of liquefied natural gas | **10,918** | 178 |
| 吉林港華燃氣有限公司 (note a) | Sale of liquefied natural gas | **26,693** | — |

## 40. Related Party Transactions *(Continued)*

| Name of related party | Nature of transaction | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Maanshan Hong Kong and China Gas Company Limited (note c) | Purchase of natural gas | **50,907** | 44,647 |
| 名氣家(深圳)信息服務有限公司 (note a) | Purchase of food ingredients and materials, and charges paid for Virtual Customer Centre (VCC) service | **2,089** | 612 |
| 南京燃氣輸配有限公司 (note b) | Charges paid for construction services | **2,344** | — |
| 清遠卓佳公用工程材料有限公司 (note b) | Purchase of pipeline construction materials and tools | **12,360** | 13,109 |
| S-Tech Smart Technology (Wuhan) Company Limited (note a) | Charges paid for system software, cloud computing system and safety inspection supporting services | **16,474** | 9,835 |
| 山東港華培訓學院 (note a) | Charges paid for training services | **2,396** | 3,203 |
| 山東港燃經貿有限公司 (note d) | Purchase of natural gas | **70,780** | 47,766 |
| 瀋陽三全工程監理諮詢有限公司 (note a) | Charges paid for project management services | **6,254** | 5,956 |
| 四川空港燃氣有限公司 (note d) | Sale of natural gas | **6,888** | 23,002 |
| 四川空港燃氣有限公司 (note d) | Provision for gas pipeline installation | **—** | 6,420 |
| 徐州港華能源科技有限公司 (note a) | Purchase of natural gas | **3,176** | 14,687 |
| Xuzhou Hong Kong and China Gas Company Limited (note a) | Purchase of natural gas | **9,344** | 11,917 |
| Xuzhou Hong Kong and China Gas Company Limited (note a) | Sale of natural gas | **308** | 6,384 |

## 40. Related Party Transactions *(Continued)*

| Name of related party | Nature of transaction | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Xuzhou Hong Kong and China Gas Company Limited (note a) | Charges paid for maintenance service of high-pressure pipeline | **865** | — |
| Yangxin Hong Kong & China Gas Company Limited (note b) | Purchase of natural gas | **1,991** | — |
| 珠海卓銳高科信息技術有限公司 (note a) | Charges paid for system software, cloud computing system and safety inspection supporting services | **—** | 3,589 |
| 卓度計量技術(深圳)有限公司 (note a) | Purchase of gas meters | **25,133** | 16,261 |
| Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b) | Charges paid for processing service of pipeline materials | **12,325** | 16,672 |
| 卓通管道系統(中山)有限公司 (note a) | Purchase of pipeline construction materials and tools | **131,432** | 124,468 |

Notes:

(a) HKCG has controlling interests in these companies.

(b) HKCG has significant influences in these companies.

(c) The Group jointly controlled this company with an independent third party.

(d) The Group has significant influences in these companies.

Emoluments paid to the key management personnel of the Company which represents the Executive Directors and Independent Non-executive Directors of the Company are set out in note 13.

## 41. Commitments

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **346,691** | 281,362 |
| Capital contribution to an associate (note) | **5,167,498** | — |
| | **5,514,189** | 281,362 |

Note: On 27 October 2020, the Company entered into a capital increase agreement with Shenergy (Group) Company Limited and Shanghai Gas, pursuant to which the Company agreed to increase the registered capital and capital reserves of Shanghai Gas by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to HK$5,583,274,000) and the Company will own 25% equity interests in Shanghai Gas upon completion. An amount of RMB350,000,000 (equivalent to HK$415,776,000) was paid to Shanghai United Assets and Equity Exchange as a deposit for such acquisition. Details of the above transaction were disclosed in the circular of the Company dated 25 January 2021. Up to the date of issuance of these consolidated financial statements, the transaction has not yet completed.

## 42. 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 and the waivers of partial contributions granted from the PRC government due to COVID-19 pandemic, the retirement plan contributions charge for the year ended 31 December 2020 amounted to HK$11,794,000 (2019: HK$84,888,000).

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 2020, the Group made retirement benefit scheme contributions amounting to HK$487,000 (2019: HK$485,000).

## 43. Statement of Financial Position and Reserves of the Company

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | **81** | 66 |
| Deposit paid for acquisition of an associate | **415,776** | — |
| Investments in subsidiaries | **2,283,292** | 2,151,603 |
| | **2,699,149** | 2,151,669 |
| Current assets | | |
| Amounts due from subsidiaries | **12,203,830** | 11,125,240 |
| Bank balances and cash | **210,636** | 59,672 |
| | **12,414,466** | 11,184,912 |
| Current liabilities | | |
| Other payables and accrued charges | **55,576** | 57,270 |
| Amounts due to subsidiaries | **218,603** | 1,505,458 |
| Amount due to ultimate holding company | **570** | 323 |
| Borrowings — amounts due within one year | **2,753,204** | 2,544,743 |
| Other financial liability | **55,839** | — |
| | **3,083,792** | 4,107,794 |
| Net current assets | **9,330,674** | 7,077,118 |
| Total assets less current liabilities | **12,029,823** | 9,228,787 |
| Non-current liabilities | | |
| Loan from a subsidiary | **6,489,772** | 5,296,282 |
| Borrowings — amounts due after one year | **387,650** | 1,168,650 |
| Other financial liabilities | **41,370** | 15,413 |
| | **6,918,792** | 6,480,345 |
| Net assets | **5,111,031** | 2,748,442 |
| Capital and reserves | | |
| Share capital | **296,893** | 287,069 |
| Reserves | **4,814,138** | 2,461,373 |
| Total equity | **5,111,031** | 2,748,442 |

## 43. 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 2019 | 281,003 | 6,114,717 | (3,105,173) | 3,290,547 |
| Loss and other comprehensive expense for the year | — | — | (467,086) | (467,086) |
| Issue of shares upon scrip dividend scheme | 6,066 | 340,419 | — | 346,485 |
| Dividends declared to shareholders of the Company | — | (421,504) | — | (421,504) |
| At 31 December 2019 | 287,069 | 6,033,632 | (3,572,259) | 2,748,442 |
| Profit and other comprehensive income for the year | — | — | 2,435,178 | 2,435,178 |
| Issue of shares upon scrip dividend scheme | 9,824 | 348,190 | — | 358,014 |
| Dividends declared to shareholders of the Company | — | (430,603) | — | (430,603) |
| At 31 December 2020 | 296,893 | 5,951,219 | (1,137,081) | 5,111,031 |

* Others represent hedge reserve, exchange reserve and accumulated losses.

### (c) Amounts due from/to subsidiaries

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

## 44. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2020 and 2019 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 |
|---|---|---|---|---|---|
| | | | **2020** | 2019 | |
| **Directly-owned subsidiaries** | | | | | |
| Hong Kong & China Gas (Anqing) Limited | British Virgin Islands ("BVI") — Limited liability company/ Hong Kong ("HK") | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Maanshan) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Qingdao) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Taian) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Weifang) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Weihai) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Yantai) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Zibo) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| TCCL (Finance) Limited | HK — Limited liability company | HK$1 | **100.0%** | 100.0% | Financing |
| Towngas China Group Limited | BVI — Limited liability company/HK | US$12,821 | **100.0%** | 100.0% | Investment holding |
| Towngas China Holdings Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** | | | | | |
| An Shan Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | US$15,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Baotou Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB20,000,000 | **85.0%** | 85.0% | Provision of natural gas and related services and gas pipeline construction |
| Beipiao Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB56,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Ben Xi Hongkong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB335,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Boxing Hong Kong & China Gas Co., Ltd | PRC — Sino-foreign equity joint venture | RMB40,000,000 | **65.0%** | 65.0% | Provision of natural gas and related services and gas pipeline construction |
| C-Tech Laundry Company Limited | PRC — Wholly foreign-owned enterprise | RMB50,000,000 | **100.0%** | — | Investment holding |
| C-Tech Laundry Investment Company Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Cang Xi Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB20,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Cangxian Hong Kong & China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB10,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Changting Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB22,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Changzhou Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB31,000,000 | **45.0%** | 45.0% | Provision of natural gas distributed energy |
| Chao Sheng Investments Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Chaoyang Hongkong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | US$10,791,838 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| 潮州楓溪港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | RMB60,000,000 | **60.0%** | 60.0% | Provision of natural gas and related services and gas pipeline construction |
| 成都新都港華燃氣有限公司 | PRC — Limited liability company | RMB30,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Chi Ping Hongkong and China Gas Co. Ltd. | PRC — Sino-foreign equity joint venture | RMB40,000,000 | **85.0%** | 85.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Chizhou Hong Kong and China Gas Company Ltd | PRC — Wholly foreign-owned enterprise | RMB70,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Dafeng Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB80,000,000 | **51.0%** | 51.0% | Provision of natural gas and related services and gas pipeline construction |
| Dalian Changxing Hong Kong and China Gas Co. Ltd. | PRC — Wholly foreign-owned enterprise | US$14,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Dalian Lvshun Hong Kong and China Gas Co. Ltd. | PRC — Wholly foreign-owned enterprise | US$15,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 大連瓦房店港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | RMB40,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Da Yi Hong Kong and China Gas Company Limited | PRC — Limited liability company | RMB20,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Feicheng Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB32,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Fuxin Hongkong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB77,200,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| 阜新大力燃氣有限責任公司 | PRC — Wholly foreign-owned enterprise | RMB13,900,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 阜新新邱港華燃氣有限公司 | PRC — Wholly foreign-owned enterprise | RMB34,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 港華舒適家 (成都) 科技服務有限公司 | PRC — Wholly foreign-owned enterprise | RMB10,000,000 | **100.0%** | — | Investment holding |
| Gao Chun Hong Kong and China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$9,500,000 (2019: US$7,500,000) | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Gongzhuling Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB88,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 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 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 廣西港華智慧能源有限公司 | PRC — Wholly foreign-owned enterprise | RMB10,000,000 | **100.0%** | 100.0% | Provision of natural gas distributed energy |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Guilin Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB30,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Heilongjiang Hong Kong & China Lianfu New Energy Company Limited | PRC — Sino-foreign equity joint venture | RMB13,000,000 | **55.0%** | 55.0% | Vehicle gas refilling stations |
| Hong Kong and China Gas (Dalian) Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Hangzhou) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Huzhou) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Tongxiang) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong & China Gas (Yingkou) Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Hong Kong and China Gas (Zhumadian) Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Huang Shan Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB40,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Huangshan Huizhou Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$2,100,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Huang Shan Taiping Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$3,500,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Huzhou Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | US$10,500,000 | **98.9%** | 98.9% | Provision of natural gas and related services and gas pipeline construction |
| Jiajiang Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB20,000,000 | **70.0%** | 70.0% | Provision of natural gas and related services and gas pipeline construction |
| Jianping Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB58,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| 簡陽港華燃氣有限公司 | PRC — Limited liability company | RMB150,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB200,000,000 | **82.2%** | 82.2% | Provision of natural gas and related services and gas pipeline construction |
| 九江港華燃氣有限公司 | PRC — Limited liability company | RMB10,000,000 | **60.0%** | 60.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Kazuo Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$6,400,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Laiyang Hong Kong and China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$11,520,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Lezhi Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB30,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Liuzhou Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB50,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Longkou Hongkong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | US$7,070,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Luliang Hong Kong & China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB52,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Maanshan Bowang Hong Kong & China Gas Co., Ltd. | 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 |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Maanshan Jiangbei Hong Kong and China Towngas Company Limited | PRC — Wholly foreign-owned enterprise | US$10,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Maanshan Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB50,000,000 | **85.0%** | 85.0% | Provision of natural gas distributed energy |
| Mengcun Hong Kong & China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB10,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Mianyang Heqing Towngas Co., Ltd | PRC — Sino-foreign equity joint venture | RMB10,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Mianyang Hong Kong & China Gas Co., Ltd | PRC — Wholly foreign-owned enterprise | RMB90,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Mianzhu Hong Kong and China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Mianzhu Yuquan Hong Kong and China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB5,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Miluo Hong Kong and China Gas Co. Ltd | PRC — Sino-foreign equity joint venture | RMB50,000,000 | **70.0%** | 70.0% | Provision of natural gas and related services and gas pipeline construction |
| Mei Shan Peng Shan Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB20,000,000 | **70.0%** | 70.0% | Provision of natural gas and related services and gas pipeline construction |
| Peng Xi Hong Kong and China Gas Company Limited | PRC — Limited liability company | RMB20,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 平昌港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | RMB20,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Qingdao Dong Yi Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **60.0%** | 60.0% | Provision of natural gas and related services and gas pipeline construction |
| Qingdao Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB15,380,000 (2019: RMB10,000,000) | **62.4%** | 96.0% | Provision of natural gas distributed energy |
| 青島嶗山灣港華能源有限公司 | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **60.0%** | 60.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Qingdao Zhongji Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB73,500,000 | **90.0%** | 90.0% | Provision of natural gas equity joint venture and related services and gas pipeline construction |
| 清遠港華燃氣有限公司 | PRC — Limited liability company | RMB50,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Qinhuangdao Hong Kong & China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB15,000,000 | **51.0%** | 51.0% | Provision of natural gas and related services and gas pipeline construction |
| 齊齊哈爾港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | RMB128,561,800 | **61.7%** | 61.7% | Provision of natural gas and related services and gas pipeline construction |
| Qiqihar Xingqixiang Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB60,000,000 | **100.0%** | 100.0% | Vehicle gas refilling stations |
| 韶關港華燃氣有限公司 | PRC — Limited liability company | RMB50,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Shenyang Hong Kong & China Gas Company Limited | PRC — Wholly foreign-owned enterprise | US$24,532,434 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| 瀋陽智慧能源系統科技有限公司 | PRC — Sino-foreign equity joint venture | RMB100,000,000 | **55.0%** | 55.0% | Provision of natural gas distributed energy |
| Shenzhen Towngas China Energy Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB6,000,000 | **100.0%** | 100.0% | Provision of natural gas distributed energy |
| 四川港華合縱能源有限公司 | PRC — Limited liability company | RMB230,000,000 | **98.8%** | — | Upstream |
| Siping Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB45,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| 松陽港華燃氣有限公司 | PRC — Limited liability company | RMB80,000,000 | **51.4%** | 51.4% | Provision of natural gas and related services and gas pipeline construction |
| Songyang Towngas China Energy Co., Ltd | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **85.4%** | 85.4% | Provision of natural gas distributed energy |
| 唐山港能投智慧能源有限公司 | PRC — Sino-foreign equity joint venture | RMB80,000,000 | **49.0%** | 49.0% | Provision of natural gas distributed energy |
| Tangshan Fengnan Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB96,000,000 | **45.0%** | 45.0% | Provision of natural gas distributed energy |
| TCCL (Project Finance) Limited | HK — Limited liability company | HK$100 | **100.0%** | — | Financing |
| Tie Ling Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB232,960,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Tongshan Hong Kong and China Gas Co. Ltd | PRC — Wholly foreign-owned enterprise | RMB124,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Tongxiang Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | US$7,000,000 | **76.0%** | 76.0% | Provision of natural gas and related services and gas pipeline construction |
| Towngas (BVI) Holdings Limited | BVI — Limited liability company/HK | US$1 | **100.0%** | 100.0% | Investment holding |
| Towngas China Energy Investment Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Towngas China Energy Investment Limited | PRC — Wholly foreign-owned enterprise | RMB250,000,000 | **100.0%** | 100.0% | Investment holding |
| Towngas China (Fengxi) Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Towngas China (Zhengpugang) Limited | HK — Limited liability company | HK$100 | **100.0%** | 100.0% | Investment holding |
| Towngas Investments Limited | PRC — Wholly foreign-owned enterprise | US$200,000,000 | **100.0%** | 100.0% | Investment holding |
| Towngas Natural Gas Sales Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB50,000,000 | **100.0%** | 100.0% | Procurement of natural gas sources |
| U-Tech (Guang Dong) Engineering Construction Co., Ltd | PRC — Wholly foreign-owned enterprise | RMB74,000,000 (2019: RMB10,000,000) | **100.0%** | 100.0% | Provision of engineering work services |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| 威遠港華燃氣有限公司 | PRC — Limited liability company | RMB30,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Wuhu Jiangbei Hong Kong & China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB200,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Wuning Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB40,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Wulian Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB20,000,000 | **70.0%** | 70.0% | Provision of natural gas and related services and gas pipeline construction |
| Xin Jin Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB40,000,000 | **60.0%** | 60.0% | Provision of natural gas and related services and gas pipeline construction |
| Xingyi Hong Kong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB50,000,000 | **70.0%** | 70.0% | Provision of natural gas and related services and gas pipeline construction |
| 徐州工業園區中港熱力有限公司 | PRC — Sino-foreign equity joint venture | RMB160,000,000 | **49.8%** | 49.8% | Provision of natural gas distributed energy |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Xuzhou Economic and Technological Development Zone Towngas China Energy Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB80,000,000 | **70.0%** | 70.0% | Provision of natural gas distributed energy |
| 修水港華燃氣有限公司 | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **80.0%** | 80.0% | Provision of natural gas and related services and gas pipeline construction |
| Yang Jiang Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB50,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Yan Shan Hong Kong & China Gas Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB10,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Yangxin Hongkong & China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB18,000,000 | **51.0%** | 51.0% | Provision of natural gas and related services and gas pipeline construction |
| 陽信港能投智慧能源有限公司 | PRC — Sino-foreign equity joint venture | RMB15,000,000 | **67.8%** | 67.8% | Provision of natural gas distributed energy |
| Yifeng Hongkong and China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB32,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Yingkou Hong Kong and China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | US$9,400,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |

## 44. 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly-owned subsidiaries** *(Continued)* | | | | | |
| Yue Chi Hong Kong and China Gas Company Limited | PRC — Sino-foreign equity joint venture | RMB30,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| Zhao Yuan Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB22,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Zhong Jiang Hong Kong and China Gas Company Limited | PRC — Wholly foreign-owned enterprise | RMB30,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| Zhongxiang Hong Kong & China Gas Co., Ltd. | PRC — Wholly foreign-owned enterprise | RMB42,000,000 | **100.0%** | 100.0% | Provision of natural gas and related services and gas pipeline construction |
| 資陽港華燃氣有限公司 | PRC — Limited liability company | RMB30,000,000 | **90.0%** | 90.0% | Provision of natural gas and related services and gas pipeline construction |
| 內蒙古港億天然氣有限公司 | PRC — Sino-foreign equity joint venture | RMB80,000,000 | **85.0%** | 85.0% | Midstream |

None of the subsidiaries had issued debt securities as at the end of both years or at any time during both years.

No financial information of the non-wholly owned subsidiary is disclosed in the consolidated financial statements as the non-controlling interest is not material to the Group.

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

Alfred Chan Wing-kin *(Chairman)*
Peter Wong Wai-yee *(Chief Executive Officer)*
John Ho Hon-ming *(Company Secretary)*
Martin Kee Wai-ngai *(Chief Operating Officer)*

### Independent Non-Executive Directors

Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

## Authorised Representatives

Alfred Chan Wing-kin
John Ho Hon-ming

## Company Secretary

John Ho Hon-ming

## Board Audit and Risk Committee

Brian David Li Man-bun *(Chairman)*
Moses Cheng Mo-chi
James Kwan Yuk-choi

## Remuneration Committee

Moses Cheng Mo-chi *(Chairman)*
Brian David Li Man-bun
James Kwan Yuk-choi
Alfred Chan Wing-kin

## Nomination Committee

Alfred Chan Wing-kin *(Chairman)*
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

## Environmental, Social and Governance Committee

Peter Wong Wai-yee *(Chairman)*
John Ho Hon-ming
Martin Kee Wai-ngai

## Auditor

Deloitte Touche Tohmatsu
*Certified Public Accountants and*
*Registered Public Interest Entity Auditor*
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

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman, KY1–1100
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
The Hongkong and Shanghai Banking
Corporation Limited


**Towngas China Company Limited**

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