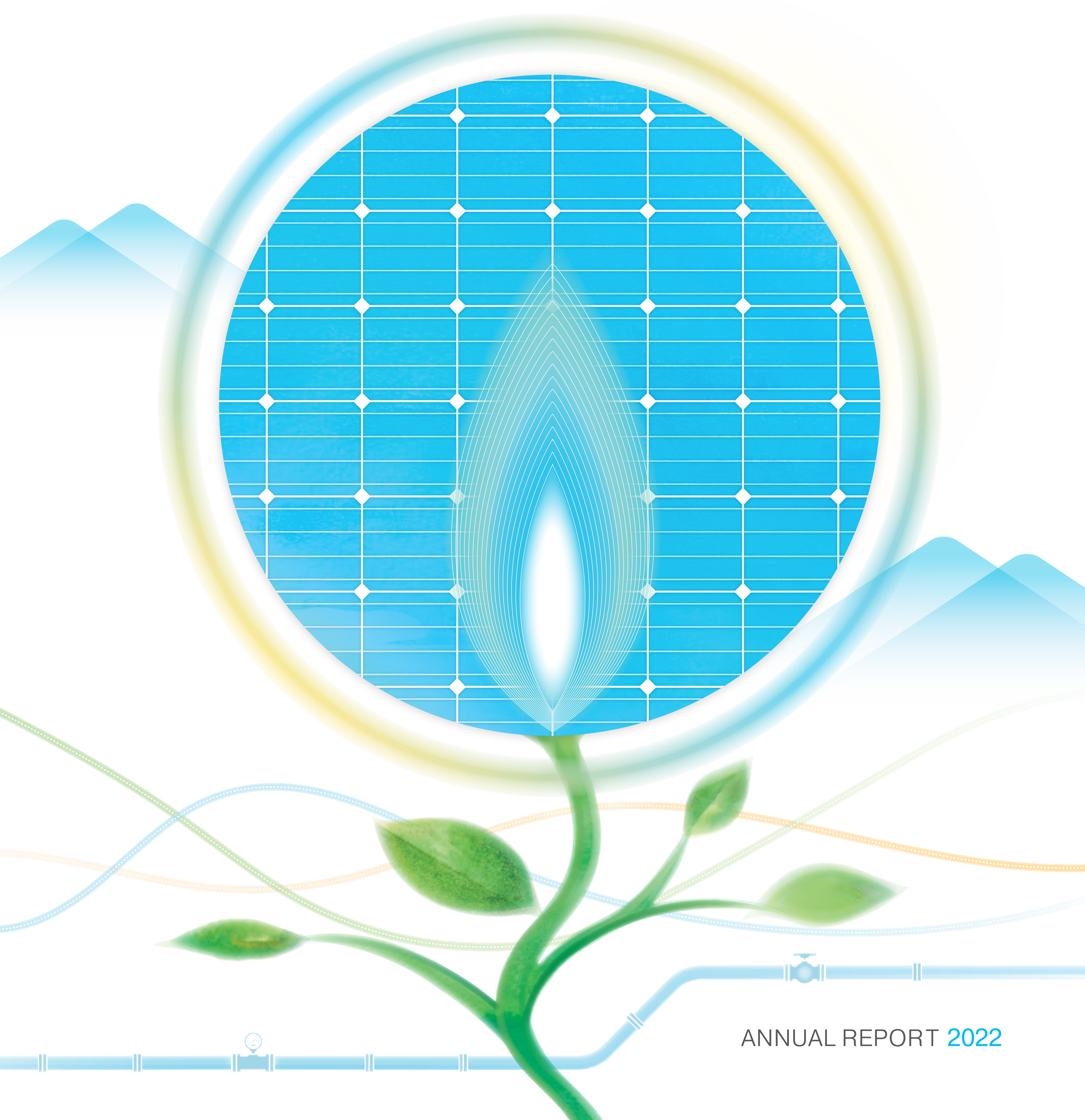
港華智慧能源有限公司
Towngas Smart Energy Company Limited

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



ANNUAL REPORT 2022

Towngas Smart Energy envisions to be a leading clean and smart energy supplier, with a view to creating a **sustainable world driven by green energy**.

We strive to provide our customers with safe, reliable, clean and smart energy along with quality services, while committed to fulfilling our social responsibility, ensuring sustainable business growth, enhancing our shareholders' return on investment, and bringing long-term benefit for our planet, society, and stakeholders.

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Towngas Smart Energy Company Limited

Annual Report 2022

Business Overview

NO. OF PROJECTS

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

369*

Distribution of Piped Gas Projects

Anhui	Anqing, Bowang, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi, Wuhu Fanchang, Wuhu Jiangbei, Zhengpugang New Area Modern Industrial Zone
Chongqing	Qijiang
Fujian	Changting
Guangdong	Fengxi, Foshan, Qingyuan, Shaoguan, Yangdong
Guangxi	Guilin, Liuzhou, Zhongwei (Fusui)
Guizhou	Xingyi
Hebei	Anguo, Cangxian, Mengcun, Qinhuangdao, Shijiazhuang, Yanshan
Heilongjiang	Qiqihar
Hubei	Zhongxiang
Hunan	Miluo
Inner Mongolia	Baotou, Darhan Muminggan United Banner
Jiangsu	Dafeng, Nanjing Gaochun, Tongshan
Jiangxi	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui, Yifeng
Jilin	Changchun, Gongzhuling, Siping
Liaoning	Anshan, Beipiao, Benxi, Benxi Manchu Autonomous County, Chaoyang, Dalian Changxingdao, Dalian Economic and Technical Development Zone, Dalian Taiping Bay, 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 Lvbo
Shanghai	Shanghai
Sichuan	Cangxi, Chengdu, Dayi, Jiajiang, Jianyang, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Santai, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
Yunnan	Luliang
Zhejiang	Huzhou, Songyang, Tongxiang, Yuhang

Vehicle Gas Refilling Stations

Heilongjiang	Qiqihar (Lianfu, Xingqixiang)

Midstream Projects

Anhui	Xuancheng – Huangshan
Inner Mongolia	Baotou
Shandong	Jinan – Liaocheng, Taian

* as at the date of this Annual Report

Upstream and Other Projects

Anhui	Maanshan (Maanshan Piping Prefabrication)
Guangdong	Shenzhen (U-Tech (Guang Dong) Engineering, Towngas Energy Academy, Zhongtejian Towngas China Technology)
Liaoning	Shenyang (Liaoning Clean Energy Group)
Shanghai	Shanghai (Towngas Natural Gas Sales)
Sichuan	Chengdu (Towngas Cosy Home (Chengdu)), Weiyuan (Towngas Sichuan United Energy)

Distribution of Distributed Energy System Projects

Anhui	Anqing, Maanshan, Tongling
Guangdong	Shenzhen
Guangxi	Guilin
Hebei	Tangshan
Henan	Zhengzhou
Jiangsu	Changzhou, Xuzhou
Jilin	Changchun
Liaoning	Anshan, Fuxin, Shenyang
Shandong	Binzhou, Qingdao
Sichuan	Chengdu
Zhejiang	Lishui

Distribution of Zero-carbon Smart Industrial Parks

Anhui	Chizhou, Maanshan
Fujian	Putian, Xiamen, Zhangzhou
Guangdong	Dongguan, Guangzhou, Huizhou, Zhongshan, Zhuhai
Guangxi	Chongzuo, Guilin
Hainan	Danzhou
Hebei	Cangzhou, Shijiazhuang, Tangshan
Heilongjiang	Qiqihar
Henan	Nanyang, Zhengzhou
Hubei	Chibi
Hunan	Zhuzhou
Jiangsu	Danyang, Huaian, Nanjing, Nantong, Suqian, Suzhou, Taizhou, Wuxi, Xuzhou, Yangzhou, Zhangjiagang
Liaoning	Benxi, Dalian, Fushun, Shenyang, Tieling, Yingkou
Shaanxi	Xi'an, Xianyang
Shandong	Binzhou, Jining, Linyi, Taian, Weifang, Yantai
Tianjin	Tianjin
Zhejiang	Huzhou, Jiaxing, Tongxiang

Distribution of Photovoltaic Projects

Anhui	Chizhou, Maanshan, Tongling, Xuancheng
Fujian	Fuzhou, Ningde, Xiamen
Guangdong	Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Yangjiang, Zhaoqing, Zhuhai
Hebei	Tangshan
Henan	Nanyang, Xinxiang, Zhengzhou
Hubei	Wuhan, Xianning, Xiaogan
Jiangsu	Changzhou, Danyang, Nanjing, Suqian, Suzhou, Taizhou, Xuzhou, Yancheng
Jiangxi	Yichun
Liaoning	Dalian, Shenyang
Shandong	Binzhou, Jinan, Jining, Liaocheng, Qingdao, Weifang, Weihai, Yantai
Shanghai	Shanghai
Zhejiang	Ningbo

Distribution of Energy Storage/Energy Saving/Charging Stations/Other Renewable Energy Projects

Guangdong	Guangzhou, Shenzhen
Hunan	Changsha
Jiangsu	Danyang, Nanjing, Suzhou
Shaanxi	Xi'an
Zhejiang	Hangzhou


1 2 1
Heilongjiang
14 1
Jilin
Liaoning
18 1
7 3 2
2 1
Inner Mongolia
1
Hebei
Tianjin
6 3 1
2
31 2
6 18 2
Shandong
3 14
16 3 3
Jiangsu
Shanghai
1 1
6
2 5 1
Henan
Anhui
15 1 1
2 6 5
3 2
Shaanxi
38 2 1
Sichuan
1 6 1
Hubei
4 5
1 1 7
Zhejiang
1
Chongqing
1 1 1
Hunan
10 1
Jiangxi
2 4 3
Fujian
1
Guizhou
1
Yunnan
8 1 2
Guangxi
25 3
5 12 1 3
Guangdong
1
Hainan
Piped Gas Projects
Vehicle Gas Refilling Stations
Midstream Projects
Upstream and Other Projects
Distributed Energy System Projects
Zero-carbon Smart Industrial Parks
Photovoltaic Projects
Energy Storage/Energy Saving/
Charging Stations/Other
Renewable Energy Projects

Five-Year Financial Summary

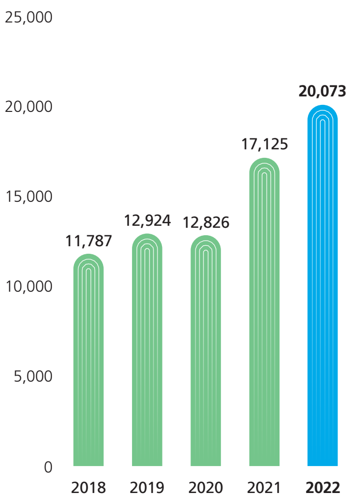
	For the year ended 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
RESULTS					
Revenue	11,787,002	12,924,371	12,826,237	17,125,447	**20,073,010**
Profit before taxation	1,892,130	2,014,058	2,202,701	2,144,751	**1,583,706**
Taxation	(478,981)	(501,485)	(554,893)	(617,659)	**(382,667)**
Profit for the year	1,413,149	1,512,573	1,647,808	1,527,092	**1,201,039**
Profit for the year attributable to:					
Shareholders of the Company*	1,224,274	1,308,425	1,447,113	1,253,202	**964,855**
Non-controlling interests	188,875	204,148	200,695	273,890	**236,184**
Profit for the year	1,413,149	1,512,573	1,647,808	1,527,092	**1,201,039**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	43.89	46.06	49.56	41.53	**30.17**
Diluted	N/A	N/A	N/A	41.53	**14.38**

	As at 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	34,014,606	38,194,886	42,892,963	54,236,703	**52,943,976**
Total liabilities	(16,245,290)	(17,894,876)	(20,244,361)	(29,063,945)	**(29,080,883)**
	17,769,316	20,300,010	22,648,602	25,172,758	**23,863,093**
Equity attributable to shareholders of the Company	16,229,197	18,612,056	20,722,899	22,895,052	**21,504,859**
Non-controlling interests	1,540,119	1,687,954	1,925,703	2,277,706	**2,358,234**
Total equity	17,769,316	20,300,010	22,648,602	25,172,758	**23,863,093**

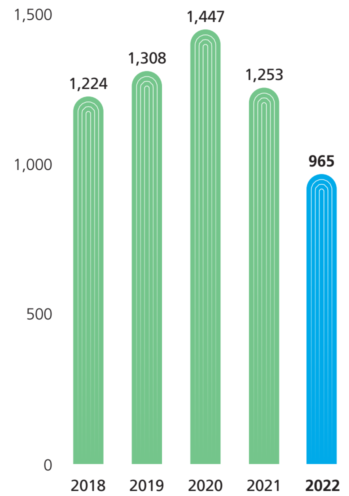
* the Company: Towngas Smart Energy Company Limited

Financial Highlights

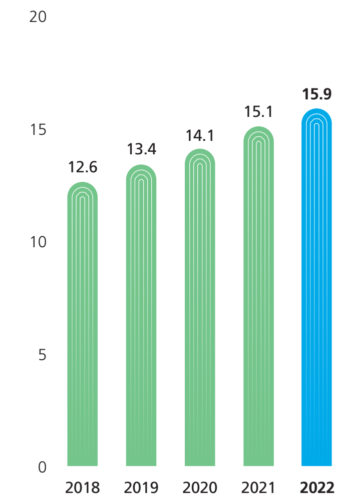
Revenue
(HK$ Millions)



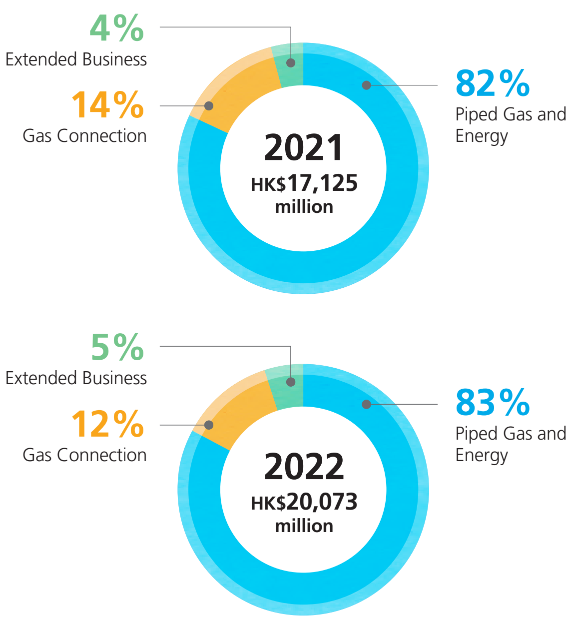
Profit Attributable to Shareholders of the Company
(HK$ Millions)



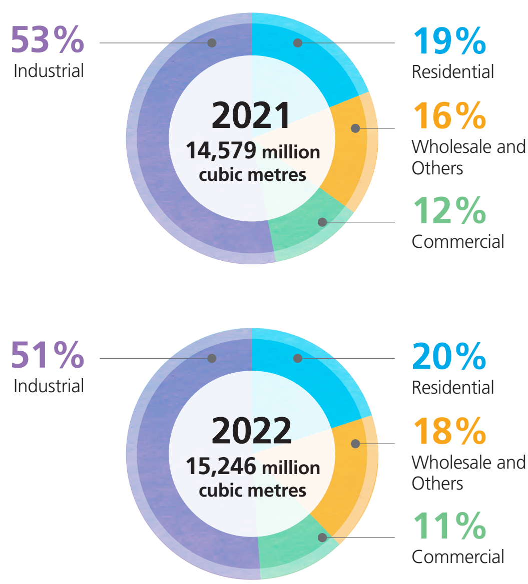
Number of Customers (All Entities)
(Millions)



Analysis of Revenue



Percentage of Gas Volume by Customer Mix (All Entities)



Chairman's Statement

"From green energy to sustainable development, value is not limited to what we offer now, but also how we invest in our future."

Dr. Lee Ka-kit
Chairman

As a Chinese idiom goes: everything starts afresh in a new year. With the gradual recovery worldwide in the post-epidemic era, we can look forward with confidence to 2023. However, looking back at 2022, the global business environment remained challenging as the world battled the ongoing impact of the epidemic, its prevention and control, together with additional factors such as inflation, surging interest rates, geopolitics and armed conflict. Energy prices, too, fluctuated dramatically, slowing down the rate of economic recovery. Additionally, the extensive use of fossil fuels continued to aggravate the climate crisis, severely damaging the ecosystem and creating a serious impact on our living environment and the sustainable development of the human race. As a Company strongly upholding our social responsibilities, our unswerving mission and ambition are to ensure the secure, reliable and economical supply of energy, as we also commit ourselves to protect the environment.

The Chinese mainland's goals to achieve carbon peak and carbon neutrality by 2030 and 2060 respectively (the "30-60" dual carbon goals) have provided strong support for the development of renewable energy. We began our involvement in the smart energy business as early as 2016. Focusing on this commitment, we changed our name to Towngas Smart Energy Company Limited at the end of 2021. We believe this better reflects our focus and future direction as we increasingly develop and invest in areas such as photovoltaics, energy storage, energy efficiency management, carbon and electricity trading. Over the years, we have been taking this strategy forward, step-by-step in a structured and orderly manner. Along this route, a major milestone is to convert 200 high-emission industrial parks into zero-carbon smart industrial parks by 2025. Our strategic goal is to provide integrated energy solutions while creating new drivers of growth for the Group by growing with and riding this green trend towards the future.

In recent years, there has been strong demand from customers for clean, renewable energy together with energy savings, coupled with emission reductions. The trend is also towards the use of multi-energy, energy and carbon management, as well as other integrated energy services in the process of using energy. As such, at Towngas Smart Energy, we keep enhancing our capabilities in the field of integrated energy services. These range from actively seeking innovative energy technologies and solutions to collaborating with industry leaders to leverage mutual strengths. We invest in, and cultivate, a competent and professional development and operation team, in addition to also establishing a smart energy ecological platform as we continue to offer diversified and integrated services to our many customers.

Annual Results

In the face of the challenging and ever-changing business environment, all our staff members worked hard, serving with dedication, maximising their efforts, and adapting flexibly to new and changing environments. We were thus able to demonstrate strong resilience amid adversity, to achieve sound business development throughout the Group.

Up to the end of 2022, the Group had 363 projects in 24 provinces, autonomous regions and municipalities, including city gas and renewable energy developments. The gas sales volume for the year increased by approximately 5% year on year, whilst the renewable energy segment developed rapidly with 111 new projects secured during the year. The total number of customers of the Group reached 15.93 million, representing an increase of 0.84 million customers during the year. The Company achieved revenue for the year of HK$20,073 million, representing a year-on-year increase of 17%. Profit attributable to shareholders of the Company decreased by 23% to HK$965 million.

Chairman's Statement

Renewable Energy

The Chinese mainland's clean energy industry has been undergoing rapid development. To achieve the dual carbon goals, the Chinese mainland released a series of supporting measures during the year to foster the development of renewable energy-related industries. In 2022, our renewable energy business benefited from the mainland's supportive policies to enjoy accelerated growth.

By the end of 2022, Towngas Smart Energy and its parent company, The Hong Kong and China Gas Company Limited ("HKCG"), had carried out more than 500 renewable energy projects in 22 provinces, autonomous regions and municipalities, together with the development of 80 zero-carbon smart industrial parks. The business scope in these projects spans multi-energy supply (cooling, heating, electricity), photovoltaics, energy storage, charging and swapping stations, as well as integrated energy services for industrial and commercial customers.

Being privileged, with our vast industrial customer base, hand-in-hand with our existing zero-carbon smart industrial parks, low-carbon factories, and business projects, our renewable energy business has rapidly taken shape. These efforts have been further supported by a professional, experienced and highly qualified technical team. During the year, we also stepped up to improve our customer-centric, all-inclusive energy and carbon management services. Thus, in addition to providing green energy, we also provided multi-dimensional integrated services, including carbon management, green electricity trading, energy storage and energy digitalisation to help customers improve their energy use, lower operating costs and participate in carbon and electricity market trading for additional gains.

In April 2022, Tera Planet, a smart energy ecological platform jointly established by Towngas Smart Energy and Tencent Cloud, was officially launched. With its IoT capability, the platform can collect and visualise measurement and operating data, including photovoltaics, energy storage, charging and other platforms, in the data system. This information assists the park in intelligently managing, analysing, forecasting and enhancing the energy data available. Currently, this ecological platform has been put into commercial operation in Hailing District, Taizhou City, Jiangsu Province. It is expected to reduce several hundred thousand tonnes of carbon emissions annually once the project is fully operational.

Fostering synergy and remaining ever-open to innovation, we actively seek collaborations with other parties to advance green energy ventures and explore possibilities for further business development. In 2022, we established a joint venture with CATL called Towngas CATL Smart Energy Technology (Suzhou) Company Limited. This project will independently develop long-lasting energy storage products to the highest safety standards. Products will not only include energy storage batteries and battery cabinets, but also look into the progressive diversification of their applications.

During the year, our parent company HKCG jointly established the first ten-billion-RMB zero-carbon technology investment fund with IDG Capital on the Chinese mainland. Its aim is to invest in areas such as hydrogen energy, photovoltaics, energy storage and new energy internet. These services will support and empower companies with key technological and manufacturing strengths and economies of scale to expedite their development of zero-carbon urban energy consumption.

We are convinced that forward-looking technology is key to a zero-carbon future. In 2022, we therefore worked with our peers to host the TERA TOUR to the Chinese mainland under the theme "Pooling Collective Wisdom of Zero-Carbon Technology". We invited industry professionals to jointly explore an integrated smart energy application based on digital transformation and source-grid-load-storage integration. Additionally, focusing on the theme of "Exploring Zero-carbon Innovations for the Future" of the first TERA-Award Smart Energy Innovation Competition, we joined State Power Investment Corporation once again to host the second competition. Our aim is to pool cutting-edge expertise with innovation, new wisdom as well as the latest perceptions to seek breakthroughs in technology bottlenecks and other barriers in the energy sector.

During the year, the Group established the Towngas Energy Academy and conducted R&D in five major fields. These ranged from renewable energy, energy storage and energy digitalisation to hydrogen and fuel cells as well as energy conservation and low carbon emissions. With our close focus on national policies, cutting-edge technologies, industrial demands, and additional applications in related fields, we partnered with a number of higher education institutions such as Tsinghua University, The University of Hong Kong, The Hong Kong University of Science and Technology, and City University of Hong Kong to research and develop technologies and solutions for zero-carbon smart industrial parks, low-carbon factories and other applications.

Utility Business

During the year, the Group continued to record a growth in gas sales, with an overall growth in gas sales volume of 5% to approximately 15.25 billion cubic metres. The residential gas sales volume was up 8%, accounting for 20% of total gas sales; industrial gas sales rose 2%, accounting for 51% of the total gas sales volume; wholesale and others gas sales volume increased by 14% against the previous year, accounting for 18% of the total gas sales volume; commercial gas sales volume decreased by 4%, accounting for 11% of the total gas sales volume, as a result of the epidemic.

The total number of customers of the Group reached 15.93 million, representing an increase of 0.84 million customers during the year, with 10,000 new industrial and commercial users and 0.83 million new residential customers. As of 2022, we held a total of 183 city-gas projects (inclusive of corporate reinvestment projects), representing an increase of 7 projects during the year.

In 2022, we saw the advancement of our strategies in integration, decarbonisation and digitalisation. Building on our vast utility customer base together with our diversifying business applications, we strategically set up our "Gas+" heating business. This venture will strengthen our core competitiveness, deepen the integrated use of multi-energy among our activities, focus on the regional distribution of heat, industrial and commercial energy supply, and residential heating. Just as importantly, it will be able to better serve the demand from public institutions for an energy trusteeship market to provide integrated energy solutions. These activities will also improve profit contributions within the Group.

Chairman's Statement

Against the backdrop of higher energy prices, our strategy for gas sourcing is particularly important. In 2022, the Group established a gas source operation centre to strengthen the coordination and operation of gas sources, as well as to advance the development of our own capacities in the production, supply, storage and sale of natural gas. The enhancement of our gas sourcing channel and the increase in the rate of autonomy in a reasonable manner will also curb the impact of drastic fluctuations in gas prices.

As the demands of users and the market develop and change, Towngas Lifestyle (Shenzhen) Information Services Company Limited ("Towngas Lifestyle"), a subsidiary of HKCG, the parent company of the Group, continues to expand its business boundaries with the aim of providing one-stop services for the Group's city gas users.

In line with the supportive national strategy to expand domestic demand, promote the comprehensive construction of a healthy China and improve community services, we improved and coordinated our healthcare business with strategic plans, complimenting with the business of our parent company, to accelerate the scale and development of our extended business. Thus in 2022, we speeded up the use of our "Moment+" Community Healthy Lifestyle Experience Centres, opening physical stores in Guangdong, Sichuan, Jiangsu and in other provinces. We continued to focus on the two main themes of health and comfort, providing community users with services such as health management, nutrition consultation and cooking classes to meet the increasing needs of the public for a quality lifestyle.

Exiting Shanghai Gas

In 2022, Shanghai went through the COVID-19 epidemic. Shanghai Gas Co., Ltd. ("Shanghai Gas"), as an important utility service provider in Shanghai, has made significant efforts and contributions in securing the supply of natural gas in Shanghai during and after the epidemic. At the moment, Shanghai is actively deploying comprehensive economic recovery measures after the epidemic. Shanghai Gas, as an important utility service provider, is actively performing its social responsibilities of, among others, securing the supply of natural gas and stabilising energy costs. In view of the above reasons and taking into account other factors, and after amicable negotiations between the parties, it is agreed that given the current environment of recovery from the epidemic, the exit of the Company from the equity interest in Shanghai Gas will give Shanghai Gas more room and flexibility for its operations at this critical and important moment. For details of the exit, please refer to the Company's joint voluntary announcement dated 16 March 2023. The exit will not affect the further establishment of an in-depth strategic partnership between the Company, Shenergy (Group) Company Limited ("Shenergy Group") and Shanghai Gas. The parties will establish deep and solid strategic relationships in the fields of, among others, natural gas resources and supply chain, renewable energy business, extended services, energy and low-carbon technology.

Employee and Remuneration Policies

As at 31 December 2022, the Group had 23,663 employees, 99% of whom work on the Chinese mainland. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. Our employees are provided with on-the-job training as well as optimal benefits packages, which include medical welfare, retirement plans, year-end bonuses, as well as other incentives. We encourage a work-life balance among our employees. At the same time, we make every effort to improve their work environment on a continuing basis. Our aim is to help them unleash their full potential, creating a full life for themselves while also contributing to the Group.

Environmental, Social and Governance

Towngas Smart Energy has always attached great importance to the management and performance of environmental, social and governance (ESG). To help achieve the "30-60" dual carbon goals and seize green and low-carbon opportunities, we pushed forward various ESG-related initiatives in a top-down manner, closely engaging with different stakeholders to actively respond to the concerns of the community and capital markets on ESG issues.

As an energy company, safety is our highest priority. 2022 is the year of "TQM – Multi-dimensional Control and Flawless Perfection" for the Group. Centring on this theme, we strengthened management and carried out various tasks to continuously improve safety management and achieve our goal of zero accidents.

In November 2022, together with our parent company HKCG, we jointly held the ESG Symposium 2022, a rare large-scale ESG forum in the industry, covering the entire range of environmental, social and governance issues and attracting more than 5,000 people locally and abroad to participate both online and offline. At the forum, we released the *Climate-related and Nature-related Directive Guide*, becoming the first Hong Kong company to respond to the Taskforce on Nature-related Financial Disclosures (TNFD) beta framework in the form of a pilot document, demonstrating our ambition and commitment to addressing climate change and biodiversity risks.

We have demonstrated our commitment to ESG in many ways, announcing our first US$200 million sustainability-linked bond offering and establishing two key performance indicators for sustainable development during the year. We will pay additional interest if we fail to meet the relevant indicators. In addition, we joined a variety of bodies during the year, including teaming up with China Oil and Gas Methane Alliance and joining the Hong Kong branch of the Climate Governance Initiative as a founding member. Through these initiatives, we will be able to actively exert our influence as a leader in the energy industry and help propel the industry towards greener and greater low-carbon development. Enhancing the governance of the Board of Directors, the Group welcomed the appointment of Dr. Loh Kung Wai Christine as an independent non-executive director of the Company and a member of the Company's Nomination Committee, Remuneration Committee and Environmental, Social and Governance Committee.

Chairman's Statement

During the year, the Group received widespread recognition from the community for our continuous efforts and outstanding performance in the ESG field, achieving a series of outstanding results. Currently, Towngas Smart Energy is included in six major international ESG ratings, with the ratings issued by Sustainalytics, MSCI, FTSE Russell and S&P Global all being upgraded. Additionally, we received a number of important awards and accolades. These include the Environmental and Social Responsible Enterprise Award granted by *China Environment News* under the Ministry of Ecology and Environment; "Investor Relations ESG Engagement and Communication of the Year" Award granted by the British Chamber of Commerce Shanghai; the ESG Leading Enterprise Award, Leading Initiative Award and Theme Award (ESG Investing), all granted by the *Chinese Edition of Bloomberg Businessweek* and Deloitte.

We continue to promote green living to our employees and the general public through large-scale events, and work with various groups in need to convey our warmth and care. During the year, we hosted five major events under the theme "Embracing Dual Carbon and Traveling Green" to encourage our employees to live a green, low-carbon and healthy lifestyle with concrete action. At the same time, we continued to offer support to schools, impoverished students and their families through our Gentle Breeze Movement. This ongoing initiative seeks to improve teaching facilities while also donating books and school supplies.

Since the establishment of Gentle Breeze Movement in 2013, one of our major charity brands, Towngas Smart Energy has donated over RMB3.5 million in support of more than 30 schools. In addition, we have been supporting the Firefly Project since 2009, and are also a platinum partner of the BEA Charity Fund. Over the years, Towngas Smart Energy and the Shanghai Soong Ching Ling Foundation – BEA Charity Fund have been the title co-sponsors of seven Firefly Centres in Wenchuan, Sichuan; Linqu, Shandong; Hangzhou, Zhejiang; Longkou, Shandong; Taishan, Shandong; Anqing, Anhui; as well as Luliang in Yunnan. Under this initiative, we donate teaching equipment and other supplies, such as stationery, to improve conditions in under-resourced schools. As life progressively returns to normal, we will launch a new round of funding for the Firefly Project in 2023.

Business Outlook

Although the Chinese mainland's city gas industry faced a myriad of challenges in 2022, the demand for natural gas is bound to pick up as social and economic activities continue to recover. Energy transformation and ongoing upgrading, as well as the continuing rate of urban expansion in the post-epidemic era, will also contribute to this growing market. The demand for residential gas is also expected to grow steadily, and new demand from customers in industries such as lithium batteries and photovoltaic glass will also soar. As such, natural gas will see many new growth opportunities.

The country requires greater acceleration in the development of renewable energy, with non-fossil energy accounting for 20% of energy consumption by 2025 and 25% by 2030. Guided by these policies and goals, the installed capacity of the Chinese mainland's new photovoltaic power generation nearly doubled in 2022, with the installed capacity of industrial and commercial distributed photovoltaics enjoying the fastest growth. Renewable energy on the Chinese mainland, as represented by photovoltaics and energy storage, is growing rapidly. As the unit cost of electricity continues to decline in this area, market competitiveness will be enhanced, maintaining optimistic growth into the future.

Hydrogen is an energy with tremendous potential among non-fossil energies and is expected to become an important means for the Chinese mainland to achieve its goals for carbon peak and carbon neutrality. Based on the national hydrogen energy development plan and the Group's research on hydrogen doping in pipelines, we have begun preliminary work in our pilot project for hydrogen doping in our natural gas pipelines.

We are convinced that each generation has its own mission. Thus, lying ahead, we have both an extraordinary cause as well as a new and glorious path for development. Whilst looking ahead with pride and confidence, we are fully aware that in an environment where both opportunities and challenges abound, we must have sufficient ability and strength to withstand the storms, as well as the vision and competence to seize the opportunities. To this end, we will continue to increase our investment to ensure the transformation of every aspect of our technological innovation, as we promote the quality development of our various business activities. We will continue to improve our ESG efforts and constantly pay attention to and promote the sustainable development of both our society and our world.

On behalf of the Group's Board of Directors, I would like to express our tremendous gratitude to customers, shareholders, investors and all the people from every walk of life who have long followed and supported the development of Towngas Smart Energy. Our many thanks too, to all our dedicated colleagues who have risen so magnificently to meet the many difficulties encountered during the year, and for all their diligence and hard work.

Dr. Lee Ka-kit
Chairman

Hong Kong, 16 March 2023

Financial Review

In 2022, total gas sales volume of the Group (excluding Shanghai Gas Co., Ltd) rose by **5%** to **15,246 million** cubic metres.

Total number of customers of the Group reached **15.93 million**, with **0.84 million** new customers.

The Group received raised S&P Global **ESG score** and **ranked first among Greater China gas utilities.**

Revenue

In 2022, affected by geopolitics, energy supply and demand were unbalanced. Upstream prices rose sharply, which was passed down to end customers. Meanwhile, gas sales also increased. As such, the Group's total revenue increased by 17.2% from HK$17,125 million in 2021 to HK$20,073 million in 2022. Revenue from sales of piped gas and energy and extended business recorded growth.

Business Segments	**2022 (HK$ million)**	2021 (HK$ million)	Change (%)
Sales of piped gas and energy	**16,664**	13,951	19.4
Gas connection	**2,412**	2,429	–0.7
Extended business	**997**	745	33.8
Total	**20,073**	17,125	17.2

In 2022, the total consolidated volume of gas sold of the Group amounted to 4,492 million cubic metres, representing an increase of 6.6% over last year. There were 533,000 new household connections, representing an increase of 1.6% over last year. Revenue from extended business recorded significant growth as the Group actively expanded its extended business.

Total Operating Expenses

Total operating expenses of the Group included gas fuel, stores and materials used, staff costs, depreciation and amortisation, and other expenses. Total operating expenses in the financial year of 2022 amounted to HK$18,460 million, representing an increase of 22.9% from HK$15,020 million in the financial year of 2021.

	2022 (HK$ million)	2021 (HK$ million)	Change (%)
Gas fuel, stores and materials used	**15,507**	12,254	26.5
Staff costs	**1,356**	1,304	4.0
Depreciation and amortisation	**918**	868	5.8
Other expenses	**679**	594	14.3
Total	**18,460**	15,020	22.9

Total operating expenses and its ratio to revenue in 2022 were higher than that in 2021, mainly attributable to the rise in the purchase price of natural gas in 2022.

Other Income

The decrease in other income compared to that for the financial year of 2021 was mainly due to the decrease in grants and subsidies received from government.

Other Gains (Losses), Net

The increase in other gains compared to that for the financial year of 2021 was mainly due to the change in fair value of embedded derivative component of convertible bonds.

Share of Results of Associates

During the financial year of 2022, share of results of associates was a loss of HK$247 million, mainly due to the share of loss of Shanghai Gas in the amount of HK$589 million in the second half of 2022. The main reason for the loss of Shanghai Gas was that the average purchase cost of Shanghai Gas increased significantly due to large fluctuations in international energy prices as a result of the severe geopolitical situation in 2022, and the average selling price of natural gas of Shanghai Gas was lower than the average purchase price due to various factors including the pandemic and lockdown, resulting in a loss of the overall results of Shanghai Gas.

Share of Results of Joint Ventures

During the financial year of 2022, share of results of joint ventures decreased by 29.0% from HK$431 million last year to HK$306 million, mainly due to excessive increase in the upstream prices of some joint ventures and the failure to entirely pass them downstream in a timely manner.

Finance Costs

During the financial year of 2022, the finance costs of the Group increased by 27.8% from HK$589 million last year to HK$753 million. The increase was mainly due to new bridging loans borrowed for the acquisition of Shanghai Gas, issuance of convertible bonds, sustainability-linked bond and increased bank borrowings for the investment in new projects during the year.

Financial Review

Profit for the Year

During the financial year of 2022, profit for the year amounted to HK$1,201 million, representing a year-on-year decrease of 21.3%. Profit attributable to shareholders of the Company amounted to HK$965 million, representing a year-on-year decrease of 23.0%. Excluding the impact of gain from change in fair value of embedded derivative component of convertible bonds of HK$531 million (2021: loss of HK$359 million), as well as a share of the loss of Shanghai Gas of HK$589 million, in the second half of the year, operating profit after taxation attributable to shareholders of the Company was HK$1,023 million, representing a year-on-year decrease of 36.5%. Basic earnings per share amounted to 30.17 HK cents, representing a year-on-year decrease of 27.4%.

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 2022, the Group's bank loans and other loans amounted to HK$17,583 million (31 December 2021: HK$16,623 million), of which HK$9,019 million (31 December 2021: HK$8,633 million) represented bank loans and other loans due within 1 year, HK$8,537 million (31 December 2021: HK$7,968 million) represented bank loans and other loans due between 1 to 5 years, and HK$27 million (31 December 2021: HK$22 million) represented bank loans and other loans due over 5 years. Other than the HK$12,355 million (31 December 2021: HK$10,442 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 ("RMB"). As a result, the Group bore currency risk from fluctuations of RMB exchange rate for non-RMB denominated deposits and borrowings. The Group's borrowings denominated in RMB amounted to HK$15,624 million (31 December 2021: HK$15,648 million) and the remaining HK$1,959 million borrowings were denominated mainly in United States dollars ("USD") as at the end of the year (31 December 2021: HK$975 million borrowings were denominated mainly in Hong Kong dollars ("HKD") and USD). Cross currency swaps contracts were made to hedge foreign currency risk for most of the non-RMB denominated loans so as to reduce risk arising from fluctuations of RMB. Apart from the borrowings as mentioned above, the Group also has RMB loans amounted to approximately HK$63 million (31 December 2021: HK$67 million), approximately HK$17 million (31 December 2021: HK$730,000) and approximately HK$23 million (31 December 2021: HK$38 million) from the parent company HKCG, joint ventures, and non-controlling shareholders on a fixed interest rate basis respectively.

In April 2022, the Group issued its first 5-year sustainability-linked bond (the "Bond") and successfully raised a total of USD200 million. The Group was also the first energy company to issue sustainability-linked bond in Hong Kong. The Bond was issued under the USD2 billion MTN Programme established in June 2021 and with reference to the Sustainability-Linked Financing Framework of the Group established in March 2022. Proceeds of the Bond were hedged to RMB by cross currency swaps to mitigate foreign currency risk.

As at 31 December 2022, the Group's cash and cash equivalents together with time deposits amounted to HK$4,006 million (31 December 2021: HK$4,081 million), of which 99% (31 December 2021: 99%) are RMB-denominated and the rest are denominated in HKD and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at the end of the year was 39.7% (31 December 2021: 37.9%).

As at 31 December 2022, the Group has unutilised issuance amount under the MTN Programme amounting to approximately HK$13,196 million and unutilised facilities from banks and HKCG amounting to approximately HK$9,592 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity, financing arrangements with banks, the MTN Programme, convertible bonds and equity funding. The Group maintains a strong liquidity position with its cash and cash equivalents on hand, unutilised credit facilities and its MTN Programme. We have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our good credit ratings, the Group enjoys favourable interest rates on bank loans and notes.

Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas Smart Energy at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas Smart Energy 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 2022.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2022 of 15 HK cents per share (2021: 15 HK 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.

RENEWABLE ENERGY BUSINESS

Renewable Energy Business

Business Development

Hand-in-hand with the world's move into an era of energy transition, the Chinese mainland introduced its 14th Five-Year Plan for Renewable Energy Development (the "Plan") in June 2022. The Plan provides guidance to help the Country achieve its carbon peak and carbon neutrality goals, seeking to vigorously advance the development and use of renewable energy for power generation based on around a 20% share of non-fossil energy consumption by 2025. It also proposes that during the Plan period, renewable energy will contribute more than 50% of the incremental consumption of primary energy. The increase in renewable energy generation is expected to account for more than 50% of the total incremental power consumption, with a doubling in the generation of wind and solar power. With these national policies so strongly supporting the development of renewable energy, the prospects of the industry are highly promising.

In line with these policies and despite the recurrence of the COVID-19 epidemic in 2022, the Chinese mainland saw strong year-on-year growth in the newly installed capacity of photovoltaic power. As such, distributed photovoltaics, energy storage, hydrogen energy and smart energy faced some unique historical opportunities during this time.

Towngas Smart Energy established the Towngas Energy brand in 2016, to provide energy planning, energy conservation consultancy and other one-stop services for the Group's city gas project companies. Building on these strong foundations and riding this positive wave, we have been making significant investments in zero-carbon smart industrial park scenario-based smart energy projects since we officially changed our name to Towngas Smart Energy. Moving forward, we will continue to focus on our three major strategic areas – integration, decarbonisation and digitalisation, as we advance the development of zero-carbon smart industrial parks, photovoltaics, energy storage, as well as charging and swapping station projects.

Currently, the Chinese mainland is still undergoing a gradual transition from fossil fuels to renewable energy. Efficient and clean natural gas will thus continue to play a vital role. The industrial sector, as a key area for energy conservation and carbon reduction, will see the expansion, improvement and application of efficient energy, while at the same time pursuing integrated developments with new energy. At Towngas Smart Energy, we will thus focus on facilitating the development of eight major emission control industries on the Chinese mainland. These include power, steel, non-ferrous metals, petrochemicals, building materials, chemicals, paper-making and aviation. Our services will consist of energy conservation and emission reduction solutions, the installation of distributed photovoltaics, as well as every support to help companies to improve their energy efficiency. These services will not only facilitate the transition and upgrading of these industries in the long term, but also help the country to achieve its carbon peak and carbon neutrality goals.

Business Highlights

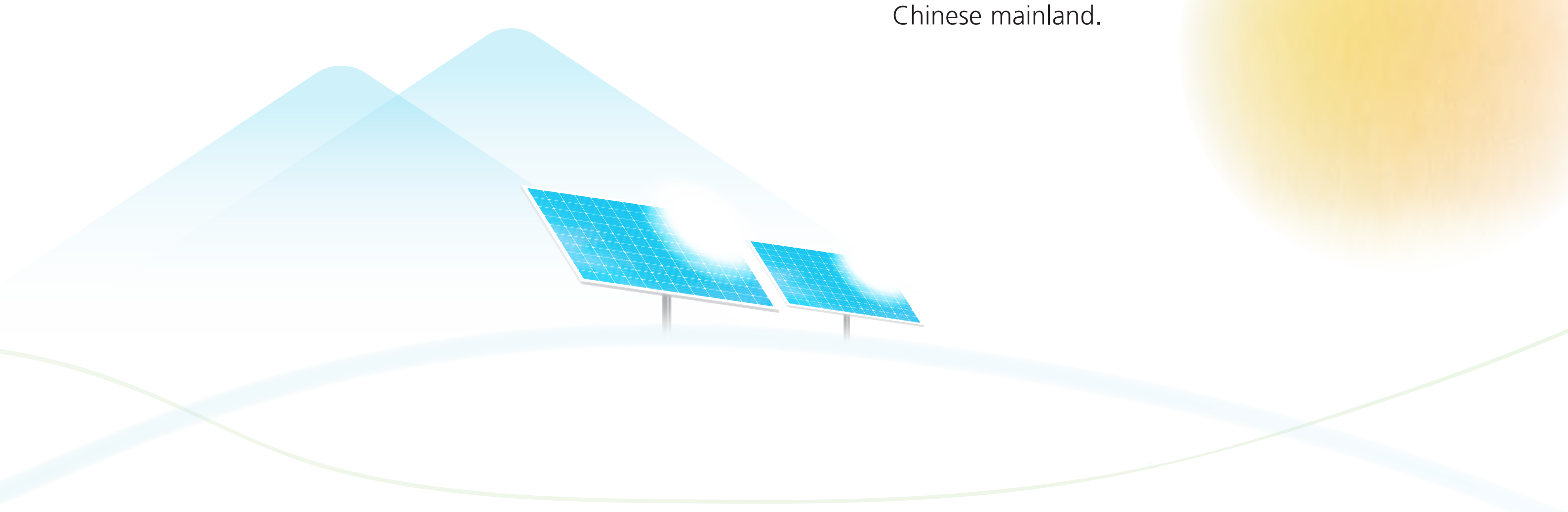
In 2022, there were over 25,000 different industrial parks in the country. Approximately 2,600 were national and provincial level parks, generating approximately 31% of the country's total carbon dioxide emissions. This reflects that there exists huge potential for industrial parks to achieve sustainable development and zero carbon emissions. Our goal is thus to offer smart energy solutions to 200 industrial parks by 2025, accounting for approximately 8% of the total number of industrial parks on the Chinese mainland.

By the end of 2022, we had planned and invested in more than 500 renewable energy projects in 22 provinces, autonomous regions, and municipalities. We also signed contracts in the development of 80 zero-carbon smart industrial parks, with our business scope spanning multi-energy supply (cooling, heating, electricity), photovoltaics, energy storage, charging and swapping stations, as well as integrated energy services for industrial and commercial customers.

During the year, Towngas Smart Energy stepped up effort in communication and cooperation with a number of sizable enterprises, aiming to accelerate our business planning:

– We signed a strategic cooperation and development agreement with Tai'an Taishan City Construction Group in July 2022. Both parties will cooperate closely in the areas of gas supply, distributed energy heating, abandoned mine management, urban and rural water supply, sewage treatment, environmental management improvement, hydrogen energy application and zero-carbon demonstration city construction to assist Tai'an in its low-carbon development.

– Shenzhen Fuxin Dual Carbon Industry Operation Management Company Limited (a wholly-owned subsidiary of Futian Investment Holdings) and Ruihua (Shenzhen) Integrated Smart Energy Company Limited (co-established by China Power International Development Limited and The Hong Kong and China Gas Company Limited) announced in August 2022 that they would be working together to jointly develop an energy conservation, carbon reduction and transformative energy management contract project for public buildings in Futian. The Futian District Party Committee Compound has been designated a pilot site in this "near-zero carbon" emission project. The project is taking the lead to establish the first near-zero carbon flexible virtual power plant on the Chinese mainland.



Renewable Energy Business

Case Study: Carbon Neutral Plant Demonstration Project – Guangzhou Xinhao Precision Technology Company Limited

The IPE Group, a manufacturer and vendor of precision metal components and fully automated robotic arms, operates production bases in various areas including Guangzhou, Dongguan, Changzhou and Yangzhou. One of its subsidiaries, Guangzhou Xinhao Precision Technology Company Limited, has annual electricity consumption of 40 million kWh and carbon emissions of nearly 30,000 tonnes. Towngas Smart Energy provides one-stop integrated smart energy services to this company with solutions ranging from distributed photovoltaics, energy storage, smart energy services and carbon management to green electricity trading and smart digital platforms among others. The aim was to design solutions for Guangzhou Xinhao Precision Technology to facilitate the construction of low-carbon factories and achieve carbon neutrality.

To this end, we employed a four-pronged approach – "Green Power + Energy Conservation + Intelligence + Offset" to assist Guangzhou Xinhao in achieving energy conservation.

1 Green Power

Making full use of idle spaces in the factory area, a 5.2 MW distributed rooftop photovoltaic power station and photovoltaic carport were built. This enabled average green power generation of 5.4 million kWh annually for self-use, with surplus power feeding back into the grid. In addition, charging piles were installed in factories, and petrol-fuelled vehicles were replaced by electric vehicles, achieving not only carbon reduction in their transportation fleet but also the effective use of the green electricity generated.

2 Energy Conservation

A highly efficient maglev air conditioner, with an annual cooling capacity of approximately 20 million kWh, was also installed. This put a variable speed drive air compressor together with residual heat recovery equipment in place with an annual capacity of 80 million cubic metres of compressed air. The residual heat generated is capable of meeting the hot water demand for 3,000 people, achieving the graded use of energy while enhancing the efficiency of its use.

3 Intelligence

The system uses Tera Planet, a smart energy ecological platform, innovative technologies such as cloud computing, big data, IoT and mobile Internet, as well as artificial intelligence. These high-tech applications have enabled smart digital transformation together with refined management. Benefits include energy conservation and emission reduction, auxiliary services, value-added trading, energy and carbon monitoring and control, as well as smart operation.

4 Offset

Towngas Smart Energy helps businesses to implement carbon audits, achieve carbon neutrality with regard to direct emissions (both stationary and mobile sources) by verifying voluntary emission reductions, and provide services for carbon trading, green power trading and green securities trading. This zero-carbon factory recently completed a comprehensive carbon verification assessment, achieving carbon neutrality for both stationary and mobile sources in 2021 through the purchase of carbon offset products, and receiving a carbon neutral certificate from the Guangzhou Emissions Exchange.

Renewable Energy Business

Towngas Energy Investment Limited ("Towngas Energy") and FuturaSun Energy (Jiangsu) Company Limited jointly hosted TERA TOUR to the Chinese mainland 2022 – Suzhou in November 2022 under the theme "Pooling Collective Wisdom of Zero-Carbon Technology". The initiative not only brought representatives from authorities of Suzhou's industrial parks, industry associations, renowned investment institutions, key strategic partners and customers together to explore an integrated smart energy application based on digital transformation and source-grid-load-storage integration. It also explored innovative ways to empower Suzhou's green economic development into the future. Looking forward, TERA TOUR to the Chinese mainland will be held in other cities to further promote collaboration across the industry.

In addition to expanding our business footprint, we also make every effort to improve the quality of products and services provided in these zero-carbon smart industrial parks. In response to the uncertainties in the substance, requirements and assessment, both in scope and methodology, of industrial parks on the Chinese mainland, three basic zero-carbon technical standards for enterprises, the *Zero-carbon Smart Industrial Park Indicator System and Standards, Zero-carbon Smart Industrial Park Carbon Emission Statistics Standards and Zero Carbon Smart Industrial Park Assessment and Acceptance Standards,* have been introduced to ensure the consistent and sustainable quality of our products and services. These standards, the first implementable and monitorable corporate assessment specifications for energy use and emissions in zero-carbon smart industrial parks on the Chinese mainland, were jointly compiled by Towngas Energy (the lead organiser) with TÜV SÜD and Tsinghua University Energy Internet Innovation Research Institute.

Technology Empowerment

The Implementation Guidelines for Energy Conservation and Carbon Reduction Transformation and Upgrading in Key Areas of High Energy Consumption Industries published by the Chinese mainland in 2022, points out the need to guide the transformation and upgrading, strengthen technical research, promote mass development and accelerate the elimination of obsolete equipment and practices. Since we have committed to developing our zero-carbon business with a strong focus on technology empowerment from the outset, we have dedicated many resources to technology research and innovation implementation and have progressed rapidly in this area over the years.

The First 10-billion Zero-carbon Technology Fund on the Chinese Mainland

In January 2022, the Group, together with our parent company HKCG, joined IDG Capital to announce the launch of the Country's first Zero-carbon Technology Investment Fund. With a scale of RMB 10 billion, the first phase of fund raising initially consisted RMB 5 billion, focusing on investments in solar energy, wind energy, powered battery, energy storage, smart energy grid, hydrogen energy, carbon trading and management, as well as other zero-carbon technology-related areas of innovation. This zero-carbon fund is the first zero-carbon technology fund on the Chinese mainland to focus on technology investment and business applications. Together with IDG Capital, we will reach a comprehensive strategic partnership in zero-carbon technology, leveraging our diversified business scenarios to empower the implementation of innovative technology products, which will achieve energy conservation and emission reduction for industrial and commercial customers.

Joint Research Centre for Zero-carbon Smart Park and Virtual Power Plant Technologies

In April 2022, we cooperated with Tsinghua University to set up a Joint Research Centre for Zero-carbon Smart Park and Virtual Power Plant Technologies, seeking to overcome technology holdups as well as to drive the development and technological progress of energy Internet and new power systems. As a vital part of the new power supply system for zero-carbon smart industrial parks, virtual power plants will be able to balance the supply and demand of power, safeguard the supply of energy and ensure the stable development of the energy industry, while also improving the efficiency and achieving better utilisation of clean energy.

Towngas Smart Energy Ecological Platform

Also in April 2022, the Towngas Smart Energy Ecological Platform, jointly developed by Towngas Energy and Tencent Cloud, was officially launched and implemented in Hailing District, Taizhou City, Jiangsu Province. As one of the top 100 industrial zones on the Chinese mainland, Hailing District focuses on the new energy industry. Apart from the construction and application of rooftop distributed photovoltaics, it combines charging and swapping, industrial and commercial energy conservation, user-side energy storage, district energy stations, gas distributed energy stations, smart power distribution networks and virtual power plants. Once fully completed, the project is expected to reduce carbon emissions by hundreds of thousands of tonnes per year. The park uses the Towngas Smart Energy Ecological Platform to collect the measurement and operation data of various projects through the IoT system, achieving visual-based data for the analysis, forecast, enhancement and smart management of the energy data of the industrial park.

Towngas Energy Academy

The Group established the Towngas Energy Academy in July 2022. The Academy's aim is to attract and lead scientific research in partnership with other scientific institutions to transform breakthroughs in scientific research into achievable commercial projects by offering a practical commercial environment with a focus on smart and green energy. As a research institute established on the Chinese mainland and in line with our development strategies, Towngas Energy Academy will act as the Group's unified platform for external exchange with the world of technology and research institute, academia and industry. It will also carry out applied research and strategic layouts in the fields of hydrogen energy, energy storage, energy digitalisation, renewable energy, energy conservation and low-carbon innovations. The Academy is located in the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop, which leverages our geographical advantages and allows us to benefit from the opportunities offered by the Guangdong-Hong Kong-Macao Greater Bay Area as well as the many collaborations among the government, industry, academic and research sectors.

UTILITY BUSINESS

Utility Business

Business Development

In 2022, the Chinese mainland's economy grew by 3%, which is lower than the previous year. Given repeated outbreaks of the COVID-19 epidemic and the implementation of control measures in cities across the Chinese mainland, social production and consumer markets were restricted. The national consumption of natural gas in 2022 was 366.3 billion cubic metres, representing a year-on-year decrease of 1.7%. However, as the Country continues to implement the goals of achieving carbon peak and carbon neutrality by 2030 and 2060 respectively, natural gas, as one of the cleanest fossil energy sources, will continue to play an important role in the energy mix. Moreover, it has the advantage of being able to be used easily in combination with other clean energy sources. We therefore believe that we have tremendous prospects for development.

The Chinese mainland actively adjusted its epidemic prevention and control policies in 2022, not only strengthening market confidence and reducing potential uncertainty, but also helping to restore the momentum of economic development. At the end of the year, the Chinese government promoted its *Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035)*, to expand domestic demand and promote economic growth. In 2023, the opening year for implementing the "Chinese-style modernisation", we expect both industry and commerce to recover gradually. Driven by encouraging market factors, customer demand for natural gas will rise, which will drive the Group's gas sales growth.

During the year, the Group continued to record a growth in gas sales, with an overall growth in gas sales volume of 5% to approximately 15.25 billion cubic metres. The residential gas sales volume was up 8%, accounting for 20% of total gas sales; industrial gas sales rose 2%, accounting for 51% of the total gas sales volume; wholesale and others gas sales volume increased by 14% against the previous year, accounting for 18% of the total gas sales volume; commercial gas sales volume decreased by 4%, accounting for 11% of the total gas sales volume, as a result of the epidemic.

The total number of customers of the Group reached 15.93 million, representing an increase of 0.84 million customers during the year, with 10,000 new industrial and commercial users and 0.83 million new residential customers. As of 2022, we held a total of 183 city-gas projects (inclusive of corporate reinvestment projects), representing an increase of 7 projects during the year.

Expanding Our Gas Sources

During the year, with the uncertain situation between Russia and Ukraine, international energy prices soared to and lingered at historic highs. Energy self-sufficiency thus became even more important. Affected by the increasing prices upstream, gross margin for the gas business faced downside pressures. Although the year was challenging for the Group, as around 80% of our gas sales are derived from industrial, commercial and wholesale customers, we enjoyed advantages in price pass-throughs. We have been focusing on reducing the adverse impact of energy price fluctuations, and continue to seek stable and low-cost gas sources to ensure both the diversification and stability of our supply sources.

Expanding our gas sources, we, together with our parent company HKCG, redoubled our sourcing efforts in the Southwest, Northwest and Sichuan on the Chinese mainland, also exploring channels to purchase LNG at lower prices during the year. More specifically, our gasification plants in Shanxi and Ningxia have begun operation. Hand-in-hand with these developments, the second phase of the gas storage tank project at the LNG terminal in Tangshan City, Hebei Province, with a total of two 200,000 cubic metre storage tanks, and the shale gas liquefaction project being constructed in Weiyuan County, Sichuan Province, are expected to come into operation by the end of 2023. This will consolidate Towngas Smart Energy's advantages in the competitive upstream resources market and enhance the peak shaving, emergency storage and supply assurance capabilities of our regional gas enterprises throughout the Group.

Utility Business

City Gas

On the industrial side, the coal-to-gas reform for boilers contributed 3 billion cubic metres of annual gas consumption on a cumulative basis, up by 13% year-on-year. Similarly, the Group's coal-to-gas reform projects for boilers and kilns made steady progress. During the year, we completed coal-to-gas conversion for 3,699 stream tonnes for industrial and commercial customers, representing an increase of 3% over the same period last year. This increase was mainly derived from new boilers.

On the commercial side, we vigorously promoted the development of integrated energy services during the year, adopting our "Gas+" strategy to increase gas revenues. We also actively developed our heating business, tapping into the needs of industrial and commercial gas users for heating and other integrated energy services. We thus continued to provide one-stop services, from cooling and heating, hot water, steam and energy saving to energy efficiency enhancement. At the same time, our strategy for commercial hot water business also shifted, from an equipment sales model to an energy sales model, in line with our heating business development.

Switching from Equity Cooperation to In-depth Business Partnership
Towngas Smart Energy Announces Exit from Shanghai Gas

In 2022, Shanghai went through the COVID-19 epidemic. Shanghai Gas, as an important utility service provider in Shanghai, has made significant efforts and contributions to securing the supply of natural gas in Shanghai during and after the epidemic. At the moment, Shanghai is actively deploying comprehensive economic recovery measures after the epidemic. Shanghai Gas, as an important utility service provider, is actively performing its social responsibilities of, among others, securing the supply of natural gas and stabilising energy costs. In view of the above reasons and taking into account other factors, and after amicable negotiations between the parties, it is agreed that given the current environment of recovery from the epidemic, the exit of the Company from the equity interest in Shanghai Gas will give Shanghai Gas more room and flexibility for its operations at this critical and important moment. For details of the exit, please refer to the Company's joint voluntary announcement dated 16 March 2023. The exit will not affect the further establishment of an in-depth strategic partnership between the Company, Shenergy Group and Shanghai Gas. The parties will establish deep and solid strategic relationships in the fields of, among others, natural gas resources and supply chain, renewable energy business, extended services, energy and low-carbon technology.

Case Study: Heat Supply Project – Haier Higher Show Mall Project in Qingdao City, Shandong Province

Located in Jimo District, Qingdao City, Shandong Province, a commercial district with specialties featuring cultural commerce, high-end business and green residential spaces, Haier Higher Show Mall is the first 5G+ smart mall project in the city. With a heating area of approximately 100,000 square metres, Qingdao Zhongji Hong Kong and China Gas, a Group subsidiary, conducted an in-depth analysis of customers' heat consumption requirements to develop customised integrated energy solutions for the mall. The resulting approach integrates a high-efficiency and low-nitrogen gas boiler system, plate heat exchange operation, water treatment system and smart energy management into an underground energy station to provide clean and stable heating services for the entire commercial complex.

The heat source equipment automatically adjusts the operation of the boilers and circulation system according to users' demand in different areas and time periods, the data of outdoor temperature sensors and the management system at smart energy station. As a result, the system achieves on-demand supply and precise control, significantly saving operating costs. The project's annual heat supply is approximately 25,000 GJ. The energy consumption level is well below the average of peer projects, reducing carbon dioxide by approximately 750 to 850 tonnes a year.

Utility Business

Hydrogen Blending in Natural Gas

Against the global backdrop of combatting climate change and the acceleration of energy transition, hydrogen energy has become a highly sought-after low-carbon clean energy. In March 2022, the National Development and Reform Commission and the National Energy Administration released the *Mid- and Long-term Plan for the Development of Hydrogen Energy for the 2021-2035 Period.* It proposes targets for the development of hydrogen energy at different stages, and for the first time, defines hydrogen as a green and low-carbon secondary energy source. It also specifies that hydrogen is an important vehicle for energy transition. Natural gas and hydrogen energy have similarities in the industrial chain of transportation, transmission and usage, giving rise to integration opportunities in application scenarios such as power generation and the construction industry. Some provinces have issued local plans for the hydrogen energy industry, which regard technology of hydrogen blending in natural gas as a breakthrough in hydrogen energy storage, transportation and terminal applications. This not only expands the application scenarios of hydrogen energy, but also improves the combustion performance of end equipment and reduces greenhouse gas emissions. We are therefore pleased to note that Weifang Hong Kong and China Gas in North China completed hydrogen blending in gas pipelines under the leadership of the Weifang Municipal Government in accordance with the government's "Hydrogen Energy for Every Household" project plan. In the South China region, the Foran Energy Mingcheng Integrated Energy Station started trial operations in 2022. It is the latest station after the completion of Nanzhuang Station, the Chinese mainland's first integration station for hydrogen production, hydrogen refuelling and gas refuelling of natural gas, in 2021.

Extended Business

Under the "Healthy China" policy, the Group, together with our parent company HKCG actively seek opportunities in our extended business. By further improving the quality of existing products and services, providing more diversified integrated solutions and discovering the needs of potential markets, we seek to expand our presence and reach out to more customers.

In the *Regulation on the Security Protection of Key Information Infrastructure* published in 2021, the Chinese mainland stipulated that key information infrastructure, especially that of major industries like energy, must be secured. At the end of 2022, Towngas Lifestyle released its Towngas Security Chips (TGSE Chips). In a strategic cooperation agreement in Shenzhen with StarFive Technology Company Limited, a leader in RISC-V software and hardware ecology, and Beijing Winicssec Technology Company Limited, a leader in the system and network security for industrial control on the Chinese mainland, the three parties announced the joint provision of industrial internet security products and zero-carbon smart energy solutions based on the RISC-V China-Made Chip. Smart gas meters will be equipped with a built-in TGSE Chip. With this security chip, two-way authentication, secure storage of keys and data, and encrypted transmission of key data with our IoT platform will ensure the safe communication of data. Looking to the future, we will apply our TGSE Chips to different smart products, including the entire industrial chain for our smart kitchens, to allow intelligent security management of gas pipelines.

Additionally, Towngas Lifestyle continues to develop "online + offline" integrated operations, extending its business footprint to focus on the two themes of comfort and health. During the year, the number of members on its internet service platform, Towngas Lifestyle Cloud (TLC), increased to around 15 million. The "Moment+" Community Healthy Lifestyle Experience Centre, which offers one-stop services such as gas payment, installation and maintenance appointment, "healthy home" services, nutrition consultation, health management, cooking classes and health consumption, also extended its business footprint throughout the Chinese mainland.

With regard to the sales of cooking appliances, we continue to boost the sales of our Bauhinia brand. During the year, a number of innovative and smart household products were launched. This includes a new burner which admits air through the surface of the stove during use, differing from traditional burners, which admits air through the bottom of the appliance. It makes the usage process more stable and effectively prevents the flame from accidentally going out. A timing function has also been added to Bauhinia smart appliances. Users can set a timer to turn the appliance off as needed, or set the timer for the use of cold water from the water heater at any time or from anywhere. These functions bring convenience to users while also meeting the market demand.

During the year, Towngas Lifestyle and Beijing Nova Insurance also entered into strategic cooperation. The two parties will establish a joint working group, a professional service and technical team to offer insurance brokerage services to HKCG, our parent company, its members and gas users via Beijing Nova Insurance's internet platform. Looking forward, starting from comprehensive gas insurance, we will expand our business to cover property insurance and insurance related to the health business. By providing more diversified insurance services, we aim to further enhance the value contribution from a single customer to both increase customer satisfaction and our revenue income.

Mia Cucina, our high-end kitchen cabinet brand, enjoys top recognition both from large developers and residential customers, in view of its quality materials and elegant design. Mia Cucina is planning to extend its services to home spaces beyond the kitchen, covering more comprehensive home design projects and meeting market demand for tailored design.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental, Social and Governance (ESG)

2022 Highlights

As a public utility, Towngas Smart Energy upholds the principles of "benefitting society through active participation in social services; and contributing to the community through dedicated efforts in environmental protection". In doing so, our goal is to cement our position as a business leader and role model in the industry. We take our corporate social responsibilities extremely seriously, actively promoting environmental protection initiatives hand-in-hand with other community services to achieve a sustainable future for our society.

The Group's Board of Directors places every emphasis on committing resources to environmental protection, community services and corporate governance. In the past year, the ESG Committee was elevated to a Board Committee. Enhancing its operations, work groups from various functional departments have been set up. The aim is to ensure that work rules are applied at every business level, while at the same time nurturing an ESG culture throughout the Group.

A department is specially dedicated to the coordination of community initiatives and environmental activities, and all employees are encouraged to join the Group's Volunteer Team. The team has recruited an increasing number of volunteers. As at the end of 2022, our team had over 8,000 volunteers, contributing more than 410,000 hours to social services during the year.

Improving ESG Performance

In response to the increasing attention to the ESG performance of businesses both from the capital market and investors, we communicate closely with relevant rating agencies to give our many different stakeholders a deeper understanding of our business, especially in the field of ESG-related risks and opportunities. We are proud to report that Towngas Smart Energy has been included in six international ESG ratings. Apart from continuing to be one of the constituents of the Hang Seng Corporate Sustainability Benchmark Index, we also received upgraded ratings and scores from institutions of international renown. These range from Sustainalytics, MSCI and FTSE Russell to S&P Global. We were also included in the CDP rating for the first time. It is gratifying to know that our performance in environmental protection, health and safety has received such widespread and international recognition.

MSCI ESG	Awarded an "A" rating for the first time
S&P Global	Ranked with a score of 68, first among Greater China gas utilities
CDP	Outperformed industry peers and received a "B" rating for the first time
Sustainalytics	First city gas utility on the Chinese mainland to receive a "medium risk" rating

In November 2022, we jointly organised the ESG Symposium 2022 with HKCG, our parent company. The event attracted more than 5,000 participants from Hong Kong, the Chinese mainland and overseas, both online and offline. More than 20 specialists from the public utility, financial investment, social welfare and other sectors were present at the symposium to discuss ESG-related issues, driving to promote ESG within the industry and across the community.

During the symposium, we, together with HKCG, issued the *Climate-related and Nature-related Directive Guide,* becoming the first business organisation in Hong Kong to issue a directive document in response to the beta framework of the Taskforce on Nature-related Financial Disclosures (TNFD). The Guide discloses the impact of our business on the environment, ecology and biodiversity, as well as the risks and opportunities that it brings.

Facing the global climate crisis and the Chinese mainland's goals to achieve carbon peak and carbon neutrality, we have made a commitment to take action across the board to protect the environment. This year, we announced the issuance of our first sustainability-linked bond, with two established sustainability performance targets – our total photovoltaic installed capacity and the ratio of solar energy sales to total energy sales. If these targeted indicators are not met, additional interest rate shall be incurred and this showcased our determination to combat climate change.

In terms of governance, we believe that board diversity is beneficial to improving our performance. As such, we take this diversity into account in the appointment of our directors, including but not limited to gender, age, culture and educational background, race and professional experience among others. We are thus delighted to announce that during the year, Dr. Loh Kung-wai Christine was appointed as an independent non-executive director of the Company. She also serves as a member of our Nomination Committee, Remuneration Committee as well as our Environmental, Social and Governance Committee.

Environmental, Social and Governance (ESG)

Additionally, we joined the China Oil and Gas Methane Alliance in June 2022 and strived to reduce the average methane emission intensity in natural gas production to below 0.25% by 2025. We will work with members of the Alliance to actively promote methane emission controls across the industrial chain as a responsible Chinese enterprise. During the year, we also joined the Climate Governance Initiatives (CGI) Hong Kong Chapter as one of its eight founding partners. Dr. Loh Kung-wai Christine, the independent non-executive director, also serves on the advisory council of this important initiative.

Green Practices

The Group holds a large-scale event every year, calling on employees to help protect the environment. The event theme of the year, "Embracing Dual Carbon and Traveling Green", encouraged all our staff to adopt a green, low-carbon and healthy lifestyle, showcased by their actions. The event featured five themes – Walking and Riding, Carpooling, the Scientific Car Maintenance, Towngas Green Planting Day and Earth Hour. This year, more than 130 project companies took part in the activities, which were held both by ourselves and HKCG, our parent company. In the course of these activities, more than 10,000 trees were planted.

We also initiated our Blue Carbon Protection action during the year. Volunteers arrived at the Futian Mangrove Ecological Park in Shenzhen to help clean up invasive plant species and protect the ecological balance of the mangroves and wetlands.

Caring for the Community

Carrying on our tradition, we launched yet another Rice Dumplings for the Community event during the Dragon Boat Festival, aiming to promote harmonious relationships in neighbourhoods while at the same time sending festive blessings to the disadvantaged groups in the community. In this year's activities, more than 32,000 rice dumplings and donations worth over RMB 170,000 were delivered to disadvantaged families, elderly people who are on their own as well as children with special needs.

The Group's iconic Gentle Breeze Movement was launched in 2013 to support schoolchildren in need. Apart from donating books and school supplies, we also get involved in renovation projects for the schools. In May 2022, under this initiative, a visit was made to Pingnan County, Guangxi Province, where we improved and built teaching facilities for a local primary school. Together with other donations, we provided approximately RMB 180,000 in total. In Pengxi County, Sichuan Province, in December, we donated school uniforms and stationery worth nearly RMB 180,000. Since the project's launch and until the end of 2022, Towngas Smart Energy donated funds and materials worth more than RMB 3.5 million in support of more than 30 schools.

We continued our Bauhinia Movement during the year, offering free gas appliances and installation services to impoverished families and disadvantaged groups. Under this initiative, we also conduct safety inspections and promote safety awareness in gas usage.

Awards and Accolades

Towngas Smart Energy won several industry awards during the year for our ongoing ESG contributions and outstanding performance.

(In chronological order)

Awarded by
China News Weekly of China News Service

Award/Accolade
Low-carbon Role Model

Abstract
Presented to companies in recognition of their outstanding achievements in carbon reduction and energy conservation

Awarded by
China Environment News

Award/Accolade
Model Enterprise of Green Development

Abstract
Given to model enterprises in recognition of their green development together with outstanding performances in economic, environmental, social and resource efficiency

Awarded by
China Environment News

Award/Accolade
Environmentally and Socially Responsible Enterprise

Abstract
Companies evaluated for their contribution to the harmonious development of society, the economy and the environment, upheld by the principle of environmentally friendly development and their participation in charity activities for environmental protection

Awarded by

Jiemian News

Award/Accolade

Smart Environment and Energy Enterprise of the Year

Abstract

Given in recognition of innovative enterprises, products and services taking into consideration the following five aspects – market performance, innovation vitality, brand influence, corporate management and social responsibility

Awarded by

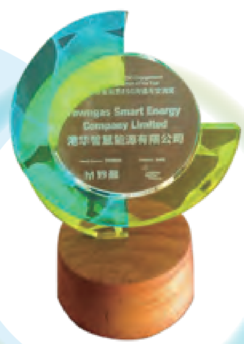
British Chamber of Commerce Shanghai

Award/Accolade

Investor Relations ESG Engagement and Communication of the Year Award

Abstract

Given in recognition to companies and organisations which communicate effectively with investors with regard to ESG



Awarded by

Zhi Tong Cai Jing

Award/Accolade

Best in ESG Award

Abstract

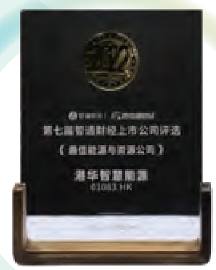
Presented in recognition of companies listed in Hong Kong and the United States which take on social responsibility, appreciate communication with global stakeholders and create long-term value for society, the environment, shareholders, customers, employees and partners

Awards and Accolades

Awarded by
Zhi Tong Cai Jing

Award/Accolade
Best Energy and Resources Corporate Award

Abstract
Presented in recognition of energy and resources companies listed in Hong Kong and the United States with sound corporate governance, leading industry positions and robust principal businesses, which are able to provide investors with a steady stream of values and returns



Awarded by
Futu

Award/Accolade
The Outstanding ESG Governance Enterprise

Abstract
Presented to businesses in recognition of their outstanding ESG contributions and positive impact in the world of corporate governance

Awarded by
The Chinese Edition of Bloomberg Business Week and Deloitte

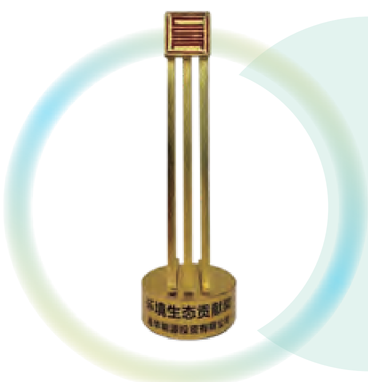
Award/Accolade
ESG Leading Enterprise Award, Leading Environmental Project Award, Thematic Award (ESG Investment)

Abstract
Given in recognition of listed companies/asset management companies for their outstanding ESG performance

Awarded by
China Energy Conservation Association

Award/Accolade
Second Prize of Energy-Saving and Emission-Reduction Corporate Award

Abstract
Presented in recognition of a company's/individual's outstanding contributions to the application research of energy conservation and emission reduction on the Chinese mainland



Awarded by
Yicai

Award/Accolade
Environmental and Ecological Contribution Award of China Corporate Social Responsibility List

Abstract
Based on a company's performance in five areas – social responsibility, harmonious relationships, employee care, environmental responsibility and corporate governance

Awarded by
Fortune

Award/Accolade
Ranked among the Most Admired Chinese Companies in the energy and public utility industry

Abstract
Companies were evaluated in terms of their "soft power"

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 on the Chinese mainland.

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 107 to 110.

Business Environment

The outbreak of COVID-19 during the last three years had created unprecedented challenges in the global business environment, including lockdowns, global supply chain disruptions, travel bans and restrictions, and at-home work and school arrangements.

At the beginning of 2022, we saw a sharp slowdown in the global economy. This was followed by the eruption of hostilities in Ukraine, which triggered an energy crisis in Europe and a surge in gas prices across the world. These factors, together with heightened geopolitical tensions and interest rate hikes caused by persistently high, broader-based inflation, have dimmed global prospects for growth and added to our downside risks.

Nevertheless, sustainability remained an important focus for 2022 and is already being positioned as an opportunity for accelerating business growth in the transition to net zero carbon emissions. Policies supporting this transition could drive investment in green infrastructure, creating a turning point in the fight against climate change.

Despite the repeated COVID-19 lockdowns and ongoing property sector market turmoil, China GDP recorded a growth of 3.0 per cent. Yet, the official manufacturing purchasing managers index (PMI) fell to 47 in December from 48 in November, still below the 50-mark as a result of the coronavirus weighing on the economy.

Business challenges faced by the Group include a slowdown in gas demand owing to global warming, 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 include the increased number of extreme weather events, rising commodity prices due to logistics interruptions, 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 a 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 COVID-19 outbreak, a variety of countermeasures have been put in place to alleviate its impact on our operations. In addition, special measures have been taken to minimise the impact of the epidemic 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 also continue 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, changes in regulatory requirements for gas reserves applicable to our gas operations on the Chinese mainland are being closely monitored.

Risk Factors

Distribution Network Safety

Preventing gas leakages or explosions in our pipelines, networks and storage facilities is a top priority for Towngas Smart Energy. 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 Smart Energy 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, as well as renewable energy systems. We are developing a centralised platform to be launched by our gas operations on the Chinese mainland to optimise operational management on safety. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

Financial Liquidity

Our operations and investments, which are long-term in nature, are exposed to liquidity risks. For mitigation, we will continue to improve operational cash flows, assess liquidity positions through regular reviews of capital needs, monitor our investment-grade credit ratings and maintain a healthy capital structure. We also secure diversified funding sources and maximise our funding options.

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 on the Chinese mainland 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 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.

With regard to COVID-19, countermeasures (e.g. social distancing, video conferencing, enhanced hygiene controls, an employee quarantine policy) have been incorporated into the "new normal" way of operating in order to reduce the risk of the epidemic spreading to working premises and ensure business continuity.

Board of Directors

Dr. Lee Ka-kit

G.B.S., J.P., D.B.A. (Hon.)

Chairman and Non-Executive Director

Dr. Lee Ka-kit, aged 59, has been the Chairman and a Non-Executive Director of the Company since October 2021. Dr. Lee is the chairman and a non-executive director of the board of directors of HKCG (a listed public company and the controlling shareholder of the Company). He was educated in the United Kingdom. Dr. Lee is a chairman and managing director of Henderson Land Development Company Limited ("Henderson Land Development") and a vice chairman of Henderson Investment Limited. All of the above companies are listed public companies. Dr. Lee is a Member of the Standing Committee of the 14th National Committee of the Chinese People's Political Consultative Conference and a Member as well as the Chairman of the Board of Directors of One Country Two Systems Research Institute. He was awarded an Honorary University Fellowship by The University of Hong Kong in 2009, and was also awarded an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in 2014. He is the son of Dr. the Hon. Lee Shau-kee, the controlling shareholder of HKCG. Dr. Lee is also a vice chairman of Henderson Development Limited ("Henderson Development") and a director of each of Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick and HKCG have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Dr. the Hon. Moses Cheng Mo-chi
GBM, GBS, OBE, JP
Independent Non-Executive Director

Dr. the Hon. Moses Cheng Mo-chi, aged 73, 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. Dr. Cheng is a practising solicitor and the senior consultant of Messrs. P.C. Woo & Co. after serving as its senior partner and consultant from 1994 to January 2023. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is a non-official member of the Executive Council of the Hong Kong Special Administrative Region since 1st July 2022. Dr. Cheng was the founder Chairman of the Insurance Authority and The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. In addition, he is a Fellow of the Hong Kong Academy of Finance. Dr. Cheng currently holds directorships in 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. Dr. Cheng was previously an independent non-executive director of China Mobile Limited and China Resources Beer (Holdings) Company Limited.

Board of Directors

Mr. Brian David Li Man-bun

JP, FCA, MBA, MA (Cantab)

Independent Non-Executive Director

Mr. Brian David Li Man-bun, aged 48, 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, China Overseas Land & Investment Limited and Guangdong Investment Limited, all 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 and a Vice Chairman of its Committee on Social and Legal Affairs, a Member of the Chief Executive's Council of Advisers 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 Process Review Panel for the Securities and Futures Commission, a Member of the Disaster Relief Fund Advisory 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, an Honorary Certified Banker of The Hong Kong Institute of Bankers 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)

Independent Non-Executive Director

Mr. James Kwan Yuk-choi, aged 71, 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 was previously an independent non-executive director of MTR Corporation Limited ("MTR") (a listed public company) until his retirement at MTR on 26 May 2021. 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.

Board of Directors

Dr. LOH Kung Wai Christine

SBS, JP, OBE,
Chevalier de l'Ordre National du Mérite
Independent Non-Executive Director

Dr. LOH Kung Wai Christine, aged 67, has been an Independent Non-Executive Director of the Company since April 2022 and is the member of Nomination Committee, Remuneration Committee and Environmental, Social and Governance Committee of the Company. She obtained her Bachelor of Laws degree from the University of Hull and her Master of Law degree in Chinese and Comparative Law from the City University of Hong Kong. She was awarded the Honorary degrees of Doctor of Law by the University of Hull in 2001 and Doctor of Science by the University of Exeter in 2016.

Dr. Loh is the Chief Development Strategist at the Institute for the Environment of the Hong Kong University of Science and Technology. She is also a Senior Advisor to Teneo, a global consultancy firm working with CEOs to provide strategic counseling as well as Advisor on Sustainability to the management and board of the Hong Kong Science and Technology Parks. She is also a director and trustee of CDP Worldwide, a London-based organization running a global disclosure system for companies, cities, states, and regions to manage environmental impacts; a director of the Global Maritime Forum, an industry platform managed from Denmark for senior management to discuss maritime issues; and a director of New Forests Proprietary Limited, a sustainable forestry company headquartered in Australia.

Dr. Loh was the Under Secretary for the Environment in the HKSAR Government from 2012 to 2017. Her direct policy responsibilities included air quality, energy, climate change and biodiversity. She worked with Chinese mainland counterparts to define new policies to control shipping emissions, an area of work she pioneered prior to joining the HKSAR Government and changed China's national policy in this area. Between April 2019 and March 2020, she was the Special Consultant to the Office of the Chief Executive of the HKSAR Government on the ecological civilization aspects of the Outline Development Plan for the Greater Bay Area.

Mr. LIU Kai Lap Kenneth
Non-Executive Director

Mr. LIU Kai Lap Kenneth, aged 48, has been a Non-Executive Director since November 2021. Mr. Liu obtained a Bachelor of Science in Computer Science degree from the University of Washington. Mr. Liu joined Affinity Equity Partners (which is a buy-out fund manager managing private equity funds focusing on control-oriented transactions, control buyouts, growth capital and public-to-private transactions with an emphasis in the regions of Korea, Australia, New Zealand, Greater China and Southeast Asia) in 2006 and was part of the founding team in 2012 to set up its franchise in Mainland China which is based in Beijing. Mr. Liu has over twenty years of experience investing in and advising companies in Greater China across a wide range of industries, including consumer and retail, industrials, business services, technology, media telecommunications, and healthcare. Mr. Liu currently sits on the board of directors of various investee companies of Affinity Equity Partners. Prior to making his career in private equity, he spent his early career in the technology sector, and worked as a senior software engineer at Amazon's headquarters in Seattle, Washington until 2000.

Board of Directors

Mr. Peter Wong Wai-yee

C.P.A.(CANADA), C.M.A., C.P.A.(HK), A.C.G., H.K.A.C.G., F.I.G.E.M., F.H.K.I.o.D., M.B.A.

Executive Director and Chief Executive Officer

Mr. Peter Wong Wai-yee, aged 71, has been an Executive Director and the Chief Executive Officer of the Company since March 2007. Mr. Wong was appointed to the Board of Directors of HKCG in February 2013 and has been the Managing Director of HKCG with effect from 6 June 2022. Mr. Wong also holds directorships in various subsidiaries of the HKCG Group. He is a director of Shenzhen Gas Corporation Ltd. ("Shenzhen Gas") and was appointed as the Vice Chairman of Shenzhen Gas with effect from 26 April 2022. Mr. Wong was appointed as a director of Foran Energy Group Co., Ltd. ("Foran Energy") with effect from 8 April 2022 and was appointed as the Vice Chairman of Foran Energy with effect from 29 December 2022. He was previously a director of China-Singapore Suzhou Industrial Park Development Group Co., Ltd. ("CSSD") until his retirement at CSSD on 29 June 2020. All of the above companies are listed public companies. 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 and chartered governance professional 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 and 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, and a member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. He is a Council Member of the Vocational Training Council, a Council Member of the Employers' Federation of Hong Kong, and a member of the Advisory Committee and an External Advisor of the Career Planning and Development Steering Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University. He is also the Chairman of the Advisory Board of The Hong Kong Management Association ("HKMA") Global Centre for ESG Education and Research 2021/2022 and a council member of HKMA 2021/2022. Mr. Wong has over 46 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.)
Executive Director and Company Secretary

Mr. John Ho Hon-ming, aged 66, has been an Executive Director and the Company Secretary of the Company since March 2007. Mr. Ho is currently the Executive Director, Chief Financial Officer and Company Secretary of HKCG and also holds directorships in various subsidiaries of the HKCG Group. He is a director of Shenzhen Gas, Foran Energy and was previously a director of Changchun Gas Co., Ltd. ("Changchun Gas") until his resignation at Changchun Gas on 24 June 2021. All of the above companies are listed public companies. Mr. Ho is the Vice Chairman of the General Committee of the Chamber of Hong Kong Listed Companies, the Vice Chairman of the Taxation Committee of the Hong Kong General Chamber of Commerce and a member of the Accountancy Training Board of the Vocational Training Council. 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 a Bachelor of Arts degree with honours 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 44 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)
Executive Director and Chief Operating Officer – Gas Business

Mr. Martin Kee Wai-ngai, aged 56, has been an Executive Director of the Company since May 2015 and was appointed as the Chief Operating Officer – Gas Business 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 in 1990 and has been the Chief Operating Officer – Mainland Utilities of HKCG since 2022. 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. Mr. Kee was appointed as a director of Changchun Gas with effect from 24 June 2021. He was appointed as a supervisor of the Supervisory Board of Foran Energy with effect from 8 April 2022 and subsequently be appointed as the Chairman of the Supervisory Board with effect from 25 April 2022. Mr. Kee was also appointed as a director of Shenzhen Gas with effect from 26 May 2022. He resigned as a director of Nanjing Public Utilities Development Co., Ltd. with effect from 27 September 2022, all 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 13th Hebei Committee of the Chinese People's Political Consultative Conference and was a member of the 14th Nanjing Committee of the Chinese People's Political Consultative Conference.

Dr. John Qiu Jian-hang

Executive Director and Chief Operating Officer – Renewable Business

Dr. John Qiu Jian-hang, aged 59, has been an Executive Director and the Chief Operating Officer – Renewable Business of the Company since November 2021. Dr. Qiu obtained his bachelor's degree and master's degree in engineering from Tsinghua University in the PRC, and his doctorate degree in engineering from Heriot-Watt University in the United Kingdom successively. In 2008, Dr. Qiu completed the Executive Development Programme of the Wharton School of the University of Pennsylvania. Dr. Qiu is a Chartered Engineer of the Institution of Gas Engineers & Managers of the United Kingdom. Dr. Qiu joined HKCG Group in 2003 and has been the Chief Operating Officer – Renewable Business of HKCG since 2021. He was appointed various management roles in different business joint ventures in mainland China throughout his 19 years with the HKCG Group. These include positions of General Manager of both 馬鞍山港華燃氣有限公司 (Maanshan Hong Kong and China Gas Company Limited), a joint venture of the Company and 西安秦華天然氣有限公司 (now known as 西安秦華燃氣集團有限公司) (Xian Qinhua Gas Group Co., Ltd.), a joint venture of HKCG, in 2003 and 2006 respectively. He successively served as Regional General Manager of the South China region in 2009 overseeing sixteen joint ventures. In the same year, Dr. Qiu's role was expanded to Senior Vice-President, Commercial & Industrial Marketing on top of managing the South China region. In 2021, Dr. Qiu was appointed to his current position as Executive Vice-President – Smart Energy of the HKCG Group leading the high potential business of renewable energy in mainland China. He resigned as the supervisor and Chairman of the Supervisory Board of Foran Energy with effect from 8 April 2022.

Board of Directors

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 2022 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 14 to the consolidated financial statements.

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 2022.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales of piped gas and other types of energy, construction of gas pipelines, the sale of gas appliances and related products, and other value-added services in the People's Republic of China (the "PRC"). Particulars of its principal subsidiaries are set out in Note 48 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2022 are set out in the consolidated income statement on page 120.

The Directors have recommended the payment of a final dividend out of the share premium account of 15 HK cents per share (2021: 15 HK cents per share) to shareholders whose names are on the register of members of the Company on Monday, 5 June 2023.

The proposed final dividend, if approved by the shareholders at the annual general meeting (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, 9 June 2023. Subject to approval by shareholders at the AGM to be held on Thursday, 25 May 2023 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, 11 July 2023. The register of members of the Company will be closed from Thursday, 1 June 2023 to Monday, 5 June 2023 (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 of Hong Kong Limited ("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, 11 July 2023 to the shareholders whose names appear on the register of members of the Company on Monday, 5 June 2023.

Report of the Directors

Business Review

The business review of the Group for the year ended 31 December 2022 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 2022 (if any), is set out on pages 6 to 39 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 on pages 18 to 39 and pages 90 to 113 as well as the standalone 2022 Environmental, Social and Governance Report.

Description of possible risks and uncertainties that the Group may be facing can be found on pages 14 to 17, 44 to 47 and Notes 4 to 6 to the consolidated financial statements on pages 169 to 189 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 172 to 189. An analysis of the Group's performance during the year using financial key performance indicators is provided in the section headed "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 124.

The Company's share premium account available for distribution to shareholders as at 31 December 2022 amounted to HK$6,230 million (2021: HK$6,315 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 2022 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 18 to the consolidated financial statements.

Share Capital

During the year, the Company declared a final dividend of 15 HK cents per share for the year ended 31 December 2021 in cash (with scrip option). A total of 87,167,183 shares of the Company, fully paid, were issued and allotted in scrip form at HK$4.028 per share on 12 July 2022. No consideration was received by the Company for the issue.

On 17 June 2022 and 19 July 2022, 1,784,000 shares were allotted and issued to 8 subscribers and 4,295,000 shares were allotted and issued to 26 subscribers respectively, at the subscription price of HK$3.69 per share pursuant to their respective subscription agreements all dated 18 March 2022 entered into between the Company and each of such subscribers. For details, please refer to the Company's announcement dated 18 March 2022 titled "Issue of New Shares under General Mandate".

On 17 June 2022, 19 July 2022 and 1 August 2022, 3,017,000 shares were allotted and issued to 5 subscribers, 1,107,000 shares were allotted and issued to 3 subscribers and 1,350,000 shares were allotted and issued to a subscriber respectively, at the subscription price of HK$3.69 per share pursuant to their respective subscription agreements all dated 18 March 2022 entered into between the Company and each of such subscribers. All of these subscribers are connected persons of the Company. Subsequent to the year ended 31 December 2022, 110,000 shares were allotted and issued at the same subscription price of HK$3.69 per share on 6 January 2023 to a subscriber who is also a connected person. For details, please refer to the Company's announcement dated 18 March 2022 titled "Connected Transactions – Proposed Issue of New Shares to Connected Persons" and the Company's circular dated 10 May 2022.

Details of movements in the share capital of the Company during the year are set out in Note 38 to the consolidated financial statements.

Report of the Directors

Debentures Issued

On 26 April 2022, TCCL (Finance) Limited ("TCCL (Finance)"), a direct wholly owned subsidiary of the Company, issued US$200,000,000 4% guaranteed sustainability linked bonds due 2027 under the US$2,000,000,000 medium term note programme at a price of 99.57% of US$200,000,000, being the aggregate nominal amount of the notes, with net proceeds of approximately US$198,500,000 (approximately HK$1,548,300,000) for refinancing part of the existing indebtedness of the Group, funding capital expenditures of the Group, and/or for general corporate purposes.

On 29 November 2022, TCCL (Finance) made an application to the National Association of Financial Market Institutional Investors (the "Association") for registration of debt financing instruments in the aggregate amount of not more than RMB15 billion (the "Panda Bonds") to be issued in multiple tranches as and when appropriate within two years from the receipt of the notice of acceptance of the registration from the Association (the "Registration Period"). The Company had provided an unconditional and irrevocable guarantee in favour of the holders of the Panda Bonds for the due payment of all sums payable by TCCL (Finance) under the Panda Bonds to be issued during the Registration Period.

Directors

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

Non-Executive Directors

Dr. Lee Ka-kit *(Chairman)*
Mr. LIU Kai Lap Kenneth

Executive Directors

Mr. Alfred Chan Wing-kin *(Note 1)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer – Gas Business)*
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business)*

Directors *(Continued)*

Independent Non-Executive Directors

Dr. the Hon. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi
Dr. Hu Zhang-hong *(Note 2)*
Dr. LOH Kung Wai Christine *(Note 3)*

Notes:

1. Mr. Alfred Chan Wing-kin retired as an Executive Director with effect from the conclusion of the AGM of the Company held on 26 May 2022.

2. Dr. Hu Zhang-hong resigned as an Independent Non-Executive Director with effect from 9 March 2022.

3. Dr. LOH Kung Wai Christine was appointed as an Independent Non-Executive Director with effect from 4 April 2022.

In accordance with article 112 of the Memorandum of Association and Articles of Association of the Company ("the Articles"), one-third of the Directors shall retire from rotation. Retiring directors, being eligible, may offer themselves for re-election at the forthcoming AGM.

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/her 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 48 to 58 of this Annual Report.

Report of the Directors

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

As at 31 December 2022, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares

Name of Company	Name of Director	Capacity	Interest in shares			Number of underlying shares pursuant to share options *(Note 1)*	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2022
			Personal interest	Family interest	Other Interest			
Towngas Smart Energy Company Limited	Lee Ka-kit *(Note 2)*	Discretionary beneficiary of discretionary trusts	–	–	2,162,535,761	–	2,162,535,761	66.36%
	Peter Wong Wai-yee	Beneficial owner	5,120,000	–	–	1,800,000	6,920,000	0.21%
	John Ho Hon-ming	Beneficial owner	2,033,862	–	–	900,000	2,933,862	0.09%
	Martin Kee Wai-ngai	Beneficial owner	900,000	–	–	900,000	1,800,000	0.06%
	John Qiu Jian-hang	Beneficial owner	1,350,000	–	–	1,350,000	2,700,000	0.08%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	–	2,265,000	0.07%
HKCG	Lee Ka-kit *(Note 3)*	Discretionary beneficiary of discretionary trusts	–	–	7,748,692,715	–	7,748,692,715	41.53%
	John Ho Hon-ming	Beneficial owner	55,710	–	–	–	55,710	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	121,275	142,299	–	–	263,574	0.00%

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Long positions in shares and underlying shares *(Continued)*

Notes:

1. These underlying shares (being regarded for the time being as unlisted physically settled equity derivatives) represent share options granted by the Company under its existing share option scheme. Details of the share options are set out in the section headed "Share Option Scheme" below.

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 Henderson Development Limited ("Henderson Development"). Henderson Development was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Land Development Company Limited ("Henderson Land Development"). Dr. Lee Ka-kit, as one of the discretionary beneficiaries of the discretionary trusts, is deemed under the SFO to be interested in 41.53% of the total number of issued shares in HKCG and 2,162,535,761 shares of the Company representing approximately 66.36% of the total number of issued shares of the Company.

3. Hopkins owned all the issued ordinary shares which carry the voting rights in the share capital of Henderson Development as trustee of the Unit Trust. Rimmer and Riddick, as trustees of the respective discretionary trusts, held units in the Unit Trust. Dr. Lee Ka-kit as one of the discretionary beneficiaries of the discretionary trusts, was taken to have duties of disclosure in relation to these 7,748,692,715 shares by virtue of Part XV of the SFO.

Save as stated above, as at 31 December 2022, there were no other interests or short positions of the Directors and the chief executives 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.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to an ordinary resolution passed at the AGM of the Company held on 26 May 2022 and the Share Option Scheme was also approved by ordinary resolution of the shareholders of HKCG, the parent company of the Company, at HKCG's annual general meeting on 6 June 2022.

Report of the Directors

Share Option Scheme *(Continued)*

The major terms of the Share Option Scheme disclosed in accordance with chapter 17 of the Listing Rules are as follows:

1. The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants, attracting and retaining persons with the right calibre and experience to work for or make contribution to the Group, fostering a sense of belonging with the Group, and allowing the participants to enjoy the results of the Company achieved through their contributions to the Group.

2. The board of directors of the Company (the "Board") may at its discretion grant options to any (i) director, chief executive or employee (whether full-time or part-time) of each member of the Group; or (ii) consultant and other adviser to each member of the Group who is also a director and/or senior management staff of subsidiary(ies) of HKCG (the "Participants").

3. The total number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of adoption on 26 May 2022. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval.

4. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) (if any) of the Company must not exceed 30% of the shares in issue from time to time. As at the date of this annual report, the total number of shares available for issue in respect of which options may be granted under the Share Option Scheme was 304,326,534, representing approximately 9.34% of the shares in issue as at the date of this annual report.

   The total number of shares issued and to be issued upon exercise of options granted and to be granted to each Participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the shares in issue and HK$5 million in aggregate value based on the closing price of the shares on the date of such grant. Any further grant of share options in excess of such limits is subject to shareholders' approval in general meeting.

Share Option Scheme *(Continued)*

5. The exercise period of any share option granted under the Share Option Scheme shall be determined by the Board but such period must not exceed 10 years from the date of grant of the relevant share option.

6. The Share Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The Board shall at its sole discretion determine and specify in the offer letter such performance targets that needs to be achieved by the selected Participants before an option can be exercised and/or any minimum period for which an option must be held before the option can be exercised.

7. The acceptance of an offer of grant of share options must be made from the offer date to such date as the Board may determine and specify in the Offer Letter, together with a non-refundable payment of HK$1.00 from each grantee.

8. The exercise price in relation to each option shall not be less than the following prices, whichever is higher:

   (i) the closing price of a share as stated in the daily quotation sheet of the Stock Exchange on the date of offer;

   (ii) the average closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the date of offer; and

   (iii) the nominal value of a share.

9. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme on 26 May 2022.

Report of the Directors

Share Option Scheme *(Continued)*

Details and movements of option shares that were granted under the Share Option Scheme and remained outstanding during the year ended 31 December 2022 are as follows:

Grantees	Date of Grant	Exercise Period	Vesting Date	Exercise price (HK$)	Number of option shares: Outstanding as at 01.01.2022	Granted	Outstanding as at 31.12.2022
Category 1: Directors							
Peter Wong Wai-yee	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	N/A	1,800,000	1,800,000
John Ho Hon-ming	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	N/A	900,000	900,000
Martin Kee Wai-ngai	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	N/A	900,000	900,000
John Qiu Jian-hang	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	N/A	1,350,000	1,350,000
Category 2: Others							
(i) directors or senior management staff of the subsidiaries of the Company; and (ii) directors of both subsidiaries of the Company and of HKCG	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	N/A	6,713,000	6,713,000

During the year ended 31 December 2022, an aggregate of 11,663,000 options were granted pursuant to the Share Option Scheme. No options have been exercised and no options have lapsed and/or been forfeited, and no share options granted were in excess of the 1% individual limit during the year.

Further details of the Share Option Scheme, including the fair value of the shares options at the date of grant and the weighted average closing price of the shares on the exercise date are set out in Note 40 to the consolidated financial statements.

Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 17 August 2021 (the "Adoption Date"). The major terms of the Share Award Scheme disclosed in accordance with the Listing Rules are as follows:

1. The purpose of the Share Award Scheme is to (a) recognise the contributions by certain eligible participants and providing them with incentives in order to retain them for the continual operation and development of the Group; and (b) attract suitable personnel for the further development of the Group and to contribute to the long-term growth of the Group.

Share Award Scheme *(Continued)*

2. Pursuant to the Share Award Scheme, the scheme committee may, from time to time, at its absolute discretion select any director of the Company or any subsidiary of the Company or any employee of the Group to be a selected participant under the Share Award Scheme and determine the number of shares of the Company to be granted (the "Award Shares") and the vesting conditions of such Award Shares.

3. No shares shall be purchased pursuant to the Share Award Scheme if as a result of such purchase, the number of shares administered under the Share Award Scheme (including both shares forming part of the trust fund and shares which have been awarded to and vested in the selected participants) in aggregate exceed 5% of the total number of issued shares of the Company from time to time. For the avoidance of doubt, no account shall be taken into the calculation of the limit of the Share Award Scheme of any shares where the right to acquire such shares has been released or lapsed in accordance with the relevant provisions of the rules relating to the Share Award Scheme.

4. The maximum aggregate number of shares held by the trustee under the trust at any time under the Share Award Scheme shall not exceed 2% of the total number of issued shares of the Company from time to time.

5. During any 12-month period, the maximum number of Award Shares which may be granted to a selected participant under the Share Award Scheme (including Award Shares relevant to a lapsed grant) shall not exceed 0.1% of the total number of issued shares of the Company from time to time.

6. Tricor Trust (Hong Kong) Limited was appointed as a trustee of the Share Award Scheme. Subject to the terms and conditions of the Share Award Scheme and the fulfilment of all vesting conditions, the Award Shares held by the trustee on behalf of a selected participant shall vest in such selected participant and the trustee shall transfer the Award Shares to such selected participant.

7. The Share Award Scheme shall be valid and effective for a term of 10 years commencing from the Adoption Date.

For further details, please refer to the Company's announcement dated 17 August 2021.

During the year ended 31 December 2022, the trustee has purchased a total of 6,965,000 shares of the Company on the market for the purpose of the Share Award Scheme and there is an aggregate of 10,737,000 shares available for granting after such purchase. No share was awarded by the Company to any of the eligible participants under the Share Award Scheme.

Report of the Directors

Arrangements to Purchase Shares or Debentures

Other than the Share Option Scheme and Share Award Scheme as mentioned above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked Agreements

Issue of New Shares and Convertible Bonds under General Mandate

Pursuant to the subscription agreement dated 25 October 2021 (the "Subscription Agreement") entered into between the Company and Clean Energy Ecosystem Pte. Ltd. (the "Investor"), the Company had on 18 November 2021 issued (a) 116,783,333 subscription shares at the aggregate subscription price of HK$583,916,665 (equivalent to HK$5.00 per subscription share) (the "Share Issue") and (b) the 1% unsecured convertible bonds due 2026 in the principal amount of RMB1,835,603,119.35 (equivalent to HK$2,217,715,500 at the exchange rate agreed with the Investor) (the "Convertible Bonds") to the Investor, and based on the initial conversion price of HK$6.33 per share, a maximum number of 350,350,000 shares of the Company may be allotted and issued by the Company upon full conversion of the Convertible Bonds. No application has been or will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

As a result of the completion of issue of scrip shares at the value of HK$4.028 per share pursuant to the scrip dividend scheme of the Company (as detailed in the relevant circular of the Company dated 10 June 2022) on 12 July 2022, the conversion price of the Convertible Bonds has been adjusted from HK$6.33 per share to HK$6.26 per share and the maximum number of shares to be issued by the Company upon full conversion of the Convertible Bonds has been increased from 350,350,000 shares to 354,267,651 shares.

For further details, please refer to the Company's announcements dated 25 October 2021, 18 November 2021 and 12 July 2022.

The aggregate gross proceeds from the Share Issue and the issue of Convertible Bonds was approximately HK$2,802 million and the aggregate net proceeds was approximately HK$2,800 million. As at 31 December 2022, none of the Convertible Bonds were converted. Details of the use of net proceeds from the Share Issue and the issue of Convertible Bonds are as follows:

Intended use of net proceeds	**Amount of the net proceeds raised** HK$ Million	**Amount of the utilized net proceeds for the year ended 31 December 2021** HK$ Million	**Amount of the utilized net proceeds for the year ended 31 December 2022** HK$ Million
Business Expansion – including investment in smart energy business	2,800	1,042	1,758

Equity-linked Agreements *(Continued)*

Issue of New Shares under General Mandate

On 17 June 2022 and 19 July 2022, the Company allotted and issued 1,784,000 shares to 8 subscribers and 4,295,000 shares to 26 subscribers respectively (collectively, the "GM Subscription"). The subscribers comprise (i) directors of insignificant subsidiaries of the Company; (ii) senior management staff of subsidiaries of the Company; (iii) directors of both insignificant subsidiaries of the Company and subsidiaries of HKCG; and (iv) senior management staff of HKCG or its subsidiaries.

The GM Subscription was for the purpose of attracting and retaining suitable personnel to promote the further development of the Company by providing incentives for the senior management personnel of the Group to continuously contribute to the operations and further development of the Group and enabling them to enjoy the results of the Group achieved through their contributions to the Group. The subscription price was fixed at HK$3.69 per share.

For details of the GM Subscription, please refer to the announcement of the Company dated 18 March 2022 relating to the issue of new shares under general mandate.

The gross proceeds from the GM Subscription was approximately HK$22 million. The net proceeds from the above GM Subscription were fully utilized during the year for general working capital.

Report of the Directors

Equity-linked Agreements *(Continued)*

Connected Transactions in relation to the Issue of New Shares to Connected Persons

On 17 June 2022, 19 July 2022 and 1 August 2022, 3,017,000 shares were allotted and issued to 5 subscribers, 1,107,000 shares were allotted and issued to 3 subscribers and 1,350,000 shares were allotted and issued to a subscriber respectively, at the subscription price of HK$3.69 per share pursuant to their respective subscription agreements all dated 18 March 2022 entered into between the Company and each of such subscribers. All of these subscribers are connected persons of the Company. Subsequent to the year ended 31 December 2022, 110,000 shares were allotted and issued at the same subscription price of HK$3.69 per share on 6 January 2023 to a subscriber who is also a connected person (collectively, the "CT Subscription"). Particulars of the subscribers are listed below:

Name of Subscriber	No. of Shares subscribed for	Subscription Consideration (HK$)
Peter Wong Wai-yee *(Note 1)*	1,800,000	6,642,000
John Ho Hon-ming *(Note 1)*	900,000	3,321,000
Martin Kee Wai-ngai *(Note 1)*	900,000	3,321,000
John Qiu Jian-hang *(Note 1)*	1,350,000	4,981,500
Zhou Heng-xiang *(Note 2)*	138,000	509,220
Lawrence Fok Chi-cheong *(Note 2)*	138,000	509,220
Huang Jie *(Note 2)*	110,000	405,900
Kenneth Fan Chun-choi *(Note 2)*	110,000	405,900
Patrick Lau Kai-hung *(Note 2)*	69,000	254,610
Zhao Xu *(Note 2)*	69,000	254,610
Total:	5,584,000	20,604,960

Notes:

1. Director of the Company

2. Director of subsidiaries of the Company and director of subsidiaries of HKCG, the holding company of the Company

The CT Subscription was for the purpose of attracting and retaining suitable personnel to promote the further development of the Company by providing incentives for the senior management personnel of the Group to continuously contribute to the operations and further development of the Group and enabling them to enjoy the results of the Group achieved through their contributions to the Group. The subscription price was fixed at HK$3.69 per share.

Equity-linked Agreements *(Continued)*

Connected Transactions in relation to the Issue of New Shares to Connected Persons *(Continued)*

For details of the CT Subscription, please refer to the announcement of the Company dated 18 March 2022 and the circular of the Company dated 10 May 2022 regarding the connected transactions in relation to the issue of new shares to connected persons.

The gross proceeds from the CT Subscription was approximately HK$20 million. The net proceeds from the above CT Subscription were fully utilized during the year for general working capital.

Save as disclosed above, 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 and Continuing 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, which 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.

Report of the Directors

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:

Dr. Lee Ka-kit, the Chairman and a Non-Executive Director of the Company, is one of the Chairmen and a Non-Executive Director of HKCG; Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, is an Executive Director and the Managing Director (re-designated from Deputy Managing Director with effect from the conclusion of HKCG's annual general meeting held on 6 June 2022) 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. the Hon. 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 environmentally-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 2022, 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 31.12.2022
Lee Shau-kee	Interest of controlled corporations	2,162,535,761 *(Note 1)*	66.36%
Rimmer	Trustee	2,162,535,761 *(Note 2)*	66.36%
Riddick	Trustee	2,162,535,761 *(Note 2)*	66.36%

Substantial Shareholders *(Continued)*

Long positions in Shares *(Continued)*

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares as at 31.12.2022
Hopkins	Interest of controlled corporations	2,162,535,761 *(Note 2)*	66.36%
Henderson Development	Interest of controlled corporations	2,162,535,761 *(Note 2)*	66.36%
Henderson Land Development	Interest of controlled corporations	2,162,535,761 *(Note 2)*	66.36%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	2,162,535,761 *(Note 2)*	66.36%
HKCG	Interest of controlled corporations	2,162,535,761 *(Note 3)*	66.36%
Towngas International Company Limited ("TICL")	Interest of controlled corporation	1,976,254,212 *(Note 3)*	60.65%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,976,254,212 *(Note 3)*	60.65%
Towngas Investment Company Limited ("TICL-HK")	Interest of controlled corporations	186,281,549 *(Note 3)*	5.72%
Planwise Properties Limited ("Planwise")	Beneficial owner	183,164,833 *(Note 3)*	5.62%
Tang Kok Yew	Interest of controlled corporations	471,050,984 *(Note 4)*	14.46%
Capstar Holdings ("Capstar")	Interest of controlled corporations	471,050,984 *(Note 4)*	14.46%
Affinity Fund V General Partner Limited ("Affinity Fund V")	Interest of controlled corporations	471,050,984 *(Note 4)*	14.46%
Converging Worldview Investments Pte. Ltd. ("Converging Worldview")	Interest of controlled corporations	471,050,984 *(Note 4)*	14.46%

Report of the Directors

Substantial Shareholders *(Continued)*

Long positions in Shares *(Continued)*

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares as at 31.12.2022
Clean Energy Ecosystem Pte. Ltd. ("Clean Energy Ecosystem")	Beneficial owner	471,050,984 *(Note 4)*	14.46%
Central Huijin Investment Ltd. ("Central Huijin")	Interest of controlled corporation	350,350,000 *(Note 5)*	10.75%
Industrial and Commercial Bank of China Limited ("ICBC")	Interest of controlled corporation	350,350,000 *(Note 5)*	10.75%
ICBC International Holdings Limited ("ICBC International")	Interest of controlled corporation	350,350,000 *(Note 5)*	10.75%
ICBC International Investment Management Limited ("ICBC International Management")	Interest of controlled corporation	350,350,000 *(Note 5)*	10.75%
Victory Ride Holdings Limited ("Victory Ride")	Interests held jointly with another person	350,350,000 *(Note 5)*	10.75%

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 2,162,535,761 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 Henderson Development. Henderson Development was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Land Development. Henderson Land Development 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, Henderson Development, Henderson Land Development and Faxson was therefore taken to be interested in the same 2,162,535,761 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 1,976,254,212 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 186,281,549 Shares, which included (a) the 183,164,833 Shares held by Planwise; and (b) the 3,116,716 Shares held by Superfun by virtue of Part XV of the SFO.

Substantial Shareholders *(Continued)*

Long positions in Shares *(Continued)*

Notes: ***(Continued)***

4. Mr. Tang Kok Yew was taken to be interested in these 471,050,984 Shares which were held by Clean Energy Ecosystem through his controlled corporations Capstar, Affinity Fund V and Converging Worldview, including (i) 116,783,333 Shares (representing approximately 3.58% of the number of issued Shares as at 31 December 2022); and (ii) unlisted Convertible Bonds, which may be fully converted into 354,267,651 Shares based on the conversion price (subject to adjustment events) of HK$6.26 per Share (as adjusted after the allotment of issue of scrip shares pursuant to the scrip dividend scheme of the Company on 12 July 2022), pursuant to the Subscription Agreement dated 25 October 2021.

5. Central Huijin was taken to have acquired a security interest in these unlisted Convertible Bonds, which might be fully converted into 350,350,000 Shares through its controlled corporations, ICBC, ICBC International, ICBC International Management and Victory Ride. Victory Ride held these security interests of unlisted Convertible Bonds jointly with another person. The interests were disclosed according to the disclosure of interest filing made by each of Victory Ride, Central Huijin, ICBC, ICBC International and ICBC International Management on 17 August 2022.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2022, 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 2022, 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 2022, 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.

Report of the Directors

Connected Transactions and Continuing Connected Transactions

Set out below is the information in relation to the connected transactions and continuing connected transactions that existed during the year ended 31 December 2022 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 44 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.

Connected Transactions

1. Issue of New Shares to Connected Persons

On 18 March 2022, the Company entered into a subscription agreement with each of the subscribers pursuant to which the subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue, in aggregate 5,584,000 subscription shares at the subscription price of HK$3.69 per subscription share in cash, representing an aggregate subscription consideration of HK$20,604,960, on and subject to the terms and conditions set out therein.

The subscribers comprise (i) directors of the Company; and (ii) directors each of whom holds directorships in a number of subsidiaries of the Company each of which on a standalone basis is an insignificant subsidiary of the Company but when aggregated with the other subsidiaries which the relevant director sits on the board are not regarded as insignificant subsidiaries of the Company. As such, the subscribers are all connected persons of the Company under Chapter 14A of the Listing Rules and the entering into of the subscription agreements and the share issue constitute connected transactions of the Company and were subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The share issue aims to attract and retain suitable personnel to promote the further development of the Company by providing incentives for the management personnel of the Group to continuously contribute to the operations and further development of the Group and enabling them to enjoy the results of the Group achieved through their contributions to the Group.

Please refer to the subsection named "Connected Transactions in relation to the Issue of New Shares to Connected Persons" under the section of "Equity-linked Agreements" above, the Company's announcement dated 18 March 2022 and the circular dated 10 May 2022 for further details.

Connected Transactions *(Continued)*

2. Disposal of Equity Interest in a Subsidiary – 青島港華舒適家服務有限公司 (Qingdao Towngas Cosy Home Services Company Limited)

On 22 April 2022, 青島中即港華燃氣有限公司 (Qingdao Zhongji Hong Kong and China Gas Company Limited) ("Qingdao Zhongji"), a 90% owned subsidiary of the Company, and 港華到家(青島)信息技術有限公司 (Towngas Home Lifestyle (Qingdao) Information Technology Company Limited) ("Towngas Home Lifestyle (Qingdao)"), a non-wholly owned subsidiary of HKCG, entered into the equity transfer agreement pursuant to which Qingdao Zhongji has agreed to sell and Towngas Home Lifestyle (Qingdao) has agreed to purchase 70% equity interest in 青島港華舒適家服務有限公司 (Qingdao Towngas Cosy Home Services Company Limited) ("Cosy Home (Qingdao)") at the consideration of RMB1,462,758.37 (approximately HK$1,801,000). Upon completion of the disposal, Cosy Home (Qingdao) ceased to be a subsidiary of the Company.

As HKCG is a controlling shareholder of the Company, and Towngas Home Lifestyle (Qingdao) is a non-wholly owned subsidiary of HKCG (owned as to 65% in aggregate through its two wholly-owned subsidiaries, namely 名氣家(深圳)信息服務有限公司 (Towngas Lifestyle (Shenzhen) Information Services Company Limited) ("Towngas Lifestyle (Shenzhen)") and 新密港華燃氣有限公司 (Xinmi Hong Kong and China Gas Company Limited) ("Xinmi HKCG")), Towngas Home Lifestyle (Qingdao) is a connected person of the Company under the Listing Rules. The entering into of the equity transfer agreement and the disposal contemplated thereunder therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The disposal itself was a de minimis connected transaction, however, as one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of (i) the disposal; and (ii) the other disposal and formation of joint venture transactions relating to companies carrying out the business of creating a new health business landscape between the Group and the HKCG Group during the previous 12 months on an aggregate basis was more than 0.1% but all were less than 5%, the disposal was therefore subject to the reporting and announcement requirements, but exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Leveraging on the theme of healthy living promoted by Towngas Lifestyle (Shenzhen) (being the controlling shareholder of Towngas Home Lifestyle (Qingdao)), and its abundant suppliers and cooperative relationships combining with the advantages of Cosy Home (Qingdao) of having offline resources and its familiarity with the needs of users in the areas which it covers, the introduction of Towngas Lifestyle (Shenzhen) as a shareholder of Cosy Home (Qingdao) through Towngas Home Lifestyle (Qingdao) will create a synergistic effect in complementing advantages and resources and support the new form of healthy living business for the Group's extended services under the brand of Towngas Lifestyle on the foundation of the original cosy living business so as to achieve collaborative development and mutual promotion of the new form of healthy living.

Particulars of the equity transfer agreement and the disposal were disclosed in the announcement of the Company dated 22 April 2022.

Report of the Directors

Connected Transactions *(Continued)*

3. Acquisition of 49% Equity Interest in 安國市華港燃氣有限公司 (Anguo Huagang Gas Company Limited)

On 27 May 2022, Towngas Investments Limited ("Towngas China Investments"), an indirect wholly-owned subsidiary of the Company, and Liu Fu-shuan (the "Vendor") entered into the equity transfer agreement (the "Equity Transfer Agreement") pursuant to which the Vendor agreed to sell and Towngas China Investments agreed to purchase 49% equity interest in 安國市華港燃氣有限公司 (Anguo Huagang Gas Company Limited) ("Anguo Huagang") at the consideration of RMB23,000,000 (approximately HK$28,128,000) on and subject to the terms and conditions set out in the Equity Transfer Agreement.

HKCG is a controlling shareholder of the Company and a controller of the Company under Chapter 14A of the Listing Rules. 河北省天然氣有限責任公司 (Hebei Natural Gas Company Limited) ("Hebei Natural Gas"), a substantial shareholder of Anguo Huagang, is indirectly owned as to 43% by HKCG and is an associate of HKCG under the Listing Rules. As Towngas China Investments is acquiring equity interest in a company (namely Anguo Huagang) which a substantial shareholder (namely Hebei Natural Gas) is an associate of the controller of the Company (namely HKCG), the acquisition constituted a connected transaction of the Company under Rule 14A.28(2) of the Listing Rules.

As all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the acquisition were more than 0.1% but are less than 5%, the acquisition was only subject to the reporting and announcement requirements but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Anguo Huagang is mainly engaged in the sales of pipeline natural gas and has obtained the franchising rights for the pipeline coverage area along the urban area to the south of Yaohua Road, Shifo Town and Wurenqiao Town in Anguo City and has an integrated franchise area, a mature gas market, a stable and diversified pipeline gas source, stable profitability and good overall operating conditions. The acquisition will enable the Group to benefit from the economic returns brought by the sustainable development of the local industry in Anguo City and to benefit from the strong regional synergies generated in terms of gas sources, management and relationship with government and business sectors.

Particulars of the Equity Transfer Agreement and the acquisition were disclosed in the announcement of the Company dated 27 May 2022.

Connected Transactions *(Continued)*

4. Disposal of Equity Interest in a Subsidiary – 南京淳港能源科技有限公司 (Nanjing Chungang Energy Technology Co., Ltd.)

On 5 December 2022, 南京高淳港華燃氣有限公司 (Gao Chun Hong Kong and China Gas Co., Ltd.) ("Nanjing Gaochun"), an indirect wholly-owned subsidiary of the Company, and 港華國際能源貿易有限公司 (Hong Kong and China Gas International Energy Trading Co., Ltd.) ("HKCG International Energy"), an indirect wholly-owned subsidiary of HKCG, entered into the equity transfer agreement, pursuant to which Nanjing Gaochun has agreed to sell and HKCG International Energy has agreed to purchase the entire equity interest in 南京淳港能源科技有限公司 (Nanjing Chungang Energy Technology Co., Ltd.) ("Nanjing Chungang Energy") at the consideration of RMB2,000,000 (approximately HK$2,340,000). Upon completion of the disposal, Nanjing Chungang Energy will cease to be a subsidiary of the Company.

As HKCG is a controlling shareholder of the Company and HKCG International Energy is an indirect wholly-owned subsidiary of HKCG, HKCG International Energy is a connected person of the Company under the Listing Rules. The entering into of the equity transfer agreement and the disposal contemplated thereunder therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the disposal is less than 0.1%, the disposal and the entering into of the equity transfer agreement on a standalone basis constitutes a de minimis connected transaction for the Company under Rule 14A.76(1) of the Listing Rules. However, as one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of (i) the disposal; and (ii) the other disposal transaction between the Group and the HKCG Group during the previous 12 months on an aggregate basis is more than 0.1% but all are less than 5%, the disposal is therefore subject to the reporting and announcement requirements, but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nanjing Chungang Energy is currently the regional gas dispatch operation platform of both HKCG Group and the Group in the Jiangsu and Zhejiang regions, and plays an important role in the gas source stability and market operation of the various project companies of the HKCG Group and the Group in Jiangsu and Zhejiang. At present, Nanjing Chungang Energy has established a long-term coordination and operation mechanism with the companies of the Group and with Jiangsu province's pipeline network companies in the region, which has achieved good results. With the expansion of business scale, the operating status of Nanjing Chungang Energy as a wholly-owned subsidiary under the HKCG Group will be conducive to the exertion of the above advantages and the continuation of the benefits. The disposal will improve the Group's gas source operation efficiency and integrate gas source operation resources.

Particulars of the equity transfer agreement and the disposal were disclosed in the announcement of the Company dated 5 December 2022.

Report of the Directors

Continuing Connected Transactions

1. Gas Purchase Transactions and Pipeline Materials Purchase Transactions

On 10 December 2021, the Company and HKCG entered into two master agreements respectively, namely:

(1) an agreement (the "2021 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 "2021 Pipeline Materials Purchase Master Agreement", and together with the 2021 Gas Purchase Master Agreement, collectively referred to as the "2021 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 2022 to 31 December 2024 (both days inclusive). Particulars of the Gas Purchase Transactions, the Pipeline Materials Purchase Transactions and the 2021 CCT Master Agreements were disclosed in the announcement of the Company dated 10 December 2021.

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 2021 Master Gas Purchase Agreement and the 2021 Master Pipeline Materials Purchase Agreement 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.

The Gas Purchase Transactions and the Pipeline Materials Purchase Transactions were subject to the annual cap amounts of RMB80,000,000 (approximately HK$93,371,000) and RMB200,000,000 (approximately HK$233,427,000) respectively for the year ended 31 December 2022. The actual amounts of the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2022 were RMB44,787,000 (approximately HK$52,272,000) and RMB176,047,000 (approximately HK$205,471,000) respectively, which had not exceeded the annual cap amounts as stated above.

Continuing Connected Transactions *(Continued)*

2. 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) ("Engineering Work Services") by 卓裕（廣東）工程建設有限公司 ("U-Tech (Guang Dong)"), a wholly-owned subsidiary of the Company, to members of the HKCG Group (the "Engineering Work Services Transactions"),

Report of the Directors

Continuing Connected Transactions *(Continued)*

2. 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)*

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. Further, as announced by the Company on 27 August 2021, the Company had revised the annual cap amounts in respect of the Sale of Distributed Energy Transactions for the financial years ending 31 December 2021 and 2022 respectively.

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 and the Sale of Distributed Energy Transactions (except for the Engineering Work Services Transactions as the 2019 Master Engineering Work Services Agreement had been terminated with effect from 1 January 2022) were subject to the annual cap amounts of RMB12,000,000 (approximately HK$14,006,000), RMB30,000,000 (approximately HK$35,014,000) and RMB8,000,000 (approximately HK$9,337,000) respectively for the year ended 31 December 2022. The actual amounts of the Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions and the Sale of Distributed Energy Transactions for the year ended 31 December 2022 were RMB8,174,000 (approximately HK$9,540,000), RMB22,183,000 (approximately HK$25,890,000) and nil respectively, which had not exceeded the annual cap amounts as stated above.

Continuing Connected Transactions *(Continued)*

3. Engineering Work and Consultation Services Transactions and Healthy and Lifestyle Products and Services Purchase Transactions

U-Tech (Guang Dong), an indirect wholly-owned subsidiary of the Company, had from time to time in its ordinary course of business provided Engineering Work Services to members of the HKCG Group pursuant to the 2019 Master Engineering Work Services Agreement, which term will expire on 31 December 2022. Other members of the Group who are capable of providing the Engineering Work Services had also in the past occasionally provided promotion and marketing consultation services to members of the HKCG Group (together with the Engineering Work Services Transactions, the "Engineering Work and Consultation Services Transactions"), but the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the aggregate fees per annum paid to the HKCG Group are less than 0.1%.

On 10 December 2021, the Company, HKCG and U-Tech (Guang Dong) had entered into an agreement (the "2021 Master Engineering Work and Consultation Services Agreement") to set out the principal terms and conditions governing the Engineering Work and Consultation Services Transactions, and to terminate the 2019 Master Engineering Work Services Agreement with effect from 1 January 2022.

On 10 December 2021, the Company and HKCG entered into an agreement (the "2021 Master Healthy and Lifestyle Products and Services Purchase Agreement") relating to the purchase of flour, edible oils, tea leaves, chili sauce, rice, wine, ginger, other quality agricultural products, quality healthy food and household products, quality gas safety products (such as gas alarms) and quality home gas safety inspection services (the "Healthy and Lifestyle Products and Services Purchase Transactions").

Each of the 2021 Master Engineering Work and Consultation Services Agreement and the 2021 Master Healthy and Lifestyle Products and Services Purchase Agreement shall be for a term commencing from 1 January 2022 to 31 December 2024 (both days inclusive). Particulars of the Engineering Work and Consultation Services Transactions, Healthy and Lifestyle Products and Services Purchase Transactions, 2021 Master Engineering Work and Consultation Services Agreement and 2021 Master Healthy and Lifestyle Products and Services Purchase Agreement were disclosed in the announcement of the Company dated 10 December 2021.

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 2021 Master Engineering Work and Consultation Services Agreement and 2021 Master Healthy and Lifestyle Products and Services Purchase Agreement 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.

Report of the Directors

Continuing Connected Transactions *(Continued)*

3. Engineering Work and Consultation Services Transactions and Healthy and Lifestyle Products and Services Purchase Transactions *(Continued)*

The Engineering Work and Consultation Services Transactions and the Healthy and Lifestyle Products and Services Purchase Transactions were subject to the annual cap amounts of RMB31,000,000 (approximately HK$36,181,000) and RMB90,000,000 (approximately HK$105,042,000) respectively for the year ended 31 December 2022. The actual amounts of the Engineering Work and Consultation Services Transactions and the Healthy and Lifestyle Products and Services Purchase Transactions for the year ended 31 December 2022 were RMB23,907,000 (approximately HK$27,902,000) and RMB55,035,000 (approximately HK$64,233,000) respectively, which had not exceeded the annual cap amounts as stated above.

4. LNG Storage Rental Transactions

On 27 August 2021, the Company and HKCG entered into an agreement (the "2021 Master LNG Storage Rental Agreement") pursuant to which members of the Group shall from time to time according to their needs rent liquefied natural gas ("LNG") storage facilities from members of the HKCG Group (the "LNG Storage Rental Transactions"). The 2021 Master LNG Storage Rental Agreement shall be for a term commencing from 1 September 2021 to 31 December 2023 (both days inclusive). Particulars of the LNG Storage Rental Transactions and the 2021 Master LNG Storage Rental Agreement were disclosed in the announcement of the Company dated 27 August 2021.

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 2021 Master LNG Storage Rental Agreement 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.

The LNG Storage Rental Transactions were subject to the annual cap amount of RMB50,000,000 (approximately HK$58,357,000) for the year ended 31 December 2022. There was no transaction under the 2021 Master LNG Storage Rental Agreement for the year ended 31 December 2022.

Continuing Connected Transactions *(Continued)*

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that (1) the Gas Purchase Transactions; (2) the Pipeline Materials Purchase Transactions; (3) the Project Management Transactions; (4) the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions; (5) the Sale of Distributed Energy Transactions; (6) the Engineering Work and Consultation Services Transactions; (7) the Healthy and Lifestyle Products and Services Purchase Transactions; and (8) the LNG Storage Rental Transactions for the year ended 31 December 2022 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 agreement 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 44 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 2022 are set out in Note 34 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$1,072,000.

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.

Report of the Directors

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 2022, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 6,965,000 Shares at a total consideration of HK$29,897,000.

Emolument Policy

As at 31 December 2022, the Group had 23,663 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.

The Company has adopted a Share Option Scheme on 26 May 2022 and a Share Award Scheme on 17 August 2021 providing incentives to Directors and eligible participants, details of which are set out in Note 40 to the consolidated financial statements.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules, as amended from time to time (the "CG Code") during the year ended 31 December 2022.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 90 to 113 of this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2022 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, 16 March 2023

Corporate Governance Report

Our vision, mission, and values set out below are the guiding principles that guide us through the sustainable growth of the Group.

Vision

Towngas Smart Energy envisions to be a leading clean and smart energy supplier, with a view to creating a sustainable world driven by green energy.

Mission

We strive to provide our customers with safe, reliable, clean and smart energy along with quality services, while committed to fulfilling our social responsibility, ensuring sustainable business growth, enhancing our shareholders' return on investment, and bringing long-term benefit for our planet, society, and stakeholders.

Values

- **Leadership**
- **Versatility**
- **Safe and Reliable**
- **Vision**
- **Innovation**
- **Customer-oriented**
- **Positive Communication**
- **Teamwork**
- **Result-driven**

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 judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

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

Corporate Governance Practices

The Company has adopted the code provisions in the CG Code, 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 2022.

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 10 members as detailed below:

Non-Executive Directors

Dr. Lee Ka-kit *(Chairman)*
Mr. LIU Kai Lap Kenneth

Executive Directors

Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer – Gas Business)*
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business)*

Independent Non-Executive Directors

Dr. the Hon. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi
Dr. LOH Kung Wai Christine *(Note)*

Note: Dr. LOH Kung Wai Christine has been appointed as an Independent Non-Executive Director with effect from 4 April 2022.

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.

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.

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

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.

Save as mentioned below, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules during the year ended 31 December 2022.

As disclosed in the announcement dated 9 March 2022, subsequent to the resignation of Dr. Hu Zhang-hong as an Independent Non-Executive Director on 9 March 2022, the Company did not meet the requirement of Rule 3.10A of the Listing Rules. Following the appointment of Dr. LOH Kung Wai Christine as an Independent Non-Executive Director on 4 April 2022, the Board comprises four Independent Non-Executive Directors representing more than one-third of the members of the Board, which fulfills the requirement under Rule 3.10A of the Listing Rules.

In accordance with the Articles, new appointments to the Board are subject to re-election at the next following AGM. Their respective terms of office are subject to the Listing Rules and the provisions of 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 term of office of Non-Executive Directors is not more than three years (subject to re-appointment or re-election).

Culture

The Company is committed to developing a corporate culture that is built on its purpose, vision, and values, and these must be supported and practiced by all levels of employees. Our business philosophy which aims to improve the environment and provide our customers with reliable, efficient, safe and clean energy extends from the Board to all of our employees of different positions and at all levels.

Board of Directors *(Continued)*

Role of the Board

The Board is accountable for the long-term sustainable success of the Group. It is responsible for the Group's development, business strategies and financial performance, which includes setting and guiding the long-term strategic objectives of the Company with appropriate focus on value creation and risk management, directing, supervising and monitoring the managerial performance and operating practices of the Group. The Board strives to foster and promote a corporate culture down to all levels of the Company, and ensure the corporate culture is reflected in the Company's strategy, business models and operating practices.

Headed by the Chairman, the Board determines and monitors Group-wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company.

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.

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 the CG Code and disclosure in this Corporate Governance Report.

Corporate Governance Report

Board of Directors *(Continued)*

Chairman and Chief Executive Officer

Dr. Lee Ka-kit is the Chairman of the Board 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 is responsible to provide leadership, vision and direction regarding the business development of the Group.

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 Process

The Board meets regularly at least 4 times a year at approximately quarterly intervals. All members of the Board have full and timely access to relevant information. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the CG Code. The Company Secretary assists the Chairman in preparing agenda for each Board meeting. The agenda together with board papers are sent at least three days before the intended date of the Board meeting.

The Company recognises that independence of the Board is a key element of good corporate governance. The Company has established effective mechanisms, including but not limited to entitling the Directors and Board Committee members to seek independent professional advice on matters relating to the Group where appropriate at the Company's expense, to ensure independent views and input are available to the Board. These mechanisms in place are subject to annual review by the Board that underpins a strong independent Board.

The Board meeting dates for the following year are usually fixed by the Company Secretary with the agreement of other members of the Board, in the fourth quarter of each year. At Board meetings, the Executive Directors will report to the Board on their respective areas of business. In addition, all Directors are provided with monthly updates on major business segments performance and year-to-date financials. All these will give the Board an overall understanding of the Group's business and other key information about the Group, and will provide up-to-date information to enable them to make informed decisions for the benefit of the Group.

Board of Directors *(Continued)*

Board Process *(Continued)*

During the year ended 31 December 2022, the Board met 4 times. Details of individual attendance of each of the Directors are set out below:

Directors	Number of Meetings Attended/Held
Non-Executive Directors	
Dr. Lee Ka-kit *(Chairman)*	4/4
Mr. LIU Kai Lap Kenneth	4/4
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 1)*	2/2
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 – Gas Business)*	4/4
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business)*	4/4
Independent Non-Executive Directors	
Dr. the Hon. Moses Cheng Mo-chi	4/4
Mr. Brian David Li Man-bun	4/4
Mr. James Kwan Yuk-choi	4/4
Dr. Hu Zhang-hong *(Note 2)*	0/0
Dr. LOH Kung Wai Christine *(Note 3)*	3/3

Notes:

1. Mr. Alfred Chan Wing-kin retired as an Executive Director with effect from the conclusion of the AGM of the Company held on 26 May 2022.

2. Dr. Hu Zhang-hong resigned as an Independent Non-Executive Director with effect from 9 March 2022.

3. Dr. LOH Kung Wai Christine was appointed as an Independent Non-Executive Director with effect from 4 April 2022.

Corporate Governance Report

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development

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

From time to time, the Company Secretary updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors. All current Directors participated in appropriate continuous professional development and provided the Company with their records of training received for the year ended 31 December 2022.

During the year ended 31 December 2022, all the Directors participated in the training which included reading regulatory updates or information relevant to the Group or its businesses or attending or giving talks at seminar and/or conference.

Directors	Training
Non-Executive Directors	
Dr. Lee Ka-kit *(Chairman)*	✓
Mr. LIU Kai Lap Kenneth	✓
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 1)*	✓
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	✓
Mr. John Ho Hon-ming *(Company Secretary)*	✓
Mr. Martin Kee Wai-ngai *(Chief Operating Officer – Gas business)*	✓
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable business)*	✓
Independent Non-Executive Directors	
Dr. the Hon. Moses Cheng Mo-chi	✓
Mr. Brian David Li Man-bun	✓
Mr. James Kwan Yuk-choi	✓
Dr. Hu Zhang-hong *(Note 2)*	✓
Dr. LOH Kung Wai Christine *(Note 3)*	✓

Notes:

1. Mr. Alfred Chan Wing-kin retired as an Executive Director with effect from the conclusion of the AGM of the Company held on 26 May 2022.

2. Dr. Hu Zhang-hong resigned as an Independent Non-Executive Director with effect from 9 March 2022.

3. Dr. LOH Kung Wai Christine has been appointed as an Independent Non-Executive Director with effect from 4 April 2022.

Board of Directors *(Continued)*

Dividend Policy

The Board has adopted a dividend policy in accordance with the applicable laws and regulations as well as the 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.

Securities Transactions

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 2022, 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 2022.

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.

Board Committees

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

Remuneration Committee

The Remuneration Committee comprises four Independent Non-Executive Directors, namely Dr. the Hon. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun, Mr. James Kwan Yuk-choi and Dr. LOH Kung Wai Christine and is chaired by Dr. the Hon. 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.

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

The remuneration of Executive Directors are determined with reference to his duties and responsibilities with the Company, the Company's performance as well as remuneration benchmarks in the industry and the prevailing market condition. New shares have been issued to the Executive Directors pursuant to subscription agreements with the Company and share options have been granted to the Executive Directors under the Share Option Scheme during the year. Details of the remuneration paid to the Directors for the year ended 31 December 2022 are disclosed in the notes to the financial statements.

During the year ended 31 December 2022, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2022;
- reviewed the Executive Directors' remuneration;
- reviewed the Directors' (including the newly appointed Directors) fees for 2022; and
- reviewed and approved share-based incentive arrangements including the issue of subscription shares and adoption of Share Option Scheme.

The Remuneration Committee held one meeting during the year ended 31 December 2022 with individual attendance as follows:

Members of the Remuneration Committee	Number of Meetings Attended/Held
Dr. the Hon. Moses Cheng Mo-chi *(Chairman)*	1/1
Mr. Brian David Li Man-bun	1/1
Mr. James Kwan Yuk-choi	1/1
Dr. LOH Kung Wai Christine *(Note)*	0/0

Note: Dr. LOH Kung Wai Christine was appointed as a member of the Remuneration Committee with effect from 4 April 2022.

Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Board of Directors *(Continued)*

Board Committees *(Continued)*

Board Audit and Risk Committee

The Board Audit and Risk Committee comprises Mr. Brian David Li Man-bun, Dr. the Hon. 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, 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 2022, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2021 and for the six months ended 30 June 2022;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the financial control and 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 2021 pursuant to the Listing Rules.

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2022 with individual attendance as follows:

Members of the Board Audit and Risk Committee	Number of Meetings Attended/Held
Mr. Brian David Li Man-bun *(Chairman)*	2/2
Dr. the Hon. Moses Cheng Mo-chi	2/2
Mr. James Kwan Yuk-choi	2/2

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee

The Nomination Committee is chaired by Dr. Lee Ka-kit (Non-Executive Director) and other members who are all Independent Non-Executive Directors, including Dr. the Hon. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun, Mr. James Kwan Yuk-choi and Dr. LOH Kung Wai Christine.

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 candidates from a range of backgrounds based on meritocracy and against objective criteria set out by the Board.

Nomination Process

The nomination process is conducted in accordance with the Director Nomination Policy and the Board Diversity Policy. The Board will from time to time review these policies and monitor their implementation to ensure continued effectiveness and compliance with regulatory requirements and good corporate governance practices.

Pursuant to the Nomination Policy, the Nomination Committee, in determining the suitability of a candidate, will consider a number of factors which 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.

Under the Board Diversity Policy, Board candidates are selected 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.

During the year, the Board is pleased to welcome a female Independent Non-Executive Director in joining them on 4 April 2022, and will continue to embrace gender diversity of Directors.

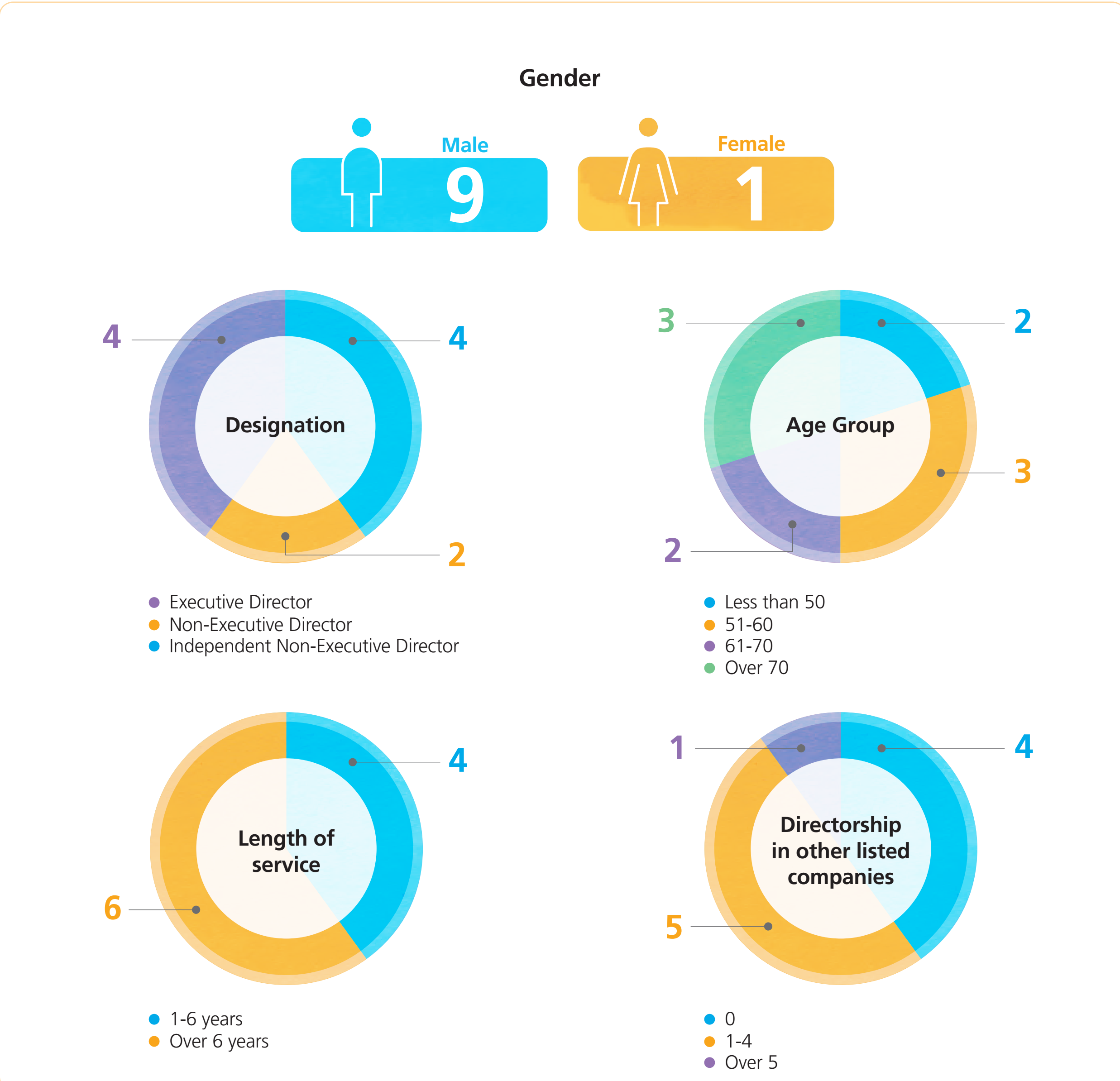
Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Nomination Process *(Continued)*

The following chart shows the diversity profile of the Board as at 31 December 2022:



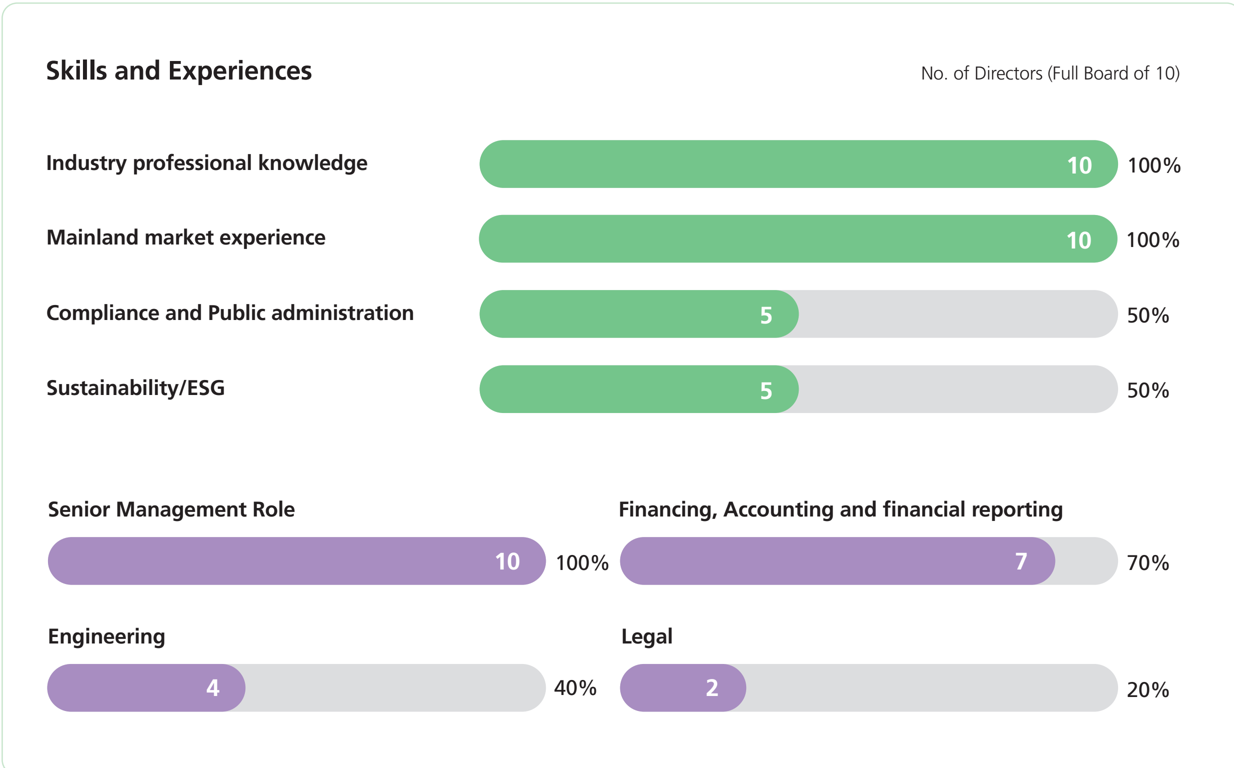
Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Nomination Process *(Continued)*



Note: Multiple professional background and experience may apply to a Director.

The Company considers that maintaining a Board with diversity, including gender diversity, is a vital asset to its business. The Company would strive to make up a Board mixed with diversity in age, cultural and educational background, or professional experience as recommended by the Listing Rules (as amended from time to time). While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account of the availability and suitability of the candidates.

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Nomination Process (Continued)

During 2022, a new female Director (representing 25% of the Independent Non-Executive Directors) joined the Board, bringing the female representation to 10% of the Board. The Board targets to maintain at least the current level of female representation, and would strive to identify and approach suitable candidates that would enhance its composition and diversity, with a view to expanding the competencies, experience and perspectives of the Board as a whole.

The male and female employee ratio of the Group as at 31 December 2022 was 68% and 32%. Further details on the initiatives taken to improve gender diversity across the workforce, together with relevant data, can be found in the 2022 ESG Report of the Group.

If the Board determines that an additional or replacement Director is required, 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. Where a retiring Director, being eligible, offers himself/herself for re-election, the Nomination Committee will consider and, if appropriate, recommend such retiring Director to stand for re-election. A circular containing the requisite information on retiring Directors will be sent to shareholders prior to the general meeting at which such Directors are to be proposed for re-election, in accordance with the Listing Rules.

During the year ended 31 December 2022, the Nomination Committee:

- recommended the nomination of Directors for re-election at the AGM of the Company held on 26 May 2022 ("2022 AGM");
- recommended the appointment of Dr. LOH Kung Wai Christine as an Independent Non-Executive Director after taking into account of the Nomination Policy and Board Diversity Policy;
- 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.

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Nomination Process *(Continued)*

The Nomination Committee, having reviewed the Board's composition, nominated Dr. Lee Ka-kit, Mr. LIU Kai Lap Kenneth, Dr. John Qiu Jian-hang, Dr. LOH Kung Wai Christine, Dr. the Hon. Moses Cheng Mo-chi, Mr. Alfred Chan Wing-kin, Mr. John Ho Hon-ming and Mr. Martin Kee Wai-ngai to the Board for it to recommend to the shareholders for re-election at the 2022 AGM. Mr. Alfred Chan Wing-kin had decided to retire after the conclusion of the 2022 AGM and did not stand for re-election. 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 2022 with individual attendance as follows:

Members of the Nomination Committee	Number of Meetings Attended/Held
Dr. LEE Ka-kit *(Chairman)*	1/1
Dr. the Hon. Moses Cheng Mo-chi	1/1
Mr. Brian David Li Man-bun	1/1
Mr. James Kwan Yuk-choi	1/1
Dr. Hu Zhang-hong *(Note 1)*	0/0
Dr. LOH Kung Wai Christine *(Note 2)*	0/0

Notes:

1. Dr. Hu Zhang-hong resigned as a member of the Nomination Committee with effect from 9 March 2022.

2. Dr. LOH Kung Wai Christine was appointed as a member of the Nomination Committee with effect from 4 April 2022.

Environmental, Social and Governance Committee

The Group attaches great importance to ESG issues. With effect from March 2022, the Environmental, Social and Governance Committee was upgraded to the Company's board committee level and the terms of reference had been updated with a view to enhancing Board effectiveness and supporting the implementation of the recent ESG strategy. The ESG governance structure provides a solid foundation for developing and delivering its commitment to ESG, which is embedded at all levels of the Group, including the Board, the ESG Committee, the Audit and Risk Committee and the ESG Working Groups.

The Environmental, Social and Governance Committee (the "ESG Committee") is chaired by Mr. Peter Wong Wai-yee with 4 members including Mr. John Ho Hon-ming, Mr. Martin Kee Wai-ngai and Dr. John Qiu Jian-hang (all being Executive Directors) and Dr. LOH Kung Wai Christine (Independent Non-Executive Director).

Board of Directors *(Continued)*

Environmental, Social and Governance Committee *(Continued)*

Written terms of reference of the ESG 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 ESG Committee's responsibilities include but are not limited to assisting the Board in overseeing management of the Group in ESG matters which includes Health and Safety; Environmental Protection; Operating Practices; Relationships with Employees, Customers and Suppliers; and Community Engagement, as well as pursue innovative practices to promote the Group's sustainable growth.

During the year ended 31 December 2022, the ESG Committee:

- identified and reviewed ESG issues, and related risks and opportunities;
- reviewed ESG performance and made recommendation to the Board for improvement;
- reviewed and evaluated the Company's ESG Report and recommended endorsement by the Board; and
- provided updates to the Board on the latest ESG matters falling within the Committee's remit.

The ESG Committee held one meeting during the year ended 31 December 2022 with individual attendance as follows:

Members of the ESG Committee	Number of Meetings Attended/Held
Mr. Peter Wong Wai-yee *(Chairman)*	1/1
Mr. John Ho Hon-ming	1/1
Mr. Martin Kee Wai-ngai	1/1
Dr. John Qiu Jian-hang *(Note 1)*	0/0
Dr. LOH Kung Wai Christine *(Note 2)*	0/0

Notes:

1. Dr. John Qiu Jian-hang was appointed as a member of the ESG Committee with effect from 17 March 2022.
2. Dr. LOH Kung Wai Christine was appointed as a member of the ESG Committee with effect from 4 April 2022.

Corporate Governance Report

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2022. Deloitte also reviewed the 2022 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 2022 amounted to HK$8.7 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 medium-term notes programme circular and Panda Bonds issuance provided to the Group amounted to HK$1.92 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 114 to 119 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 but 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 ("Group IA"), 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.

Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Internal Control *(Continued)*

During the year ended 31 December 2022, 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.

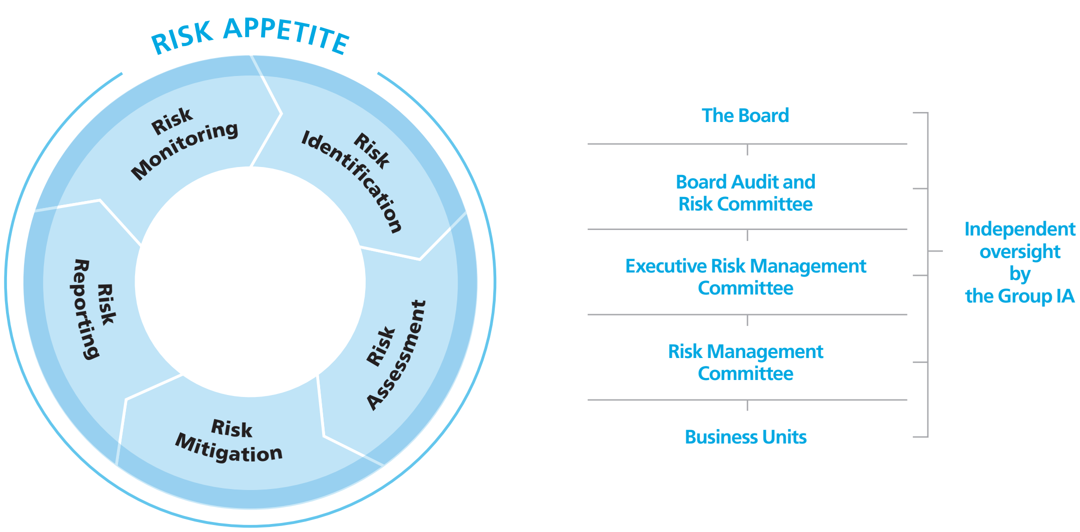
Risk Management

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 energy 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 comprises 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 Risk Management Committee ("RMC"), which mainly comprises risk owners who are also the key business management team. The RMC reviews the major risk exposure, monitors the implementation of risk-mitigating controls while the Group IA conducts independent reviews and reports to the ERMC as well as the Board Audit and Risk Committee regularly on risk management updates.

Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Risk Management *(Continued)*

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 by the Group IA would be performed to ensure the risk management system is operating effectively.

The RMC 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.

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 with top risks and measures be reported by the Group IA to 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 set out on pages 44 to 47 of this Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

Company Secretary

The Company Secretary is responsible for assisting the Board to facilitate good information flows and communications among Directors and to ensure Board policy and procedures are followed properly. The Company Secretary also provides professional advice to the Board on implementing corporate governance practices and processes. He is also responsible for organizing general meetings of the Company and facilitating the induction and professional development of the Directors.

The Company Secretary is an employee of the Company. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Communication with Shareholders

The Board is committed to maintaining an ongoing communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The Company uses a range of communication tools, such as AGM, analyst briefings, investor meetings, 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.towngassmartenergy.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 2022 AGM and the extraordinary general meeting held on 26 May 2022 (the "2022 EGM"), separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda. The Chairman of the Board, the chairman of each of the Board Committees, members of senior management, together with representatives from the external auditor and independent financial adviser, attended the 2022 AGM and the 2022 EGM to answer questions from the Company's shareholders.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders in the general meeting so that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of the Stock Exchange and the Company on the day of the general meeting. Moreover, a separate resolution will be proposed by the chairman of a general meeting in respect of each separate issue.

The Shareholders' Communication Policy sets out the framework in place to promote two-way communication with shareholders so as to enable them to engage actively with the Company. The Company has reviewed its prevailing Shareholders' Communication Policy during the year under review, and believes the Shareholders' Communication Policy is still appropriate and effective.

Corporate Governance Report

Communication with Shareholders *(Continued)*

Details of individual attendance at general meetings of the Company of each of the Directors during the year ended 31 December 2022 are set out below:

Directors	**Number of Meetings Attended/Held**
Non-Executive Directors	
Dr. Lee Ka-kit *(Chairman)*	2/2
Mr. LIU Kai Lap Kenneth	2/2
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 1)*	1/1
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	2/2
Mr. John Ho Hon-ming *(Company Secretary)*	2/2
Mr. Martin Kee Wai-ngai *(Chief Operating Officer – Gas Business)*	2/2
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business)*	2/2
Independent Non-Executive Directors	
Dr. the Hon. Moses Cheng Mo-chi	2/2
Mr. Brian David Li Man-bun	2/2
Mr. James Kwan Yuk-choi	2/2
Dr. Hu Zhang-hong *(Note 2)*	0/0
Dr. LOH Kung Wai Christine *(Note 3)*	2/2

Notes:

1. Mr. Alfred Chan Wing-kin retired as an Executive Director with effect from the conclusion of the 2022 AGM.

2. Dr. Hu Zhang-hong resigned as an Independent Non-Executive Director with effect from 9 March 2022.

3. Dr. LOH Kung Wai Christine was appointed as an Independent Non-Executive Director with effect from 4 April 2022.

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 one or more members of the Company holding not less than one-tenth of the voting rights, on a one vote per share basis, 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 principal 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.

Investor Relations

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results to strengthen the communication with the investors. Questions from investors are dealt with in an informative and timely manner. As a channel to further promote effective communication, the Group maintains a website at www.towngassmartenergy.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance practices and other information are posted.

Company's Constitutional Documents

During the year, a special resolution was proposed and passed by the shareholders at the 2022 AGM for the adoption of the new Memorandum of Association and Articles of Association of the Company (the "New M&A"). The New M&A is available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF TOWNGAS SMART ENERGY COMPANY LIMITED
港華智慧能源有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Towngas Smart Energy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 120 to 260, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 judgment, 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
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 judgments 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. At 31 December 2022, the Group has goodwill with carrying value of approximately HK$5,296 million relating to CGUs principally engaged in the sales of piped gas and energy, gas connection and extended business in the People's Republic of China. Based on the assessment made by management of the Group, no additional impairment provision was necessary during the year ended 31 December 2022 and an accumulated impairment provision of HK$205 million was recognised as at 31 December 2022. Details are disclosed in note 21 to the consolidated financial statements. As disclosed in note 4 to the consolidated financial statements, during the process of impairment assessment of goodwill, the management considered the assessment of certain CGUs is highly judgemental and is dependent on key inputs and assumptions used including the discounted cash flow forecast based on budgets approved by management of Group, discount rates and growth rates.	Our procedures in relation to impairment assessment of goodwill of the identified CGUs included: • Understanding the Group's impairment assessment process, including the impairment model adopted, and the key inputs and assumptions used; • Evaluating the appropriateness of impairment model applied by the management; • Evaluating the historical accuracy of cash flow forecasts prepared by management by comparing the actual results to the historical cash flow forecast; • Evaluating the discount rates applied in the forecast by comparing them to economic data relevant to the risk specific to the CGUs; and • Assessing the reasonableness of the inputs and assumptions made in the budgets and growth rates.

Independent Auditor's Report

Key Audit Matters *(Continued)*

Key audit matter *(Continued)*

Impairment assessment of interest in an associate, Shanghai Gas Co., Ltd. ("Shanghai Gas")

We identified the impairment assessment of the Group's interest in Shanghai Gas, as a key audit matter due to its significance of the balance to the consolidated financial statements as a whole, combined with the significant judgement exercised by management of the Group in determining the recoverable amount of Shanghai Gas for the purposes of impairment assessment.

At 31 December 2022, the Group held 25% interest in Shanghai Gas with a carrying amount of HK$4,665 million. As set out in note 4 to the consolidated financial statements, in view of the operating losses of Shanghai Gas which is an indication of impairment, the management of the Group performed impairment assessment on the interest in Shanghai Gas as a single asset by comparing to its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. The recoverable amount of Shanghai Gas has been determined based on fair value less costs of disposal as at 31 December 2022 performed by an independent qualified professional valuer engaged by the Company and approved by the management of the Group. The fair value less costs of disposal is derived from discounted cash flow method under the income approach, by using key inputs and assumptions including discounted cash flow forecast based on budget approved by management of Shanghai Gas, long-term growth rate and discount rate.

As disclosed in note 22 to the consolidated financial statements, the management of the Group determined that the recoverable amount based on fair value less costs of disposal is higher than the carrying amount of the interest in Shanghai Gas at 31 December 2022 and the management of the Group considered that no impairment loss should be recognised in profit or loss.

How our audit addressed the key audit matter *(Continued)*

Our procedures in relation to the impairment assessment of interest in Shanghai Gas included:

- Understanding the management's impairment assessment process of interest in Shanghai Gas, including the involvement of the independent qualified professional valuer engaged by the Company, the impairment model adopted and the key inputs and assumptions used;
- Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer engaged by the Company;
- Evaluating the appropriateness of impairment model adopted by the management;
- Involving our internal valuation specialists in assessing the reasonableness of the discount rate and long-term growth rate used; and
- Assessing the reasonableness of the inputs and assumptions made in the budget approved by management of Shanghai Gas.

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.

Independent Auditor's Report

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 judgment 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.

- 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- 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

16 March 2023

Consolidated Income Statement

For the year ended 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Revenue	7 & 8	**20,073,010**	17,125,447
Total operating expenses	9	**(18,460,572)**	(15,019,700)
		1,612,438	2,105,747
Other income	10	**132,586**	150,920
Other gains (losses), net	11	**532,256**	(390,237)
Share of results of associates	22	**(246,837)**	435,807
Share of results of joint ventures	23	**306,026**	431,437
Finance costs	12	**(752,763)**	(588,923)
Profit before taxation	13	**1,583,706**	2,144,751
Taxation	15	**(382,667)**	(617,659)
Profit for the year		**1,201,039**	1,527,092
Profit for the year attributable to:			
Shareholders of the Company		**964,855**	1,253,202
Non-controlling interests		**236,184**	273,890
		1,201,039	1,527,092
		HK cents	HK cents
Proposed final dividend per ordinary share	16	**15**	15
		HK cents	HK cents
Earnings per share	17		
– Basic		**30.17**	41.53
– Diluted		**14.38**	41.53

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Profit for the year	**1,201,039**	1,527,092
Other comprehensive (expense) income for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**(2,078,755)**	823,020
Fair value change on investments in equity instruments at fair value through other comprehensive income	**(141,010)**	(284,684)
Income tax relating to items that will not be reclassified to profit or loss	**36,112**	69,983
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	**44,734**	(85,137)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(151,211)**	116,890
	(2,290,130)	640,072
Total comprehensive (expense) income for the year	**(1,089,091)**	2,167,164
Total comprehensive (expense) income for the year attributable to:		
Shareholders of the Company	**(1,287,188)**	1,852,253
Non-controlling interests	**198,097**	314,911
Total comprehensive (expense) income for the year	**(1,089,091)**	2,167,164

Consolidated Statement of Financial Position

At 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	18	23,500,341	22,810,412
Right-of-use assets	19	845,134	941,481
Intangible assets	20	413,533	471,083
Goodwill	21	5,296,236	5,750,478
Interests in associates	22	9,760,067	11,183,849
Interests in joint ventures	23	3,574,969	3,629,468
Loans to associates	22	49,000	47,313
Equity instruments at fair value through other comprehensive income	24	1,239,653	1,497,846
Other financial assets	30	16,927	–
Deposits paid for acquisition of subsidiaries/ an associate		178,662	178,829
		44,874,522	46,510,759
Current assets			
Inventories	25	682,235	704,509
Loans to associates	22	53,197	67,207
Loans to joint ventures	23	171,042	194,873
Trade and other receivables, deposits and prepayments	26	2,912,168	2,463,040
Amounts due from non-controlling shareholders	27	174,422	215,637
Financial assets at fair value through profit or loss	28	70,064	–
Time deposits over three months	29	5,650	9,571
Bank balances and cash	29	4,000,676	4,071,107
		8,069,454	7,725,944
Current liabilities			
Trade and other payables and accrued charges	31	3,067,180	2,994,759
Contract liabilities	32	3,850,134	3,939,179
Lease liabilities	33	23,687	15,312
Amounts due to non-controlling shareholders	27	82,298	79,855
Taxation payable		1,532,249	1,611,627
Borrowings – amounts due within one year	34	9,018,808	8,633,082
Loan from ultimate holding company	35	62,816	66,617
Loans from non-controlling shareholders	35	7,379	–
Loans from joint ventures	35	17,404	730
Other financial liabilities	30	–	29,992
		17,661,955	17,371,153
Net current liabilities		(9,592,501)	(9,645,209)
Total assets less current liabilities		35,282,021	36,865,550

	NOTES	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Lease liabilities	33	64,162	60,174
Borrowings – amounts due after one year	34	8,563,734	7,990,330
Deferred taxation	36	719,637	830,839
Loans from non-controlling shareholders	35	15,601	37,518
Other financial liabilities	30	175	40,694
Convertible bonds	37	2,055,619	2,733,237
		11,418,928	11,692,792
Net assets		23,863,093	25,172,758
Capital and reserves			
Share capital	38	325,862	315,989
Reserves		21,178,997	22,579,063
Equity attributable to shareholders of the Company		21,504,859	22,895,052
Non-controlling interests		2,358,234	2,277,706
Total equity		23,863,093	25,172,758

The consolidated financial statements on pages 120 to 260 were approved and authorised for issue by the Board of Directors ("the Board") on 16 March 2023 and are signed on its behalf by:

Peter Wong Wai-yee
DIRECTOR

Brian David Li Man-bun
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2022

	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$'000 (note 39)	**Investment revaluation reserve** HK$'000	**Share-based payment reserve** HK$'000	**Shares held for share award scheme** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2021	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
Exchange differences on translation from functional currency to presentation currency	–	–	781,999	–	–	–	–	–	–	781,999	41,021	823,020
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	(284,684)	–	–	–	(284,684)	–	(284,684)
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	–	69,983	–	–	–	69,983	–	69,983
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	–	–	–	(85,137)	–	–	–	–	–	(85,137)	–	(85,137)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	–	–	–	116,890	–	–	–	–	–	116,890	–	116,890
Profit for the year	–	–	–	–	–	–	–	–	1,253,202	1,253,202	273,890	1,527,092
Total comprehensive income (expense) for the year	–	–	781,999	31,753	–	(214,701)	–	–	1,253,202	1,852,253	314,911	2,167,164
Issue of shares upon scrip dividend scheme (note 38)	7,418	369,402	–	–	–	–	–	–	–	376,820	–	376,820
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(43,176)	(43,176)	(6,837)	(50,013)
Disposal of a subsidiary (note 41)	–	–	–	–	–	–	–	–	–	–	(34,092)	(34,092)
Purchase of shares under share award scheme	–	–	–	–	–	–	–	(19,928)	–	(19,928)	–	(19,928)
Issue of shares (notes 37 & 38)	11,678	440,241	–	–	–	–	–	–	–	451,919	–	451,919
Transaction costs attributable to issue of shares	–	(395)	–	–	–	–	–	–	–	(395)	–	(395)
Transfer	–	–	–	–	52,144	–	–	–	(52,144)	–	–	–
Acquisition of subsidiaries (note 41)	–	–	–	–	–	–	–	–	–	–	94,713	94,713
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	118,417	118,417
Dividends declared to shareholders of the Company (note 16)	–	(445,340)	–	–	–	–	–	–	–	(445,340)	–	(445,340)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(135,109)	(135,109)
	19,096	363,908	–	–	52,144	–	–	(19,928)	(95,320)	319,900	37,092	356,992
At 31 December 2021	315,989	6,315,127	2,041,619	4,019	466,044	825,049	–	(19,928)	12,947,133	22,895,052	2,277,706	25,172,758
Exchange differences on translation from functional currency to presentation currency	–	–	(2,040,668)	–	–	–	–	–	–	(2,040,668)	(38,087)	(2,078,755)
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	(141,010)	–	–	–	(141,010)	–	(141,010)
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	–	36,112	–	–	–	36,112	–	36,112
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	–	–	–	44,734	–	–	–	–	–	44,734	–	44,734
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	–	–	–	(151,211)	–	–	–	–	–	(151,211)	–	(151,211)
Profit for the year	–	–	–	–	–	–	–	–	964,855	964,855	236,184	1,201,039
Total comprehensive (expense) income for the year	–	–	(2,040,668)	(106,477)	–	(104,898)	–	–	964,855	(1,287,188)	198,097	(1,089,091)
Issue of shares upon scrip dividend scheme (note 38)	8,717	342,393	–	–	–	–	–	–	–	351,110	–	351,110
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	623	623	(26,416)	(25,793)
Purchase of shares under share award scheme (note 40)	–	–	–	–	–	–	–	(29,897)	–	(29,897)	–	(29,897)
Recognition of share-based payments upon grant of subscription shares (note 13)	–	–	–	–	–	–	4,941	–	–	4,941	–	4,941
Issue of subscription shares (note 38)	1,156	46,392	–	–	–	–	(4,918)	–	–	42,630	–	42,630
Recognition of share-based payments upon grant of share options	–	–	–	–	–	–	1,007	–	–	1,007	–	1,007
Transfer	–	–	–	–	43,325	–	–	–	(43,325)	–	–	–
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	53,794	53,794
Dividends declared to shareholders of the Company (note 16)	–	(473,419)	–	–	–	–	–	–	–	(473,419)	–	(473,419)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(144,947)	(144,947)
	9,873	(84,634)	–	–	43,325	–	1,030	(29,897)	(42,702)	(103,005)	(117,569)	(220,574)
At 31 December 2022	325,862	6,230,493	951	(102,458)	509,369	720,151	1,030	(49,825)	13,869,286	21,504,859	2,358,234	23,863,093

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**1,583,706**	2,144,751
Adjustments for:		
Interest income	**(66,692)**	(40,602)
Interest expenses	**746,932**	582,602
Share of results of associates	**246,837**	(435,807)
Share of results of joint ventures	**(306,026)**	(431,437)
Dividend income from equity instruments at fair value through other comprehensive income	**(39,252)**	(31,719)
Share-based payment expenses	**5,948**	–
Amortisation of intangible assets	**19,028**	19,726
Depreciation of right-of-use assets	**49,138**	63,462
Depreciation of property, plant and equipment	**849,960**	784,707
Impairment provision of property, plant and equipment	**–**	8,939
Impairment provision of goodwill	**–**	60,000
Impairment loss of trade receivables, net of reversal	**40,330**	6,274
Loss on deemed disposal of a subsidiary	**277**	–
Loss (gain) on disposal of property, plant and equipment	**1,535**	(21,363)
Gain on disposal of right-of-use assets	**(3,333)**	(5,409)
Change in fair value of embedded derivative component of convertible bonds	**(531,488)**	358,643
Exchange loss (gain), net	**753**	(10,573)
Operating cash flows before movements in working capital	**2,597,653**	3,052,194
Increase in inventories	**(70,998)**	(61,177)
Increase in trade receivables	**(587,998)**	(75,206)
Increase in other receivables, deposits and prepayments	**(257,040)**	(44,601)
Decrease in amounts due from non-controlling shareholders	**24,974**	12,261
Increase in trade payables	**397,657**	20,413
Increase in contract liabilities	**270,712**	205,516
Increase in other payables and accrued charges	**90,996**	93,039
(Decrease) increase in amounts due to non-controlling shareholders	**(16,755)**	22,780
Cash generated from operations	**2,449,201**	3,225,219
Interest paid	**(730,939)**	(580,385)
Taxation paid	**(378,624)**	(391,820)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,339,638**	2,253,014

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	NOTE	2022 HK$'000	2021 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(3,342,149)**	(2,730,203)
Payments for acquisition of associates		**(26,199)**	(5,217,856)
Deposits paid for acquisition of subsidiaries/ an associate		**(178,662)**	(178,829)
Acquisition of equity instruments at fair value through other comprehensive income		**–**	(5,695)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	41	**17,017**	(151,562)
Payments for right-of-use assets		**(28,906)**	(53,071)
Capital contribution to associates		**–**	(86,714)
Decrease in time deposits over three months		**3,269**	101,556
Acquisition of financial assets at fair value through profit or loss		**(72,362)**	–
Advances to associates		**(5,957)**	(35,097)
Advances to joint ventures		**(43,152)**	(63,797)
Dividends received from associates		**230,739**	217,795
Dividends received from joint ventures		**124,183**	112,276
Repayment of loans to joint ventures		**51,867**	73,486
Repayment of loans to associates		**9,340**	9,323
Dividend income from equity instruments at fair value through other comprehensive income		**39,252**	31,719
Disposal of a subsidiary (net of cash and cash equivalents disposed)	41	**(70,557)**	(2,069)
Interest received		**66,692**	40,602
Proceeds from disposal of property, plant and equipment		**13,741**	63,423
Proceeds from disposal of right-of-use assets		**46,428**	16,572
NET CASH USED IN INVESTING ACTIVITIES		**(3,165,416)**	(7,858,141)
FINANCING ACTIVITIES			
New bank and other loans raised		**11,267,339**	11,028,009
Repayments of bank and other loans		**(8,975,568)**	(6,266,606)
Dividends paid to shareholders of the Company		**(122,309)**	(68,520)
Dividends paid to non-controlling shareholders of subsidiaries		**(144,947)**	(135,109)
Repayment of lease liabilities		**(28,057)**	(45,132)
Capital contribution from non-controlling shareholders of subsidiaries		**53,794**	118,417
Acquisition of additional interest in a subsidiary		**–**	(50,013)
Advances from non-controlling shareholders		**–**	16,651
Repayment of loans from non-controlling shareholders		**(11,843)**	–
Advances from joint ventures		**17,283**	63,276
Repayment of loans from joint ventures		**(3)**	(67,870)
Loan from ultimate holding company		**18,980**	84,580
Repayment of loan from ultimate holding company		**(17,471)**	(19,096)
Issue of shares		**–**	451,919
Issue of subscription shares		**42,630**	–
Purchase of shares held for share award scheme		**(29,897)**	(19,928)
Proceeds from issue of convertible bonds		**–**	2,349,713
Repayment of other financial liabilities		**(33,639)**	(65,702)
Transaction costs attributable to issue of shares		**–**	(395)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**2,036,292**	7,374,194

	2022 HK$'000	2021 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**210,514**	1,769,067
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**4,071,107**	2,225,954
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(280,945)**	76,086
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**4,000,676**	4,071,107

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. GENERAL INFORMATION

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 of piped gas and other types of energy, construction of gas pipelines, the sale of gas appliances and related products, and other value-added services in the People's Republic of China (the "PRC").

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 following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

Impacts and changes in accounting policies on application of Amendments to HKFRS 3 "Reference to the Conceptual Framework"

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the "Conceptual Framework for Financial Reporting 2018" issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or HK(IFRIC)-Int 21 "Levies", in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

The Group applies the amendments to business combinations for which the acquisition date is on or after 1 January 2022. The application of the amendments in the current period had no impact on the consolidated financial statements.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or 1 January 2024.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 "2020 Amendments")

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least 12 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" ("HKAS 32").

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.

Amendments to HKAS 1 "Non-current Liabilities with Covenants" (the "2022 Amendments")

The 2022 Amendments modify the requirements introduced by the 2020 Amendment on how an entity classifies debt and other financial liabilities with covenants as current or non-current. The amendments specify that only covenants with which the entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

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 "Non-current Liabilities with Covenants" (the "2022 Amendments") *(Continued)*

The amendments also specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The amendments also defer the effective date of the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

As at 31 December 2022, the Group's right to defer settlement for borrowings of HK$5,577,542,000 are subject to compliance with certain financial ratios within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such ratios at 31 December 2022. Upon the application of the amendments, covenants which the Group is required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting date. Instead, the Group will disclose additional information about the covenants and facts and circumstances that indicate the Group may have difficulty complying with the covenants.

As at 31 December 2022, the Group's outstanding convertible bonds include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32. The Group classified as current or non-current based on the earliest date in which the Group has the obligation to redeem these instruments through cash settlement. The debt component is measured at amortised cost with carrying amount of HK$1,854,939,000 and the embedded derivative component (including the conversion options) is measured at fair value with carrying amount of HK$200,680,000 as at 31 December 2022, both of which are classified as non-current as set out in note 37. Upon the application of the amendments, in addition to the obligation to redeem through cash settlement, the transfer of equity instruments upon the exercise of the conversion options that do not meet equity instruments classification also constitute settlement of the convertible instruments. Given that the conversion options are exercisable anytime, the debt and the embedded derivative component amounting to HK$2,055,619,000 would be reclassified to current liabilities as the holders have the option to convert within 12 months.

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 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

HKAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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$9,593 million as at 31 December 2022. The Group's liabilities as at 31 December 2022 included borrowings of approximately HK$9,019 million that are repayable within one year from the end of the reporting period.

As at 31 December 2022, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$13,196 million and unutilised facilities from banks and ultimate controlling shareholder amounting to approximately HK$9,592 million ("Facilities"). When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$9,019 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.

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

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 reporting 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

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 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

3.2 Significant accounting policies

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's 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 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations or asset acquisition

Optional concentration test

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisition *(Continued)*

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

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisition *(Continued)*

Business combinations ***(Continued)***

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

- 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Goodwill

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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.

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.

Changes in the Group's interests in associates and joint ventures

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Changes in the Group's interests in associates and joint ventures *(Continued)*

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

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

Performance obligations for contracts with customers

Sales of piped gas and energy and extended business

Revenue from sales of piped gas and energy is recognised when control of the piped gas and energy has transferred to the customers, being at the point the gas and energy 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee

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.

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

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

Lease modifications ***(Continued)***

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 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

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. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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 "Revenue from Contracts with Customers". 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(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 under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(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.

(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 adjusted by 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.

Lifetime ECL for certain trade receivables are considered on a collective basis after taking into consideration of past due information and relevant credit information such as forward-looking information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(v) Measurement and recognition of ECL ***(Continued)***

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

Derecognition of financial assets ***(Continued)***

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

Financial liabilities at FVTPL ***(Continued)***

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, debt component of convertible bonds, amounts due to non-controlling shareholders, loan from ultimate holding company, loans from non-controlling shareholders and loans from joint ventures are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

Convertible bonds ***(Continued)***

At the date of issue, both the debt component and derivative component are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

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.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform ***(Continued)***

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 on modification of a financial asset or financial liability to the additional changes to which the practical expedient does not apply.

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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain derivatives as hedging instruments for 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Hedge accounting ***(Continued)***

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.

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

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, and is included in the "other gains (losses), net" line item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Hedge accounting ***(Continued)***

Cash flow hedges ***(Continued)***

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

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.

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 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 results 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.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HKD) 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).

Exchange differences relating to the retranslation of the Group's net assets in RMB to the Group's presentation currency (i.e. HKD) are recognised directly in other comprehensive income and accumulated in exchange reserve. Such exchange differences accumulated in the exchange reserve are not reclassified to profit or loss subsequently.

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.

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".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

Share award scheme

The consideration paid by the trustee for purchasing the Company's shares from the market is presented as "shares held for share award scheme" and the amount is deducted from total equity.

Share-based payments

Shares and share options granted to employees and connected persons

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve and shares held for share award scheme). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When subscription shares granted are vested, the amount previously recognised in share-based payments reserve and shares held for share award scheme will be transferred to share capital and share premium.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Share-based payments *(Continued)*

Shares and share options granted to employees and connected persons **(Continued)**

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained earnings.

4. 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.

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

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 five years approved by management. Cash flows beyond 5-year period until the end of the relevant concession periods have been extrapolated using growth rates from 3% to 11% (2021: 5% to 10%) per annum, which is based on internal and external factors relating to the CGUs. Discount rates ranging between 8.2% to 16.0% (2021: 8.2% to 16.0%) were used to reflect the current market assessments of the time value of money and the risks specific to the CGUs. In relation to the city-gas business in the PRC operated by the Group's subsidiaries, the carrying amount of goodwill related to these individual city-gas projects as at 31 December 2022 amounted to HK$5,296,236,000 (2021: HK$5,750,478,000), net of an impairment provision of HK$204,781,000 (2021: HK$222,344,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment assessment of goodwill *(Continued)*

The key inputs and assumptions used in the assessment of certain CGUs are highly judgemental and are heavily dependent on the discounted cash flow forecast based on budgets approved by management of Group, the discount rates and growth rates. The adoption of key assumptions and input data may be subject to management bias and changes in these assumptions and input the valuation model may result in significant financial impact. During the year ended 31 December 2022, the management of the Group considered that no additional impairment provision was necessary (2021: HK$60 million). The assessment is sensitive to changes in estimates. Details are disclosed in note 21.

Impairment assessment of interest in an associate, Shanghai Gas Co., Ltd. ("Shanghai Gas")

In view of the operating losses of Shanghai Gas which is an indication of impairment, the management of the Group performed impairment assessment on interest in Shanghai Gas as a single asset at 31 December 2022. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. As the recoverable amount based on fair value less costs of disposal is higher than the carrying amount of the interest in Shanghai Gas and the management of the Group considered that no impairment loss has been recognised as at 31 December 2022, the management of the Group is not required to assess the value in use. The fair value less costs of disposal was performed by an independent qualified professional valuer engaged by the Company and approved by the management of the Group. The fair value is derived from discount cash flow method under the income approach, by using key inputs and assumptions including discounted cash flow forecast based on budget approved by management of Shanghai Gas, long-term growth rate and discount rate. In cases where the actual cash flows are less than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a recognition takes place.

At 31 December 2022, the carrying amount of the interest in Shanghai Gas amounted to HK$4,665,487,000 (2021: HK$5,784,251,000). Details are disclosed in note 22.

Income taxes

As at 31 December 2022, 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$461,316,000 (2021: HK$595,840,000) 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

ECL assessment of trade receivables

The Group uses provision matrix to calculate ECL for the 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, (i.e. the corporate default rate forecasts for utilities and construction sectors affecting the ability of the customers to settle the debtors) that is reasonable, supportable and available without undue costs or effort. 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. Details are disclosed in note 6.

Fair value measurement of embedded derivative in convertible bonds

Embedded derivative in convertible bonds amounting to HK$200,680,000 (2021: HK$776,639,000) as at 31 December 2022 is measured at fair values which are determined based on unobservable inputs, including expected volatility of share price, using valuation technique. Judgement and estimation are required in establishing the relevant valuation technique and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair value of embedded derivative in convertible bonds. Further disclosures of the embedded derivative in convertible bonds are set out in notes 6 and 37.

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 convertible bonds, borrowings, loan from ultimate holding company, loans from non-controlling shareholders and loans from joint ventures disclosed in notes 37, 34 and 35, respectively, equity attributable to shareholders of the Company, comprising issued share capital and 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 has a target gearing ratio of 40% determined as the proportion of net debt to equity plus net debt (the "Gearing Ratio").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

5. CAPITAL RISK MANAGEMENT *(Continued)*

The Gearing Ratio at the reporting date was as follows:

	2022 HK$'000	2021 HK$'000
Debt(i)	17,685,742	16,728,277
Convertible bonds	2,055,619	2,733,237
Time deposits over three months	(5,650)	(9,571)
Bank balances and cash	(4,000,676)	(4,071,107)
Net debt	15,735,035	15,380,836
Total equity(ii)	23,863,093	25,172,758
Gearing Ratio(iii)	39.7%	37.9%

(i) Debt is defined as long-term and short-term borrowings and loans from ultimate holding company, non-controlling shareholders and joint ventures, as detailed in notes 34 and 35, 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$15,735,035,000 (2021: HK$15,380,836,000) to total equity plus net debt of HK$39,598,128,000 (2021: HK$40,553,594,000).

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 HK$'000	2021 HK$'000
Financial assets		
Amortised cost	6,548,821	6,432,632
Derivative financial instruments	16,927	–
Equity instruments at FVTOCI	1,239,653	1,497,846
Financial assets at FVTPL	70,064	–
Financial liabilities		
Amortised cost	22,175,914	21,248,902
Derivative financial instruments	175	70,686
Embedded derivative component of convertible bonds	200,680	776,639
Lease liabilities	87,849	75,486

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, loans to associates, loans to joint ventures, other financial assets, trade and other receivables, deposits, amounts due from non-controlling shareholders, financial assets at FVTPL, time deposits over three months, bank balances and cash, trade and other payables, amounts due to non-controlling shareholders, loan from ultimate holding company, loans from non-controlling shareholders, loans from joint ventures, convertible bonds, borrowings, 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, liquidity risk and risks arising from the interest rate benchmark reform. 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 ("US$" or ''USD") and HKD at the end of the reporting period are set out in notes 29 and 34. In addition, the Group has intra-group balances denominated in a currency other than the functional currency of the respective group entities.

The Group entered into cross currency interest rate swap contracts and cross currency swap contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Those cross currency interest rate swap contracts and cross currency swap contracts are designated as effective hedging instrument for certain borrowings denominated in USD with hedge accounting used (see note 30 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 10% (2021: 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 10% (2021: 3%) change in foreign currency rates. As a result of the volatile financial market in 2022, the management adjusted the sensitivity rate from 3% to 10% for the purpose of assessing foreign currency risk.

The sensitivity analysis includes bank balances and cash, borrowings and intra-group balances 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 10% (2021: 3%) against USD and HKD. For a 10% (2021: 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.

	2022 **HK$'000**	2021 HK$'000
Profit before taxation	**2,261**	649

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, loans from non-controlling shareholders, loan from ultimate holding company, loans from joint ventures, debt component of convertible bonds 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and sustainability-linked bonds (the "SLB"). 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 and RMB Prime Rate arising from the Group's HKD and RMB bank loans, the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans and the interest rate adjustment mechanism arising from the satisfaction of conditions of SLB as disclosed in note 34.

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 ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

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 50 basis points (2021: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates. As a result of the volatile financial market in 2022, the management adjusted the sensitivity rate from 25 basis points to 50 basis points for the purpose of assessing interest rate risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis ***(Continued)***

If interest rates had been 50 basis points (2021: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2022 would decrease/increase by HK$24,189,000 (2021: HK$13,041,000). 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.

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.

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 10% (2021: 3%) higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$84,215,000 (2021: HK$31,013,000) as a result of the changes in fair value of the investments, net of tax. As a result of the volatile financial market in 2022, the management adjusted the sensitivity rate from 3% to 10% for the purpose of assessing other price risk.

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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 after due date but usually settle in full	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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 HK$'000	2021 HK$'000
Loans to associates	22	Low risk	12m ECL	**102,197**	114,520
Loans to joint ventures	23	Low risk	12m ECL	**171,042**	194,873
Trade receivables	26	(Note)	Lifetime ECL – not credit-impaired	**1,578,364**	1,280,341
		Loss	Lifetime ECL – credit-impaired	**159,268**	130,851
				1,737,632	1,411,192
Other receivables and deposits	26	Low risk	12m ECL	**556,786**	585,634
Amounts due from non-controlling shareholders	27	Low risk	12m ECL	**174,422**	215,637
Time deposits over three months	29	N/A	12m ECL	**5,650**	9,571
Bank balances and cash	29	N/A	12m ECL	**4,000,676**	4,071,107

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. 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.

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 upon application of HKFRS 9 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, including the business relationships with the debtors and historical 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 35% (2021: 0.1% to 35%) 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, i.e. the corporate default rate forecasts for utilities and construction sectors 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(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
At 1 January 2021	35,355	132,442	167,797
Exchange realignment	1,206	1,991	3,197
Impairment written-off	–	(7,366)	(7,366)
Impairment losses recognised, net of reversal	2,490	3,784	6,274
At 31 December 2021	39,051	130,851	169,902
Exchange realignment	(2,318)	(5,862)	(8,180)
Impairment written-off	–	(2,468)	(2,468)
Impairment losses recognised, net of reversal	3,583	36,747	40,330
At 31 December 2022	40,316	159,268	199,584

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

During the year ended 31 December 2022, the Group provided HK$40,330,000 (2021: HK$6,274,000) impairment allowance, net of reversals due to repayments during the year, for trade receivables based on the provision matrix and individual assessment.

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 management considered 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, and the loss allowance is immaterial.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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 one (2021: two) joint ventures, five (2021: five) associates and thirteen (2021: eleven) 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.

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 consistently have 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 stated in note 3, 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$9,593 million (2021: HK$9,645 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 31.12.2022 HK$'000
2022								
Trade payables	–	110,513	488,280	683,710	331,864	68,101	1,682,468	1,682,468
Other payables	–	870,467	–	–	–	–	870,467	870,467
Lease liabilities	5.00%	2,228	4,279	21,096	62,319	8,465	98,387	87,849
Amounts due to non-controlling shareholders	–	82,298	–	–	–	–	82,298	82,298
Loan from ultimate holding company	4.35%	63,043	–	–	–	–	63,043	62,816
Loans from non-controlling shareholders	2.80%	–	–	7,586	16,948	–	24,534	22,980
Loans from joint ventures	2.15%	17,435	–	–	–	–	17,435	17,404
Bank loans	3.70%	33,959	5,455,471	3,702,209	7,504,628	31,525	16,727,792	15,166,516
Debt component of convertible bonds	4.00%	–	–	20,744	2,134,262	–	2,155,006	1,854,939
Other loans	1.15%	–	–	1,425	7,037	–	8,462	8,073
Medium term note ("MTN")	3.40%	–	–	28,817	997,583	–	1,026,400	847,553
SLB	4.00%	–	–	62,416	1,887,660	–	1,950,076	1,560,400
		1,179,943	5,948,030	4,528,003	12,942,301	108,091	24,706,368	22,263,763
Derivatives – gross settlement								
Cross currency interest rate swap/ cross currency swap								
– inflow		(22,343)	(23,360)	(46,911)	(2,166,555)	–	(2,259,169)	N/A
– outflow		21,086	20,628	41,943	2,082,587	–	2,166,244	N/A
		(1,257)	(2,732)	(4,968)	(83,968)	–	(92,925)	(16,752)

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 31.12.2021 HK$'000
2021								
Trade payables	–	177,888	465,798	602,026	288,604	52,745	1,587,061	1,587,061
Other payables	–	897,111	–	–	–	–	897,111	897,111
Lease liabilities	5.00%	2,153	3,103	13,382	55,399	12,870	86,907	75,486
Amounts due to non-controlling shareholders	–	79,855	–	–	–	–	79,855	79,855
Loan from ultimate holding company	4.35%	66,858	–	–	–	–	66,858	66,617
Loans from non-controlling shareholders	2.80%	–	–	–	40,758	–	40,758	37,518
Loans from joint ventures	2.15%	731	–	–	–	–	731	730
Bank loans	3.22%	672,863	2,231,871	6,184,955	7,949,589	21,016	17,060,294	15,668,738
Debt component of convertible bonds	4.00%	–	–	16,862	2,330,272	–	2,347,134	1,956,598
Other loans	1.36%	1,391	–	24,033	5,706	4,335	35,465	34,429
MTN	3.40%	–	–	31,288	1,083,142	–	1,114,430	920,245
		1,898,850	2,700,772	6,872,546	11,753,470	90,966	23,316,604	21,324,388
Derivatives – gross settlement								
Cross currency interest rate swap								
– inflow		(2,275)	(2,551)	(577,196)	(397,518)	–	(979,540)	N/A
– outflow		9,831	9,721	610,965	454,546	–	1,085,063	N/A
		7,556	7,170	33,769	57,028	–	105,523	70,686

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For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform

As listed in note 34, several of the Group's LIBOR (3-month US dollar setting) and HIBOR bank loans are subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

As at 31 December 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US dollar settings (other than the 1-week and 2-month settings) which will be ceased immediately after 30 June 2023.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist. The Group's bank loans linked to HIBOR will continue till maturity and hence, not subject to transition.

(i) *Risks arising from the interest rate benchmark reform*

The followings are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform *(Continued)*

(i) Risks arising from the interest rate benchmark reform ***(Continued)***

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group entered into cross currency interest rate swaps to reduce or hedge against its exposures to the unexpected increases in overnight rates. The Group's cross currency interest rate swap contracts are designated as effective hedging instrument and hence the Directors considered there is no significant impact on the liquidity risk arising from the interest rate benchmark reform.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the interest rates which are not subject to reform to the extent feasible.

The Group is in progress to transition the remaining USD LIBOR loan with principal amount of USD50,000,000 which is repayable in 2024 and the cash flow hedging instruments (cross currency interest rate swaps) that are linked to LIBOR, through introduction of, or amendments to, the terms and conditions into the contracts by adopting an alternative reference rates which is an aggregate of non-cumulative compounded rate and applicable credit adjustment spread, when LIBOR ceases to be published or otherwise become unavailable.

For the floating rate loans linked to HIBOR, the management expects the HIBOR will continue to maturity and the Group does not intend to transition the agreements to HONIA.

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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/liabilities		Fair value as at 31.12.2022	Fair value as at 31.12.2021	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
1)	Listed equity investments classified as FVTOCI	**Assets – HK$1,122,866,000**	Assets – HK$1,378,353,000	Level 1	Quoted market price	N/A
2)	Cross currency interest rate swaps classified as other financial liabilities	**Liabilities – HK$175,000**	Liabilities – HK$70,686,000	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.	N/A
3)	Cross currency swaps classified as other financial assets	**Assets – HK$16,927,000**	Assets – Nil	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).	N/A
4)	Unquoted equity investments	**Assets – HK$96,276,000**	Assets – Nil	Level 2	Guideline Transaction Method	N/A
		Assets – HK$20,511,000	Assets – HK$119,493,000	Level 3	Market comparable approach	Market multiples ranging from 0.6 to 2.4 (2021: 0.2 to 3.9) and discount for lack of marketability ranging from 0% to 30% (2021: 0% to 30%) (Note a)

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)*

	Financial assets/liabilities	Fair value as at 31.12.2022	Fair value as at 31.12.2021	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
5)	Embedded derivative component of convertible bonds	**Liabilities – HK$200,680,000**	Liabilities – HK$776,639,000	Level 3	Binomial option pricing model	Expected volatility of 39.9% (2021: 34.1%) (Note b)
6)	Financial assets at FVTPL	**Assets – HK$70,064,000**	Assets – Nil	Level 3	Discounted cash flow	Discount rate (Note c)

Notes:

(a) 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.

(b) An increase in the expected volatility used in isolation would result in an increase in the fair value of the embedded derivative component of convertible bonds and vice versa. A 5% increase/decrease in the expected volatility holding all other variables constant would increase/decrease the fair value of the embedded derivative component of convertible bonds by HK$45,074,000 (2021: HK$82,333,000).

(c) The higher the discount rate, the lower the fair value, and vice versa.

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For the year ended 31 December 2022

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

	Financial assets at FVTPL HK$'000	Unquoted equity investments HK$'000	Embedded derivative component of convertible bonds HK$'000
At 1 January 2021	–	111,933	–
Addition	–	5,695	(409,430)
Fair value change recognised in other comprehensive income	–	(1,783)	–
Fair value change recognised in profit or loss	–	–	(358,643)
Currency realignment	–	3,648	(8,566)
At 31 December 2021	–	119,493	(776,639)
Transfer to Level 2 due to change of valuation technique	–	(97,222)	–
Addition	72,362	–	–
Fair value change recognised in profit or loss	–	–	531,488
Currency realignment	(2,298)	(1,760)	44,471
At 31 December 2022	70,064	20,511	(200,680)

The fair value gain recognised in profit or loss relating to embedded derivative component of convertible bonds of HK$531,488,000 (2021: loss of HK$358,643,000) is included in "other gains (losses), net" line item.

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. The Group engages third party qualified valuers to perform the valuation for embedded derivative component of convertible bonds. The management works closely with the qualified external valuers to establish 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.

Except for as disclosed above, there were no transfer between Level 1, 2 and 3 during the year ended 31 December 2022.

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements *(Continued)*

Fair value 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 (except for debt component of convertible bonds and SLB) recorded at amortised cost in the consolidated financial statements approximate their fair values. For debt component of convertible bonds and SLB, the fair values at 31 December 2022 amounted to HK$1,807,787,000 and HK$1,456,072,000 (2021: HK$1,997,195,000 and nil), respectively.

7. REVENUE

The Group's revenue from contracts with customers was all generated in the PRC and has been disaggregated as (i) sales of piped gas and energy of HK$16,664,582,000 (2021: HK$13,951,433,000); (ii) gas connection of HK$2,411,643,000 (2021: HK$2,429,287,000); and (iii) extended business of HK$996,785,000 (2021: HK$744,727,000) for the year ended 31 December 2022, as disclosed in note 8.

As at 31 December 2022, 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$1,684,175,000 and HK$1,035,735,000 (2021: HK$1,800,499,000 and HK$1,296,228,000), respectively, and the Group's contract liabilities of HK$1,454,858,000 (2021: HK$1,412,023,000) relating to sales of piped gas and energy, in which the respective performance obligations have not been satisfied, are expected to be recognised as revenue within one year.

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For the year ended 31 December 2022

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 three operating divisions, which also represent the operating segments of the Group for financial reporting purposes. The principal activities of the operating and reportable segments are as follows:

Sales of piped gas and energy	–	Sales of piped gas (mainly natural gas) and other types of energy
Gas connection	–	Construction of gas pipeline networks under gas connection contracts
Extended business	–	Sales of gas related household appliances and related products, and other related value-added services

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' emoluments. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

8. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

Information regarding these segments is presented below:

	Sales of piped gas and energy HK$'000	Gas connection HK$'000	Extended business HK$'000	Consolidated HK$'000
For the year ended 31 December 2022				
REVENUE				
Revenue recognised at a point in time	16,664,582	1,793,201	996,785	19,454,568
Revenue recognised over time	–	618,442	–	618,442
External	16,664,582	2,411,643	996,785	20,073,010
Segment results	714,813	979,294	138,481	1,832,588
Other income				132,586
Other gains, net				532,256
Unallocated corporate expenses				(220,150)
Share of results of associates				(246,837)
Share of results of joint ventures				306,026
Finance costs				(752,763)
Profit before taxation				1,583,706
Taxation				(382,667)
Profit for the year				1,201,039

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For the year ended 31 December 2022

8. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

	Sales of piped gas and energy HK$'000	Gas connection HK$'000	Extended business HK$'000	Consolidated HK$'000
For the year ended 31 December 2021				
REVENUE				
Revenue recognised at a point in time	13,951,433	1,796,237	744,727	16,492,397
Revenue recognised over time	–	633,050	–	633,050
External	13,951,433	2,429,287	744,727	17,125,447
Segment results	1,086,045	1,118,476	89,956	2,294,477
Other income				150,920
Other losses, net				(390,237)
Unallocated corporate expenses				(188,730)
Share of results of associates				435,807
Share of results of joint ventures				431,437
Finance costs				(588,923)
Profit before taxation				2,144,751
Taxation				(617,659)
Profit for the year				1,527,092

Segment results included depreciation and amortisation of HK$918,126,000 (2021: HK$867,895,000), most of which are attributable to the sales of piped gas and energy.

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

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

	2022 HK$'000	2021 HK$'000
Gas fuel, stores and materials used	15,507,390	12,254,356
Staff costs	1,355,758	1,303,943
Depreciation and amortisation	918,126	867,895
Other expenses	679,298	593,506
	18,460,572	15,019,700

10. OTHER INCOME

	2022 HK$'000	2021 HK$'000
Dividend income from equity instruments at fair value through other comprehensive income	39,252	31,719
Government grants	10,258	32,258
Interest income	66,692	40,602
Others	16,384	46,341
	132,586	150,920

11. OTHER GAINS (LOSSES), NET

	2022 HK$'000	2021 HK$'000
Exchange (loss) gain, net	(753)	10,573
(Loss) gain on disposal of property, plant and equipment	(1,535)	21,363
Gain on disposal of right-of-use assets	3,333	5,409
Impairment provision of goodwill	–	(60,000)
Impairment provision of plant, property and equipment	–	(8,939)
Loss on deemed disposal of a subsidiary	(277)	–
Change in fair value of embedded derivative component of convertible bonds	531,488	(358,643)
	532,256	(390,237)

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For the year ended 31 December 2022

12. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest on bank and other borrowings	680,882	584,598
Effective interest expense on convertible bonds	77,125	9,265
Bank charges	5,831	6,321
Interest on lease liabilities	4,608	3,747
	768,446	603,931
Less: amounts capitalised	(15,683)	(15,008)
	752,763	588,923

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 2.6% (2021: 2.5%) per annum to expenditure on qualifying assets.

13. PROFIT BEFORE TAXATION

	2022 HK$'000	2021 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 14)	33,059	22,399
Other staff costs	1,217,760	1,186,851
Share-based payments for other staff	3,422	–
Retirement benefit scheme contributions for other staff	101,517	94,693
Total staff costs (Note)	1,355,758	1,303,943
Impairment loss of trade receivables, net of reversal	40,330	6,274
Amortisation of intangible assets	19,028	19,726
Depreciation of right-of-use assets	49,138	63,462
Auditor's remuneration	14,951	14,408
Cost of inventories sold	16,489,492	13,168,902
Depreciation of property, plant and equipment	849,960	784,707

Note: As disclosed in note 38(c), during the year ended 31 December 2022, the Company entered into a number of subscription agreements with subscribers pursuant to which a total of 11,663,000 subscription shares will be issued by the Company to the subscribers at a subscription price of HK$3.69 per share in cash. The subscribers include the directors of the Company, directors of subsidiaries of the Company, directors of subsidiaries of HKCG and employees of the Group and HKCG, accordingly the difference between the fair value of shares at date of grant or date of approval (if needed) and subscription price amounting to HK$4,941,000 in aggregate is recorded as share-based payment expenses and included in staff costs.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments:

The emoluments paid or payable to each of the 12 (2021: 11) directors were as follows:

	Year ended 31 December 2022												
	Executive Directors					Non-Executive Directors		Independent Non-Executive Directors					
	Peter Wong Wai-yee HK$'000 (Note d)	John Ho Hon-ming HK$'000 (Note e)	Martin Kee Wai-ngai HK$'000 (Note f)	John Qiu Jian-hang HK$'000 (Note g)	Alfred Chan Wing-kin HK$'000 (Note j)	Lee Ka-kit HK$'000	Liu Kai Lap Kenneth HK$'000	Moses Cheng Mo-chi HK$'000	Brian David Li Man-bun HK$'000	James Kwan Yuk-choi HK$'000	Christine Loh Kung-wai HK$'000 (Note k)	Hu Zhang-hong HK$'000 (Note g)	Total HK$'000
Directors' fees (Note a)	200	200	200	200	80	300	–	500	500	500	373	55	3,108
Other emoluments (Note b)													
Salaries and other benefits	1,344	1,256	1,782	1,825	–	–	–	–	–	–	–	–	6,207
Retirement benefit scheme contributions	134	126	1,077	629	–	–	–	–	–	–	–	–	1,966
Performance and discretionary bonus (Note c)	6,928	4,709	4,009	3,606	–	–	–	–	–	–	–	–	19,252
Share-based payments	919	459	459	689	–	–	–	–	–	–	–	–	2,526
Total emoluments	9,525	6,750	7,527	6,949	80	300	–	500	500	500	373	55	33,059

	Year ended 31 December 2021											
	Executive Directors					Non-Executive Directors		Independent Non-Executive Directors				
	Peter Wong Wai-yee HK$'000 (Note d)	John Ho Hon-ming HK$'000 (Note e)	Martin Kee Wai-ngai HK$'000 (Note f)	John Qiu Jian-hang HK$'000 (Note g)	Alfred Chan Wing-kin HK$'000	Lee Ka-kit HK$'000 (Note h)	Liu Kai Lap Kenneth HK$'000 (Note i)	Moses Cheng Mo-chi HK$'000	Brian David Li Man-bun HK$'000	James Kwan Yuk-choi HK$'000	Hu Zhang-hong HK$'000 (Note g)	Total HK$'000
Directors' fees (Note a)	200	200	200	28	200	56	–	500	500	500	43	2,427
Other emoluments (Note b)												
Salaries and other benefits	1,299	1,213	1,174	239	–	–	–	–	–	–	–	3,925
Retirement benefit scheme contributions	130	121	117	27	–	–	–	–	–	–	–	395
Performance and discretionary bonus (Note c)	6,902	4,725	3,581	444	–	–	–	–	–	–	–	15,652
Total emoluments	8,531	6,259	5,072	738	200	56	–	500	500	500	43	22,399

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 non-executive directors and 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.

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14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' emoluments: *(Continued)*

Notes: *(Continued)*

(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 – Gas Business of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Operating Officer Gas Business.

(g) Dr. John Qiu Jian-hang and Dr. Hu Zhang-hong were appointed as an Executive Director and an Independent Non-Executive Director on 10 November 2021, respectively. Dr. John Qiu Jian-hang is also the Chief Operating Officer – Renewable Business of the Company and his emoluments disclosed above include those for services rendered by him as Chief Operating Officer – Renewable Business. Dr. Hu Zhang-hong resigned as an Independent Non-executive Director on 9 March 2022.

(h) Dr. Lee Ka-kit was appointed as the Chairman of the Board and a Non-Executive Director on 25 October 2021.

(i) Mr. Liu Kai Lap Kenneth was appointed as a Non-Executive Director on 18 November 2021.

(j) Mr. Alfred Chan Wing-kin retired as an Executive Director with effect from the conclusion of the annual general meeting of the Company held on 26 May 2022.

(k) Dr. Christine Loh Kung-wai was appointed as an Independent Non-executive Director on 4 April 2022.

(l) No other service contracts were entered into by any directors with the Company.

Employees' emoluments:

For the year ended 31 December 2022, the 5 highest paid individuals of the Group included 4 (2021: 3) Directors, details of their emoluments are included above. The emoluments of the remaining 1 (2021: 2) highest paid individuals are as follows:

	2022 HK$'000	2021 HK$'000
Salaries and other benefits	**1,464**	2,947
Performance related incentive payments	**1,114**	3,052
Share-based payments	**78**	–
Retirement benefit scheme contributions	**138**	204
	2,794	6,203

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees' emoluments: *(Continued)*

The emoluments were within the following bands:

	Number of employees 2022	2021
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	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.

15. TAXATION

	2022 HK$'000	2021 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	330,555	565,638
Deferred taxation (note 36)	52,112	52,021
	382,667	617,659

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 are 15% or 25% (2021: 15% or 25%).

Following the 2020 edition of Catalogue of Encouraged Industries in Western Region (Order No. 40 [2021]) released by the National Development and Reform Commission of the PRC in 2021, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

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15. TAXATION *(Continued)*

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

	2022 HK$'000	2021 HK$'000
Profit before taxation	**1,583,706**	2,144,751
Tax at the applicable rate of 25% (Note)	**395,926**	536,188
Tax effect of expenses that are not deductible for tax purposes	**169,182**	286,468
Tax effect of income that are not taxable for tax purposes	**(146,461)**	(22,523)
Effect of different tax rates of subsidiaries operating in different regions	**(106,178)**	(67,464)
Tax effect of share of results of associates	**61,709**	(108,952)
Tax effect of share of results of joint ventures	**(76,507)**	(107,859)
Tax effect of utilisation of tax losses not previously recognised	**(16,210)**	(10,880)
Tax effect of tax losses not recognised	**28,030**	49,041
Withholding tax on undistributed profits	**73,176**	63,640
Tax charge for the year	**382,667**	617,659

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

16. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2021 of HK$473,419,000 (2021: HK$445,340,000 in respect of the year ended 31 December 2020) was recognised as distribution, being 15 HK cents per ordinary share (2021: 15 HK cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of 15 HK cents (2021: 15 HK cents) per ordinary share, in an aggregate amount of approximately HK$487,182,000 (2021: HK$473,419,000) has been proposed by the Board and is subject to approval by the shareholders at the annual general meeting and compliance with the Company Act of the Cayman Islands.

17. EARNINGS PER SHARE

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

	2022 HK$'000	2021 HK$'000
Earnings		
Profit for the year attributable to shareholders of the Company for the purpose of basic earnings per share	964,855	1,253,202
Effect of dilutive potential ordinary shares:		
Interest expense on convertible bonds	77,125	–
Change in fair value of embedded derivative component of convertible bonds	(531,488)	–
Profit for the year attributable to shareholders of the Company for the purpose of diluted earnings per share	510,492	1,253,202

	Number of shares 2022 '000	 2021 '000
Number of shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of basic earnings per share	3,197,552	3,017,444
Effect of dilutive potential ordinary shares:		
Convertible bonds	352,207	–
Share options	104	–
Weighted average number of subscription shares	2,552	–
Weighted average number of subscription shares that would have issued at market	(2,347)	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,550,068	3,017,444

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17. EARNINGS PER SHARE *(Continued)*

The weighted average number of ordinary shares in issue for the calculation of basic and diluted earnings per share for both years presented have been adjusted for the effect of shares held by the trustee pursuant to the share award scheme.

The computation of diluted earnings per share for the year ended 31 December 2022 does not assume the issue of remaining subscription shares because the subscription price of those shares was higher than the average market price.

The computation of diluted earnings per share for the year ended 31 December 2021 does not assume the conversion of all convertible bonds issued as their assumed conversion would result in an increase in earnings per share.

18. 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 2021	2,472,611	17,723,508	2,049,394	2,674,142	24,919,655
Currency realignment	99,377	618,513	86,682	97,943	902,515
Additions	108,287	608,370	69,102	1,959,452	2,745,211
Acquisition of subsidiaries (note 41)	–	–	110,346	66,648	176,994
Disposal of a subsidiary (note 41)	–	–	(13,243)	–	(13,243)
Disposals	(19,929)	(27,216)	(42,929)	–	(90,074)
Transfers	390,194	1,365,699	142,077	(1,897,970)	–
At 31 December 2021	**3,050,540**	**20,288,874**	**2,401,429**	**2,900,215**	**28,641,058**
Currency realignment	**(254,273)**	**(1,664,292)**	**(217,457)**	**(245,372)**	**(2,381,394)**
Additions	**88,866**	**599,668**	**383,903**	**2,285,394**	**3,357,831**
Acquisition of subsidiaries (note 41)	**–**	**16,165**	**48,145**	**18,336**	**82,646**
Deemed disposal of a subsidiary (note 41)	**(513)**	**–**	**(1,146)**	**(8,468)**	**(10,127)**
Disposals	**(8,357)**	**(3,603)**	**(45,511)**	**–**	**(57,471)**
Transfers	**187,228**	**1,175,742**	**241,581**	**(1,604,551)**	**–**
At 31 December 2022	**3,063,491**	**20,412,554**	**2,810,944**	**3,345,554**	**29,632,543**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2021	564,364	3,230,846	1,107,792	–	4,903,002
Currency realignment	22,299	117,327	42,386	–	182,012
Provided for the year	100,101	526,545	158,061	–	784,707
Impairment	8,939	–	–	–	8,939
Eliminated on disposals	(8,739)	(2,637)	(36,638)	–	(48,014)
At 31 December 2021	**686,964**	**3,872,081**	**1,271,601**	**–**	**5,830,646**
Currency realignment	**(62,280)**	**(328,510)**	**(115,270)**	**–**	**(506,060)**
Provided for the year	**115,910**	**560,921**	**173,129**	**–**	**849,960**
Eliminated on deemed disposal of a subsidiary (note 41)	**(34)**	**–**	**(115)**	**–**	**(149)**
Eliminated on disposals	**(4,729)**	**(701)**	**(36,765)**	**–**	**(42,195)**
At 31 December 2022	**735,831**	**4,103,791**	**1,292,580**	**–**	**6,132,202**
CARRYING VALUES					
At 31 December 2022	**2,327,660**	**16,308,763**	**1,518,364**	**3,345,554**	**23,500,341**
At 31 December 2021	2,363,576	16,416,793	1,129,828	2,900,215	22,810,412

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

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19. RIGHT-OF-USE ASSETS

	Leasehold land HK$'000	Leased properties and others HK$'000	Total HK$'000
As at 31 December 2022			
Carrying amount	**763,209**	**81,925**	**845,134**
As at 31 December 2021			
Carrying amount	869,384	72,097	941,481
For the year ended 31 December 2022			
Depreciation charge	**(22,794)**	**(26,344)**	**(49,138)**
For the year ended 31 December 2021			
Depreciation charge	(23,939)	(39,523)	(63,462)

	2022 HK$'000	2021 HK$'000
Total cash outflow for leases	**56,963**	98,203
Additions to right-of-use assets	**71,283**	105,590

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 (2021: 12 months to 30 years) while for land leases are entered into for fixed terms ranging from 15 years to 70 years (2021: 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. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

20. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2021	665,408
Currency realignment	21,324
Acquisition of a subsidiary (note 41)	103,106
Disposal of a subsidiary (note 41)	(102,712)
At 31 December 2021	**687,126**
Currency realignment	**(53,947)**
At 31 December 2022	**633,179**
AMORTISATION	
At 1 January 2021	190,334
Currency realignment	5,983
Provided for the year	19,726
At 31 December 2021	**216,043**
Currency realignment	**(15,425)**
Provided for the year	**19,028**
At 31 December 2022	**219,646**
CARRYING VALUES	
At 31 December 2022	**413,533**
At 31 December 2021	471,083

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

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

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For the year ended 31 December 2022

21. GOODWILL

	HK$'000
COST	
At 1 January 2021	5,782,668
Currency realignment	190,154
At 31 December 2021	**5,972,822**
Currency realignment	**(471,805)**
At 31 December 2022	**5,501,017**
IMPAIRMENT	
At 1 January 2021	157,176
Currency realignment	5,168
Impairment provision recognised	60,000
At 31 December 2021	**222,344**
Currency realignment	**(17,563)**
At 31 December 2022	**204,781**
CARRYING VALUES	
At 31 December 2022	**5,296,236**
At 31 December 2021	5,750,478

21. 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 of piped gas and energy, gas connection and extended business in the PRC. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	2022 HK$'000	2021 HK$'000
Sub-groups headed by:		
Hong Kong & China Gas (Qingdao) Limited	323,459	351,201
Hong Kong & China Gas (Zibo) Limited	347,889	377,726
Hong Kong & China Gas (Yantai) Limited	215,846	234,358
Hong Kong & China Gas (Weifang) Limited	110,968	120,485
Hong Kong & China Gas (Weihai) Limited	269,147	292,231
Hong Kong & China Gas (Taian) Limited	208,212	226,070
Hong Kong & China Gas (Maanshan) Limited	282,644	306,886
Hong Kong & China Gas (Anqing) Limited	267,898	290,875
Mianyang Hong Kong & China Gas Co., Ltd.	287,991	312,692
成都新都港華燃氣有限公司	218,877	237,650
Towngas (BVI) Holdings Limited ("Towngas BVI")*	401,187	435,596
阜新新邱港華燃氣有限公司	120,434	130,763
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	122,231	132,714
Shenyang business	104,424	113,381
Mianzhu Hong Kong and China Gas Co., Ltd.	103,657	112,547
潮州楓溪港華燃氣有限公司	92,627	100,571
Boxing Hong Kong & China Gas Co., Ltd.	88,011	95,559
Dafeng Hong Kong and China Gas Company Limited	247,686	268,929
廣西中威管道燃氣發展集團有限責任公司	127,004	137,896
Baotou Hong Kong & China Gas Company Limited	162,343	176,266
Xingyi Hong Kong & China Gas Company Limited	102,144	110,905
Others	1,091,557	1,185,177
	5,296,236	5,750,478

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

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21. 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 discounted cash flow forecast based on budgets approved by management of Group, discount rates and growth rates. Management estimates discount rates of 8.2% to 16.0% (2021: 8.2% to 16.0%) that reflect the current market assessments of the time value of money and the risks specific to the CGUs. The inputs and assumptions made in the budgets are based on past practices and economic data relevant to the industry.

Cash flows beyond 5-year period until the end of the relevant concession periods have been extrapolated using growth rates from 3% to 11% (2021: 5% to 10%) per annum, which is based on internal and external factors relating to the CGUs. During the year ended 31 December 2021, an impairment provision of HK$60,000,000 was recognised in respect of a CGU engaged in sales of piped gas and energy, gas connection and extended business in the PRC which was unable to achieve the expected growth. The recoverable amount of that CGU was HK$223,383,000 at 31 December 2021 and the management applied discount rate of 12.5%. No other write-down of the assets was considered necessary. During the year ended 31 December 2022, no additional impairment provision is recognised. Based on the assessment made by management of the Group, no additional impairment provision was necessary during the year ended 31 December 2022 and an accumulated impairment provision of HK$205 million was recognised as at 31 December 2022.

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 of piped gas and energy, gas connection and extended business, 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, no carrying amounts of the CGUs would be decreased (2021: decreased by approximately HK$62,000,000).

22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES

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

	2022 HK$'000	2021 HK$'000
Cost of investments in associates	**7,967,493**	8,668,061
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,792,574**	2,515,788
	9,760,067	11,183,849
Fair value of listed investments (Note)	**3,904,948**	4,206,369
Loans to associates		
– Non-current portion	**49,000**	47,313
– Current portion	**53,197**	67,207
	102,197	114,520

Note: The fair value of listed investments is determined based on the quoted market bid price multiplied by the quantity of shares held by the Group.

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

Name of entity	Place of establishment and operation	Equity interest attributable to the Group 2022	2021	Principal activities
Anguo Huagang Gas Company Limited	PRC – Sino-foreign equity joint venture	**49.0%**	–	Provision of natural gas and related services and gas pipeline construction
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 Towngas 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**	PRC – Company limited by shares	**38.4%**	38.7%	Provision of natural gas and related services and gas pipeline construction

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22. 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: *(Continued)*

Name of entity	Place of establishment and operation	Equity interest attributable to the Group 2022	2021	Principal activities
Jiangsu Jinzhuo Construction Engineering Co., Ltd. ("Jiangsu Jinzhuo")	PRC – Sino-foreign equity joint venture	49.9%	49.9%	Provision of engineering work services
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
Shanghai Gas Co., Ltd.	PRC – Limited liability company	25.0%	25.0%	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 above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES *(Continued)*

Summarised financial information of a material associate

Summarised financial information in respect of a material associate of the Group is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

	Shanghai Gas	
	31.12.2022	31.12.2021
	HK$'000	HK$'000
Current assets	**10,458,495**	9,841,641
Non-current assets	**15,896,578**	16,615,243
Current liabilities	**(13,907,138)**	(9,527,163)
Non-current liabilities	**(4,038,308)**	(3,517,825)

	From 1.7.2022 to 31.12.2022
	HK$'000
Revenue	**19,146,347**
Loss for the period	**(2,366,270)**
Other comprehensive expense for the period	**(115,519)**
Total comprehensive expense for the period	**(2,481,789)**

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22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES *(Continued)*

Summarised financial information of a material associate *(Continued)*

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

	2022 HK$'000	2021 HK$'000 (Restated)
Net assets of Shanghai Gas	**8,409,627**	13,411,896
Add: Unrecognised share of results from Shanghai Gas by the Group (Note a)	**2,217,225**	1,234,701
Fair value adjustment on identifiable assets and liabilities of Shanghai Gas	**2,935,884**	3,428,832
Less: Non-controlling interest of Shanghai Gas' subsidiaries	**(1,380,710)**	(1,507,851)
Distribution of pre-acquisition profits of Shanghai Gas not shared by the Group	**(261,046)**	(749,693)
	11,920,980	15,817,885
Proportion of the Group's ownership interest in Shanghai Gas	**25%**	25%
The Group's share of net assets of Shanghai Gas	**2,980,245**	3,954,471
Goodwill (Note b)	**1,685,242**	1,829,780
Carrying amount of the Group's interest in Shanghai Gas	**4,665,487**	5,784,251

22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES *(Continued)*

Summarised financial information of a material associate *(Continued)*

Notes:

(a) Pursuant to a supplemental agreement and a shareholder's agreement entered between Shenergy (Group) Company Limited ("Shenergy Group"), the controlling shareholder of Shanghai Gas, and the Company, the financial results of Shanghai Gas for the period from the date of acquisition of Shanghai Gas by the Company to 30 June 2022 were borne by Shenergy Group.

(b) During the year ended 31 December 2022, the identification and determination of the fair values of the net identifiable assets of Shanghai Gas have been completed. Intangible assets and fair value adjustments on certain assets and liabilities are recognised on date of acquisition. The Group's share of fair value of net identifiable assets of Shanghai Gas at date of acquisition increased by HK$811,679,000 and the goodwill on acquisition decreased by HK$811,679,000, resulting in restated amounts of HK$3,954,471,000 and HK$1,829,780,000, respectively. No adjustment on additional amortisation of intangible assets and depreciation of property, plant and equipment is made during the year ended 31 December 2021 as the amount involved is not significant.

(c) In view of the operating losses of Shanghai Gas, which is an indication of impairment, the management of the Group performed impairment assessment on interest in Shanghai Gas as a single asset at 31 December 2022. Details of the impairment assessment are disclosed in note 4. The key inputs and assumptions for the fair value less costs of disposal performed by an independent qualified professional valuer engaged by the Company and approved by the management of the Group are discounted cash flow forecast based on budget approved by management of Shanghai Gas, long-term growth rate and discount rate. Management estimates a discount rate of 11% that reflects current market assessments of the time value of money and the risks specific to Shanghai Gas. The inputs and assumptions made in the budget are based on historical performance of Shanghai Gas and economic data relevant to the industry or the region. Cash flows beyond 5-year period have been extrapolated using growth rate of 2% per annum, which is based on industry growth forecasts. As the recoverable amount is higher than the carrying amount of interest in Shanghai Gas, accordingly the management of the Group considered no impairment loss has been recognised as at 31 December 2022.

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22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material

	2022 HK$'000	2021 HK$'000
The Group's share of profit for the year	341,925	435,807
Aggregate carrying amount of the Group's interests in these associates	5,094,580	5,399,598

The loans to associates are unsecured and interest bearing at fixed rates ranging from 4.35% to 5.00% (2021: 4.35% to 5.00%) per annum. Included in the loans are HK$4,435,000 (2021: HK$8,373,000) repayable on demand, HK$48,762,000 (2021: HK$58,834,000) repayable within one year and HK$49,000,000 (2021: HK$47,313,000) repayable after one year.

23. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES

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

	2022 HK$'000	2021 HK$'000
Cost of investments in joint ventures	1,393,883	1,512,844
Share of post-acquisition profits and other comprehensive income, net of dividends received	2,181,086	2,116,624
	3,574,969	3,629,468
Loans to joint ventures – current	171,042	194,873

23. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES *(Continued)*

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

Name of entity	Place of establishment and operation	Equity interest attributable to the Group 2022	2021	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 (Note)	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Midstream
Taian Taishan Hong Kong and China Gas Company Limited (Note)	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. (Note)	PRC – Sino-foreign equity joint venture	40.0%	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

Note: The Group is able to exercise the joint control over these companies which the decisions about the relevant activities require the unanimous consent of the Group and the joint venturers. Accordingly, these companies are regarded as joint ventures of the Group.

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

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23. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES *(Continued)*

Aggregate information of joint ventures that are not individually material

	2022 HK$'000	2021 HK$'000
The Group's share of profit for the year	306,026	431,437
Aggregate carrying amount of the Group's interests in these joint ventures	3,574,969	3,629,468

The loans to joint ventures are unsecured, interest-free (2021: 4.35% per annum) and repayable on demand.

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 HK$'000	2021 HK$'000
Listed shares in the PRC	1,122,866	1,378,353
Unlisted shares in the PRC	116,787	119,493
	1,239,653	1,497,846

These investees are primarily 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 Group Corporation Ltd. ("Chengdu Gas"). The Group's investment cost was HK$160,663,000 (2021: HK$160,663,000) and the Group holds 11.7% interest (104,000,000 shares) (2021: 11.7% interest (104,000,000 shares)) in Chengdu Gas as at 31 December 2022. Change in fair value of Chengdu Gas was recognised in other comprehensive income of the Group. As at 31 December 2022, the fair value of Chengdu Gas was HK$1,075,375,000 (2021: HK$1,325,840,000) (constitutes 2.0% (2021: 2.4%) of total assets of the Group) with reference to its stock price and fair value movement of a decrease of HK$155,074,000 (2021: HK$263,418,000) was recognised during the year ended 31 December 2022.

25. INVENTORIES

	2022 HK$'000	2021 HK$'000
Finished goods	**128,989**	143,774
Materials and consumables	**553,246**	560,735
	682,235	704,509

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 HK$'000	2021 HK$'000
Trade receivables (net of allowance for credit losses)	**1,538,048**	1,241,290
Prepayments	**715,002**	571,274
Other receivables and deposits (Note)	**659,118**	650,476
	2,912,168	2,463,040

At 1 January 2021, trade receivables from contracts with customers amounted to HK$1,101,251,000 (after deducting the allowance for credit losses of HK$167,797,000).

Note: Included in the balance of other receivables and deposits are amounts due from related companies of HK$66,283,000 (2021: HK$47,838,000). The amounts are unsecured, interest-free and repayable on demand.

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK$1,737,632,000 (2021: HK$1,411,192,000) and allowance for credit losses of HK$199,584,000 (2021: HK$169,902,000). 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:

	2022 HK$'000	2021 HK$'000
0 to 90 days	**1,217,418**	952,900
91 to 180 days	**52,244**	81,132
Over 180 days	**268,386**	207,258
	1,538,048	1,241,290

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For the year ended 31 December 2022

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

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$10,515,000 (2021: HK$21,455,000) which are past due as at the reporting date. Out of the past due balances, HK$7,263,000 (2021: HK$4,507,000) 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 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.

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. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2022, the balance represents wealth management products issued by banks in the PRC with maturity within one year and expected returns ranging from 1.70% to 3.45% per annum. They are classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest.

29. 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 3.65% (2021: 0.00% to 3.65%) 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.

	2022 HK$'000	2021 HK$'000
USD	**11,706**	10,355
HKD	**10,906**	11,277

30. OTHER FINANCIAL ASSETS/LIABILITIES

	2022 HK$'000	2021 HK$'000
Other financial assets		
Derivatives (under hedge accounting)		
Cash flow hedge – cross currency swap contract under non-current assets	16,927	–
Other financial liabilities		
Derivatives (under hedge accounting)		
Cash flow hedge – cross currency interest rate swap contract under current liabilities	–	29,992
Cash flow hedge – cross currency interest rate swap contract under non-current liabilities	175	40,694
	175	70,686

The classification of the measurement of the derivative financial instruments at 31 December 2022 and 2021 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).

Cash flow hedge

In prior years, the Group entered into cross currency interest rate swap contracts with total notional amounts of HK$575,000,000 and USD50,000,000 to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the HKD bank loan with total principal amount of HK$575,000,000 and USD bank loan with principal amount of USD50,000,000, respectively. During the year ended 31 December 2022, the Group settled the HKD bank loan with total principal amount of HK$575,000,000, and the corresponding cross currency interest rate swap upon mature date, and entered into cross currency swap contracts with total notional amounts of USD200,000,000 to minimise the exposure to fluctuations in foreign currency exchange rates of the USD borrowings with total principal amount of USD200,000,000. The critical terms of the cross currency interest rate swap and cross currency swap and the corresponding HKD and USD borrowings were closely aligned and the Directors considered that the cross currency interest rate swap and cross currency swap were highly effective hedging instruments and qualified as cash flow hedge. During the year ended 31 December 2022, the fair value change of HK$44,734,000 (2021: HK$85,137,000) on derivative instruments designated as cash flow hedge was recorded in hedge reserve, and a fair value change of HK$151,211,000 (2021: HK$116,890,000) on derivative instrument designated as cash flow hedge reclassified to finance costs as a debit of HK$8,275,000 (2021: HK$63,970,000) and to exchange differences (included in other gains (losses), net) as a credit of HK$91,789,000 (2021: HK$52,920,000) in profit or loss.

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30. OTHER FINANCIAL ASSETS/LIABILITIES *(Continued)*

Cash flow hedge *(Continued)*

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 swap and cross currency swap were set out below:

Notional amount	Maturity	Exchange rate	Interest rate		Exchange frequency		Total hedged item
			Receive	Pay	Receive	Pay	
At 31 December 2022							
Cross currency interest rate swap							
USD50,000,000	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
Cross currency swaps							
USD100,000,000	2027	USD1 to RMB6.3885	4.00%	4.5675%	Semi-annually from initial date until maturity date	Quarterly from initial date until maturity date	SLB principal
USD100,000,000	2027	USD1 to RMB6.3760	4.00%	4.675%	Semi-annually from initial date until maturity date	Quarterly from initial date until maturity date	SLB principal
At 31 December 2021							
Cross currency interest rate swaps							
HK$575,000,000	2022	HK$1 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	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

30. OTHER FINANCIAL ASSETS/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 designates the cross currency interest rates linked to USD LIBOR as hedging instruments which qualifies cash flow hedges under HKFRS 9. The amendments to HKFRS 9 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.

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).

In response to the announcements, the Group's treasury team monitors where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. Progress towards implementation of alternative benchmark interest rates is set out in note 6.

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 LIBORs, 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.

A foreign currency exposure arises from the Group's SLB. The risk arises from the fluctuation in future exchange rates among the USD SLB, which causes the borrowing amount to be settled on the maturity date to vary in the consolidated financial statements of the Group. The hedged risk in the cross-currency swaps is the risk of changes in USD against RMB that will result in an exchange gain or loss during the year. An economic relationship exists between the hedged items and hedging instruments due to the foreign currency risk exposure.

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31. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2022 HK$'000	2021 HK$'000
Trade payables	1,682,468	1,587,061
Consideration payable for acquisitions of businesses	74,464	80,700
Other payables and accruals	1,308,972	1,325,645
Amount due to ultimate holding company (Note)	1,276	1,353
	3,067,180	2,994,759

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

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

	2022 HK$'000	2021 HK$'000
0 to 90 days	945,467	905,106
91 to 180 days	209,601	209,004
181 to 360 days	204,877	172,091
Over 360 days	322,523	300,860
	1,682,468	1,587,061

32. CONTRACT LIABILITIES

	2022 HK$'000	2021 HK$'000
Sales of piped gas and energy	1,454,858	1,412,023
Gas connection	2,299,899	2,450,959
Extended business	95,377	76,197
	3,850,134	3,939,179

At 1 January 2021, contract liabilities amounted to HK$3,733,570,000.

32. CONTRACT LIABILITIES *(Continued)*

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 of piped gas and energy HK$'000	Gas connection HK$'000	Extended business HK$'000
For the year ended 31 December 2022			
Revenue recognised that was included in the contract liability balance at the beginning of the year	**1,412,023**	**873,318**	**76,197**
For the year ended 31 December 2021			
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,080,173	748,944	71,360

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

Sales of piped gas and energy

The Group typically receives prepayments from customers for piped gas and energy 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.

Extended business

The Group may receive deposits from customers for sales of gas related household appliances and related products, and other relate value-added services at the start of a contract, and this will give rise to contract liabilities at the start of a contract. Balance payments will be received after delivery of goods and services.

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33. LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	23,687	15,312
Within a period of more than one year but not more than two years	21,055	15,185
Within a period of more than two years but not more than five years	35,350	33,436
Within a period of more than five years	7,757	11,553
	87,849	75,486
Less: Amounts due for settlement with 12 months shown under current liabilities	(23,687)	(15,312)
Amounts due for settlement after 12 months shown under non-current liabilities	64,162	60,174

34. BORROWINGS

	2022 HK$'000	2021 HK$'000
Bank loans – unsecured	15,166,516	15,668,738
Other loans – unsecured	8,073	34,429
MTN – unsecured	847,553	920,245
SLB – unsecured (Note)	1,560,400	–
	17,582,542	16,623,412
Carrying amount repayable:		
On demand or within one year	9,018,808	8,633,082
Within a period of more than one year but not exceeding two years	2,221,594	1,130,793
Within a period of more than two years but not exceeding five years	6,315,538	6,837,377
Within a period of more than five years	26,602	22,160
	17,582,542	16,623,412
Less: Amount due within one year shown under current liabilities	(9,018,808)	(8,633,082)
Amount due after one year shown under non-current liabilities	8,563,734	7,990,330

34. BORROWINGS *(Continued)*

Note: During the year ended 31 December 2022, TCCL (Finance) Limited, a wholly-owned subsidiary of the Company, issued USD200 million guaranteed SLB. The SLB is listed in the Stock Exchange for professional investors, due in 2027, guaranteed by the Company and carries interest at a fixed rate of 4% subject to an interest rate adjustment mechanism based on the achievement of sustainability performance targets. The sustainability performance targets represent the photovoltaic installed capacity and the ratio of solar energy sales to total energy sales of the Group by 31 December 2025. If the Group fails to meet these targets, additional interests will be paid. At 31 December 2022, the carrying amount of SLB amounted to HK$1,560,400,000.

The borrowings mainly comprise of:

	Effective interest rate	Carrying amount 2022 HK$'000	2021 HK$'000
Floating-rate loans:			
Unsecured HKD bank loans	N/A (2021: 2.23%)	–	575,000
Unsecured RMB bank loans	2.86% (2021: 3.66%)	4,837,878	5,216,241
Unsecured USD bank loans	2.60% (2021: 0.96%)	390,100	389,850
Fixed-rate loans:			
Unsecured RMB bank loans	3.31% (2021: 3.83%)	9,938,538	9,487,648
Unsecured RMB other loans	N/A (2021: 1.50%)	–	23,605
Unsecured other loans	1.15% (2021: 1.15%)	8,073	10,823
Unsecured RMB MTN	3.40% (2021: 3.40%)	847,553	920,245
Unsecured USD SLB	4.00% (2021: N/A)	1,560,400	–
Total bank loans and other loans		17,582,542	16,623,412

35. LOANS FROM ULTIMATE HOLDING COMPANY, NON-CONTROLLING SHAREHOLDERS AND JOINT VENTURES

At the end of the reporting period, the loan from ultimate holding company carries interest at a fixed rate of 4.35% (2021: 4.35%) per annum and is unsecured and repayable on demand.

At the end of the reporting period, the loans from joint ventures carry interest at a fixed rate of 2.15% (2021: 2.15%) per annum and are unsecured and repayable on demand.

At the end of the reporting period, the loans from non-controlling shareholders carry interest at effective interest rate ranging from 1% to 4.99% (2021: 1% to 4.99%) per annum and are unsecured. Other than an amount of HK$7,379,000 (2021: Nil) repayable within one year, the remaining amount of HK$15,601,000 (2021: HK$37,518,000) repayable after one year.

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36. DEFERRED TAXATION

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

	Accelerated tax depreciation	Intangible assets	Undistributed profits of joint ventures/ associates/ subsidiaries	ECL provision/ fair value revaluation of equity instruments at FVTOCI	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2021	67,062	120,136	309,517	351,627	848,342
Currency realignment	1,374	1,032	23,847	11,562	37,815
(Credit) charge to profit or loss	(5,205)	(4,846)	63,640	(1,568)	52,021
Credit to other comprehensive income	–	–	–	(69,983)	(69,983)
Withholding tax paid	–	–	(37,356)	–	(37,356)
At 31 December 2021	**63,231**	**116,322**	**359,648**	**291,638**	**830,839**
Currency realignment	**(4,795)**	**(6,119)**	**(56,170)**	**(21,570)**	**(88,654)**
(Credit) charge to profit or loss	**(6,292)**	**(4,690)**	**73,176**	**(10,082)**	**52,112**
Credit to other comprehensive income	**–**	**–**	**–**	**(36,112)**	**(36,112)**
Withholding tax paid	**–**	**–**	**(38,548)**	**–**	**(38,548)**
At 31 December 2022	**52,144**	**105,513**	**338,106**	**223,874**	**719,637**

At the end of the reporting period, the Group has unused tax losses of HK$461,316,000 (2021: HK$595,840,000) 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 2027 (2021: year 2026).

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 the Group is able to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

37. CONVERTIBLE BONDS

Pursuant to a subscription agreement dated 25 October 2021 entered into by the Company and Clean Energy Ecosystem Pte. Ltd. (the "Investor"), the Company issued and allotted 116,783,333 shares at HK$5.0 per share and convertible bonds due 2026 of principal amount of RMB1,835,603,000 (equivalent to HK$2,217,716,000 at an agreed exchange rate) on 18 November 2021. Details of the transactions were disclosed in the Company's announcements dated 25 October 2021 and 18 November 2021.

Total gross proceeds received by the Company amounted to HK$2,801,632,000. The Company intends to apply the net proceeds for its general corporate purposes, including investing in smart energy business.

The subscription of shares and issue of convertible bonds are considered to be a single transaction. On initial recognition, the convertible bonds (including debt component and embedded derivative component) are measured at fair value with an aggregate amount of HK$2,349,713,000 and the remaining balance of HK$451,919,000 is recorded as share capital and share premium of the Company.

There was no movement in the number of the convertible bonds during the years ended 31 December 2022 and 2021 (since date of issuance). The convertible bonds entitle the Investor to convert them into ordinary shares of the Company in whole or in part at any time during the conversion period at a conversion price of HK$6.33 per share, subject to adjustments. Effective from 12 July 2022, the conversion price of the convertible bonds has been adjusted from HK$6.33 per share to HK$6.26 per share as a result of distributions of scrip shares at HK$4.028 per share made by the Company to the shareholders for the year ended 31 December 2021. Details of the adjustment to conversion price of the convertible bonds were set out in the Company's announcement dated 12 July 2022. The conversion period commences from the date of issue and will expire on the close of business on the earlier of (i) the date which is 5 business days prior to the maturity date, i.e. 18 November 2026, and (ii) if the convertible bonds shall have been called for redemption prior to the maturity date, the date which is 5 business days prior to the date fixed for redemption. The convertible bonds carry interest at a rate of 1% per annum, which is payable annually in arrears.

The convertible bonds comprise two components:

(a) The debt component was initially measured at fair value amounting to RMB1,590,450,000 (equivalent to HK$1,940,283,000). It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs. The effective interest rate of the debt component is 4% (2021: 4%) per annum.

(b) The embedded derivative component comprises conversion options, which were initially measured at fair value with an amount of RMB335,610,000 (equivalent to HK$409,430,000).

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37. CONVERTIBLE BONDS *(Continued)*

	Debt component HK$'000	Embedded derivative component HK$'000	Total HK$'000
Fair value of convertible bonds issued on 18 November 2021	1,940,283	409,430	2,349,713
Currency realignment	11,165	8,566	19,731
Direct transaction costs attributable to debt component	(1,502)	–	(1,502)
Interest expense	9,265	–	9,265
Interest paid	(2,613)	–	(2,613)
Loss arising on change of fair value	–	358,643	358,643
As at 31 December 2021	1,956,598	776,639	2,733,237
Currency realignment	(156,607)	(44,471)	(201,078)
Interest expense	77,125	–	77,125
Interest paid	(22,177)	–	(22,177)
Gain arising on change of fair value	–	(531,488)	(531,488)
As at 31 December 2022	1,854,939	200,680	2,055,619

38. SHARE CAPITAL

	Number of shares	HK$'000
At 31 December 2022		
– Authorised:		
Shares of HK$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK$0.10 each	3,258,615,526	325,862

Details of the authorised share capital are as follows:

	Number of shares	HK$'000
At 1 January 2021, 31 December 2021 and 31 December 2022	5,000,000,000	500,000

38. SHARE CAPITAL *(Continued)*

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 2021	2,968,934,833	296,893
Issue of shares upon scrip dividend scheme (Note a)	74,177,177	7,418
Issue of shares (Note b)	116,783,333	11,678
At 31 December 2021	3,159,895,343	315,989
Issue of subscription shares (Note c)	11,553,000	1,156
Issue of shares upon scrip dividend scheme (Note d)	87,167,183	8,717
At 31 December 2022	3,258,615,526	325,862

Notes:

(a) On 18 March 2021, 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 27 May 2021. On 13 July 2021, 74,177,177 shares of HK$0.10 each were allotted and issued at HK$5.08 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2020 final dividend under the scrip dividend scheme.

(b) On 18 November 2021, the Company issued and allotted 116,783,333 shares and issued convertible bonds (see note 37) to the Investor with an aggregated amount of HK$2,801,632,000 pursuant to the subscription agreement dated 25 October 2021. Details of the subscription of shares and convertible bonds were disclosed in the announcements of the Company dated 25 October 2021 and 18 November 2021.

(c) On 18 March 2022, the Company entered into a number of subscription agreements with the subscribers pursuant to which the subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue, in aggregate 11,663,000 subscription shares at the subscription price of HK$3.69 per subscription share in cash. At 31 December 2022, 11,553,000 subscription shares were allotted and issued in respect of these subscription agreements with total proceed of HK$42,630,000. Details of the subscription shares were disclosed in the announcement of the Company dated 18 March 2022 and 6 June 2022.

(d) On 17 March 2022, 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 26 May 2022. On 12 July 2022, 87,167,183 shares of HK$0.10 each were allotted and issued at HK$4.028 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2021 final dividend under the scrip dividend scheme.

All the shares which were issued during the years ended 31 December 2021 and 2022 rank pari passu with the then existing shares in all respects.

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39. 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.

40. SHARE-BASED PAYMENT TRANSACTIONS

Share award scheme

On 17 August 2021, the Company adopted the share award scheme (the "Scheme") for the purposes of (a) recognising the contributions by certain directors or employees of the Group (the "eligible participants") and providing them with incentives in order to retain them for the continual operation and development of the Group and (b) attracting suitable personnel for the further development of the Group and to contribute to the long-term growth of the Group. Unless terminated earlier by the Board pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date. Tricor Trust (Hong Kong) Limited was appointed as a trustee of the Scheme. Subject to the terms and conditions of the Scheme and the fulfilment of all vesting conditions, the award shares held by the trustee on behalf of a selected participant shall vest in such selected participant and the trustee shall transfer the award shares to such selected participant. Details of the Scheme were disclosed in the announcement of the Company dated 17 August 2021.

At 31 December 2022, there are 10,737,000 shares (2021: 3,772,000 shares) held by the trustee. During the year ended 31 December 2022, an additional 6,965,000 shares (2021: 3,772,000 shares) were purchased by the trustee from the market at an average price of approximately HK$4.29 per share (2021: HK$5.28 per share), with an aggregate amount of approximately HK$29,897,000 (2021: HK$19,928,000). No shares were granted to eligible employees pursuant to the Scheme during both years.

Share option scheme

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 26 May 2022 and the Share Option Scheme was also approved by ordinary resolution of the shareholders of HKCG, the parent company of the Company, at HKCG's annual general meeting on 6 June 2022. The participants include employees and directors of the Group, consultants and other advisors to members of the Group who are also directors and/or senior management staff of subsidiaries of HKCG. The Share Option Scheme is valid and effective for a period of ten years commencing 26 May 2022.

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants, attracting and retaining persons with the right calibre and experience to work for or make contribution to the Group, fostering a sense of belonging with the Group, and allowing the participants to enjoy the results of the Company achieved through their contributions to the Group.

40. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The maximum number of shares which may be issued under the Share Option Scheme must not (when aggregate with any shares to be issued under any other share option schemes of the Company) exceed 10% of the shares in issue at the date of adoption of the Share Option Scheme.

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company with such grantee and his associate(s) abstaining from voting.

The exercise period of the share options under Share Option Scheme is determined by the board of directors of the Company and shall end on a date which is not later than ten years from the date of grant of the options. At the time of grant of the share options, the Company must (a) specify the minimum period(s), if any, for which a share option must be held before it can be exercised in whole or in part, and (b) specify the minimum performance target(s), if any, which must be achieved before the share options can be exercised in whole or in past. The amount payable on acceptance of an offer for grant of share options is HK$1.

The exercise price in respect of any particular option of the Share Option Scheme may be determined by the board of directors of the Company in its absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets on the date of offer, which must be a business day; (ii) the average closing price of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

Details of options granted under the Share Option Scheme are as follows:

Date of grant	**Vesting date**	**Exercise period**	**Exercise price** HK$
25 November 2022	25 November 2023	25 November 2023 - 24 November 2025	3.40

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40. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by the participants pursuant to the Share Option Scheme during the year:

	Date of grant	Exercise price HK$	Number of share options: Outstanding at beginning of the year	Granted during the year	Outstanding at end of the year
For the year ended 31 December 2022					
Directors of the Company	25 November 2022	3.40	–	4,950,000	4,950,000
Others (Note)	25 November 2022	3.40	–	6,713,000	6,713,000
			–	11,663,000	11,663,000
Exercisable at end of the year					–
Weighted average exercise price (HK$)			–	3.40	3.40

Note:

Other participants represent:

(i) directors or senior management staff of the subsidaries of the Company; and

(ii) directors of both subsidiaries of the Company and of HKCG

During the year ended 31 December 2022, 11,663,000 options were granted pursuant to the Share Option Scheme on 25 November 2022. The estimated fair value of the options granted on that date was HK$10,247,000 (2021: nil).

40. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

These fair values were calculated using the Trinomial option pricing model. The inputs into the model were as follows:

Grant date	25 November 2022
Share price (HK$)	3.40
Exercise price (HK$)	3.40
Expected volatility	42.67%
Expected life (years)	3
Risk-free rate	4.26%
Expected dividend yield	4.41%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Change in the subjective input may materially affect the fair value estimates.

The Group recognised a total expense of HK$1,007,000 (2021: nil) for the year ended 31 December 2022 in relation to share options granted by the Company.

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2022

(i) Acquisition of smart energy companies

During the year ended 31 December 2022, Towngas China Energy Investment Limited ("TCEI"), an indirectly wholly-owned subsidiary of the Group, has acquired the controlling interests in six companies which are principally engaged in the business of encompassing photovoltaics, energy conservation, charging and Zero Carbon Smart City in the PRC from Hong Kong and China Integrated Power Investment (Shenzhen) Limited ("HCIP"), an indirect wholly-owned subsidiary of HKCG, at the aggregate consideration of HK$97,795,000. The primary reason for the acquisition is for the expansion of the Group's smart energy business and to increase returns to its shareholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2022 *(Continued)*

(i) Acquisition of smart energy companies *(Continued)*

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

	HK$'000
Net assets acquired:	
Property, plant and equipment	82,646
Trade and other receivables	11,677
Bank balances and cash	17,017
Trade and other payables	(13,545)
	97,795
Result on the acquisition:	
Acquirees' fair values of net identifiable assets	97,795
Deposit paid at 31 December 2021	(97,795)
	–
Net cash inflow on acquisition:	
Bank balances and cash acquired	17,017

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 2022 is presented as contributions are insignificant.

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2022 *(Continued)*

(ii) Disposal of a subsidiary

On 5 December 2022, 南京高淳港華燃氣有限公司 ("Nanjing Gaochun"), an indirect wholly-owned subsidiary of the Company, and Hong Kong and China Gas International Energy Trading Co., Ltd. ("HKCG International Energy"), an indirect wholly-owned subsidiary of HKCG, entered into the Equity Transfer Agreement, pursuant to which Nanjing Gaochun has agreed to sell and HKCG International Energy has agreed to purchase the entire equity interest in 南京淳港能源科技有限公司 ("Nanjing Chungang Energy") at the consideration of RMB2,000,000 (approximately HK$2,340,000), resulting in loss of control.

Analysis of assets and liabilities over which control was lost:

	HK$'000
Inventories	3,837
Trade and other receivables	130,578
Bank balances and cash	4,529
Trade and other payables	(136,604)
	2,340

Result on disposal of a subsidiary:	
Consideration	2,340
Net assets disposed of	(2,340)
	–
Satisfied by:	
Cash consideration received	2,340
Net cash outflow on disposal:	
Consideration received	2,340
Bank balances and cash disposed	(4,529)
	(2,189)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2022 *(Continued)*

(iii) Deemed disposal of interest in a subsidiary

During the year ended 31 December 2022, Towngas Lifestyle (Shenzhen) Information Services Co., Ltd., an indirect wholly-owned subsidiary of HKCG, has completed the capital injection of RMB15,000,000 (equivalent to HK$17,641,000) to Towngas Cosy Home (Chengdu) Technological Services Co., Ltd. ("Cosy Home (Chengdu)"), a subsidiary of the Group. The shareholding held by the Group decreased from 100% to 40% and Cosy Home (Chengdu) ceased to be a subsidiary of the Company.

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	9,978
Right-of-use assets	949
Inventories	32,689
Trade and other receivables	21,009
Bank balances and cash	68,368
Trade and other payables	(46,585)
Lease liabilities	(1,025)
Contract liabilities	(41,308)
	44,075
Loss on deemed disposal of a subsidiary:	
Retained interest in an associate	43,798
Net assets disposed of	(44,075)
	(277)
Net cash outflow on deemed disposal:	
Bank balances and cash disposed	(68,368)

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2021

(i) Acquisition and disposal of Jiangsu Jinzhuo

For the year ended 31 December 2021, U-Tech (Guang Dong) Engineering Construction Co., Ltd. ("U-Tech (Guang Dong)"), an indirect wholly-owned subsidiary of the Company, acquired 80% interest in Jiangsu Jinzhuo, which is principally engaged in businesses of municipal engineering, civil construction work, pipeline installation and non-excavation pipeline reconstruction work in the PRC from an independent third party, for a consideration of RMB80,000,000 (equivalent to HK$96,467,000).

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

	HK$'000
Net assets acquired:	
Property, plant and equipment	13,574
Intangible assets	103,106
Inventories	35,008
Trade and other receivables	45,598
Taxation recoverable	1,073
Bank balances and cash	69,688
Trade and other payables	(147,463)
	120,584
Result on the acquisition:	
Acquiree's fair values of net identifiable assets	120,584
Consideration paid	(96,467)
Non-controlling interests	(24,117)
	–
Net cash outflow on acquisition:	
Consideration paid	(96,467)
Bank balances and cash acquired	69,688
	(26,779)

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 2021 is presented as contributions are insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2021 *(Continued)*

(i) Acquisition and disposal of Jiangsu Jinzhuo *(Continued)*

After the completion of acquisition, U-Tech (Guang Dong) and the non-controlling shareholder, 湖州鼎昌工程設計合夥企業(普通合夥)("Huzhou Dingchang") have made an additional capital contribution to Jiangsu Jinzhuo in the amount of RMB32,000,000 (equivalent to HK$38,991,000) and RMB8,000,000 (equivalent to HK$9,748,000), respectively in proportion to their shareholding percentages.

Subsequently, the Group disposed 29.9% and 0.2% equity interests in Jiangsu Jinzhuo to an indirectly wholly-owned subsidiary of HKCG and Huzhou Dingchang for a consideration of RMB41,860,000 (equivalent to HK$50,967,000) and RMB280,000 (equivalent to HK$340,000) in cash, respectively, resulting in loss of control.

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	13,243
Intangible assets	102,712
Inventories	56,625
Trade and other receivables	50,572
Taxation recoverable	1,190
Bank balances and cash	53,376
Trade and other payables	(107,262)
	170,456
Result on disposal of a subsidiary:	
Fair value of retained interest in an associate	85,057
Consideration received	51,307
Non-controlling interests	34,092
Net assets disposed of	(170,456)
	–
Satisfied by:	
Cash consideration received	51,307
Net cash outflow on disposal:	
Consideration received	51,307
Bank balances and cash disposed	(53,376)
	(2,069)

41. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2021 *(Continued)*

(ii) Acquisition of smart energy companies

In December 2021, TCEI has acquired the controlling interests in nine companies which are principally engaged in the business of encompassing photovoltaics, energy conservation, charging and Zero Carbon Smart City in the PRC from HCIP at the aggregate consideration of HK$445,963,000. The primary reason for the acquisition is for the expansion of the Group's smart energy business and to increase returns to its shareholders.

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

	HK$'000
Net assets acquired:	
Property, plant and equipment	163,420
Trade and other receivables	40,110
Amounts due from non-controlling shareholders	51,534
Bank balances and cash	321,180
Trade and other payables	(59,685)
	516,559
Result on the acquisition:	
Acquiree's fair values of net identifiable assets	516,559
Consideration paid	(445,963)
Non-controlling interests	(70,596)
	–
Net cash outflow on acquisition:	
Consideration paid	(445,963)
Bank balances and cash acquired	321,180
	(124,783)

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 2021 is presented as contributions are insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

42. MAJOR NON-CASH TRANSACTIONS

The Group issued additional shares as scrip dividends during both years as set out in note 38.

During the year ended 31 December 2022, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 2 to 18 years (2021: 1 to 18 years) while for leasehold land for 15 to 50 years (2021: 15 to 70 years). On the lease commencement, the Group recognised HK$42,377,000 (2021: HK$52,519,000) of right-of-use assets and HK$42,377,000 (2021: HK$52,519,000) of lease liabilities.

During the year ended 31 December 2022, the Group has acquired additional interest in a subsidiary, 徐州港華能源有限公司, from the non-controlling shareholders. The consideration of HK$25,793,000 was settled through amounts due from non-controlling shareholders.

43. 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$'000	Loans from non-controlling shareholders HK$'000	Loans from joint ventures HK$'000	Loan from ultimate holding company HK$'000	Dividend payable HK$'000	Debt component of convertible bonds HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2021	11,492,758	20,890	5,231	–	–	–	62,116	11,580,995
Financing cash flows	4,761,403	16,651	(4,594)	65,484	(203,629)	1,940,283	(45,132)	6,530,466
New leases entered	–	–	–	–	–	–	52,519	52,519
Interest expenses	–	–	–	–	–	9,265	3,747	13,012
Interest paid	–	–	–	–	–	(2,613)	–	(2,613)
Exchange differences	369,251	(23)	93	1,133	–	11,165	2,236	383,855
Dividend declaration								
– shareholders of the Company	–	–	–	–	445,340	–	–	445,340
– non-controlling shareholders	–	–	–	–	135,109	–	–	135,109
Issue of shares upon scrip dividend scheme	–	–	–	–	(376,820)	–	–	(376,820)
Transaction costs	–	–	–	–	–	(1,502)	–	(1,502)
At 31 December 2021	**16,623,412**	**37,518**	**730**	**66,617**	**–**	**1,956,598**	**75,486**	**18,760,361**
Financing cash flows	**2,291,771**	**(11,843)**	**17,280**	**1,509**	**(267,256)**	**–**	**(28,057)**	**2,003,404**
New leases entered	**–**	**–**	**–**	**–**	**–**	**–**	**42,377**	**42,377**
Interest expenses	**–**	**–**	**–**	**–**	**–**	**77,125**	**4,608**	**81,733**
Interest paid	**–**	**–**	**–**	**–**	**–**	**(22,177)**	**–**	**(22,177)**
Exchange differences	**(1,332,641)**	**(2,695)**	**(606)**	**(5,310)**	**–**	**(156,607)**	**(5,540)**	**(1,503,399)**
Deemed disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(1,025)**	**(1,025)**
Dividend declaration								
– shareholders of the Company	**–**	**–**	**–**	**–**	**473,419**	**–**	**–**	**473,419**
– non-controlling shareholders	**–**	**–**	**–**	**–**	**144,947**	**–**	**–**	**144,947**
Issue of shares upon scrip dividend scheme	**–**	**–**	**–**	**–**	**(351,110)**	**–**	**–**	**(351,110)**
At 31 December 2022	**17,582,542**	**22,980**	**17,404**	**62,816**	**–**	**1,854,939**	**87,849**	**19,628,530**

Note: The amounts reclassified from hedge reserve are excluded in the reconciliation.

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44. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with related parties:

	2022 HK$'000	2021 HK$'000
Transactions with fellow subsidiaries (Note a):		
Purchase of goods and services	**315,515**	360,372
Sale of goods and services	**28,499**	42,929
Transactions with associates of ultimate controlling shareholder (Note b):		
Purchase of goods and services	**55,167**	151,645
Sales of goods and services	**3,764**	–
Transactions with a joint venture (Note c):		
Purchase of goods	**15,842**	35,463
Transactions with associates (Note d):		
Purchase of goods	**161,567**	177,953
Sale of goods	**10,752**	13,855

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.

During the year ended 31 December 2022, the Group acquired 100% interest in nine (2021: six) companies from an indirect wholly-owned subsidiary of HKCG with nil consideration. These companies have no assets and liabilities on the acquisition date. During the year ended 31 December 2022, the Group also acquired 49% interest in an associate from an indirect wholly-owned subsidiary of HKCG at a consideration of RMB65,709,000 (equivalent to HK$76,970,000) (2021: nil).

At 31 December 2021, the Group made a deposit of HK$178,829,000 to HCIP as deposit paid for acquisition of subsidiaries/an associate (2022: nil).

Emoluments paid to the key management personnel of the Company which represents the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are set out in note 14.

45. COMMITMENTS

	2022 HK$'000	2021 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Acquisition of property, plant and equipment	484,710	400,971
– Investments	27,684	–

46. RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2022 amounted to HK$101,229,000 (2021: HK$94,574,000).

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 2022, the Group made retirement benefit scheme contributions amounting to HK$2,254,000 (2021: HK$514,000). At 31 December 2022 and 2021, no forfeited contributions are available to reduce the contribution payable in future years.

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47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	2022 HK$'000	2021 HK$'000
Non-current assets		
Property, plant and equipment	409	61
Investments in subsidiaries	2,175,534	2,362,123
Investment in an associate	4,665,487	5,784,251
Loan to subsidiaries	13,601,800	12,453,172
	20,443,230	20,599,607
Current assets		
Amounts due from subsidiaries	1,696,017	2,944,984
Bank balances and cash	543,325	557,537
	2,239,342	3,502,521
Current liabilities		
Other payables and accrued charges	24,323	40,828
Amounts due to subsidiaries	132,302	30,912
Amount due to ultimate holding company	753	707
Borrowings – amounts due within one year	3,265,906	2,269,939
	3,423,284	2,342,386
Net current (liabilities) assets	(1,183,942)	1,160,135
Total assets less current liabilities	19,259,288	21,759,742
Non-current liabilities		
Loan from a subsidiary	11,007,737	11,695,752
Borrowings – amounts due after one year	390,100	389,850
Convertible bonds	2,055,619	2,733,237
Other financial liability	175	40,694
	13,453,631	14,859,533
Net assets	5,805,657	6,900,209
Capital and reserves		
Share capital	325,862	315,989
Reserves	5,479,795	6,584,220
Total equity	5,805,657	6,900,209

47. 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	Share-based payment reserve HK$'000	Shares held for share award scheme HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2021	296,893	5,951,219	–	–	(1,137,081)	5,111,031
Total comprehensive income for the year	–	–	–	–	1,426,102	1,426,102
Issue of shares upon scrip dividend scheme	7,418	369,402	–	–	–	376,820
Dividends paid to shareholders	–	(445,340)	–	–	–	(445,340)
Issue of shares	11,678	440,241	–	–	–	451,919
Transaction cost of attributable to issue of shares	–	(395)	–	–	–	(395)
Purchase of shares under share award scheme	–	–	–	(19,928)	–	(19,928)
At 31 December 2021	315,989	6,315,127	–	(19,928)	289,021	6,900,209
Total comprehensive expense for the year	–	–	–	–	(990,924)	(990,924)
Issue of shares upon scrip dividend scheme	8,717	342,393	–	–	–	351,110
Dividends declared to shareholders	–	(473,419)	–	–	–	(473,419)
Issue of subscription shares	1,156	46,392	(4,918)	–	–	42,630
Recognition of share-based payments upon grant of share options	–	–	1,007	–	–	1,007
Recognition of share-based payments upon grant of subscription shares	–	–	4,941	–	–	4,941
Purchase of shares under share award scheme	–	–	–	(29,897)	–	(29,897)
At 31 December 2022	325,862	6,230,493	1,030	(49,825)	(701,903)	5,805,657

* 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.

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 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
			2022	2021	
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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Directly-owned subsidiaries *(Continued)*					
TSEL (Gas) Holdings Limited	HK – Limited liability company	HK$100	100.0%	–	Investment holding
TSEL (Gas) Investment Limited	HK – Limited liability company	HK$100	100.0%	–	Investment holding
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$20,000,000	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
本溪滿族自治縣港華天然氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	–	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%	100.0%	Investment holding
C-Tech Laundry Investment Company Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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	RMB50,000,000	100.00%	100.00%	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
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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
Dalian Taipingwan Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB40,000,000	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
Dangtu Towngas China Energy Co., Ltd.	PRC – Limited liability company	RMB30,000,000	75.0%	75.0%	Smart energy
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
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
Fuxin Towngas China Energy Co., Ltd.	PRC – Limited liability company	RMB145,000,000	58.0%	58.0%	Smart energy

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	Attributable equity interest of the Group 2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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 gas and related services
Gao Chun Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$11,000,000	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
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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

Notes to the Consolidated Financial Statements

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2022	2021	
Indirectly-owned subsidiaries *(Continued)*					
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
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

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For the year ended 31 December 2022

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	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	62.4%	62.4%	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
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 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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
三台港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
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
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	**100.00%**	100.00%	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%**	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

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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	51.0%	51.0%	Provision of natural gas distributed energy
TCCL (Project Finance) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Financing
Tie Ling Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB332,960,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
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	RMB2,250,000,000	100.0%	100.0%	Investment holding

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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	100.0%	100.0%	Provision of engineering work services
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

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
Xuzhou Economic and Technological Development Zone Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB80,000,000	100.0%	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
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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2022	2021	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
內蒙古港華天然氣有限公司	PRC – Wholly foreign-Owned enterprise	RMB2,000,000	100.0%	–	Gas related business
Anqiu Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB47,000,000	100.0%	100.0%	Smart energy
Qingdao Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB29,000,000	100.0%	100.0%	Smart energy
Shuyang Zhongye Shukai New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Smart energy
Binzhou Xinrunfeng New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB15,000,000	100.0%	100.0%	Smart energy
Yancheng Towngas China Smart Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB34,000,000	100.0%	100.0%	Smart energy

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2022	2021	
Indirectly-owned subsidiaries *(Continued)*					
Maanshan Zhengpugang New District Towngas China Photovoltaic Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB3,500,000	100.0%	100.0%	Smart energy
Qingdao Towngas China Photovoltaic Co, Ltd.	PRC – Wholly foreign-owned enterprise	RMB80,000,000	100.0%	100.0%	Smart energy
Ben Xi Towngas China Energy Co, Ltd.	PRC – Wholly foreign-owned enterprise	RMB100,000,000	100.0%	100.0%	Smart energy
Wuhan Towngas China Energy Co, Ltd.	PRC – Wholly foreign-owned enterprise	RMB120,000,000	100.0%	100.0%	Smart energy
Tangshan Towngas China Integrated Energy Co, Ltd.	PRC – Wholly foreign-owned enterprise	RMB150,000,000	100.0%	100.0%	Smart energy
Yangtze River Delta Integrated Development Demonstration Zone (Suzhou Wujiang) Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB150,000,000	100.0%	100.0%	Smart energy
Liyang Hengdian Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB22,500,000	60.0%	60.0%	Smart energy
Danyang Towngas China Energy Storage Power Plant Co., Ltd.	PRC – Limited liability company	RMB30,000,000	90.0%	90.0%	Smart energy
Suzhou Guangchen Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB15,000,000	80.0%	80.0%	Smart energy
Taizhou Towngas China Energy Co., Ltd.	PRC – Limited liability company	RMB210,000,000	80.0%	80.0%	Smart energy
聊城港能投光伏發電有限公司	PRC – Wholly foreign-owned enterprise	RMB60,000,000	100.0%	100.0%	Smart energy
港華時代智慧能源科技 (蘇州) 有限公司	PRC – Limited liability company	RMB20,000,000	65.0%	65.0%	Smart energy

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows: *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2022	2021	
Indirectly-owned subsidiaries *(Continued)*					
崇陽禾沐新能源科技有限公司	PRC – Wholly foreign-owned enterprise	RMB10,000,000	100.0%	100.0%	Smart energy
港華(深圳)碳資產運營有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	100.0%	Smart energy
濟寧港華智慧能源有限公司	PRC – Limited liability company	RMB200,000,000	85.0%	85.0%	Smart energy

None of the subsidiaries had issued any debt securities at the end of the year except for TCCL (Finance) Limited which has issued SLB of approximately HK$1,560 million, in which the Group has no interest.

No financial information of the non-wholly owned subsidiaries is disclosed in the consolidated financial statements as the non-controlling interests are not individually material to the Group.

The Group is able to exercise power in making decisions over the relevant activities over these companies at different times throughout its life in accordance with memorandum of associations and able to appoint more than half of the board of directors of each of the companies. Accordingly, these companies are regarded as subsidiaries of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

49. EVENT AFTER THE REPORTING PERIOD

On 16 March 2023, the Company entered into a legally binding memorandum of understanding ("MOU") with Shenergy Group and Shanghai Gas, pursuant to which the parties agreed to the exit of the Company from its entire investment of 25% equity interest in Shanghai Gas through a reduction of the capital of Shanghai Gas by the amount held by the Company, the specific arrangements of which are subject to a definitive agreement to be signed between the parties. Shanghai Gas is owned as to 25% by the Company and 75% by Shenergy Group. Such 25% equity interest (represented by RMB333,333,333 in the registered capital of Shanghai Gas) was acquired by the Company through a capital contribution of RMB4,700,000,000 to Shanghai Gas completed in July 2021.

The consideration payable to the Company for the exit is to be agreed between the parties to the MOU (and to be set out in the definitive agreement) based on a valuation of Shanghai Gas as at 28 February 2023 to be conducted by a valuer and subject to the receipt of the required government and regulatory approvals. Pursuant to the MOU, from 1 March 2023, the Company has ceased to have any rights and responsibilities of a shareholder of Shanghai Gas, unless the exit is not completed for any reason. The parties agreed to submit the application documents in relation to the exit to the relevant authorities before 30 June 2023. If the exit is not completed by 31 December 2023, the MOU will be automatically terminated unless agreed otherwise between the parties.

For details of the exit, please refer to the Company's joint voluntary announcement dated 16 March 2023.

Apart from the above event, there have been no other material events occuring after the reporting period.

Corporate Information

Board of Directors

Non-Executive Directors

Lee Ka-kit *(Chairman)*
LIU Kai Lap Kenneth

Executive Directors

Peter Wong Wai-yee *(Chief Executive Officer)*
John Ho Hon-ming *(Company Secretary)*
Martin Kee Wai-ngai *(Chief Operating Officer – Gas Business)*
John Qiu Jian-hang *(Chief Operating Officer – Renewable Business)*

Independent Non-Executive Directors

Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi
LOH Kung Wai Christine

Authorised Representatives

Peter Wong Wai-yee
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
LOH Kung Wai Christine

Nomination Committee

Lee Ka-kit *(Chairman)*
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi
LOH Kung Wai Christine

Environmental, Social and Governance Committee

Peter Wong Wai-yee *(Chairman)*
John Ho Hon-ming
Martin Kee Wai-ngai
John Qiu Jian-hang
LOH Kung Wai Christine

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.towngassmartenergy.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 Smart Energy Company Limited

23/F, 363 Java Road, North Point, Hong Kong

www.towngassmartenergy.com

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