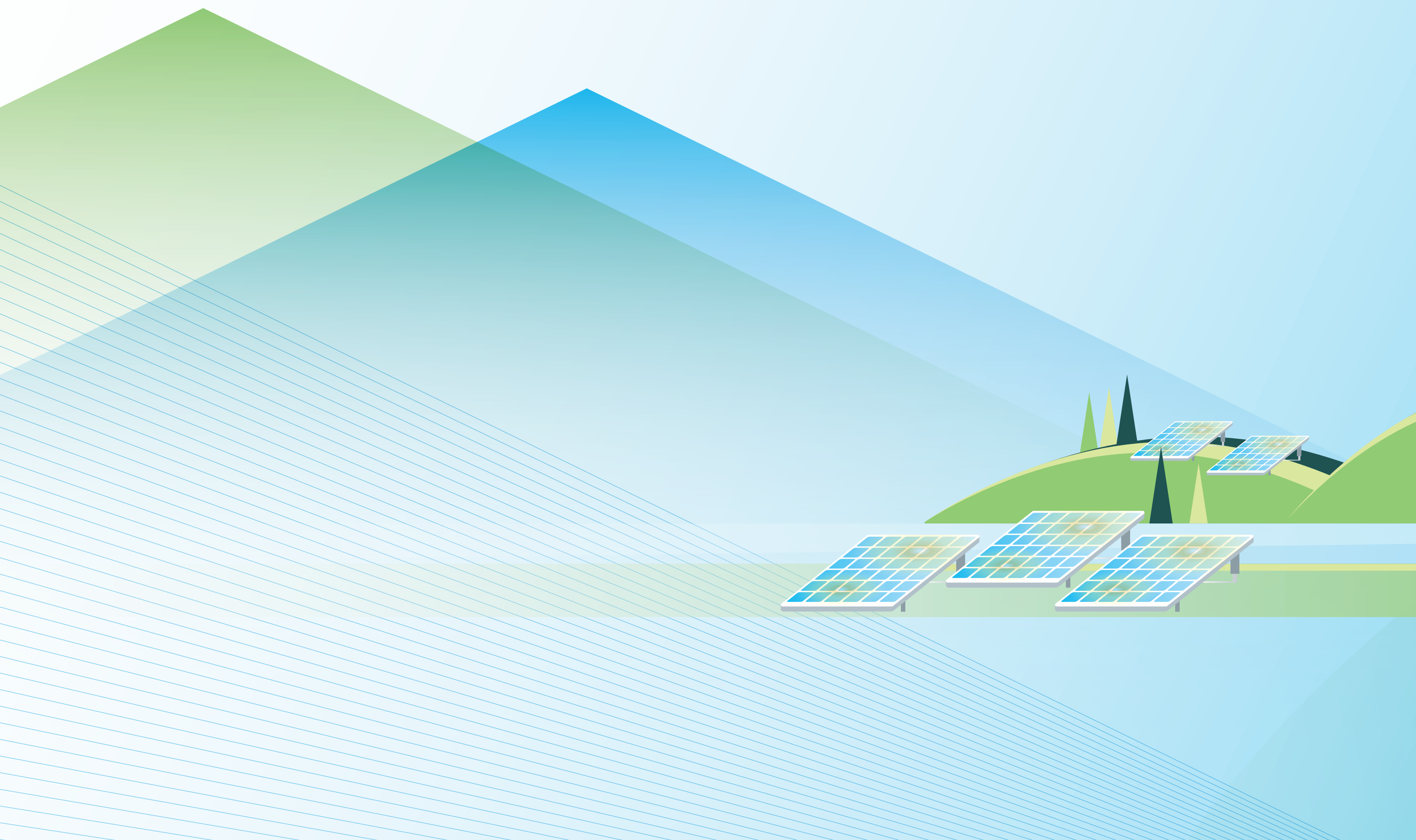
港華智慧能源有限公司
Towngas Smart Energy Company Limited

(Formerly known as Towngas China Company Limited)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

ANNUAL REPORT 2021

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

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



Towngas Smart Energy Company Limited
Annual Report 2021

Contents

Business Overview

265*
NO. OF PROJECTS

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

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	Cangxian, Mengcun, Qinhuangdao, Shijiazhuang, Yanshan
Heilongjiang	Qiqihar
Hubei	Zhongxiang
Hunan	Miluo
Inner Mongolia	Baotou
Jiangsu	Dafeng, Nanjing Gaochun, Tongshan
Jiangxi	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui, Yifeng
Jilin	Changchun, Gongzhuling, Siping
Liaoning	Anshan, Beipiao, Benxi, Chaoyang, Dalian Changxingdao, Dalian Economic and Technical Development Zone, Fuxin, Jianping, Kazuo, Lvshun, Shenyang Coastal Economic Zone, Tieling, Wafangdian, Xinqiu, Yingkou
Shandong	Boxing Economic Development Zone, Chiping, Feicheng, Jimo, Jinan West, Laiyang, Laoshan, Laoshan Bay, Linqu, Longkou, Pingyin, Taian, Weifang, Weihai, Wulian, Yangxin, Zhaoyuan, Zibo, Zibo Lubo
Shanghai	Shanghai
Sichuan	Cangxi, Chengdu, Dayi, Jiajiang, Jianyang, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
Yunnan	Luliang
Zhejiang	Huzhou, Songyang, Tongxiang, Yuhang

Vehicle Gas Refilling Stations

Heilongjiang	Qiqihar (Lianfu, Xingqixiang)

Midstream Projects

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

Upstream and other Projects

Anhui	Maanshan (Maanshan Piping Prefabrication)
Guangdong	Shenzhen (U-Tech (Guang Dong) Engineering)
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	Xiamen, Zhangpu
Guangdong	Guangzhou, Zhongshan
Hebei	Cangzhou, Shijiazhuang, Tangshan
Henan	Zhengzhou
Heilongjiang	Qiqihar
Jiangsu	Danyang, Huaian, Nantong, Suzhou, Taizhou, Xuzhou, Yangzhou
Liaoning	Benxi, Tieling, Yingkou
Shandong	Binzhou, Jining
Shaanxi	Xi'an

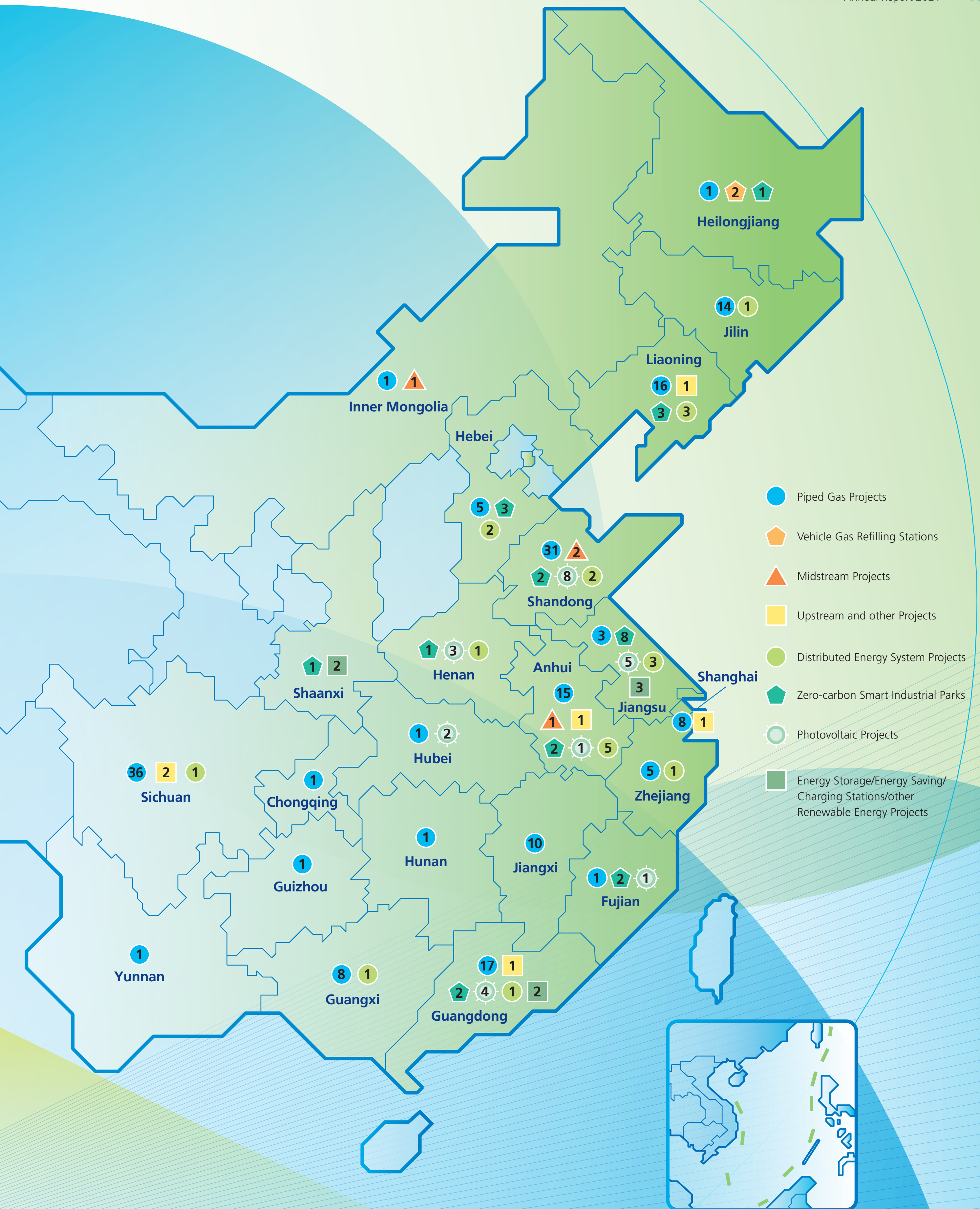
Distribution of Photovoltaic Projects

Anhui	Maanshan
Fujian	Fuzhou
Guangdong	Guangzhou, Jiangmen
Henan	Nanyang, Zhengzhou
Hubei	Wuhan, Xianning
Jiangsu	Changzhou, Suqian, Suzhou, Yancheng
Shandong	Binzhou, Jining, Liaocheng, Qingdao, Weifang, Weihai, Yantai

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

Guangdong	Shenzhen
Jiangsu	Danyang, Nanjing, Suzhou
Shaanxi	Xi'an

* as at the date of this Annual Report


1 2 1
Heilongjiang
14 1
Jilin
Liaoning
16 1
3 3
1 1
Inner Mongolia
Hebei
5 3
2
31 2
2 8 2
Shandong
3 8
5 3
3
Jiangsu
Shanghai
8 1
1 2
Shaanxi
1 3 1
Henan
Anhui
15
1 1
2 1 5
1 2
Hubei
5 1
Zhejiang
36 2 1
Sichuan
1
Chongqing
1
Hunan
10
Jiangxi
1
Guizhou
1 2 1
Fujian
1
Yunnan
8 1
Guangxi
17 1
2 4 1 2
Guangdong
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

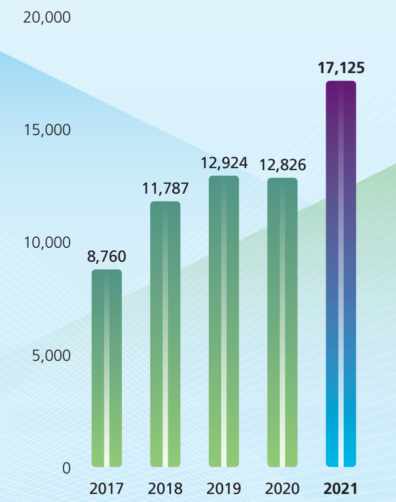
	For the year ended 31 December				
	2017 HK$'000	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
RESULTS					
Revenue	8,759,783	11,787,002	12,924,371	12,826,237	**17,125,447**
Profit before taxation	1,917,654	1,892,130	2,014,058	2,202,701	**2,144,751**
Taxation	(405,373)	(478,981)	(501,485)	(554,893)	**(617,659)**
Profit for the year	1,512,281	1,413,149	1,512,573	1,647,808	**1,527,092**
Profit for the year attributable to:					
Shareholders of the Company*	1,365,385	1,224,274	1,308,425	1,447,113	**1,253,202**
Non-controlling interests	146,896	188,875	204,148	200,695	**273,890**
Profit for the year	1,512,281	1,413,149	1,512,573	1,647,808	**1,527,092**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	49.87	43.89	46.06	49.56	**41.53**
Diluted	N/A	N/A	N/A	N/A	**41.53**

	As at 31 December				
	2017 HK$'000	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	32,774,810	34,014,606	38,194,886	42,892,963	**54,236,703**
Total liabilities	(15,576,994)	(16,245,290)	(17,894,876)	(20,244,361)	**(29,063,945)**
	17,197,816	17,769,316	20,300,010	22,648,602	**25,172,758**
Equity attributable to shareholders of the Company	15,845,033	16,229,197	18,612,056	20,722,899	**22,895,052**
Non-controlling interests	1,352,783	1,540,119	1,687,954	1,925,703	**2,277,706**
Total equity	17,197,816	17,769,316	20,300,010	22,648,602	**25,172,758**

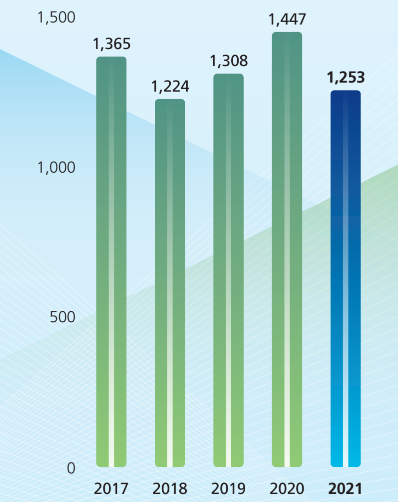
* the Company: Towngas Smart Energy Company Limited

Financial Highlights

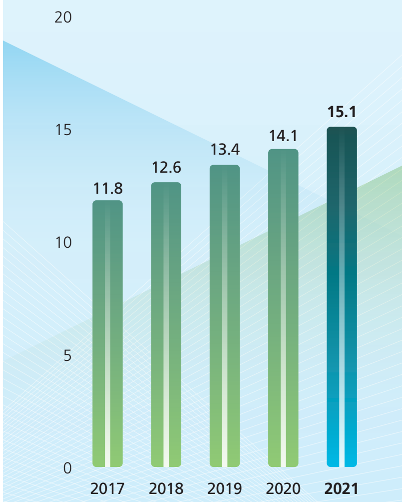
Revenue
(HK$ Millions)



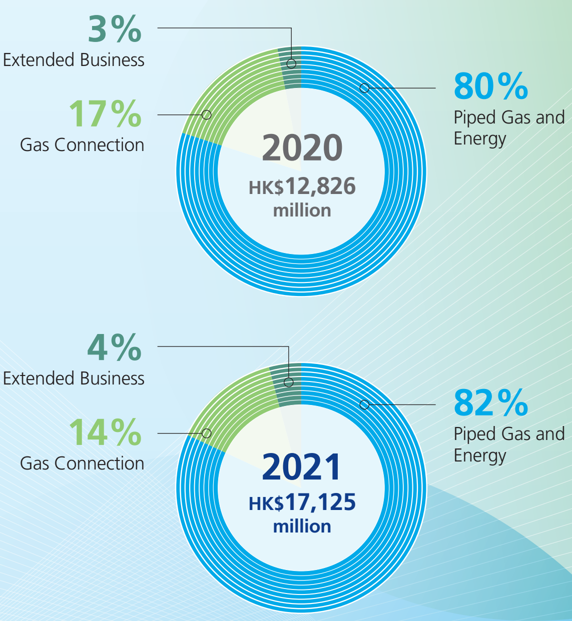
Profit Attributable to Shareholders of the Company
(HK$ Millions)



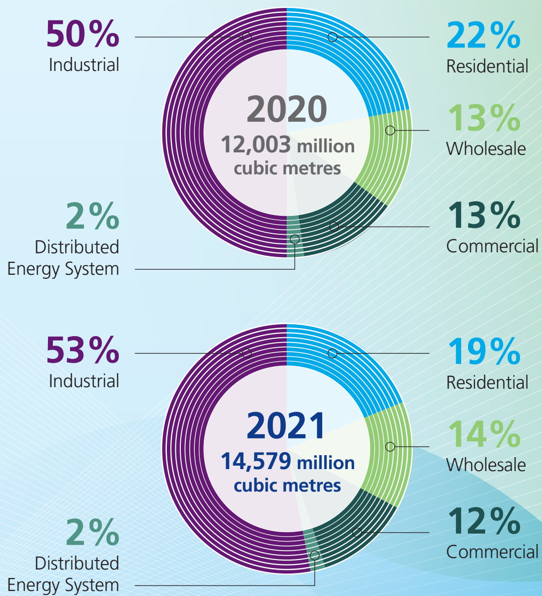
Number of Customers (All Entities)
(Millions)



Analysis of Revenue



Percentage of Gas Volume by Customer Mix (All Entities)



Chairman's Statement

Dr. Lee Ka-kit
Chairman

Economic Landscape

In 2021, the global economy showed signs of recovery despite the ongoing volatility, as industrial production and commodity trading steadily picked up. However, the repeated outbreaks of COVID-19 hindered full economic recovery. Furthermore, due to geopolitical confrontation and military conflict, global oil and natural gas prices are expected to soar. Added to the inflation and pace of interest rate hikes in the United States, as well as the higher commodity prices, the uncertainties of the global economy are being further intensified.

Thanks to the country's scientific coordination of anti-COVID-19 measures, focused economic development, as well as its intensified cross-cyclical adjustment of the country's macro policies, the Chinese mainland's economy maintained positive momentum and development, demonstrating its ongoing resilience. National fiscal policy put the focus back on the improvement of quality and efficiency, hand-in-hand with the improvement of the expenditure structure and the enhancement of fiscal sustainability. Further to the ongoing implementation of tax and fee cuts, the People's Bank of China also lowered the deposit reserve ratio for financial institutions. This reduced costs in the real economy, helping to stimulate strength and vigour among market players, and creating the suitable financial environment for top-quality development and supply-side structural reform.

These macro policies played a significant role in restoring investment confidence in business, and at the same time helping to increase the disposable income of residents and promoting the growth of domestic consumption. The economy in the Chinese mainland recorded a growth of 8.1% in 2021, creating added momentum to the world's economic recovery.

Reforms and Prospects of Energy Marketisation in the Chinese mainland

During the year, PipeChina basically completed the integration of oil and gas trunk pipeline networks across the nation. This integrated operation of oil and gas trunk pipelines in the Chinese mainland is greatly significant, as it improves the efficiency of oil and gas resource allocations and ensures national energy security. It will further promote the construction of an oil and gas production, supply, storage and distribution system.

In 2021, the incremental demand and growth rate of natural gas in the Chinese mainland rebounded significantly compared with that in 2020. The demand for natural gas among urban residents and industrial enterprises as well as requirements for power generation thus increased dramatically. Annual consumption reached 372.6 billion cubic metres, up 12.7% year on year, accounting for about 10% of total primary energy consumption.

The proportion of permanent urban residents in the Chinese mainland hit 64.72% in 2021, close to the goal of 65% as stated in the 14th Five-Year Plan. The rate is expected to rise significantly (a 1% increase indicates a growth of tens of millions in the urban population). This will create a huge demand for clean energy, push up the urban gasification rate and help the Group achieve considerable growth in our city gas and renewable energy businesses.

In the next phase, achieving "carbon peak" and "carbon neutrality" will become the important drivers of economic transformation and development. Clean energy will play an important role in addressing climate change and ensuring energy supply security, opening up more opportunities for development. The total consumption of natural gas is expected to exceed 500 billion cubic metres by 2030.

Chairman's Statement

2021 Business Highlights

In 2021, thanks to the rapid economic recovery in the Chinese mainland, the significant increase in gas sales and positive results in renewable energy sales, Towngas Smart Energy recorded a revenue of HK$17,125 million, up 33.5% year on year, with a profit after taxation attributable to shareholders of the Company of HK$1,612 million (before taking into account fair value change attributable to convertible bond derivative instruments), up around 11% year on year.

Up to the end of the year, the Group had 244 projects in 23 provinces, autonomous regions and municipalities in the Chinese mainland, covering city gas and renewable energy businesses. The gas sales volume of Towngas Smart Energy increased significantly during the year, with an overall growth in gas sales volume of 21% to 14,579 million cubic metres. The total number of customers of the Group reached 15.09 million, representing an increase of 950,000 compared to last year, with 17,000 new industrial and commercial users and 933,000 new residential customers.

The Group focuses on a "Zero-Carbon Smart Industrial Park Integrated Energy Service Provider" strategy, and promotes business development in three major regions, - Northern, Eastern and Southern (mainly the three Eastern provinces, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area), completing over 110 strategic renewable energy projects cumulatively by the end of 2021. This figure includes the development of 32 zero-carbon smart industrial park projects currently under negotiation (the total number includes HKCG's, our parent company's, projects as well). Our goal is to serve 200 quality parks in five years time.

On 26 November 2021, we officially changed our name to Towngas Smart Energy Company Limited ("Towngas Smart Energy") to accelerate our transformation into a renewable energy investor and operator. Prior to this change, Affinity Equity Partners, a well-known private equity fund, announced their investment of HK$2.8 billion in the Group based on its recognition and belief that as a Group, we are able to leverage the solid foundations we have built in the city gas industry and the many advantages we hold in aligning ourselves with the national goals of achieving "carbon peak" and "carbon neutrality", as we continue to develop our renewable energy business and become a leader in the integrated smart energy industry.

Environmental, Social and Governance (ESG)

As an energy corporation, Towngas Smart Energy attaches great importance to ESG management. Thus, we have long incorporated the concept of sustainable development into our day-to-day operations. Our Board of Directors regularly reviews important ESG-related issues and has formulated the Group's Environmental, Social and Governance Policies. We encourage all project companies, associates, suppliers and business partners to refer to the principles developed by the Group, wherever and whenever applicable. In addition, in 2019, the Group established an ESG Committee led by Board members, and elevated as a Board Committee this year, dedicated to promoting various ESG-related schemes and closely following up on implementation of the goals set in the various areas.

Ever since 2011, we have consistently been selected as a constituent of the Hang Seng Corporate Sustainability Index. During the year, we received a number of industry awards, notably in the ESG field. Key awards and accolades include:

– *China News Weekly*, China News Service

  - **The title of 2021 Low-Carbon Role Model**

– China-Asia Economic Development Association, *Global Times* and *Chinese Economic News*

  • **The accolade of Innovative Enterprise in China's Economy in the New Era**

– Included in the list of **Top 60 China Corporate Citizen 520 Responsible Brand 2021**

– Ranked on the list of **Top 50 Contributors in the Research Report on the Contribution of Chinese Energy Enterprises to Low-carbon Development**

– 2022 Global Investment Trend Forum & the 6th Golden Hong Kong Stocks Awards Ceremony

  • **Best Energy and Resources Company**

  • **Most Socially Responsible Listed Company**

We always regard safety as a top priority. As such, we have established a sound safety risk management framework and strictly implemented a safety responsibility system. Each year, different safety themes are developed and implemented, and resources are allocated to renovate facilities in areas under management and conduct technical training for staff.

The Group has established a department dedicated to environmental protection, which formulates environmental management policies and measures, develops environmental safety manuals for employees, carries out environmental management supervision and inspection, ensures compliance with all relevant environmental laws, and regularly reviews and updates such policies and measures. Various project companies of the Group have obtained their ISO 14000 environmental management system certification, and most suppliers also hold ISO 9000, ISO 14000 and OHSAS 18000 certification. Our parent company, HKCG, took the lead in signing the "Chinese City-Gas Enterprise Methane Emission Control Proposal" to actively support the formulation and implementation of government policies on methane emission control, which also promotes the country's methane emissions reduction scheme in line with international standards. In addition, we host a variety of education and training activities to encourage all project companies and employees to participate in environmental activities, raise environmental awareness in the community, and strengthen the promotion of "green office and low-carbon life" concepts.

Over the years, we have been active in safeguarding the interests of stakeholders and the public, as we undertake our responsibilities as a corporate citizen. We have been operating our "Bauhinia Movement" across the country, donating gas stoves and daily necessities to those in need. Our charity philosophy to "benefit the community and give back to society" is now bearing fruit, particularly in our project companies. Over the years, our iconic community initiative "Gentle Breeze Movement" has donated money and supplies of over RMB3 million in total to support schools with limited resources. Active for many years, it currently covers 14 provinces and municipalities and benefits more than 9,000 students from grassroots families. Additionally, our Care for Life Foundation, which I first initiated in 2009, is committed to providing medical assistance for orphaned and poor children with birth defects (mainly congenital heart disease) in the Chinese mainland. By the end of December 2021, more than 41,000 children in 31 provinces, autonomous regions and municipalities have received assistance under this scheme.

As one of the earliest companies to put ESG concepts into practice, we firmly believe that in promoting environmental measures, undertaking social responsibilities, and improving corporate governance, we need to be proactive. Rather than passively "waiting for problems to arise", we need to actively care for our planet, our communities and even the many matters that arise around us. We need to adhere to a persistent attitude and take the initiative to create shared values for society as a whole.

Chairman's Statement

Business Outlook

Over the years, the Group has been working conscientiously in the gas business in the Chinese mainland, with extensive experience and teams of professionals committed to the construction and operation of city infrastructure, provision of first-rate services, as well as government-business cooperation. Currently, we are actively responding and aligning ourselves to the national goals of achieving carbon peak and carbon neutrality. The Group will seize the opportunities, leverage our strengths and adopt our strategy for parallel development both in the city gas and renewable energy sectors to achieve steady business growth.

We have diversified our presence in upstream LNG terminals, production, storage, trade, etc, and reduced the gas source costs in downstream cities to better seize gas source-side opportunities arising from the "X+1+X" natural gas reforms and maintain our competitiveness.

The underground salt cavern gas storage facility in Jintan, Jiangsu Province, owned by our parent company HKCG, leverages the wide-spread national pipeline network to allocate gas sources across different regions. It is expected to become the gas storage and allocation hub for LNG receiving terminals in Eastern China under the "liquid in, gas out" regime.

During the year, the Tangshan Caofeidian LNG receiving terminal, another HKCG investment, was launched. Upon completion, it can receive 1 million tonnes of LNG every year. The Group's shale gas liquefaction plant in Weiyuan, Sichuan, set to be completed in early 2023, will become our gas-storage and peak-shaving base in Southwest China. The equity interest acquisition in Shanghai Gas was also completed within the year. The two LNG terminals that Shanghai Gas Co., Ltd (Shanghai Gas) has the right to use also help the Group further secure the supply of gas sources.

With the completion of the natural gas pipeline between Russia and the Chinese mainland in 2019, the bottleneck in gas sourcing in the Northeast has been greatly eased, with the energy supply becoming much more stable. On the industrial side, benefiting from the Chinese mainland's coal-to-gas conversion policy, we continue to drive growth in gas sales. In addition, we strive to develop our heating business as we take advantage of our hot water and energy-saving technologies to tap into the commercial sector. We promote distributed residential heating and central district heating in the residential market, allowing highly efficient use of natural gas in our heating business.

Against the backdrop of achieving the goals of carbon peak and carbon neutrality, the renewable energy industry, as a highlighted area of national development, has opened up enormous business opportunities. With accelerated economic development and rapid urban expansion in the Chinese mainland, exploring a roadmap for zero-carbon development in urban areas has become the basis for achieving nation-wide carbon neutrality. Based on the technologies of cloud computing, big data and the Internet of Things among others, we have established an integrated energy system. This system spans multi-energy supply, photovoltaics, energy storage, as well as charging and swapping to achieve a reduction in our carbon footprint and the digital transformation of industrial park energy management, and help drive the development of zero-carbon cities.

Going forward, we will build on synergies with our parent company HKCG, and take advantage of our some 400,000 industrial and commercial customers, 50,000 employees as well as our mass energy storage technologies to further accelerate the development and establishment of zero-carbon smart industrial parks. Meanwhile, we will continue to provide our 40,000,000 residential customers with safe and quality products and services.

The Group will continue to boost the sales of our "Bauhinia" brand. Apart from appliances, like gas stoves and water heaters, range hoods and gas dryers, "Bauhinia" also supplies tailored kitchen design and smart kitchen equipment. Adding to this list, Bauhinia has tapped into the Chinese mainland's heating market and developed a residential heating business under the "Towngas Heating" brand. We also focus on providing comfortable and healthy lifestyles. We have thus joined hands with outstanding partners in various industries to provide customers with one-stop and diversified services covering health management, health education and health consumption. In the future, we will leverage the resource advantages of our parent company to coordinating and collaborating with them, in our efforts to create develop better with a macro perspective.

Looking forward to 2022, we will continue to steadily develop our city gas business while stepping up the promotion of our business in zero-carbon smart industrial parks. At the same time, we will increase our investment in, and commitment to, technology research and development to create leading energy knowledge and expertise, thus cementing our core competitive advantages. We seek to grow into a leading player in the country's energy management industry over the next 5 to 10 years.

In view of the continuous and rapid spread of the COVID-19 pandemic, the Group will prudently balance the needs of business development and operations to ensure that sufficient funds are available to meet our business needs.

The Central Government, together with every sector in the country, have gone all-out in their support of Hong Kong's combat against the fifth wave of the pandemic, the most severe yet in two years. They have swiftly rolled out and implemented a series of anti-pandemic measures to aid Hong Kong, while at the same time ensuring the steady supply of medical and other critical supplies. We would like to express our sincere appreciation on behalf of the Group.

In conclusion, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude for the support received from our shareholders, and the tremendous efforts made by our staff.

Dr. Lee Ka-kit
Chairman
17 March 2022

Financial Review

Excluding the loss from change in fair value of embedded derivative component of convertible bonds, profit after taxation attributable to shareholders of the Company rose by 11% to HK$1,612 million.

In 2021, total gas sales volume of the Group rose by **21%** to **14,579 million cubic metres.**

Total number of customers of the Group reached **15.09 million**, with **950,000 new customers.**

Revenue

In 2021, the economy resumed growth in the Chinese mainland, driving the increase in energy consumption. The total revenue of the Group increased by 33.5% from HK$12,826 million in 2020 to HK$17,125 million in 2021. Revenue from sales of piped gas and energy, gas connection and extended business recorded growth.

Business Segments	**2021 (HK$ million)**	2020 (HK$ million)	Change (%)
Sales of piped gas and energy	**13,951**	10,228	36.4
Gas connection	**2,429**	2,210	9.9
Extended business	**745**	388	92.0
Total	**17,125**	12,826	33.5

In 2021, the total consolidated volume of gas sold of the Group amounted to 4,213 million cubic metres, representing an increase of 17.1% over last year. There were 525,000 new household connections, representing an increase of 11% over last year. Revenue from extended business also recorded significant growth as the Group actively expanded its extended business with Covid-19 waning in the Chinese mainland.

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 2021 amounted to HK$15,020 million, representing an increase of 36.5% from HK$11,002 million in the financial year of 2020.

	2021 (HK$ million)	2020 (HK$ million)	Change (%)
Gas fuel, stores and materials used	**12,254**	8,743	40.2
Staff costs	**1,304**	1,018	28.1
Depreciation and amortisation	**868**	763	13.8
Other expenses	**594**	478	24.3
Total	**15,020**	11,002	36.5

Total operating expenses as a percentage of revenue in 2021 was higher than that in 2020, mainly attributable to the rise in the purchase price of natural gas in 2021.

Other Income

The increase in other income compared to that for the financial year of 2020 was mainly due to the increase in government grants, interest and other miscellaneous income.

Other (Losses) Gains, Net

The increase in other losses compared to that for the financial year of 2020 was mainly due to the loss of HK$359 million from change in fair value of embedded derivative component of convertible bonds.

Share of Results of Associates

During the financial year of 2021, share of results of associates increased by 20.2% from HK$363 million last year to HK$436 million, mainly due to the significant increase in the volume of gas sold by associates during the year, resulting in increase of profit compared with last year.

Share of Results of Joint Ventures

During the financial year of 2021, share of results of joint ventures increased by 29.1% from HK$334 million last year to HK$431 million, mainly due to the increase in the volume of gas sold and connection income earned by joint ventures during the year, resulting in increase of profit compared with last year.

Finance Costs

During the financial year of 2021, the finance costs of the Group increased by 38.2% from HK$426 million last year to HK$589 million. The increase was mainly due to new bridging loans borrowed for the acquisition of Shanghai Gas Co., Ltd. ("Shanghai Gas"), issuance of convertible bonds and increased borrowings for the investment in new projects during the year.

Financial Review

Profit for the Year

During the financial year of 2021, profit for the year amounted to HK$1,527 million, representing a year-on-year decrease of 7.3%. Profit attributable to shareholders of the Company amounted to HK$1,253 million, representing a year-on-year decrease of 13.4%. Excluding the impact of change in fair value of embedded derivative component of convertible bonds of HK$359 million, profit for the year amounted to HK$1,886 million, representing a year-on-year increase of 14.4%, and profit attributable to shareholders of the Company was HK$1,612 million, representing a year-on-year increase of 11.4%. Basic earnings per share amounted to HK41.53 cents, representing a year-on-year decrease of 16.2%. Operating cash inflow during the year amounted to HK$2,253 million, basically similar to that of last year.

Financial Position

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

As at 31 December 2021, the Group's bank loans and other loans amounted to HK$16,623 million (31 December 2020: HK$11,493 million), of which HK$8,633 million (31 December 2020: HK$5,137 million) represented bank loans and other loans due within 1 year, HK$7,968 million (31 December 2020: HK$6,343 million) represented bank loans and other loans due between 1 to 5 years, and HK$22 million (31 December 2020: HK$13 million) represented bank loans and other loans due over 5 years. Other than the HK$10,442 million (31 December 2020: HK$8,147 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$15,648 million (31 December 2020: HK$9,749 million) and the remaining HK$975 million (31 December 2020: HK$1,744 million) borrowings were denominated mainly in Hong Kong dollars and United States dollars ("USD") as at the end of the year. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-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$67 million (31 December 2020: nil), approximately HK$1 million (31 December 2020: HK$5 million) and approximately HK$38 million (31 December 2020: HK$21 million) from the parent company HKCG, joint ventures and non-controlling shareholders on a fixed interest rate basis respectively.

In June 2021, the Group established a USD2 billion MTN Programme which helps strengthen financial position of the Group and expand its sources of funding. Up to the year ended 31 December 2021, the Group issued notes in the total nominal amount of HK$920 million with maturity term of 3 years.

In October 2021, the Group entered into a subscription agreement with a strategic investor for the issue of 116,783,333 new shares at HK$5.00 per share and 5-year RMB-denominated convertible bonds in aggregate principal amount of RMB1,836 million (equivalent to HK$2,218 million) ("Subscription"). The proceeds from the Subscription amounting to approximately HK$2,802 million are for the Group's general corporate purposes, including investing in renewable energy business. The Subscription was completed in November 2021. Details of the Subscription were disclosed in the announcements of the Company dated 25 October 2021 and 18 November 2021.

As at 31 December 2021, the Group had a gearing ratio (net debt to total equity plus net debt) of 37.9% (31 December 2020: 28.9%). The notable increase in the gearing ratio of the Group during the year was mainly due to the bridging loans drawn from banks to fund the capital increase of Shanghai Gas, issue of notes under the MTN Programme and issue of the above stated convertible bonds.

As at 31 December 2021, the Group's cash and cash equivalents together with time deposits amounted to HK$4,081 million (31 December 2020: HK$2,335 million), of which 99% (31 December 2020: 99%) are RMB-denominated and the rest are denominated in Hong Kong dollars and USD.

As at 31 December 2021, the Group has unutilised source of fund from MTN Programme amounting to approximately HK$14,674 million and unutilised facilities from banks and HKCG amounting to approximately HK$9,397 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.

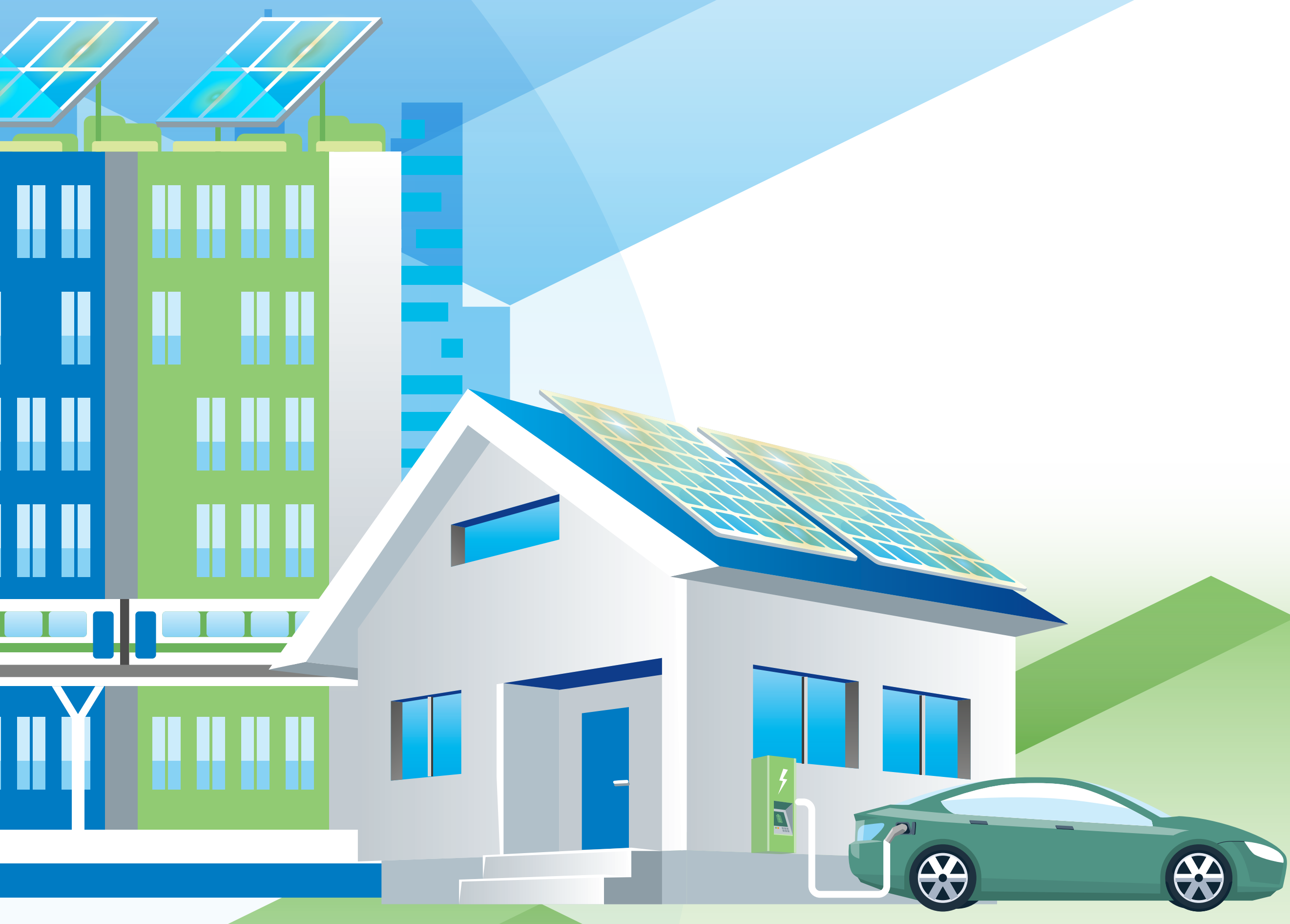
Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2021.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2021 of HK fifteen cents per share (2020: HK fifteen cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

Renewable Energy Business



Review of Operations

Chapter 1: Renewable Energy Business

In 2021, the Group achieved several new milestones in its business development plan, including the introduction of the new investor Affinity Equity Partners, the completion of the first phase of the plan for cross-shareholding with Shanghai Gas, and the business transformation from a single gas business entity into an integrated clean energy supplier, focusing on promoting smart energy solutions in the zero-carbon smart industrial park scenario. In line with the new development direction, the Company passed a resolution at the extraordinary general meeting on 26 November to officially rename the Company as Towngas Smart Energy Company Limited.

The world is at a critical period of transitioning from fossil energy to renewable energy. The energy structure of various countries is constantly being adjusted, with the share of the more efficient and clean energy expanding and the demand for low-carbon energy increasing. The Chinese mainland's renewable energy industry has grown significantly over the past decade, witnessing the total installed capacity growing at a compound annual growth rate of 14% since 2012 and the share of renewable energy in total energy consumption increasing from 9.1% to 15.9%. The government of the Chinese mainland has set specific medium-term goals of further increasing the share of renewable energy consumption to 25% and expanding the total installed capacity of photovoltaic and wind power to more than 1.2 billion kilowatts by 2030. Possessing the absolute advantages in terms of scalability, cost and safety, solar energy and wind energy industries are expected to be the key driver towards the goals.

Riding the trend of energy development of the Chinese mainland, the Group established the Towngas Energy brand in 2016 with a particular focus on investing in natural gas distributed energy and central heating projects, providing energy planning, energy conservation consultancy and other services for more than 170 city gas project companies of the Group, laying a solid foundation for the development of the renewable energy business. By the end of the year, Towngas Smart Energy, together with its parent company HKCG, had a customer base of more than 40 million, including nearly 400,000 industrial and commercial customers, many of which were located in industrial parks. Therefore, the installation and operating costs of photovoltaic systems could be effectively reduced, providing strong support for photovoltaic projects targeting industrial parks.

At present, the Chinese mainland has about 2,600 industrial parks at national and provincial levels. Towngas Smart Energy aims to provide smart energy solutions for 200 of these industrial parks by 2025. By 2021, the Group and its parent company HKCG had carried out more than 110 renewable energy projects in 21 provinces, autonomous regions and municipalities and developed 32 zero-carbon smart industrial parks, with business scope spanning multi-energy supply (cooling, heat, electricity), photovoltaics, energy storage, charging and swapping stations, integrated energy services for industrial and commercial customers.

Towngas Smart Energy will build an integrated, smart, and sustainable renewable energy business based on three core pillars: integration, digitalisation and decarbonisation. By leveraging the new business development model of building and managing zero-carbon smart industrial parks, and applying cutting-edge technologies such as advanced energy storage technology, smart energy platform, blockchain and chips, the Group can create an integrated source-grid-load-storage smart regional energy supply management system.

Digitalisation

We will independently develop a smart energy ecological cloud platform to provide zero-carbon industrial parks and customers with digital energy solutions to help them achieve smart operation and maintenance of energy assets, monitor and analyse energy use by users, and improve energy-saving solutions.

Integration

Based on the requirements of different scenarios in zero-carbon industrial parks, we provide customers with integrated smart energy solutions by investing in and operating distributed photovoltaics, multi-energy supply, energy efficiency management, user-side energy storage, and charging and swapping stations in a variety of ways.

Decarbonisation

Based on solid cooperative relations with customers, we provide customers in zero-carbon industrial parks with services like carbon management, green electricity trading to help them reduce carbon emissions and achieve green and low-carbon operations.

Review of Operations

Case demonstration of zero-carbon smart industrial parks

Taizhou city, Jiangsu province

Towngas Smart Energy cooperated with the government of Hailing District in Taizhou City, Jiangsu province to invest in the construction of green energy and carbon reduction projects, such as rooftop photovoltaics, charging piles for electric vehicles, natural gas distributed energy and energy conservation projects for industrial customers in three provincial industrial parks.

The installed capacity of the first phase of the rooftop photovoltaic project reached 80 megawatts. Meanwhile, using this project as a pilot, the Group cooperated with Tencent to develop a regional smart energy ecological platform, providing the government and customers in the park with digital energy management systems, forming a regional energy internet and creating a zero-carbon smart industrial park.

Tangshan city, Hebei province

Located in Hebei province, Fengnan Economic Development Zone is a provincial development zone, covering an area of approximately 160 square kilometres, and includes three industrial parks: Lingang Economic Park, Xiaoji Economic Park and High-tech Industrial Park. To help Fengnan achieve green economic development, Tangshan Towngas China Integrated Energy Co., Ltd. invested in the construction of a zero-carbon smart energy project in the park. The installed capacity of the rooftop photovoltaic project under construction exceeds 60 megawatts.

In addition, the project provides customers with services such as carbon management, energy management, energy saving for air conditioners, energy saving for air compressors, and power operation. It also invests in charging and swapping stations and offers quick battery replacement for heavy-duty transport vehicles. With the first management system for carbon peak and carbon neutrality in industrial parks in the Chinese mainland being put into use in the region soon, whereupon digital management of energy saving and carbon reduction can be attained in the park, and the efficient and smart operation of integrated energy can be achieved.

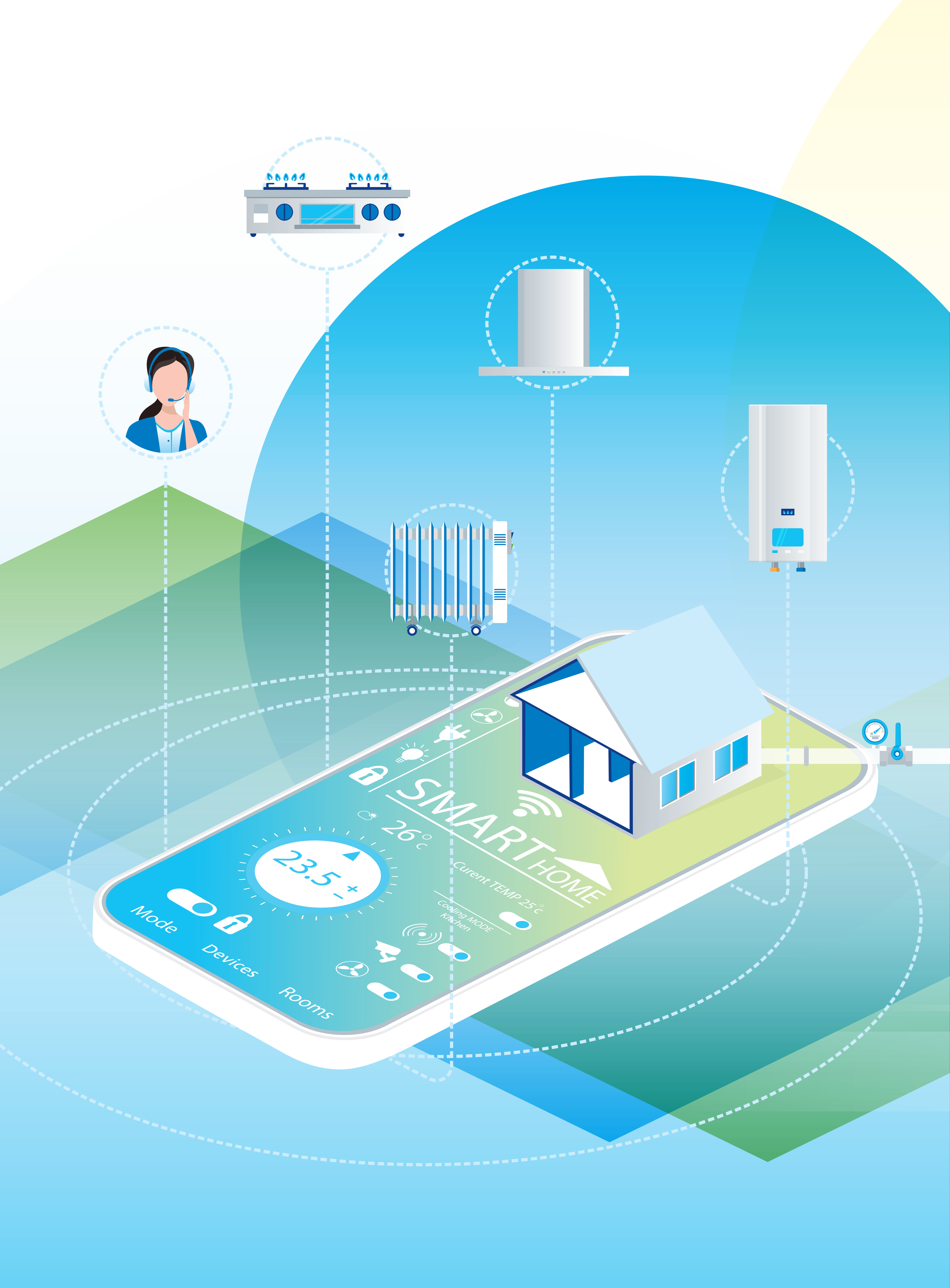
During the year, Towngas Smart Energy cooperated with multiple industry-leading enterprises to accelerate the business planning of the Group:

- The Group jointly established with CATL the joint venture Towngas CATL Smart Energy Technology (Suzhou) Company Limited (港華時代智慧能源科技(蘇州)有限公司), an innovative energy technology enterprise integrating advanced energy storage technology, system integration service provision and energy storage project operation with a particular focus on shared energy storage and user-side energy storage for zero-carbon smart industrial parks.

- The Group set up the Joint Research Centre for Regional Integrated Energy Planning Technology with Tsinghua University to explore regional integrated energy planning, multi-energy complementation, integrated gas use and other key technologies, contribute towards the development of the Chinese mainland's clean, low-carbon, safe and efficient modern energy system, and jointly drive the speedy development of integrated energy technology.

- The Group collaborated with Tencent Cloud to create a smart energy ecological platform to carry out innovations in business areas such as energy and carbon monitoring, energy operation, energy and carbon trading, and auxiliary services using digital technologies including cloud computing, big data, artificial intelligence, edge computing and Internet of Things. The platform can be used for various application development and system access, laying a solid foundation for digital and smart energy operation.

- The Group and State Power Investment Corporation (SPIC) reached a strategic cooperation in the field of battery charging and swapping for heavy trucks, in an effort to jointly promote the development of zero-carbon industrial parks and source-grid-load-storage integration and to achieve the implementation of business scenarios and building of charging and swapping stations.


SMART HOME
26°c
23.5
Curent TEMP 25°c
Cooling MODE
Kitchen
Mode
Devices
Rooms

Gas Business

Review of Operations

Chapter 2: Gas Business

In 2021, the Chinese mainland's apparent consumption of natural gas reached 372.6 billion cubic metres, an increase of approximately 12.7% over the same period last year; and the economy grew by 8.1%. With steady economic recovery and the state's goal of achieving carbon emission peak by 2030 and carbon neutrality by 2060, natural gas, as one of the cleanest fossil energy sources, will undoubtedly play an important role in the Chinese mainland's energy structure transition. The demand for natural gas will undoubtedly go up.

Under this circumstances, the gas sales volume of Towngas Smart Energy increased robustly by 21% to about 14,579 million cubic metres during the year. Specifically, the increase in industrial, commercial and wholesale markets was the most significant. Industrial gas sales volume was 7,667 million cubic metres, representing an increase of 28% over 6,008 million cubic metres in 2020 and accounting for 53% of the total gas sales volume of the Group; wholesale gas sales volume was 2,032 million cubic metres, representing an increase of 29% over 1,573 million cubic metres of last year and accounting for 14% of the total gas sales volume of the Group; commercial gas sales volume was 1,719 million cubic metres, representing an increase of 13% over 1,515 million cubic metres of last year and accounting for 12% of the total gas sales volume of the Group; residential gas sales volume increased from 2,643 million cubic metres of last year to 2,796 million cubic metres, up 6%, accounting for 19% of the total gas sales volume. Distributed energy business recorded the equivalent of 365 million cubic metres of natural gas sales in 2021, compared with the equivalent of 264 million cubic metres of natural gas sales of last year and accounting for approximately 2% of the total gas sales volume of the Group. The total number of customers of the Group reached 15.09 million, representing an increase of 950,000 over that of last year.

In 2021, the COVID-19 pandemic affected the global demand for LNG. In the first half of the year, in the context of oversupply and oil price decline, international LNG prices remained stable. However, in the second half of the year, given the surge in demand and shortage of natural gas supply, international LNG prices reached a record high. Meanwhile, with significantly rising upstream natural gas prices in the Chinese mainland and intensifying pressure on ensuring supply in the Chinese mainland during winter, the Group faced downside pressure on the gross margin of gas sales in the second half of the year. In addition, strongly promoting coal-to-gas conversion to industrial customers through a gas spread with a lower gross margin to boost gas sales also diluted the overall gross margin of the Group's gas business.

In the upstream, the Group continued to expand channels to purchase lower-cost international LNG, including signing a long-term LNG import agreements together with its parent company HKCG, building a shale gas liquefaction project in Weiyuan County, Sichuan Province, and HKCG's investment in LNG terminal storage tanks in Tangshan, Hebei Province, thus consolidating the Group's independent gas sources and preparing for future natural gas transactions. By the end of the year, the LNG terminal storage tank project in Tangshan, Hebei Province had started preliminary construction. After being put into use, it is expected to enhance the Group's peak shaving capacity in North China and Northeast China.

In July 2021, the Group completed the capital injection to Shanghai Gas, and held 25% of its equity interest. Shanghai Gas has a huge customer base of 6.4 million in Shanghai and the right to manage and operate two LNG receiving terminals. As the location of the carbon trading centre, Shanghai is expected to become a pilot zone for the opening of the carbon market and the trial implementation in various industries in the future. As the natural gas pricing mechanism of Shanghai Gas will be refined in 2022, the Group reached an agreement with Shanghai Gas and Shenergy Group, the controlling shareholder of Shanghai Gas, to extend the transition period to the end of 2021. The Group will share the results of Shanghai Gas in proportion to its shareholding from 1 January 2022. Based on the Enhanced Strategic Cooperation Agreement entered into with Shanghai Gas, the Group has fully cooperated with Shanghai Gas in the fields of natural gas procurement, extended business and renewable energy to achieve common strategic goals.

Apart from Shanghai Gas, with the reinvestment projects of its project companies taken into account, the Group had four new city-gas projects in the year, namely Changchun Gas Gongzhuling Fengrui Energy Development Co., Ltd. in Jilin province, Hangzhou Yuhang Hong Kong and China Gas Co., Ltd. in Zhejiang province, and Chizhou Qianjiang Gas Co., Ltd. and Anqing Changcheng Hong Kong and China Gas Co., Ltd. in Anhui province. These four projects are expected to bring the Group an annual gas consumption equivalent of 245 million cubic metres five years later.

In addition, with the connection of natural gas pipelines between Russia and the Chinese mainland, the gas bottleneck in Northeast China has been greatly eased. Gas sources have broadened and become more sufficient than in the past, and the energy supply is now more stable. To date, six enterprises in Northeast China (Gongzhuling, Tieling, Benxi, Anshan, Dalian Economic and Technical Development Zone and Shenyang Coastal Economic Zone) have purchased gas from Russia. Sufficient natural gas resources will speed up the upgrading and transformation of the old industrial area in Northeast China. The construction of gas pipelines will stimulate the development of metallurgy, building materials and other industries, and further promote natural gas sales.

In terms of the industrial segment, the coal-to-gas conversion of boilers had contributed 2.7 billion cubic metres of gas sales by the end of the year. In North China, the provincial governments of Shandong, Hebei and Henan successively introduced the coal-to-gas policy of eliminating boilers below 35 steam tonnes. The Group completed coal-to-gas conversion for 1,444 steam tonnes of boilers in the region. For ceramic-making customers with high energy consumption in Northeast China, the Group offered them tailored energy solutions, including the renovation of their kilns and other production equipment, so as to improve energy efficiency and reduce carbon emissions. It is estimated that when the renovation works are completed in 2022, it will bring an increase of 20 million cubic metres in the Group's gas sales. In Anhui and Jiangxi provinces, the Group made new progress in promoting coal-to-gas conversion of kilns and signed contracts with customers for kiln renovation. After the renovation, their annual gas consumption is expected to reach approximately 19 million cubic metres.

In terms of the commercial segment, the Group used innovative energy solutions to provide customers with a convenient energy use experience and helped drive the Group's overall gas sales.

The Chinese mainland saw frequent occurrence of gas accidents in 2021. On 4 November, the Office of Work Safety Commission of the State Council issued a circular requiring all regions, relevant departments and units to earnestly implement the requirements of the central government, learn lessons from gas accidents, and comprehensively strengthen gas safety in urban areas, in an effort to curb the frequent occurrence of gas accidents.

The Group regards safety production as the top priority. Our parent company HKCG, introduced regular indoor inspection into the Chinese mainland as early as in the 1990s, and became the first gas group to use safety stoves with ignition detection devices in 2005. These two measures were later incorporated into the regulations of the Ministry of Housing and Urban-Rural Development for regulating the gas industry, raising the safety standards for the domestic gas industry. The Board of Director of the Group spearheaded the establishment of the Safety and Environmental Protection Committee composed of relevant senior management, and made comprehensive arrangements for the safety risk management of the Group by holding at least 8 meetings and a number of on-site inspections. The actions taken by the Group's management not only set up a good example, but also promoted the implementation of various safety measures of the Group.

Moving forward, the Group will vigorously invest in developing integrated energy projects such as industrial, residential and commercial distributed heating projects in the city gas market, with a view to providing strong support for the Group's gas sales growth during the 14th Five-Year Plan period. Meanwhile, the Group's companies in all regions are actively expanding the distributed heating business and employing the "gas + integrated energy" development model to tap the potential of existing customers in operating areas.

Review of Operations

Extended Business

During the year, the Group extended its business footprint and used digital technology to build a lifestyle cloud platform focusing on the two themes of comfort and health, covering a variety of products and health services, including smart stoves, high-end kitchen cabinets, home services, insurance, cooking courses, healthy food, and other lifestyle-related products.

In July 2021, the Group completed the capital injection into Shanghai Gas to hold a 25% stake in it. As one of the largest comprehensive city gas operators in the Chinese mainland, Shanghai Gas occupies a market share of over 90% in Shanghai's gas market, has more than 6.4 million premium natural gas customers, and sells over 9 billion cubic metres of gas annually. The cooperation between Towngas Smart Energy and Shanghai Gas has increased the number of customers of the Group and our parent company HKCG nationwide to nearly 40 million. Shanghai is the city with the highest GDP in the Chinese mainland, and its citizens have considerable spending power. In 2021, Shanghai's per capita disposable income exceeded RMB78,000, ranking first among first-tier cities in the Chinese mainland. Its citizens have a demand for smart home products and a comfortable, healthy lives. By deepening cooperation with Shanghai Gas, the Group gains access to the huge and premium customer base of Shanghai Gas which can boost the initial development momentum of the Group's extended business in the local market. The Group will further tap the consumption potential and demand of customers to open a new chapter for the expansion of extended business.

In 2021, under the favourable "Healthy China" policy, the Group launched the health brand "Moment+". The Towngas Lifestyle e-commerce platform was upgraded into a comprehensive service platform, "Moment+", promoting a healthy lifestyle through an online and offline integrated operating model. As at the end of 2021, the number of registered members of the platform reached 6 million, and a total of 30 Taste "Bauhinia" companies affiliated to the Group had entered the e-commerce platform, with total annual sales of RMB4 million.

On the basis of the original gas service and product sales function, the online platform "Moment+" provides articles and short videos on the theme of healthy living, including nutritional recipes, weight management tips, skin care techniques, with a view to giving one-stop health management information. In terms of offline operations, the Group opened six Moment+ Community Lifestyle Experience Centres during the year, and another 20 stores were set up in the traditional customer centres. In addition to gas payment and maintenance appointment services, these stores also provide healthy home service, nutrition consultation, healthy product tasting and cooking classes. Each experience centre is deeply rooted in the community and will provide tailored services that reflect local characteristics.

In terms of stove sales, the sales volume of Bauhinia products has increased year after year. During the year, the Group introduced the smart heating business brand "Towngas Heating" and launched more energy-saving and eco-friendly products to seize business opportunities in the heating market and the coal-to-gas reform. As such, the sales volume of heating products increased significantly, and approximately 20,000 gas heating customers were newly acquired.

The Group continued to enrich the portfolio of smart home products and launched a water heater with remote control function during the year to target customers who find it inconvenient to directly control gas appliances due to narrow home space and installation limitations, in a drive to improve their quality of life and home safety.

Based on the huge customer base nationwide, the Group will accelerate the integration of gas and insurance scenarios services and strive to promote the gas insurance business to increase the value per customer. By doing so, the Group aims to provide customers with more diversified value-added services and an additional protection for their life and property safety while generating extra income. The Group plans to sign cooperation agreements with national insurance brokerage companies to provide brokerage services for gas users within the business scope of the Group and its member companies. Looking ahead, in addition to gas insurance, the Group will expand to property insurance and health-related insurance to provide diversified insurance services. During the year, the gas insurance business had been extended to 80 project companies of the Group.

Consumers in the Chinese mainland have a growing pursuit of higher living standards and quality. Mia Cucina, the high-end kitchen cabinet brand of the Group, is well received by large developers and residential customers by virtue of its quality materials and elegant and fashionable design. Mia Cucina is planning to extend its services to the home space beyond the kitchen, such as designing and customising wardrobes and porch cabinets, so as to provide more comprehensive home design services and meet the market demand for customised design.

Environmental, Social and Governance

Review of Operations

Chapter 3: Environmental, Social and Governance (ESG)

The Group continues to uphold 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, it strives to undertake its corporate social responsibilities to make itself an industry role model in community caring, environmental protection and promotion of the sustainable development of society as a whole to create a better future for its stakeholders.

The Group's Board of Directors places great emphasis on committing resources to environmental protection, community services and corporate governance. It has set up the ESG Committee consisting of senior management members, who are required to report to the Board of Directors on the implementation of projects and to regularly review the progress of these projects. A department is dedicated to the coordination of community initiatives and environmental activities. The Towngas Smart Energy Volunteer Team has recruited an increasing number of volunteers. As at the end of 2021, the team had over 7,000 volunteers, and the Group contributed more than 300,000 hours to social services during the year.

Moreover, to address investors' concerns about the ESG performance, the Group continues its efforts to raise the performance in relevant ratings so as to increase transparency. Towngas Smart Energy has been awarded excellent ratings by several rating agencies engaged in the environmental, social and governance aspects. During the year, it was also rated for the first time by internationally recognised Sustainalytics and included in FTSE Russell ESG Index.

Charitable Donations

The COVID-19 pandemic continued into 2021. To express our gratitude and support to the frontline healthcare workers committed to combating the pandemic, we donated supplies that catered to their needs. Our volunteers contributed to the community's fight against the pandemic by donating more than 300 boxes of supplies, including drinks, food, sunscreens, etc., to the frontline healthcare workers. Moreover, the Group continued to launch "Bauhinia Movement" during the year by providing free gas appliances and installation services for impoverished families and disadvantaged groups, conducting safety inspections, and promoting safety awareness in gas uses among the public. In 2021, "Bauhinia Movement" was rolled out in over 30 cities across the Chinese mainland. Highly praised and enjoying recognition by consumers and the government because of its efforts in providing free gas appliances and installation services for the beneficiaries, the Group was featured in the picture album Epic of the New Era – A Pictorial Description of Poverty Alleviation that marked the centennial anniversary of the Communist Party of China, making itself the only selected brand in the gas appliance industry.

Promotion of Environmental Protection

Towngas Smart Energy holds a large-scale event carrying an environmental theme every year. The event's theme of 2021 was "Environmental Naturalists", which encouraged project companies and employees to reduce waste at source in their daily operations and lives, and strive to turn waste into treasure. The event featured the four themes of "Green Project", "Natural Dreamers", "Towngas Green Planting Day", and "Earth Hour", in which more than 90 project companies participated. In particular, around 60 companies participated in the "Towngas Green Planting Day", on which around 9,600 saplings were seeded.

Moreover, the "Marine Environmental Charity Walk" was held during the year, in which volunteers picked up marine and beach rubbish at Dapeng, Shenzhen and created artworks with the collected garbage. They called on the public to protect the ocean, reduce the use of disposables and cherish the resources on this planet.

Heart-warming Giveaways during Festival

During the Dragon Boat Festival, the Group once again held the annual charity event "Rice Dumplings for the Community". More than 50 project companies participated in the event, and nearly 1,000 volunteers showed up in reaction to the Group's appeal. Together with members from the local community, education institutions and charities, they made and donated over 20,000 rice dumplings to the communities in need.

Gentle Breeze Movement

"Gentle Breeze Movement", was launched in 2013 with the purpose of caring for the disadvantaged and those in need. Over the years, the Group has been involved in renovation and repair projects for schools to improve their facilities and learning environment. It also donated books and supplies to many students and provided substantial support to schools and deprived families.

Awards and Accolades

Towngas Smart Energy received several industry awards in the area of sustainable development and corporate social responsibility respectively during the year for its outstanding ESG performance and contributions.

Sustainable Development

Awarded by	Award/ Accolade
China News Weekly of China News Service	2021 Low-Carbon Role Model

Abstract

A comprehensive evaluation of city builders was conducted and praise key contributors based on five aspects: population, industry, ecology, humanities and space

Awarded by	Award/ Accolade
China News Weekly of China News Service and Propaganda Department of Guangzhou Municipal Committee of CPC	2021 Vibrant City Builder

Abstract

The award was given in recognition of Towngas Smart Energy's efforts in providing quality energy supply services to cities during the critical carbon peak period of the 14th Five-Year Plan

Awarded by	Award/ Accolade
Southern Weekly	2021 Sustainability Brand

Abstract

The Group received the accolade for its visions based on industrial greening, business-community co-existence and diverse, quality operations

Awarded by	Award/ Accolade
China-Asia Economic Development Association, *Global Times* and *Chinese Economic News*	Innovative Enterprise in China's Economy in the New Era

Abstract

Companies were evaluated in terms of innovation, influence, contribution, development capacity and operation capacity

Corporate Social Responsibility

Awarded by	Award/ Accolade
Organising Committee of the Summit on China Corporate Citizen 520 Responsible Brand	Top 60 China Corporate Citizen 520 Responsible Brand 2021

Abstract

The award was given in recognition of enterprises for their outstanding performance in the aspect of corporate social responsibility

Awarded by	Award/ Accolade
Shenzhen Special Zone Daily and Shenzhen Project Care Foundation	Caring Enterprise in the 10th Walk for Charity presented by Charity Fund

Abstract

The planner awarded the Caring Enterprise honour brand to enterprises and institutions that have made outstanding contributions to charity projects in 2021

Risk Factors

In the risks discussed below, we highlight the factors that could have an adverse material effect on the Group's revenues, cash flows, market competitiveness and operations in 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 88 to 91.

Business Environment

The outbreak of COVID-19 in 2020 has 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.

Despite the relatively effective measures to contain the virus, including the rapid deployment of vaccines and accommodative fiscal support, the performance of many of the major economies remains uneven and unsteady. While some economies have been able to rein in new cases and, consequently, experience a faster recovery, some are still ramping up their containment measures amid local resurgences of the pandemic. Moreover, the spread of the Delta and Omicron variants coupled with the potential threat of new variants has increased uncertainty about just how quickly the pandemic can be overcome.

At the same time, sustainability will be an important focus for 2021 and is already being positioned as an opportunity for accelerating the business and policy transition to net zero carbon. The push for economic recovery and growth could drive green infrastructure investment, creating a turning point in the fight against climate change.

China's GDP grew by 8.1 per cent in 2021, beating the target of 'above 6 per cent'. But GDP growth in Q4 2021 slowed to 4 per cent, amid disruptions caused by the appearance of the COVID-19 Omicron variant and property market slowdown, as well as the turbulence triggered by US trade policy tightening. In 2021, total export value increased 29.9 per cent, a significantly improvement from the 3.6 per cent increase in 2020. The PMI was 50.3 in December 2021, compared with 50.1 in November. The Brent crude oil price increased 69 per cent from an average of USD42/barrel in 2020 to USD71/barrel in 2021. The average RMB currency exchange rate was 6.45 in 2021 and 6.93 in 2020. In the energy sector, electricity consumption grew 10.3 per cent in 2021 compared with 3.1 per cent in 2020, while natural gas consumption grew 12.7 per cent (372.6B m^3) in 2021 compared with 5.6 per cent in 2020.

Business challenges faced by the Group included a slowdown in gas demand as a result of 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 included 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 outbreak of COVID-19, a variety of counter measures has been put in place to alleviate its impact on our operations. In addition, special measures have been taken to minimise the impact of the pandemic on our workforce, as mentioned later in this section.

Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and broaden our access to LNG, we 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 in 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. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

Information Security

Our business operations are dependent on information technology systems that are vulnerable to a critical system failure, leakage or loss of sensitive information, all of which would adversely affect the Group's business. Accordingly, we have put in place protective measures to manage data loss and monitor suspicious cyber activities. We also commission third parties to assess our security standards and identify areas for enhancement. Other security measures include contingency plans with regular drills to counter system failures as well as staff awareness programmes on cybersecurity and sensitive information handling to fully safeguard our operations against growing information security threats. Furthermore, the development of new regulatory requirements in 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, counter measures (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 pandemic 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 58, 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. He was previously a non-executive director of The Bank of East Asia, Limited and an independent non-executive director of Xiaomi Corporation. All of the above companies are listed public companies. Dr. Lee is a Member of the Standing Committee of the 13th 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 an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in 2014. He is the son of Dr. 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 72, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Remuneration Committee and a member of the Board Audit and Risk Committee and the Nomination Committee of the Company. He is also an independent non-executive director of HKCG (a listed public company and the controlling shareholder of the Company). Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong and the Chairman of the Insurance Authority. He is the founder chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is now also serving as a member of Financial Leaders Forum. In addition, he is a Fellow of the Hong Kong Academy of Finance. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all of which are listed public companies in Hong Kong. Dr. Cheng was previously a non-executive director of Kader Holdings Company Limited ("Kader Holdings") (a listed public company) until his retirement at Kader Holdings on 1 May 2019.

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 47, 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, a Member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council and a Vice Chairman of the Asian Financial Cooperation Association. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is also a Member of the Hong Kong Academy of Finance and a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University as well as a BA degree from the University of Cambridge.

Mr. James Kwan Yuk-choi

J.P., R.P.E.(Gas), C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng)

Independent Non-Executive Director

Mr. James Kwan Yuk-choi, aged 70, 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

Mr. LIU Kai Lap Kenneth
Non-Executive Director

Mr. LIU Kai Lap Kenneth, aged 47, 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.

Mr. Alfred Chan Wing-kin

B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)

Executive Director

Mr. Alfred Chan Wing-kin, aged 71, was appointed as the Chairman and an Executive Director of the Company in March 2007. He has stepped down from the position of Chairman of the Board from 25 October 2021 but remains as an Executive Director. Mr. Chan is the Managing Director of HKCG (a listed public company and the controlling shareholder of the Company) and is the chairman, president, vice chairman or a director of a number of project companies in mainland China of the HKCG Group. Mr. Chan is also the Vice Chairman of Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd., and was previously a Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd.. All of the above companies are listed public companies. He is an Honorary President of The Hong Kong Management Association and a Vice Chairman of China Gas Association. He was previously the Deputy Chairman of the Council of The Hong Kong Institute of Education (now known as The Education University of Hong Kong), a Member of the Board of Stewards of The Education University of Hong Kong Foundation and a Member of the Standing Committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006, the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, "The CEO of the Year 2017" Award from China Newsweek in 2017 and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review from 2015 to 2019. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers and Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

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 70, 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 (a listed public company and the controlling shareholder of the Company) in February 2013 and subsequently appointed Deputy Managing Director of HKCG with effect from 1 April 2021. Mr. Wong also holds directorships in various subsidiaries of the HKCG Group. He is a director of Shenzhen Gas Corporation Ltd.. He was previously the Vice Chairman of Foshan Gas Group Co., Ltd. (now known as Foran Energy Group Co., Ltd.) and a director of China-Singapore Suzhou Industrial Park Development Group Co., Ltd. ("CSSD") until his retirement at CSSD on 29 June 2020. All of the above companies are listed public companies. He is a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council and was appointed as a council member of the Vocational Training Council on 1 July 2021. Mr. Wong was named consecutively as one of "The Best CEO of Chinese Listed Companies" by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada, a certified public accountant of Hong Kong and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of The Hong Kong Institute of Directors and a Fellow of The Institution of Gas Engineers 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, and a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. He is a member of the Advisory Committee 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 45 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 65, 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 (a listed public company and the controlling shareholder of the Company) and also holds directorships in various subsidiaries of the HKCG Group. He is a director of Shenzhen Gas Corporation Ltd., Foran Energy Group Co., Ltd. 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 was appointed as a member of the Accountancy Training Board of the Vocational Training Council on 1 April 2021. 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 43 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 55, 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 (a listed public company and the controlling shareholder of the Company) in 1990. In 2012, Mr. Kee was appointed as the executive vice president of Hong Kong & China Gas Investment Limited, responsible for the operation and management of the gas project companies in East China region. He was also appointed as the executive vice president of Hua Yan Water business in 2017. He is the Vice Chairman of Anhui Province Natural Gas Development Co., Ltd., a director of Nanjing Public Utilities Development Co., Ltd. and was appointed as a director of Changchun Gas Co., Ltd. with effective from 24 June 2021, 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 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 58, 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 the HKCG Group in 2003 and was appointed various management roles in different business joint ventures in mainland China throughout his 18 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 leading the high potential business of renewable energy in mainland China. He is currently the Chairman of the Supervisory Board of Foran Energy Group Co., Ltd., a listed public company.

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 2021 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 2021.

Change of Company Name

Pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting held on 26 November 2021 ("2021 EGM"), the English name of the Company has been changed from "Towngas China Company Limited" to "Towngas Smart Energy Company Limited" and a dual foreign name in Chinese "港華智慧能源有限公司" has been adopted to replace "港華燃氣有限公司", both of which took effect from 14 December 2021.

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 47 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2021 are set out in the consolidated income statement on page 101.

The Directors have recommended the payment of a final dividend out of the retained earnings account and share premium account of HK fifteen cents per share (2020: HK fifteen cents per share) to shareholders whose names are on the register of members of the Company on Monday, 6 June 2022.

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, 10 June 2022. Subject to approval by shareholders at the AGM to be held on Thursday, 26 May 2022 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, 12 July 2022. The register of members of the Company will be closed from Wednesday, 1 June 2022 to Monday, 6 June 2022 (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.

Report of the Directors

Results and Final Dividend *(Continued)*

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

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent on or about Tuesday, 12 July 2022 to the shareholders whose names appear on the register of members of the Company on Monday, 6 June 2022.

Business Review

The business review of the Group for the year ended 31 December 2021 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 2021 (if any), is set out in the sections headed "Chairman's Statement" on pages 6 to 11, "Financial Review" on pages 12 to 15 and "Review of Operations" on pages 16 to 31 of this Annual Report. A discussion on the Group's environmental policies and performance, an account of the Group's key relationships with its stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group can be found in "Review of Operations" on pages 16 to 31 and "Corporate Governance Report" on pages 74 to 94 as well as the standalone 2021 Environmental, Social and Governance Report.

Description of possible risks and uncertainties that the Group may be facing can be found in the "Financial Review" on pages 12 to 15, "Risk Factors" on pages 34 to 37 and Notes 4 to 6 to the consolidated financial statements on pages 152 to 173 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 157 to 173. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Financial Highlights" on page 5 of this Annual Report.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 105.

The Company's reserves available for distribution to shareholders as at 31 December 2021 amounted to HK$6,484 million (2020: HK$4,814 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 2021 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 HK fifteen cents per share for the year ended 31 December 2020 in cash (with scrip option). A total of 74,177,177 shares of the Company, fully paid, were issued and allotted in scrip form at HK$5.08 per share on 13 July 2021. No consideration was received by the Company for the issue.

On 18 November 2021, 116,783,333 shares were allotted and issued to Clean Energy Ecosystem Pte. Ltd. ("the Investor") at the subscription price of HK$5.00 per share of the Company pursuant to the subscription agreement dated 25 October 2021 entered into between the Company and the Investor (the "Subscription Agreement").

Details of movements in the share capital of the Company during the year are set out in Note 37 to the consolidated financial statements.

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) (Note 1)*
Mr. LIU Kai Lap Kenneth *(Note 2)*

Executive Directors

Mr. Alfred Chan Wing-kin *(Note 3)*
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) (Note 4)*

Report of the Directors

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 5)*

Notes:

1. Dr. Lee Ka-kit was appointed as the Chairman of the Board and a Non-Executive Director with effect from 25 October 2021.

2. Mr. LIU Kai Lap Kenneth was appointed as a Non-Executive Director with effect from 18 November 2021.

3. Mr. Alfred Chan Wing-kin stepped down as Chairman of the Board with effect from 25 October 2021.

4. Dr. John Qiu Jian-hang was appointed as an Executive Director with effect from 10 November 2021.

5. Dr. Hu Zhang-hong was appointed as an Independent Non-Executive Director with effect from 10 November 2021 and resigned as an Independent Non-Executive Director with effect from 9 March 2022.

In accordance with articles 95 and 112 of the Articles, the Directors shall retire from rotation. Retiring directors, being eligible, may offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

The biographical details of the Directors of the Company are set out on pages 38 to 48 of this Annual Report.

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

As at 31 December 2021, the interests or short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares

Name of Company	Name of Director	Capacity	Interest in shares: Personal interest	Family interest	Corporate interest	Other Interest	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2021
Towngas Smart Energy Company Limited (formerly known as Towngas China Company Limited)	Lee Ka-kit *(Note 1)*	Discretionary beneficiary of discretionary trusts	–	–	–	2,084,895,656	2,084,895,656	65.98%
	Alfred Chan Wing-kin	Beneficial owner	4,161,034	–	–	–	4,161,034	0.13%
	Peter Wong Wai-yee	Beneficial owner	3,201,000	–	–	–	3,201,000	0.10%
	John Ho Hon-ming	Beneficial owner	1,133,862	–	–	–	1,133,862	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	–	2,265,000	0.07%
HKCG	Lee Ka-kit *(Note 2)*	Discretionary beneficiary of discretionary trusts	–	–	–	7,748,692,715	7,748,692,715	41.53%
	Alfred Chan Wing-kin	Interest held jointly with spouse	355,772	–	–	–	355,772	0.00%
	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%
Everwealth Investment A, L.P. *(Note 3)*	Alfred Chan Wing-kin	Beneficial owner (limited partner)	USD2,237,452	–	–	–	USD2,237,452	100.00%
EcoCeres, Inc. *(Note 4)*	Alfred Chan Wing-kin	Interest of controlled corporations	–	–	66,409	–	66,409	0.58%

Report of the Directors

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

Long positions in shares *(Continued)*

Notes:

1. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins (Cayman) Limited ("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 2,084,895,656 shares of the Company representing approximately 65.98% of the total number of issued shares of the Company.

2. 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.

3. Everwealth Investment A, L.P. is an exempted limited partnership and the number "USD2,237,452" in the column "Interest in shares – Personal Interest" refers to Mr. Alfred Chan Wing-Kin's capital commitment to the partnership as a limited partner.

4. Everwealth Investment A, L.P. is an exempted limited partnership and owns 66,409 ordinary shares of EcoCeres, Inc.. Since Mr. Alfred Chan Wing-kin's capital commitment as limited partner to the partnership was more than one-third of the total capital contribution requirements to the partnership, Mr. Alfred Chan Wing-kin was taken to be interested in these 66,409 ordinary shares of EcoCeres, Inc. by virtue of Part XV of the SFO.

Save as stated above, as at 31 December 2021, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Award Scheme

The Company adopted a share award scheme on 17 August 2021 (the "Share Award Scheme"). Pursuant to the Share Award Scheme, the scheme committee may, from time to time, at its absolute discretion select any eligible participant 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. The Share Award Scheme shall be valid and effective for a term of 10 years commencing from the adoption date.

Share Award Scheme *(Continued)*

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.

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.

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.

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.

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

During the year ended 31 December 2021, the trustee has purchased a total of 3,772,000 shares of the Company on the market for the purpose of the Share Award Scheme and no share was awarded by the Company to any of the eligible participants under the Share Award Scheme.

Arrangements to Purchase Shares or Debentures

Other than the 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.

Report of the Directors

Equity-linked Agreements

On 18 November 2021, the Company issued 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 pursuant to the Subscription Agreement, 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.

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

The gross proceeds from the subscription of the Convertible Bonds was approximately HK$2,218 million and the net proceeds was approximately HK$2,216 million. The Company intends to apply the net proceeds for its general corporate purposes, including investing in its Smart Energy Business. As at 31 December 2021, none of the Convertible Bonds were converted.

Other than the Convertible Bonds as mentioned 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.

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 of HKCG; Mr. Alfred Chan Wing-kin, an Executive Director of the Company, is the Managing Director of HKCG; Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, is a Deputy Managing Director of HKCG; Mr. John Ho Hon-ming, an Executive Director and the Company Secretary of the Company, is an Executive Director of HKCG; and Dr. 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 environmental-friendly energy businesses in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scales and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

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

Substantial Shareholders

As at 31 December 2021, 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 31.12.2021
Lee Shau-kee	Interest of controlled corporations	2,084,895,656 *(Note 1)*	65.98%
Rimmer	Trustee	2,084,895,656 *(Note 2)*	65.98%
Riddick	Trustee	2,084,895,656 *(Note 2)*	65.98%
Hopkins	Interest of controlled corporations	2,084,895,656 *(Note 2)*	65.98%

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 31.12.2021
Henderson Development	Interest of controlled corporations	2,084,895,656 *(Note 2)*	65.98%
Henderson Land Development	Interest of controlled corporations	2,084,895,656 *(Note 2)*	65.98%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	2,084,895,656 *(Note 2)*	65.98%
HKCG	Interest of controlled corporations	2,084,895,656 *(Note 3)*	65.98%
Towngas International Company Limited ("TICL")	Interest of controlled corporation	1,905,302,051 *(Note 3)*	60.30%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,905,302,051 *(Note 3)*	60.30%
Towngas Investment Company Limited ("TICL-HK")	Interest of controlled corporations	179,593,605 *(Note 3)*	5.68%
Planwise Properties Limited ("Planwise")	Beneficial owner	176,588,786 *(Note 3)*	5.59%
Tang Kok Yew	Interest of controlled corporations	467,133,333 *(Note 4)*	14.78%
Capstar Holdings ("Capstar")	Interest of controlled corporations	467,133,333 *(Note 4)*	14.78%
Affinity Fund V General Partner Limited ("Affinity Fund V")	Interest of controlled corporations	467,133,333 *(Note 4)*	14.78%
Converging Worldview Investments Pte. Ltd. ("Converging Worldview")	Interest of controlled corporations	467,133,333 *(Note 4)*	14.78%
Clean Energy Ecosystem Pte. Ltd. ("Clean Energy Ecosystem")	Beneficial owner	467,133,333 *(Note 4)*	14.78%

Substantial Shareholders *(Continued)*

Long positions in Shares *(Continued)*

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau-kee. Dr. the Hon. Lee Shau-kee was therefore taken to be interested in the same 2,084,895,656 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 2,084,895,656 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 1,905,302,051 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 179,593,605 Shares, which included (a) the 176,588,786 Shares held by Planwise; and (b) the 3,004,819 Shares held by Superfun by virtue of Part XV of the SFO.

4. Mr. Tang Kok Yew was taken to be interested in these 467,133,333 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 3.70% of the number of issued Shares as at 31 December 2021); and (ii) unlisted Convertible Bonds, which may be fully converted into 350,350,000 Shares based on the initial conversion price (subject to adjustment events) of HK$6.33 per Share, pursuant to the Subscription Agreement dated 25 October 2021.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2021, 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 2021, 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 2021, 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 2021 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 43 to the consolidated financial statements, as appropriate, in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Gas Purchase Transactions and Pipeline Materials Purchase Transactions

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

(1) an agreement (the "2018 Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the "Gas Purchase Transactions"); and

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

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

Connected Transactions and Continuing Connected Transactions *(Continued)*

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

As the 2018 Gas Purchase Master Agreement and the 2018 Pipeline Materials Purchase Master Agreement were to expire on 31 December 2021, on 10 December 2021, the Company and HKCG entered into two new master agreements respectively, namely:

(1) an agreement relating to the Gas Purchase Transactions (the "2021 Master Gas Purchase Agreement"); and

(2) an agreement relating to the Pipeline Materials Purchase Transactions (the "2021 Master Pipeline Materials Purchase Agreement",

each for a term commencing from 1 January 2022 to 31 December 2024 (both days inclusive). Particulars of the 2021 Master Gas Purchase Agreement and 2021 Master Pipeline Materials 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 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 RMB140,000,000 (approximately HK$168,858,000) and RMB250,000,000 (approximately HK$301,532,000) respectively for the year ended 31 December 2021. The actual respective amounts of the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2021 were RMB58,774,000 (approximately HK$70,889,000) and RMB177,936,000 (approximately HK$214,613,000) respectively, which had not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2021 were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(Continued)*

Project Management Transactions, System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, Sale of Distributed Energy Transactions, and Engineering Work Services Transactions

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

(1) an agreement (the "2019 Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities projects and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 ("Shenyang Sanquan"), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");

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

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

(4) an agreement (the "2019 Master Engineering Work Services Agreement", and together with the 2019 Master Project Management Agreement, the 2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement and the 2019 Master Sale of Distributed Energy Agreement, collectively referred to as the "2019 CCT Master Agreements") relating to the provision of engineering work services (including but not limited to non-excavation engineering work services, pipeline positioning measurement services, bidding agency services, cost consultation services, sale of innovative tools, urban pipeline engineering services, water supply, drainage and heating engineering work services, technical consultation services for engineering projects, and pipeline inspection services) ("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"),

Connected Transactions and Continuing Connected Transactions *(Continued)*

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

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, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions were subject to the annual cap amounts of RMB12,000,000 (approximately HK$14,474,000), RMB30,000,000 (approximately HK$36,184,000), RMB8,000,000 (approximately HK$9,649,000) and RMB19,000,000 (approximately HK$22,916,000) respectively for the year ended 31 December 2021. The actual respective amounts of the Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions for the year ended 31 December 2021 were RMB11,369,000 (approximately HK$13,712,000), RMB21,901,000 (approximately HK$26,415,000), nil and RMB7,871,000 (approximately HK$9,493,000) respectively, which had not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions, the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions, the Sale of Distributed Energy Transactions and the Engineering Work Services Transactions for the year ended 31 December 2021 were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(Continued)*

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.

Connected Transactions and Continuing Connected Transactions *(Continued)*

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 RMB75,000,000 (approximately HK$90,460,000) for the year ended 31 December 2021. There was no transaction under the 2021 Master LNG Storage Rental Agreement for the year ended 31 December 2021.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the LNG Storage Rental Transactions for the year ended 31 December 2021 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.

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(Continued)*

Disposal of Interest in a Subsidiary – Jiangsu Jinzhuo

On 7 May 2021, U-Tech (Guang Dong), an indirect wholly-owned subsidiary of the Company, entered into:

(1) an agreement (the "First Transfer Agreement") with 港華投資有限公司 ("HCIL"), an indirect wholly-owned subsidiary of HKCG, pursuant to which U-Tech (Guang Dong) agreed to sell 29.9% equity interest in 江蘇金卓建設工程有限公司 ("Jiangsu Jinzhuo") to HCIL at the consideration of RMB41,860,000 (approximately HK$50,967,000) (the "First Disposal"); and

(2) an agreement (the "Second Transfer Agreement") with 湖州鼎昌工程設計合夥企業(普通合夥) ("Huzhou Dingchang"), a substantial shareholder of Jiangsu Jinzhuo, pursuant to which U-Tech (Guang Dong) agreed to sell 0.2% equity interest in Jiangsu Jinzhuo to Huzhou Dingchang (the "Second Disposal").

After completion of both the First Disposal and the Second Disposal, Jiangsu Jinzhuo had ceased to be a subsidiary of the Company.

As HKCG is a controlling shareholder of the Company, and HCIL is a subsidiary of HKCG, HCIL is a connected person of the Company under the Listing Rules. The entering into of the First Transfer Agreement and the First Disposal contemplated thereunder therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The First Disposal is 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.

As Huzhou Dingchang is a substantial shareholder of Jiangsu Jinzhuo which is an insignificant subsidiary of the Company, notwithstanding its interest in Jiangsu Jinzhuo, Huzhou Dingchang is not regarded as a connected person of the Company pursuant to Rule 14A.09 of the Listing Rules. The entering into of the Second Transfer Agreement and the Second Disposal contemplated thereunder therefore does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Particulars of the First Transfer Agreement, the First Disposal, the Second Transfer Agreement and the Second Disposal were disclosed in the announcements of the Company dated 7 May 2021.

Connected Transactions and Continuing Connected Transactions *(Continued)*

Deemed Disposal of Equity Interest in a Subsidiary – Cosy Home (Chengdu) and Formation of Joint Ventures

On 24 September 2021, 港華燃氣投資有限公司 ("Towngas China Investments"), an indirect wholly-owned subsidiary of the Company, and 名氣家 (深圳) 信息服務有限公司 ("Towngas Lifestyle (Shenzhen)"), an indirect wholly-owned subsidiary of HKCG, entered into an agreement (the "Capital Increase Agreement") in relation to the capital injection of RMB15,000,000 (approximately HK$18,092,000) to 港華舒適家 (成都) 科技服務有限公司 ("Cosy Home (Chengdu)"), a then indirect wholly-owned subsidiary of the Company, by Towngas Lifestyle (Shenzhen) (the "Capital Injection"). On same day, Towngas China Investments and Towngas Lifestyle (Shenzhen) also signed the articles of Cosy Home (Chengdu) (the "Chengdu JV Articles").

Upon completion of the Capital Injection, the equity interest in Cosy Home (Chengdu) held by Towngas China Investments will be decreased from 100% to 40%, and Cosy Home (Chengdu) will cease to be a subsidiary of the Company. As such, the Capital Injection constitutes a deemed disposal for the Company under Rule 14.29 of the Listing Rules.

As HKCG is a controlling shareholder of the Company and Towngas Lifestyle (Shenzhen) is a subsidiary of HKCG, Towngas Lifestyle (Shenzhen) is a connected person of the Company under the Listing Rules. As such, the Capital Injection and the entering into of the Capital Increase Agreement and the signing of the Chengdu JV Articles constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Capital Injection, the Capital Increase Agreement and the transactions contemplated thereunder (including the resulting formation of a joint venture with the HKCG Group) are therefore subject to the reporting and announcement requirements, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 24 September 2021, 湖州港華燃氣有限公司 ("Huzhou Towngas China", an indirect non-wholly owned subsidiary of the Company), 桐鄉港華天然氣有限公司 ("Tongxiang Towngas China", an indirect non-wholly owned subsidiary of the Company), 杭州港華燃氣有限公司 ("Hangzhou Towngas China", a jointly controlled entity owned as to 50% by the Company) and Towngas Lifestyle (Shenzhen) signed the articles (the "Hangzhou JV Articles") for establishing 港華到家 (杭州) 信息技術有限公司 (the "Hangzhou JV Company") to carry out the business of creating a new health business landscape, including the sale of health services and health products.

The Hangzhou JV Company will be owned by Huzhou Towngas China (as to 12%), Tongxiang Towngas China (as to 12%), Hangzhou Towngas China (as to 25%) and Towngas Lifestyle (Shenzhen) (as to 51%).

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(Continued)*

Deemed Disposal of Equity Interest in a Subsidiary – Cosy Home (Chengdu) and Formation of Joint Ventures *(Continued)*

On 17 December 2021, 齊齊哈爾港華燃氣有限公司 ("Qiqihar Towngas China", an indirect non-wholly owned subsidiary of the Company), 鞍山港華燃氣有限公司 ("Anshan Towngas China", an indirect wholly-owned subsidiary of the Company), 營口港華燃氣有限公司 ("Yingkou Towngas China", an indirect wholly-owned subsidiary of the Company), 吉林港華燃氣有限公司 ("Jilin Towngas China", an indirect non-wholly owned subsidiary of HKCG) and Towngas Lifestyle (Shenzhen) signed the articles (the "Shenyang JV Articles") for establishing 港華到家(瀋陽)信息技術有限公司 (the "Shenyang JV Company") to carry out the business of creating a new form of health business, including the sale of health services and health products.

The Shenyang JV Company will be owned as to 10% by each of Qiqihar Towngas China, Anshan Towngas China, Yingkou Towngas China and Jilin Towngas China respectively and as to 60% by Towngas Lifestyle (Shenzhen).

As HKCG is a controlling shareholder of the Company, each of Towngas Lifestyle (Shenzhen) and Jilin Towngas China, being a subsidiary of HKCG, is therefore a connected person of the Company under the Listing Rules. As such, the establishment of the Hangzhou JV Company and Shenyang JV Company and the signing of the Hangzhou JV Articles and Shenyang JV Articles constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The establishment of the Hangzhou JV Company and Shenyang JV Company each constitutes a de minimis connected transaction under Rule 14A.76(1) of the Listing Rules and is therefore fully exempt from all reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. However, given that all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of (i) the capital contribution to be made by the Group in the Hangzhou JV Company and Shenyang JV Company and (ii) the other formation of joint venture transactions between the Group and the HKCG Group (including the Capital Injection) for the previous 12 months on an aggregate basis are more than 0.1% but less than 5%, the establishment of the Hangzhou JV Company and Shenyang JV Company 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.

Particulars of the Capital Injection, the Capital Increase Agreement, the Chengdu JV Articles, the establishment of the Hangzhou JV Company and Shenyang JV Company and the Hangzhou JV Articles and Shenyang JV Articles were disclosed in the announcements of the Company dated 24 September, 28 September and 17 December 2021 respectively.

Connected Transactions and Continuing Connected Transactions *(Continued)*

Acquisition of Equity Interests in Smart Energy Companies

On 3 December 2021, Towngas China Energy Investment Limited ("TCEI", an indirect wholly-owned subsidiary of the Company established in the PRC), entered into 31 transfer agreements (the "Transfer Agreements") with 港華綜合電能投資(深圳)有限公司 ("HCIP", an indirect wholly-owned subsidiary of HKCG established in the PRC), pursuant to which HCIP agreed to sell the equity interests in 31 PRC companies (the "Smart Energy Companies") held by it to TCEI at the aggregate consideration of RMB509,206,186 (approximately HK$613,205,908) (the "Acquisition"). The interest acquired and consideration payable under the Transfer Agreements are summarized below:

	Interest acquired by TCEI from HCIP under the relevant Transfer Agreement	**Consideration paid by TCEI to HCIP** (RMB)
1	100% equity interest in 長沙港能投智慧能源有限公司 (Changsha Towngas China Energy Co., Ltd)	4,905,223
2	100% equity interest in 廣東晟桂電力有限公司 (Guangdong Shenggui Electric Power Co., Ltd)	14,995,015
3	100% equity interest in 安丘航洲新能源科技有限公司 (Anqiu Towngas China PV Power Generation Co., Ltd.)	34,000,575
4	100% equity interest in 青島嘉嘉通新能源科技有限公司 (Qingdao Towngas China PV Power Generation Co., Ltd.)	28,946,417
5	100% equity interest in 新野縣啟電光伏科技有限公司 (Xinye Qidian Photovoltaic Technology Co., Ltd.)	13,654,891
6	100% equity interest in 佛山振森光能有限公司 (Foshan Towngas China PV Power Generation Co., Ltd.)	21,492,211
7	100% equity interest in 濟寧道宏新能源有限公司 (Jining Daohong New Energy Co., Ltd.)	10,993,597
8	100% equity interest in 沭陽中鄴沭開新能源有限公司 (Shuyang Zhongye Shukai New Energy Co., Ltd.)	30,000,000
9	100% equity interest in 濱州鑫潤豐新能源有限公司 (Binzhou Xinrunfeng New Energy Co., Ltd.)	14,999,970
10	100% equity interest in 深圳港華綜合能源有限公司 (Shenzhen Towngas China Integrated Energy Co., Ltd.)	13,995,938
11	100% equity interest in 鹽城港華智慧能源有限公司 (Yancheng Towngas China Smart Energy Co., Ltd.)	33,995,512
12	100% equity interest in 馬鞍山市鄭蒲港新區港能投光伏有限公司 (Maanshan Zhengpugang New District Towngas China Photovoltaic Co., Ltd.)	Nil
13	100% equity interest in 煙台港能投光伏有限公司 (Yantai Towngas China Photovoltaic Co., Ltd.)	Nil
14	100% equity interest in 南京港能投智慧能源有限公司 (Nanjing Towngas China Energy Co., Ltd)	Nil
15	100% equity interest in 青島港投光伏發電有限公司 (Qingdao China Photovoltaic Co., Ltd.)	Nil

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(Continued)*

Acquisition of Equity Interests in Smart Energy Companies *(Continued)*

	Interest acquired by TCEI from HCIP under the relevant Transfer Agreement	**Consideration paid by TCEI to HCIP** (RMB)
16	100% equity interest in 廈門港能投光伏有限公司 (Xiamen Towngas China Photovoltaic Co., Ltd.)	Nil
17	100% equity interest in 營口港能投智慧能源有限公司 (Yingkou Towngas China Energy Co., Ltd)	Nil
18	100% equity interest in 本溪港能投智慧能源有限公司 (Ben Xi Towngas China Energy Co., Ltd.)	Nil
19	100% equity interest in 廣州振森新能源有限公司 (Guangzhou Zhensen New Energy Co., Ltd.)	Nil
20	100% equity interest in 武漢港能投智慧能源有限公司 (Wuhan Towngas China Energy Co., Ltd.)	Nil
21	100% equity interest in 唐山港投綜合智慧能源有限公司 (Tangshan Towngas China Integrated Energy Co., Ltd)	Nil
22	100% equity interest in 長三角一體化示範區（蘇州吳江）港能投智慧能源有限公司 (Yangtze River Delta Integrated Development Demonstration Zone (Suzhou Wujiang) Towngas China Energy Co., Ltd.)	Nil
23	100% equity interest in 滄州港能投智慧能源有限公司 (Cangzhou Towngas China Energy Co., Ltd.)	Nil
24	100% equity interest in 西安港能投智慧能源有限公司 (Xi'an Towngas China Energy Co., Ltd.)	Nil
25	100% equity interest in 陽江港能投光伏有限公司 (Yangjiang Towngas China Photovoltaic Co., Ltd.)	Nil
26	100% equity interest in 廣州港能智慧能源有限公司 (Guangzhou Towngas China Energy Co., Ltd.)	Nil
27	60% equity interest in 溧陽恒電新能源科技有限公司 (Liyang Hengdian Towngas China PV Power Generation Co., Ltd.)	14,199,424
28	90% equity interest in 丹陽港能投智慧能源有限公司 (Danyang Towngas China Energy Storage Power Plant Co., Ltd.)	27,084,277
29	80% equity interest in 蘇州光辰新能源科技有限公司 (Suzhou Guangchen Towngas China PV Power Generation Co., Ltd.)	11,999,948
30	80% equity interest in 泰州港能智慧能源有限公司 (Taizhou Towngas China Energy Co., Ltd.)	168,234,090
31	49% equity interest in 大連德泰港能投智慧能源有限公司 (Dalian DETA Towngas China Energy Co., Ltd.)	65,709,098
	Total consideration:	509,206,186

Connected Transactions and Continuing Connected Transactions *(Continued)*

Acquisition of Equity Interests in Smart Energy Companies *(Continued)*

As HKCG is a controlling shareholder of the Company and HCIP is a subsidiary of HKCG, HCIP is a connected person of the Company under the Listing Rules. The Acquisition and the entering into of the Transfer Agreements therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition under the Transfer Agreements are more than 0.1% but all of them are less than 5%, the Acquisition is 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.

Particulars of the Acquisition, Transfer Agreements and the Smart Energy Companies were disclosed in the announcement of the Company dated 3 December 2021.

Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in Note 43 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 2021 are set out in Note 33 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$662,000.

Public Float

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

Major Customers and Suppliers

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

Pre-Emptive Rights

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

Report of the Directors

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 2021, 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 3,772,000 Shares at a total consideration of HK$19,928,390.

Emolument Policy

As at 31 December 2021, the Group had 23,287 employees, with 99% located in Chinese mainland. 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 Award Scheme on 17 August 2021 providing incentives to Directors and eligible participants, details of which are set out in Note 39 to the consolidated financial statements.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2021.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 74 to 94 of this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2021 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, 17 March 2022

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintaining high standards of corporate governance. They will continue to exercise leadership, control, enterprise, integrity and 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 contained in Appendix 14 to the Listing Rules from time to time, as its own code on corporate governance practices since 2005.

The Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2021.

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 ten members as detailed below:

Non-Executive Directors

Dr. Lee Ka-kit *(Chairman) (Note 1)*
Mr. LIU Kai Lap Kenneth *(Note 2)*

Executive Directors

Mr. Alfred Chan Wing-kin *(Note 3)*
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) (Note 4)*

Independent Non-Executive Directors

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

Board of Directors *(Continued)*

Board Composition *(Continued)*

Notes:

1. Dr. Lee Ka-kit has been appointed as the Chairman of the Board and a Non-Executive Director with effect from 25 October 2021.

2. Mr. LIU Kai Lap Kenneth has been appointed as a Non-Executive Director with effect from 18 November 2021.

3. Mr. Alfred Chan Wing-kin has stepped down from the position of Chairman of the Board with effect from 25 October 2021.

4. Dr. John Qiu Jian-hang has been appointed as an Executive Director with effect from 10 November 2021.

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.

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.

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

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 2021.

As disclosed in the announcement dated 9 March 2022, following 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. The Board will take steps to fulfill the requirement of the Listing Rules as soon as practicable and in any event within three months from 9 March 2022.

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 Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

The Board adopted a Board Diversity Policy setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be made on a merit basis, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Please refer to the section headed "Nomination Committee" below for a summary of the Board Diversity Policy.

Functions of the Board

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

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

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

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

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

Board of Directors *(Continued)*

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) reviewing the Company's compliance with Appendix 14 to the Listing Rules and disclosure in this Corporate Governance Report.

Directors' Training and Continuous Professional Development

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

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

All Directors participated in appropriate continuous professional development and provided the Company with their records of training received for the year ended 31 December 2021.

During the year ended 31 December 2021, 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.

Corporate Governance Report

Board of Directors *(Continued)*

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

Directors	Training
Non-Executive Directors	
Dr. Lee Ka-kit *(Chairman) (Note 1)*	✓
Mr. LIU Kai Lap Kenneth *(Note 2)*	✓
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 3)*	✓
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) (Note 4)*	✓
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 5)*	✓

Notes:

1. Dr. Lee Ka-kit has been appointed as the Chairman of the Board and Non-Executive Director with effect from 25 October 2021.

2. Mr. LIU Kai Lap Kenneth has been appointed as a Non-Executive Director with effect from 18 November 2021.

3. Mr. Alfred Chan Wing-kin has stepped down from the position of Chairman of the Board with effect from 25 October 2021.

4. Dr. John Qiu Jian-hang has been appointed as an Executive Director with effect from 10 November 2021.

5. Dr. Hu Zhang-hong has been appointed as an Independent Non-Executive Director with effect from 10 November 2021 and resigned as an Independent Non-Executive Director with effect from 9 March 2022.

Board of Directors *(Continued)*

Board Meetings

The Board meets regularly at least 4 times a year at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the CG Code.

During the year ended 31 December 2021, the Board met 5 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) (Note 1)*	1/1
Mr. LIU Kai Lap Kenneth *(Note 2)*	1/1
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 3)*	5/5
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	5/5
Mr. John Ho Hon-ming *(Company Secretary)*	5/5
Mr. Martin Kee Wai-ngai *(Chief Operating Officer – Gas Business)*	5/5
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business) (Note 4)*	1/1
Independent Non-Executive Directors	
Dr. the Hon. Moses Cheng Mo-chi	5/5
Mr. Brian David Li Man-bun	5/5
Mr. James Kwan Yuk-choi	5/5
Dr. Hu Zhang-hong *(Note 5)*	1/1

Corporate Governance Report

Board of Directors *(Continued)*

Board Meetings *(Continued)*

Note:

1. Dr. Lee Ka-kit has been appointed as the Chairman of the Board and a Non-Executive Director with effect from 25 October 2021.
2. Mr. LIU Kai Lap Kenneth has been appointed as a Non-Executive Director with effect from 18 November 2021.
3. Mr. Alfred Chan Wing-kin has stepped down from the position of Chairman of the Board with effect from 25 October 2021.
4. Dr. John Qiu Jian-hang has been appointed as an Executive Director with effect from 10 November 2021.
5. Dr. Hu Zhang-hong has been appointed as an Independent Non-Executive Director with effect from 10 November 2021 and resigned as an Independent Non-Executive Director with effect from 9 March 2022.

Chairman and Chief Executive Officer

Mr. Alfred Chan Wing-kin has stepped down from the position of Chairman of the Board and Dr. Lee Ka-kit has been appointed as the Chairman of the Board with effect from 25 October 2021. The Chief Executive Officer is Mr. Peter Wong Wai-yee. The roles of the Chairman and the Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate, clear, complete and reliable information in a timely manner. The Chairman has the overall responsibility for providing leadership, vision and direction regarding the business development of the Group and ensuring that good corporate governance practices and procedures are established.

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

Board of Directors *(Continued)*

Responsibilities of the Directors

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

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- reviewing the financial statements and budget proposal of the Group;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering any misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and ethics.

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

Board Committees

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

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Remuneration Committee

The Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. the Hon. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi 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.

During the year ended 31 December 2021, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2021;
- reviewed the Executive Directors'(including the newly appointed Directors) remuneration; and
- reviewed the Directors' (including the newly appointed Directors) fees for 2021.

The Remuneration Committee held two meetings during the year ended 31 December 2021 with individual attendance as follows:

Members of the Remuneration Committee	Number of Meetings Attended/Held
Dr. the Hon. Moses Cheng Mo-chi *(Chairman)*	2/2
Mr. Brian David Li Man-bun	2/2
Mr. James Kwan Yuk-choi	2/2
Mr. Alfred Chan Wing-kin *(Note 1)*	2/2

Note:

1. Mr. Alfred Chan Wing-kin has stepped down from the position as member of the Remuneration Committee with effect from 25 October 2021.

Board of Directors *(Continued)*

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

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 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 2021, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2020 and for the six months ended 30 June 2021;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the risk management and internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2020 pursuant to the Listing Rules.

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Board Audit and Risk Committee *(Continued)*

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2021 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

Nomination Committee

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

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.

Board Diversity Policy

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

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

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Nomination Policy

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

During the year ended 31 December 2021, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2021 AGM;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board.

The Nomination Committee, having reviewed the Board's composition, nominated Mr. Peter Wong Wai-yee, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi to the Board for it to recommend to the Shareholders for re-election at the annual general meeting of the Company held on 27 May 2021. 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.

Corporate Governance Report

Board of Directors *(Continued)*

Board Committees *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee held two meetings during the year ended 31 December 2021 with individual attendance as follows:

Members of the Nomination Committee	Number of Meetings Attended/Held
Dr. Lee Ka-kit *(Chairman) (Note 1)*	0/0
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
Mr. Alfred Chan Wing-kin *(Note 3)*	2/2

Note:

1. Dr. Lee Ka-kit has been appointed as the Chairman of Nomination Committee with effect from 25 October 2021.

2. Dr. Hu Zhang-hong has been appointed as a member of Nomination Committee with effect from 10 November 2021 and resigned as a member of Nomination Committee with effect from 9 March 2022.

3. Mr. Alfred Chan Wing-kin has been stepped down from the positions of Chairman and member of Nomination Committee with effect from 25 October 2021.

Model Code

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2021, 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 2021.

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

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2021. Deloitte also reviewed the 2021 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 2021 amounted to HK$8.2 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 MTN programme circular provided to the Group amounted to HK$1.46 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 95 to 100 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.

Corporate Governance Report

Risk Management and Internal Control

Internal Control

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

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

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

Risk Management and Internal Control *(Continued)*

Internal Control *(Continued)*

During the year ended 31 December 2021, 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.

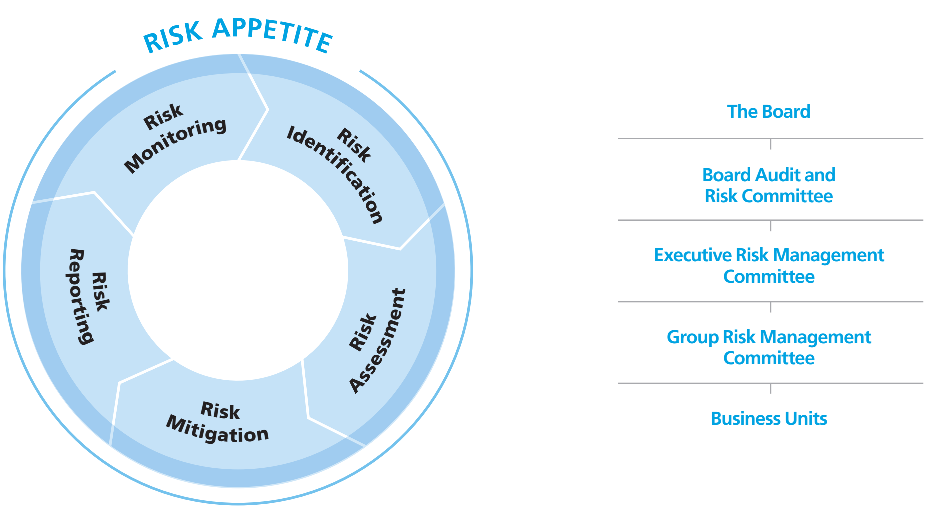
Risk Management

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.



Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Risk Management *(Continued)*

Risk Appetite

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

1. Major incidents affecting safety and health of its staff, contractors and the general public;
2. Loss or failure of infrastructures and operations materially affecting production and supply;
3. Material financial loss impacting ability of the Group to carry out its business drivers;
4. Incidents leading to profound negative impact on corporate image or reputation;
5. Legal actions that are liable for major loss or suspension of operations; and
6. Incidents leading to severe impacts on the environment.

Risk Management Structure

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

Risk Management 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 would be performed to ensure the risk management system is operating effectively.

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

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

A description of the Group's risk factors is shown on pages 34 to 37 of this Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

Company's Constitutional Documents

During the year, other than the change of company name as disclosed in this Annual Report, there have been no changes to the Company's constitutional documents.

Corporate Governance Report

Company Secretary

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

Communication with Shareholders

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

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

The Company has maintained a website at "www.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 2021 AGM held on 27 May 2021, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman each of the Board Audit and Risk Committee, Remuneration Committee and Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2021 AGM to answer questions from the Company's shareholders.

The notice of the 2021 AGM was distributed to all shareholders at least 20 clear business days prior to the 2021 AGM and the accompanying circular also set out details of each proposed resolution and other relevant information as required under the Listing Rules.

At the 2021 EGM held on 26 November 2021, a special resolution was proposed by the Chairman on the agenda in respect of the change of company name. The Chairman of the Board, the chairman of each of the Board Audit and Risk Committee, Remuneration Committee and Nomination Committee and members of senior management, attended the 2021 EGM to answer questions from the Company's shareholders.

The notice of the 2021 EGM was distributed to all shareholders at least 14 clear business days prior to 2021 EGM and the accompanying circular also set out details of the proposed resolution and other relevant information as required under the Listing Rules.

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 2021 are set out below:

Director	Number of Meetings Attended/Held
Non-Executive Directors	
Dr. Lee Ka-kit *(Chairman) (Note 1)*	1/1
Mr. LIU Kai Lap Kenneth *(Note 2)*	1/1
Executive Directors	
Mr. Alfred Chan Wing-kin *(Note 3)*	2/2
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)*	1/2
Dr. John Qiu Jian-hang *(Chief Operating Officer – Renewable Business) (Note 4)*	1/1
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 5)*	1/1

Notes:

1. Dr. Lee Ka-kit has been appointed as Chairman of the Board and a Non-Executive Director with effect with 25 October 2021.

2. Mr. LIU Kai Lap Kenneth has been appointed as a Non-Executive Director with effect from 18 November 2021.

3. Mr. Alfred Chan Wing-kin has stepped down from the position of Chairman of the Board with effect from 25 October 2021.

4. Dr. John Qiu Jian-hang has been appointed as an Executive Director with effect from 10 November 2021.

5. Dr. Hu Zhang-hong has been appointed as an Independent Non-Executive Director with effect from 10 November 2021 and resigned as an Independent Non-Executive Director with effect from 9 March 2022.

Corporate Governance Report

Dividend Policy

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

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders and putting forward proposals

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

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

Making Enquiries to the Board

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

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Towngas Smart Energy Company Limited (formerly known as Towngas China Company Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 101 to 232, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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.

Independent Auditor's Report

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recognition of gas connection income	
We identified recognition of gas connection income as a key audit matter due to its quantitative significance to the consolidated income statement and management judgments involved in the recognition. As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK$2,429 million from gas connection during the year ended 31 December 2021. Management judgments involved in the recognition of revenue from gas connection, which relates to contracts for construction of gas connection facilities, in accordance with HKFRS 15 "Revenue from Contracts with Customers" include identifying performance obligations, timing of revenue recognition (a point in time or over time), and progress towards complete satisfaction of the relevant performance obligation being satisfied over time. The recognition of revenue depends on whether the control of services underlying the performance obligations is transferred to customers or measured based on progress towards complete satisfaction of the performance obligations. The accounting policies in relation to recognition of gas connection income are set out in note 3 to the consolidated financial statements.	Our procedures in relation to recognition of gas connection income included: • Understanding the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion; • Discussing with management with respect to the basis for recognising revenue of gas connection; • Evaluating the terms set out in the relevant contracts, on a sample basis, to assess whether the revenue recognition is accounted for in accordance with HKFRS 15; and • Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis to ensure the revenue is recorded in the correct accounting period.

Key Audit Matters *(Continued)*

Key audit matter *(Continued)*

Impairment assessment of goodwill

We identified impairment assessment of goodwill as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, combined with the significant 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 2021, the Group has goodwill of approximately HK$5,750 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, an accumulated impairment provision of HK$222 million was recognised as at 31 December 2021. Details are disclosed in note 21 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 certain significant inputs including the discount rates, growth rates, expected changes to selling prices, direct costs and expected impact of the regulatory changes. The carrying amount of goodwill of the identified CGUs at 31 December 2021 amounted to HK$928 million, net of accumulated impairment provision of HK$116 million. During the year ended 31 December 2021, an impairment provision of HK$60 million was recognised.

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

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, CGUs allocation and the preparation of the cash flow projections;
- Evaluating the appropriateness of impairment model applied by the management;
- Evaluating basis of management's cash flow forecasts by comparing the actual results to the previously forecasted results;
- Testing discount rates applied in the forecast by comparing them to economic data relevant to the industry;
- Assessing the reasonableness of growth rates applied in the forecast based on historical results and trends;
- Evaluating the reasonableness of the expected changes in selling prices and direct costs and expected impact of the regulatory changes with reference to historical performance; and
- Performing the sensitivity analysis on the discount rates to evaluate the magnitude of their impacts on the results of assessment of goodwill impairment.

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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.

Independent Auditor's Report

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2022

Consolidated Income Statement

For the year ended 31 December 2021

	NOTES	2021 HK$'000	2020 HK$'000
Revenue	7 & 8	**17,125,447**	12,826,237
Total operating expenses	9	**(15,019,700)**	(11,001,870)
		2,105,747	1,824,367
Other income	10	**150,920**	106,195
Other (losses) gains, net	11	**(390,237)**	1,487
Share of results of associates		**435,807**	362,688
Share of results of joint ventures		**431,437**	334,168
Finance costs	12	**(588,923)**	(426,204)
Profit before taxation	13	**2,144,751**	2,202,701
Taxation	15	**(617,659)**	(554,893)
Profit for the year		**1,527,092**	1,647,808
Profit for the year attributable to:			
Shareholders of the Company		**1,253,202**	1,447,113
Non-controlling interests		**273,890**	200,695
		1,527,092	1,647,808
Proposed final dividend of HK fifteen cents (2020: HK fifteen cents) per ordinary share	16	**473,419**	445,340
		HK cents	HK cents
Earnings per share	17		
– Basic		**41.53**	49.56
– Diluted		**41.53**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
Profit for the year	**1,527,092**	1,647,808
Other comprehensive income (expense) for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**823,020**	1,429,353
Fair value change on investments in equity instruments at fair value through other comprehensive income	**(284,684)**	(789,041)
Income tax relating to items that will not be reclassified to profit or loss	**69,983**	197,830
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	**(85,137)**	(174,889)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**116,890**	163,835
	640,072	827,088
Total comprehensive income for the year	**2,167,164**	2,474,896
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**1,852,253**	2,183,432
Non-controlling interests	**314,911**	291,464
Total comprehensive income for the year	**2,167,164**	2,474,896

Consolidated Statement of Financial Position

At 31 December 2021

	NOTES	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	18	22,810,412	20,016,653
Right-of-use assets	19	941,481	882,716
Intangible assets	20	471,083	475,074
Goodwill	21	5,750,478	5,625,492
Interests in associates	22	11,183,849	4,887,677
Interests in joint ventures	23	3,629,468	3,198,329
Loans to associates	22	47,313	69,090
Equity instruments at fair value through other comprehensive income	24	1,497,846	1,721,875
Deposits paid for acquisition of subsidiaries/an associate	44	178,829	415,776
		46,510,759	37,292,682
Current assets			
Inventories	25	704,509	643,117
Loans to associates	22	67,207	16,398
Loans to joint ventures	23	194,873	198,212
Trade and other receivables, deposits and prepayments	26	2,463,040	2,237,218
Amounts due from non-controlling shareholders	27	215,637	170,092
Time deposits over three months	28	9,571	109,290
Bank balances and cash	28	4,071,107	2,225,954
		7,725,944	5,600,281
Current liabilities			
Trade and other payables and accrued charges	30	2,994,759	2,689,325
Contract liabilities	31	3,939,179	3,733,570
Lease liabilities	32	15,312	22,562
Amounts due to non-controlling shareholders	27	79,855	54,876
Taxation payable		1,611,627	1,224,176
Borrowings – amounts due within one year	33	8,633,082	5,136,717
Loan from ultimate holding company	34	66,617	–
Loans from joint ventures	34	730	5,231
Other financial liabilities	29	29,992	55,839
		17,371,153	12,922,296
Net current liabilities		(9,645,209)	(7,322,015)
Total assets less current liabilities		36,865,550	29,970,667

Consolidated Statement of Financial Position

At 31 December 2021

	NOTES	2021 HK$'000	2020 HK$'000
Non-current liabilities			
Lease liabilities	32	60,174	39,554
Borrowings – amounts due after one year	33	7,990,330	6,356,041
Deferred taxation	35	830,839	848,342
Loans from non-controlling shareholders	34	37,518	20,890
Other financial liabilities	29	40,694	57,238
Convertible bonds	36	2,733,237	–
		11,692,792	7,322,065
Net assets		25,172,758	22,648,602
Capital and reserves			
Share capital	37	315,989	296,893
Reserves	38	22,579,063	20,426,006
Equity attributable to shareholders of the Company		22,895,052	20,722,899
Non-controlling interests		2,277,706	1,925,703
Total equity		25,172,758	22,648,602

The consolidated financial statements on pages 101 to 232 were approved and authorised for issue by the Board of Directors ("the Board") on 17 March 2022 and are signed on its behalf by:

Alfred Chan Wing-kin
DIRECTOR

Brian David Li Man-bun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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$'000 (note 38)	Investment revaluation reserve HK$'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 2020	287,069	6,033,632	(78,964)	(16,680)	343,067	1,630,961	–	10,412,971	18,612,056	1,687,954	20,300,010
Exchange differences on translation from functional currency to presentation currency	–	–	1,338,584	–	–	–	–	–	1,338,584	90,769	1,429,353
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	(789,041)	–	–	(789,041)	–	(789,041)
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	–	197,830	–	–	197,830	–	197,830
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	–	–	–	(174,889)	–	–	–	–	(174,889)	–	(174,889)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	–	–	–	163,835	–	–	–	–	163,835	–	163,835
Profit for the year	–	–	–	–	–	–	–	1,447,113	1,447,113	200,695	1,647,808
Total comprehensive income (expense) for the year	–	–	1,338,584	(11,054)	–	(591,211)	–	1,447,113	2,183,432	291,464	2,474,896
Issue of shares upon scrip dividend scheme (note 37)	9,824	348,190	–	–	–	–	–	–	358,014	–	358,014
Transfer	–	–	–	–	70,833	–	–	(70,833)	–	–	–
Acquisition of a subsidiary (note 40)	–	–	–	–	–	–	–	–	–	18,709	18,709
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	38,127	38,127
Dividends declared to shareholders of the Company (note 16)	–	(430,603)	–	–	–	–	–	–	(430,603)	–	(430,603)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(110,551)	(110,551)
	9,824	(82,413)	–	–	70,833	–	–	(70,833)	(72,589)	(53,715)	(126,304)
At 31 December 2020	296,893	5,951,219	1,259,620	(27,734)	413,900	1,039,750	–	11,789,251	20,722,899	1,925,703	22,648,602
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 37)	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 40)	–	–	–	–	–	–	–	–	–	(34,092)	(34,092)
Purchase of shares under share award scheme	–	–	–	–	–	–	(19,928)	–	(19,928)	–	(19,928)
Issue of shares (notes 36 & 37)	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 40)	–	–	–	–	–	–	–	–	–	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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**2,144,751**	2,202,701
Adjustments for:		
Interest income	**(40,602)**	(28,058)
Interest expenses	**582,602**	420,820
Share of results of associates	**(435,807)**	(362,688)
Share of results of joint ventures	**(431,437)**	(334,168)
Dividend income from equity instruments at fair value through other comprehensive income	**(31,719)**	(29,261)
Amortisation of intangible assets	**19,726**	18,546
Depreciation of right-of-use assets	**63,462**	57,074
Depreciation of property, plant and equipment	**784,707**	686,717
Impairment provision of property, plant and equipment	**8,939**	–
Impairment provision of goodwill	**60,000**	–
Impairment loss of trade receivables, net of reversal	**6,274**	33,026
Gain on disposal of property, plant and equipment	**(21,363)**	(296)
(Gain) loss on disposal of right-of-use assets	**(5,409)**	231
Change in fair value of embedded derivative component of convertible bonds	**358,643**	–
Exchange gain, net	**(10,573)**	(1,422)
Operating cash flows before movements in working capital	**3,052,194**	2,663,222
Increase in inventories	**(61,177)**	(18,426)
Increase in trade receivables	**(75,206)**	(184,139)
Increase in other receivables, deposits and prepayments	**(44,601)**	(12,200)
Decrease in amounts due from non-controlling shareholders	**12,261**	32,757
Increase in trade payables	**20,413**	115,791
Increase in contract liabilities	**205,516**	207,260
Increase in other payables and accrued charges	**93,039**	203,475
Increase (decrease) in amounts due to non-controlling shareholders	**22,780**	(12,551)
Cash generated from operations	**3,225,219**	2,995,189
Interest paid	**(580,385)**	(433,967)
Taxation paid	**(391,820)**	(361,394)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**2,253,014**	2,199,828

	NOTE	2021 HK$'000	2020 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,730,203)	(2,316,489)
Payments for acquisition of an associate		(5,217,856)	–
Deposits paid for acquisition of subsidiaries/an associate		(178,829)	(394,100)
Acquisition of equity instruments at fair value through other comprehensive income		(5,695)	(8,909)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	40	(151,562)	18,179
Payments for right-of-use assets		(53,071)	(51,396)
Capital contribution to associates		(86,714)	(11,761)
Capital contribution to joint ventures		–	(168,449)
Decrease (increase) in time deposits over three months		101,556	(40,424)
Advances to associates		(35,097)	(48,488)
Advances to joint ventures		(63,797)	(40,290)
Dividends received from associates		217,795	176,071
Dividends received from joint ventures		112,276	277,701
Repayment of loans to joint ventures		73,486	69,603
Repayment of loans to associates		9,323	–
Dividend income from equity instruments at fair value through other comprehensive income		31,719	29,261
Disposal of a subsidiary (net of cash and cash equivalents)	40	(2,069)	–
Interest received		40,602	28,058
Proceeds from disposal of property, plant and equipment		63,423	5,097
Proceeds from disposal of right-of-use assets		16,572	185
NET CASH USED IN INVESTING ACTIVITIES		(7,858,141)	(2,476,151)
FINANCING ACTIVITIES			
New bank and other loans raised		11,028,009	3,397,712
Repayments of bank and other loans		(6,266,606)	(2,733,723)
Dividends paid to shareholders of the Company		(68,520)	(72,589)
Dividends paid to non-controlling shareholders of subsidiaries		(135,109)	(110,551)
Repayment of lease liabilities		(45,132)	(29,976)
Capital contribution from non-controlling shareholders of subsidiaries		118,417	38,127
Acquisition of additional interest in a subsidiary		(50,013)	–
Advances from non-controlling shareholders		16,651	–
Advances from joint ventures		63,276	–
Repayment of loans from joint ventures		(67,870)	(25,613)
Loan from ultimate holding company		84,580	–
Repayment of loan from ultimate holding company		(19,096)	–
Issue of shares		451,919	–
Purchase of shares held for share award scheme		(19,928)	–
Proceeds from issue of convertible bonds		2,349,713	–
Repayment of other financial liabilities		(65,702)	–
Transaction costs attributable to issue of shares		(395)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		7,374,194	463,387

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,769,067	187,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,225,954	1,937,437
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	76,086	101,453
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	4,071,107	2,225,954

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements.

Amendment to HKFRS 16	Covid-19-Related Rent Concession
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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.

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform — Phase 2"

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 "Financial Instruments: Disclosures".

As at 1 January 2021, the Group has several financial liabilities and derivatives, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	HKD Hong Kong Interbank Offered Rate ("HIBOR")	**USD London Interbank Offered Rate ("LIBOR")**
	HK$'000	HK$'000
Financial liabilities		
Bank loans	575,000	1,164,750
Derivatives		
Cross currency interest rate swaps	583,314	1,277,370

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost, accordingly it is expected that there will be no significant effect on the carrying amounts. Additional disclosures as required by HKFRS 7 are set out in note 6.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
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 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

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

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 2021

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

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

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

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

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

As at 31 December 2021, the Group's right to defer settlement for certain borrowings 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 2021. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess the potential impacts of the amendments in relation to the borrowings with financial and other covenants. The impacts on application, if any, will be disclosed in the Group's future consolidated financial statements.

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)" *(Continued)*

As at 31 December 2021, 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$1,956,598,000 and the embedded derivative component (including the conversion options) is measured at fair value with carrying amount of HK$776,639,000 as at 31 December 2021, both of which are classified as non-current as set out in Note 36. 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$2,733,237,000 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 2021.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

HKAS 1 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies" *(Continued)*

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 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$9,645 million as at 31 December 2021. The Group's liabilities as at 31 December 2021 included borrowings of approximately HK$8,633 million that are repayable within one year from the end of the reporting period.

As at 31 December 2021, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$14,674 million and unutilised facilities from banks and ultimate controlling shareholder amounting to approximately HK$9,397 million ("Facilities"). As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised source of fund from MTN Programme and the Facilities amounting to approximately HK$14,691 million and HK$8,214 million, respectively. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$8,633 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

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.

Changes in the Group's ownership interests in existing subsidiaries

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

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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 ownership interests in existing subsidiaries **(Continued)**

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

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);

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)**

- 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Goodwill *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

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

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

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)*

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

Revenue 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

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.

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 **(Continued)**

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress

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

Leases

Definition of a lease

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

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

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.

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)***

Right-of-use assets ***(Continued)***

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

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

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

Refundable rental deposits

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

Lease liabilities

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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.

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.

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

3.2 Significant accounting policies *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination ***(Continued)***

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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)

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

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

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

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

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)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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.

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.

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)***

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

A financial asset is held for trading if:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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)***

(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.

(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 losses (gains), net" line item.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

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* ***(Continued)***

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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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)***

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.

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.

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)***

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).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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 (losses) gains, net" line item.

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.

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

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 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 used 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. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

Exchange differences relating to the retranslation of the Group's net assets in RMB to the Group's presentation currency (i.e. HK$) 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 2021

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgements in applying accounting policies

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

The PRC Entities are subsidiaries of the Group although the Group holds 49%, 45% or 49.8% ownership interests and voting rights in the PRC Entities and the remaining equity interests of the PRC Entities are owned by shareholders that are unrelated to the Group. Details of these are set out in note 47.

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

Key sources of estimation uncertainty

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

Impairment assessment of goodwill

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Key sources of estimation uncertainty *(Continued)*

Impairment assessment of goodwill *(Continued)*

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 five year period until the end of the relevant concession periods are determined by considering both internal and external factors relating to the cash-generating units ("CGUs"). The Group is of the view that, in order to achieve a smooth transition to both the gas project operators and the society, the existing gas pricing mechanism would continue to be adopted for several years, after which the gas price will be gradually adjusted to reflect the return rates indicated in the "Guiding Opinions". The connecting fee margin was also reduced by management to address the rationale that drove the issue of the Guiding Opinions. Discount rates ranging between 8.2% to 16.0% (2020: 8.5% to 11.5%) were used to reflect the specific risks relating to the investments. In relation to the city-gas business in the PRC operated by the Group's subsidiaries, the carrying value of goodwill related to these individual city-gas projects as at 31 December 2021 amounted to HK$5,750,478,000 (2020: HK$5,625,492,000), net of an impairment provision of HK$222,344,000 (2020: HK$157,176,000).

The assumptions used in the assessment of certain CGUs are highly judgemental and are heavily dependent on the timing and the extent of how the pricing mechanism as detailed in the Guiding Opinions will be implemented as well as the discount rate, growth rates and expected changes to selling prices and direct costs. The carrying amount of goodwill of the identified CGUs at 31 December 2021 amounted to HK$928 million, net of accumulated impairment provision of HK$116 million. During the year ended 31 December 2021, an impairment provision of HK$60 million was recognised. The assessment is sensitive to changes in estimates. Details are disclosed in note 21.

Income taxes

As at 31 December 2021, 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$595,840,000 (2020: HK$545,637,000) 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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 by utilities and construction sectors affecting the ability of the customers to settle the debtors that is reasonable and supportable available without undue costs or effort and expected subsequent settlements. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

These assessments and measurements are sensitive to changes in estimates. Details are disclosed in note 6.

Fair value measurement of embedded derivative in convertible bonds

Embedded derivative in convertible bonds amounting to HK$776,639,000 as at 31 December 2021 (2020: nil) is measured at fair value 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 36.

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 36, 33 and 34 respectively, equity attributable to shareholders of the Company, comprising issued share capital, reserves and non-controlling interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. CAPITAL RISK MANAGEMENT *(Continued)*

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").

The Gearing Ratio at the reporting date was as follows:

	2021	2020
	HK$'000	HK$'000
Debt[(i)]	**16,728,277**	11,518,879
Convertible bonds	**2,733,237**	–
Time deposits over three months	**(9,571)**	(109,290)
Bank balances and cash	**(4,071,107)**	(2,225,954)
Net debt	**15,380,836**	9,183,635
Equity[(ii)]	**25,172,758**	22,648,602
Net debt to equity ratio	**61.1%**	40.5%
Gearing Ratio[(iii)]	**37.9%**	28.9%

(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 33 and 34, 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$15,380,836,000 (2020: HK$9,183,635,000) to total equity plus net debt of HK$40,553,594,000 (2020: HK$31,832,237,000).

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 HK$'000	2020 HK$'000
Financial assets		
Amortised cost	6,432,632	4,337,396
Equity instruments at FVTOCI	1,497,846	1,721,875
Financial liabilities		
Amortised cost	21,248,902	13,779,656
Derivative financial instruments	70,686	113,077
Embedded derivative component of convertible bonds	776,639	–
Lease liabilities	75,486	62,116

Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, loans to associates, loans to joint ventures, trade and other receivables, deposits, amounts due from non-controlling shareholders, time deposits over three months, bank balances and cash, 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 (''USD'') and HKD at the end of the reporting period are set out in notes 28 and 33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

The Group entered into cross currency interest rate swap contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Those cross currency interest rate swap contracts are designated as effective hedging instrument for a variable-rate bank borrowing denominated in USD with hedge accounting used (see note 29 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.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2020: 3%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (excluding derivative financial instruments) and adjusts their translation at the end of each reporting period for a 3% (2020: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash and borrowings denominated in a currency other than the functional currency of the respective group entities. The sensitivity analysis excludes the effect on foreign currency denominated borrowings that are under an effective hedging relationship as the Group's net exposure to currency risk arising from the hedging relationship is insignificant. A positive number below indicates an increase in profit before taxation where RMB strengthens by 3% (2020: 3%) against USD and HKD. For a 3% (2020: 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.

	2021 HK$'000	2020 HK$'000
Profit before taxation	649	987

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

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.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD and RMB bank loans and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.

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 25 basis points (2020: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis ***(Continued)***

If interest rates had been 25 basis points (2020: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2021 would decrease/increase by HK$13,041,000 (2020: HK$4,040,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings to which hedge accounting is not applied.

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

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

Other price risk

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

Sensitivity analysis

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

If the prices of the respective listed equity securities with fair value measurement categorised within Level 1 had been 3% higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$31,013,000 (2020: HK$36,224,000) as a result of the changes in fair value of the investments, net of tax.

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

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 2021 HK$'000	Gross carrying amount as at 31 December 2020 HK$'000
Loans to associates	22	Low risk	12m ECL	**114,520**	85,488
Loans to joint ventures	23	Low risk	12m ECL	**194,873**	198,212
Trade receivables	26	(Note)	Lifetime ECL – not credit-impaired	**1,280,341**	1,136,606
		Loss	Lifetime ECL – credit-impaired	**130,851**	132,442
				1,411,192	1,269,048
Other receivables and deposits	26	Low risk	12m ECL	**585,634**	447,109
Amounts due from non-controlling shareholders	27	Low risk	12m ECL	**215,637**	170,092
Time deposit over three months	28	N/A	12m ECL	**9,571**	109,290
Bank balances and cash	28	N/A	12m ECL	**4,071,107**	2,225,954

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. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model 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 and all available forward-looking information and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The Group used estimated loss rates ranging from less than 0.1% to 35% (2020: 0.1% to 34%) 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 2021

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
As at 1 January 2020	24,655	120,895	145,550
Exchange realignment	1,843	3,534	5,377
Impairment written-off	—	(16,156)	(16,156)
Impairment losses recognised for new financial assets originated	8,857	24,169	33,026
As at 31 December 2020	35,355	132,442	167,797
Exchange realignment	1,206	1,991	3,197
Impairment written-off	—	(7,366)	(7,366)
Impairment losses recognised for new financial assets originated	2,490	3,784	6,274
As at 31 December 2021	39,051	130,851	169,902

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

During the year ended 31 December 2021, the Group provided HK$6,274,000 (2020: HK$33,026,000) impairment allowance, net of reversals, 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 two (2020: three) joint ventures, five (2020: five) associates and eleven (2020: nine) non-controlling shareholders respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associates and non-controlling shareholders, believes the credit risk is minimal and the loss allowance is immaterial. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

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 low historical default rate in connection with payments.

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised source of fund from MTN Programme and the Facilities of HK$14,691 million and 8,214 million (2020: nil and HK$6,588 million), respectively. 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$9,645 million (2020: HK$7,322 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 2021

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 31.12.2021 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
Medium term note ("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

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 31.12.2020 HK$'000
2020								
Trade payables	–	180,611	387,274	549,019	237,955	63,192	1,418,051	1,418,051
Other payables	–	787,850	–	–	–	–	787,850	787,850
Lease liabilities	5.00%	1,888	3,792	17,556	26,184	22,988	72,408	62,116
Amounts due to non-controlling shareholders	–	54,876	–	–	–	–	54,876	54,876
Loan from a non-controlling shareholder	1.00%	–	–	–	21,523	–	21,523	20,890
Loans from joint ventures	2.15%	5,240	–	–	–	–	5,240	5,231
Bank loans	3.29%	2,026,335	885,499	2,521,687	7,170,751	9,526	12,613,798	11,456,239
Other loans	1.36%	1,748	–	23,300	7,205	5,473	37,726	36,519
		3,058,548	1,276,565	3,111,562	7,463,618	101,179	15,011,472	13,841,772
Derivatives – gross settlement								
Cross currency interest rate swap								
– inflow		(2,930)	(6,139)	(13,902)	(1,778,694)	–	(1,801,665)	N/A
– outflow		9,544	19,098	47,355	1,904,574	–	1,980,571	N/A
		6,614	12,959	33,453	125,880	–	178,906	113,077

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform

As listed in note 33, several of the Group's LIBOR (3-month US dollar setting) and HIBOR bank loans may be 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

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

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. For bank loans linked to HIBOR but not hedged by cross currency interest rate swaps, the Group is currently considering whether to modify these loans as to replace HIBOR by HONIA. For the bank loan linked to HIBOR and hedged by cross currency interest rate swaps, the Group does not intend to transition the agreements to HONIA.

(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.

During the year, a loan with principal amount of USD100,000,000 which is linked to LIBOR was repaid on maturity. The Group is planning to transition the remaining USD LIBOR loan with principal amount of USD50,000,000 which is repayable in 2024 through introduction of, or amendments to, fallback clauses into the contract which will change the basis for determining the interest cash flows from LIBOR to alternative reference rate before 30 June 2023. The Group is also planning to transition the cash flow hedging instruments (cross currency interest rate swaps) that are linked to LIBOR to the alternative reference rates via International Swaps and Derivatives Association protocol before 30 June 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform *(Continued)*

(ii) Progress towards implementation of alternative benchmark interest rates ***(Continued)***

For the floating rate loan hedged by cross currency interest rate swaps that are linked to HIBOR, the management expects the HIBOR will continue to maturity, i.e. 2022 and the Group does not intend to transition the agreements to HONIA. For other floating rate loans linked to HIBOR, the Group is currently considering whether to modify these loans as to replace HIBOR by HONIA.

Fair value measurements

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

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

	Financial assets/ financial liabilities	Fair value as at 31.12.2021	Fair value as at 31.12.2020	Fair value hierarchy	Valuation techniques and key inputs
1)	Listed equity investments classified as FVTOCI in the consolidated statement of financial position	**Assets – HK$1,378,353,000**	Assets – HK$1,609,942,000	Level 1	Quoted market price
2)	Cross currency interest rate swaps classified as other financial liabilities in the consolidated statement of financial position	**Liabilities – HK$70,686,000**	Liabilities – HK$113,077,000	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.

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 31.12.2021	Fair value as at 31.12.2020	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
1) Unquoted equity investments	**Assets – HK$119,493,000**	Assets – HK$111,933,000	Level 3	Market comparable approach	Market multiples ranging from 0.2 to 1.1 (2020: 0.6 to 1.7) and discount for lack of marketability ranging from 0% to 30% (2020: 0% to 30%) (note a)
2) Embedded derivative component of convertible bonds	**Liabilities – HK$776,639,000**	N/A	Level 3	Binomial option pricing model	Expected volatility of 34.1% (2020: N/A) (note b)

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$82,333,000 (2020: N/A).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

	Unquoted equity investments HK$'000	**Embedded derivative component of convertible bonds** HK$'000
Balance at 1 January 2020	95,002	–
Addition	8,909	–
Fair value change recognised in other comprehensive income	2,019	–
Currency realignment	6,003	–
Balance at 31 December 2020	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)
Balance at 31 December 2021	119,493	(776,639)

The fair value loss recognised in other comprehensive income relating to unquoted equity investments of HK$1,783,000 (2020: gain of HK$2,019,000) is reported as change of investment revaluation reserve.

The fair value loss recognised in profit or loss relating to embedded derivative component of convertible bonds of HK$358,643,000 (2020: nil) is included in "other (losses) gains, 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. For instruments with significant unobservable inputs under Level 3, the Group engages third party qualified valuers to perform the valuation. 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.

There were no transfer between Level 1, 2 and 3 during both years.

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 recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE

The Group's revenue from contracts with customers was all generated in the PRC and has been disaggregated as (i) sales of piped gas and energy of HK$13,951,433,000 (2020: HK$10,227,961,000); (ii) gas connection of HK$2,429,287,000 (2020: HK$2,210,198,000); and (iii) extended business of HK$744,727,000 (2020: HK$388,078,000) for the year ended 31 December 2021, as disclosed in note 8.

As at 31 December 2021, 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$1,800,499,000 and HK$1,296,228,000) (2020: HK$1,697,014,000 and HK$1,413,364,000), respectively, and the Group's contract liabilities of HK$1,412,023,000 (2020: HK$1,080,173,000), as disclosed in note 31, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

8. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

In prior years, the Executive Directors assessed the Group's businesses by two operating segments, namely (a) sales and distribution of piped gas and related products and (b) gas connection. During the year ended 31 December 2021, the Executive Directors have reassessed and restructured its businesses into (i) sales of piped gas and energy (ii) gas connection and (iii) extended business. The comparative information has been restated to conform with the current year's presentation.

Segment 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 (losses) gains, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Information regarding these segments is presented below:

	Sales 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 2020 (restated)				
REVENUE				
Revenue recognised at a point in time	10,227,961	1,651,794	388,078	12,267,833
Revenue recognised over time	–	558,404	–	558,404
External	10,227,961	2,210,198	388,078	12,826,237
Segment results	999,208	909,852	66,220	1,975,280
Other income				106,195
Other gains, net				1,487
Unallocated corporate expenses				(150,913)
Share of results of associates				362,688
Share of results of joint ventures				334,168
Finance costs				(426,204)
Profit before taxation				2,202,701
Taxation				(554,893)
Profit for the year				1,647,808

Segment results included depreciation and amortisation of HK$867,895,000 (2020: HK$762,337,000), 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.

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

	2021 HK$'000	2020 HK$'000
Gas fuel, stores and materials used	12,254,356	8,743,202
Staff costs	1,303,943	1,017,976
Depreciation and amortisation	867,895	762,337
Other expenses	593,506	478,355
	15,019,700	11,001,870

10. OTHER INCOME

	2021 HK$'000	2020 HK$'000
Dividend income from equity instruments at fair value through other comprehensive income	31,719	29,261
Government grants	32,258	24,510
Interest income	40,602	28,058
Others	46,341	24,366
	150,920	106,195

11. OTHER (LOSSES) GAINS, NET

	2021 HK$'000	2020 HK$'000
Exchange gain, net	10,573	1,422
Gain on disposal of property, plant and equipment	21,363	296
Gain (loss) on disposal of right-of-use assets	5,409	(231)
Impairment provision of goodwill	(60,000)	–
Impairment provision of plant, property and equipment	(8,939)	–
Change in fair value of embedded derivative component of convertible bonds	(358,643)	–
	(390,237)	1,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

12. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest on bank and other borrowings	**584,598**	433,967
Effective interest expenses on convertible bonds	**9,265**	–
Bank charges	**6,321**	5,384
Interest on lease liabilities	**3,747**	3,063
	603,931	442,414
Less: amounts capitalised	**(15,008)**	(16,210)
	588,923	426,204

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 2.5% (2020: 3.68%) per annum to expenditure on qualifying assets.

13. PROFIT BEFORE TAXATION

	2021 HK$'000	2020 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 14)	**22,399**	18,077
Other staff costs	**1,186,851**	987,986
Retirement benefit scheme contributions for other staff	**94,693**	11,913
Total staff costs	**1,303,943**	1,017,976
Impairment loss of trade receivables, net of reversal	**6,274**	33,026
Amortisation of intangible assets	**19,726**	18,546
Depreciation of right-of-use assets	**63,462**	57,074
Auditor's remuneration	**14,408**	13,109
Cost of inventories sold	**13,168,902**	9,515,749
Depreciation of property, plant and equipment	**784,707**	686,717

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments:

The emoluments paid or payable to each of the 11 (2020: 7) directors were as follows:

	Year ended 31 December 2021											
	Executive Directors					Non-Executive Directors		Independent Non-Executive Directors				
	Alfred Chan Wing-kin HK$'000	Peter Wong Wai-yee HK$'000 (Note d)	John Ho Hon-ming HK$'000 (Note e)	Martin Kee Wai-ngai HK$'000 (Note f)	John Qiu Jian-hang HK$'000 (Note g)	Lee Ka-kit HK$'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	200	28	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	200	8,531	6,259	5,072	738	56	–	500	500	500	43	22,399

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

Notes:

(a) The directors' fees of executive directors and non-executive directors were mainly for their services as directors of the Company and its subsidiaries and the directors' fees of non-executive directors were mainly for their services as directors of the Company.

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

(c) The performance and discretionary bonus are determined by the Board from time to time with reference to directors' duties and responsibilities and the Group's performance and profitability.

(d) Mr. Peter Wong Wai-yee is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Directors' emoluments: *(Continued)*

Notes: *(Continued)*

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

Employees' emoluments:

For the year ended 31 December 2021, the 5 highest paid individuals of the Group included 3 (2020: 3) Directors, details of their emoluments are included above. The emoluments of the remaining 2 (2020: 2) highest paid individuals are as follows:

	2021 **HK$'000**	2020 HK$'000
Salaries and other benefits	**2,947**	2,850
Performance related incentive payments	**3,052**	2,802
Retirement benefit scheme contributions	**204**	198
	6,203	5,850

The emoluments were within the following bands:

	Number of employees	
	2021	2020
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	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

	2021 HK$'000	2020 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	565,638	537,566
Deferred taxation (note 35)	52,021	17,327
	617,659	554,893

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

The EIT rates applicable for the Group's PRC subsidiaries are 15% or 25% (2020: 15% or 25%).

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

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

	2021 HK$'000	2020 HK$'000
Profit before taxation	2,144,751	2,202,701
Tax at the applicable rate of 25% (note)	536,188	550,675
Tax effect of expenses that are not deductible for tax purposes	286,468	206,817
Tax effect of income that are not taxable for tax purposes	(22,523)	(23,631)
Effect of different tax rates of subsidiaries operating in different regions	(67,464)	(44,118)
Tax effect of share of results of associates	(108,952)	(90,672)
Tax effect of share of results of joint ventures	(107,859)	(83,542)
Tax effect of utilisation of tax losses not previously recognised	(10,880)	(24,141)
Tax effect of tax losses not recognised	49,041	28,805
Withholding tax on undistributed profits	63,640	34,700
Tax charge for the year	617,659	554,893

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

16. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2020 of HK$445,340,000 (2020: HK$430,603,000 in respect of the year ended 31 December 2019) was recognised as distribution, being HK fifteen cents per ordinary share (2020: HK fifteen cents per ordinary share). The aggregate amount of HK$445,340,000 (2020: HK$430,603,000) has been calculated on the basis of 2,968,934,833 (2020: 2,870,687,008) shares in issue at the date of distribution.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK fifteen cents (2020: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders at the annual general meeting and compliance with the 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:

	2021 HK$'000	2020 HK$'000
Earnings		
Profit for the year attributable to owners of the Company attributable to the Company for the purpose of basic and diluted earnings per share	1,253,202	1,447,113

	Number of shares 2021 '000	 2020 '000
Number of shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of basic and diluted earnings per share	3,017,444	2,920,079

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.

No diluted earnings per share was presented as there were no potential ordinary shares in issue for the year ended 31 December 2020.

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 2020	2,088,380	15,124,606	1,783,103	2,171,097	21,167,186
Currency realignment	146,643	1,028,085	123,068	153,836	1,451,632
Additions	45,615	447,126	107,279	1,732,679	2,332,699
Acquisition of a subsidiary (Note 40)	–	–	–	438	438
Disposals	(1,522)	(2,005)	(28,773)	–	(32,300)
Transfers	193,495	1,125,696	64,717	(1,383,908)	–
At 31 December 2020	2,472,611	17,723,508	2,049,394	2,674,142	24,919,655
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 40)	–	–	110,346	66,648	176,994
Disposal of a subsidiary (Note 40)	–	–	(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
DEPRECIATION AND IMPAIRMENT					
At 1 January 2020	439,757	2,587,801	920,399	–	3,947,957
Currency realignment	36,206	189,242	70,379	–	295,827
Provided for the year	88,962	454,475	143,280	–	686,717
Eliminated on disposals	(561)	(672)	(26,266)	–	(27,499)
At 31 December 2020	564,364	3,230,846	1,107,792	–	4,903,002
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
CARRYING VALUES					
At 31 December 2021	2,363,576	16,416,793	1,129,828	2,900,215	22,810,412
At 31 December 2020	1,908,247	14,492,662	941,602	2,674,142	20,016,653

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

19. RIGHT-OF-USE ASSETS

	Leasehold land HK$'000	Leased properties and others HK$'000	Total HK$'000
As at 31 December 2021			
Carrying amount	869,384	72,097	941,481
As at 31 December 2020			
Carrying amount	825,714	57,002	882,716
For the year ended 31 December 2021			
Depreciation charge	(23,939)	(39,523)	(63,462)
For the year ended 31 December 2020			
Depreciation charge	(22,423)	(34,651)	(57,074)

	2021 HK$'000	2020 HK$'000
Total cash outflow for leases	**98,203**	81,372
Additions to right-of-use assets	**105,590**	81,375

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 (2020: 12 months to 30 years) while for land leases are entered into for fixed terms ranging from 15 years to 70 years (2020: 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 2020	626,844
Currency realignment	38,564
At 31 December 2020	665,408
Currency realignment	21,324
Acquisition of a subsidiary (Note 40)	103,106
Disposal of a subsidiary (Note 40)	(102,712)
At 31 December 2021	687,126
AMORTISATION	
At 1 January 2020	161,412
Currency realignment	10,376
Provided for the year	18,546
At 31 December 2020	190,334
Currency realignment	5,983
Provided for the year	19,726
At 31 December 2021	216,043
CARRYING VALUES	
At 31 December 2021	471,083
At 31 December 2020	475,074

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

21. GOODWILL

	HK$'000
COST	
At 1 January 2020	5,445,022
Currency realignment	337,646
At 31 December 2020	5,782,668
Currency realignment	190,154
At 31 December 2021	5,972,822
IMPAIRMENT	
At 1 January 2020	148,000
Currency realignment	9,176
At 31 December 2020	157,176
Currency realignment	5,168
Impairment provision recognised	60,000
At 31 December 2021	222,344
CARRYING VALUES	
At 31 December 2021	5,750,478
At 31 December 2020	5,625,492

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:

	2021	2020
	HK$'000	HK$'000
Sub-groups headed by:		
Hong Kong & China Gas (Qingdao) Limited	**351,201**	340,020
Hong Kong & China Gas (Zibo) Limited	**377,726**	365,701
Hong Kong & China Gas (Yantai) Limited	**234,358**	226,897
Hong Kong & China Gas (Weifang) Limited	**120,485**	116,649
Hong Kong & China Gas (Weihai) Limited	**292,231**	282,928
Hong Kong & China Gas (Taian) Limited	**226,070**	218,873
Hong Kong & China Gas (Maanshan) Limited	**306,886**	297,116
Hong Kong & China Gas (Anqing) Limited	**290,875**	281,615
Mianyang Hong Kong & China Gas Co., Ltd.	**312,692**	302,737
成都新都港華燃氣有限公司	**237,650**	230,084
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**435,596**	421,728
阜新新邱港華燃氣有限公司	**130,763**	126,600
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	**132,714**	128,489
Shenyang business	**113,381**	109,771
Mianzhu Hong Kong and China Gas Co., Ltd.	**112,547**	108,964
潮州楓溪港華燃氣有限公司	**100,571**	155,459
Boxing Hong Kong & China Gas Co., Ltd.	**95,559**	92,517
Dafeng Hong Kong and China Gas Company Limited	**268,929**	260,367
廣西中威管道燃氣發展集團有限責任公司	**137,896**	133,506
Baotou Hong Kong & China Gas Company Limited	**176,266**	170,655
Xingyi Hong Kong & China Gas Company Limited	**110,905**	107,374
Others	**1,185,177**	1,147,442
	5,750,478	5,625,492

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 discount rates, growth rates, expected changes to selling prices and direct costs and expected impact of the regulatory changes during the budgeted period. Management estimates discount rates of 8.2% to 16.0% (2020: 8.5% to 11.5%) that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Cash flows beyond 5-year period have been extrapolated using growth rates from 5% to 10% (2020: 5% to 10%) per annum, which is based on industry growth forecasts. Impairment provision of HK$60,000,000 is recognised during the year ended 31 December 2021 (2020: nil) 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 the CGU is HK$223,383,000 and the management applied discount rate of 12.5% (2020:10.5%) to the CGU. No other write-down of the assets is considered necessary.

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, the carrying amounts of certain CGUs would be decreased by approximately HK$62,000,000 (2020: HK$107,000,000).

22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES

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

	2021 HK$'000	2020 HK$'000
Cost of investments in associates	**8,668,061**	2,317,114
Share of post-acquisition profits and other comprehensive income, net of dividends received	**2,515,788**	2,570,563
	11,183,849	4,887,677
Fair value of listed investments (Note)	**4,206,369**	6,383,563
Loans to associates		
– Non-current portion	**47,313**	69,090
– Current portion	**67,207**	16,398
	114,520	85,488

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 2021	2020	Principal activities
Anhui Province Wenery Towngas Natural Gas Company Limited	PRC – Sino-foreign equity joint venture	**49.0%**	49.0%	Midstream
Changchun Gas Co., Ltd.*	PRC – Company limited by shares	**28.2%**	28.2%	Provision of natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	**40.0%**	40.0%	Provision of natural gas and related services and gas pipeline construction
Foran Energy Group Co., Ltd.**	PRC – Company limited by shares	**38.7%**	38.7%	Provision of natural gas and related services and gas pipeline construction
Jiangsu Jinzhuo Construction Engineering Co., Ltd. ("Jiangsu Jinzhuo")	PRC – Sino-foreign equity joint venture	**49.9%**	–	Provision of engineering work services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Name of entity	Place of establishment and operation	Equity interest attributable to the Group 2021	2020	Principal activities
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. ("Shanghai Gas")	PRC – Limited liability company	**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 31.12.2021 HK$'000
Current assets	9,841,641
Non-current assets	16,615,243
Current liabilities	(9,527,163)
Non-current liabilities	(3,517,825)

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

	2021 HK$'000
Net assets of Shanghai Gas as at 31 December 2021	13,411,896
Add: Unrecognised share of results of Shanghai Gas by the Group (note a)	667,124
Less: Non-controlling interest of Shanghai Gas' subsidiaries	(1,507,851)
	12,571,169
Proportion of the Group's ownership interest in Shanghai Gas	25%
The Group's share of net assets of Shanghai Gas	3,142,792
Provisional goodwill (note b)	2,641,459
Carrying amount of the Group's interest in Shanghai Gas	5,784,251

Notes:

(a) Pursuant to a supplemental agreement entered between Shenergy (Group) Company Limited ("Shenergy Group"), the controlling shareholder of Shanghai Gas, and the Group, the financial results of Shanghai Gas for the period from the date of acquisition of Shanghai Gas by the Group to 31 December 2021 were borne by Shenergy Group.

(b) The fair value of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable intangible assets and valuation of the identifiable assets and liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Aggregate information of associates that are not individually material

	2021 HK$'000	2020 HK$'000
The Group's share of profit for the year	**435,807**	362,688
Aggregate carrying amount of the Group's interests in these associates	**5,399,598**	4,887,677

The loans to associates are unsecured and interest bearing at fixed rates ranging from 4.35% to 5.00% (2020: 4.35% to 5.00%) per annum. Included in the loans are HK$8,373,000 (2020: HK$6,479,000) repayable on demand, HK$58,834,000 (2020: HK$9,919,000) repayable within one year and HK$47,313,000 (2020: HK$69,090,000) 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:

	2021 HK$'000	2020 HK$'000
Cost of investments in joint ventures	**1,512,844**	1,463,614
Share of post-acquisition profits and other comprehensive income, net of dividends received	**2,116,624**	1,734,715
	3,629,468	3,198,329
Loans to joint ventures – current	**194,873**	198,212

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 2021	2020	Principal activities
Anhui Towngas Keda Power Sales Co., Ltd.	PRC – Sino-foreign equity joint venture	**50.0%**	50.0%	Provision of natural gas distributed energy
Anqing Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	**50.0%**	50.0%	Provision for natural gas and related services and gas pipeline construction
重慶港華燃氣有限公司	PRC – Limited liability company	**50.0%**	50.0%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	**50.0%**	50.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	**50.0%**	50.0%	Provision of natural gas and related services and gas pipeline construction
泰安市泰港燃氣有限公司	PRC – Sino-foreign equity joint venture	**49.0%**	49.0%	Midstream
Taian Taishan Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	**49.0%**	49.0%	Provision of natural gas and related services and gas pipeline construction
Tongling Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	**40.0%**	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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Aggregate information of joint ventures that are not individually material

	2021 HK$'000	2020 HK$'000
The Group's share of profit for the year	431,437	334,168
Aggregate carrying amount of the Group's interests in these joint ventures	3,629,468	3,198,329

The loans to joint ventures are unsecured, interest bearing at a fixed rate of 4.35% (2020: 4.35%) per annum and repayable on demand.

24. EQUITY INSTRUMENTS AT FVTOCI

	2021 HK$'000	2020 HK$'000
Listed shares in the PRC	1,378,353	1,609,942
Unlisted shares in the PRC	119,493	111,933
	1,497,846	1,721,875

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 (2020: HK$160,663,000) and the Group holds 11.7% interest (104,000,000 shares) (2020: 11.7% interest (104,000,000 shares)) in Chengdu Gas as at 31 December 2021. Change in fair value of Chengdu Gas was recognised in other comprehensive income of the Group. As at 31 December 2021, the fair value of Chengdu Gas was HK$1,325,840,000 (2020: HK$1,543,074,000) (constitutes 2.4% (2020: 3.6%) of total assets of the Group) with reference to its stock price and fair value movement of a decrease of HK$263,418,000 (2020: HK$811,530,000) was recognised during the year ended 31 December 2021.

25. INVENTORIES

	2021 HK$'000	2020 HK$'000
Finished goods	143,774	151,591
Materials and consumables	560,735	491,526
	704,509	643,117

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2021 HK$'000	2020 HK$'000
Trade receivables (net of allowance for credit losses)	1,241,290	1,101,251
Prepayments	571,274	631,212
Other receivables and deposits (note)	650,476	504,755
	2,463,040	2,237,218

At 1 January 2020, trade receivables from contracts with customers amounted to HK$886,834,000 (after deducting the allowance for credit losses of HK$145,550,000).

Note: Included in the balance of other receivables and deposits are amounts due from related companies of HK$47,838,000 (2020: HK$17,817,000). 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$1,411,192,000 (2020: HK$1,269,048,000) and allowance for credit losses of HK$169,902,000 (2020: HK$167,797,000). 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:

	2021 HK$'000	2020 HK$'000
0 to 90 days	952,900	883,463
91 to 180 days	81,132	39,115
Over 180 days	207,258	178,673
	1,241,290	1,101,251

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$21,455,000 (2020: HK$13,565,000) which are past due as at the reporting date. Out of the past due balances, HK$4,507,000 (2020: HK$6,458,000) 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. 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% (2020: 0.00% to 3.70%) 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.

	2021	2020
	HK$'000	HK$'000
USD	**10,355**	10,611
HKD	**11,277**	22,285

29. OTHER FINANCIAL LIABILITIES

	2021 HK$'000	2020 HK$'000
Other financial liabilities		
Derivatives (under hedge accounting)		
Cash flow hedge – cross currency interest rate swap contract under current liabilities	29,992	55,839
Cash flow hedge – cross currency interest rate swap contract under non-current liabilities	40,694	57,238
	70,686	113,077

The classification of the measurement of the derivative financial instruments at 31 December 2021 and 2020 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$575,000,000 and USD150,000,000 to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the HK$ bank loan with total principal amount of HK$575,000,000 and USD bank loan with principal amount of USD150,000,000, respectively. The critical terms of the cross currency interest rate swap and the corresponding HK$ and USD bank loan were closely aligned and the Directors considered that the cross currency interest rate swap was a highly effective hedging instrument and qualified as cash flow hedge. During the year ended 31 December 2021, the fair value change of HK$85,137,000 (2020: HK$174,889,000) on derivative instruments designated as cash flow hedge was recorded in hedge reserve, and a fair value change of HK$116,890,000 (2020: HK$163,835,000) on derivative instrument designated as cash flow hedge reclassified to finance costs as a debit of HK$63,970,000 (2020: HK$54,008,000) and to exchange differences (included in other (losses) gains, net) as a debit of HK$52,920,000 (2020: HK$109,827,000) in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

29. OTHER FINANCIAL LIABILITIES *(Continued)*

Cash flow hedge *(Continued)*

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

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

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 as hedging instruments cross currency interest rates linked to USD LIBOR as 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.

29. OTHER FINANCIAL LIABILITIES *(Continued)*

Cash flow hedge *(Continued)*

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

30. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2021 HK$'000	2020 HK$'000
Trade payables	1,587,061	1,418,051
Consideration payable for acquisitions of businesses	80,700	78,187
Other payables and accruals	1,325,645	1,192,770
Amount due to ultimate holding company (note)	1,353	317
	2,994,759	2,689,325

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:

	2021 HK$'000	2020 HK$'000
0 to 90 days	905,106	803,056
91 to 180 days	209,004	209,887
181 to 360 days	172,091	142,431
Over 360 days	300,860	262,677
	1,587,061	1,418,051

31. CONTRACT LIABILITIES

	2021 HK$'000	2020 HK$'000 (restated)
Sales of piped gas and energy	1,412,023	1,080,173
Gas connection	2,450,959	2,582,037
Extended business	76,197	71,360
	3,939,179	3,733,570

At 1 January 2020, contract liabilities amounted to HK$3,309,677,000.

31. 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 2021			
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,080,173	748,944	71,360
For the year ended 31 December 2020 (restated)			
Revenue recognised that was included in the contract liability balance at the beginning of the year	871,749	644,312	42,493

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 related 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

32. LEASE LIABILITIES

	2021 HK$'000	2020 HK$'000
Lease liabilities payable:		
Within one year	15,312	22,562
Within a period of more than one year but not more than two years	15,185	9,911
Within a period of more than two years but not more than five years	33,436	11,631
Within a period of more than five years	11,553	18,012
	75,486	62,116
Less: Amounts due for settlement with 12 months shown under current liabilities	(15,312)	(22,562)
Amounts due for settlement after 12 months shown under non-current liabilities	60,174	39,554

33. BORROWINGS

	2021 HK$'000	2020 HK$'000
Bank loans – unsecured	15,668,738	11,456,239
Other loans – unsecured	34,429	36,519
MTN – unsecured	920,245	–
	16,623,412	11,492,758
Carrying amount repayable:		
On demand or within one year	8,633,082	5,136,717
Within a period of more than one year but not exceeding two years	1,130,793	4,823,258
Within a period of more than two years but not exceeding five years	6,837,377	1,519,480
Within a period of more than five years	22,160	13,303
	16,623,412	11,492,758
Less: Amount due within one year shown under current liabilities	(8,633,082)	(5,136,717)
Amount due after one year shown under non-current liabilities	7,990,330	6,356,041

33. BORROWINGS *(Continued)*

The borrowings mainly comprise of:

	Effective interest rate	Carrying amount 2021 HK$'000	2020 HK$'000
Floating-rate loans:			
Unsecured HKD bank loans	2.23% (2020: 2.23%)	**575,000**	567,297
Unsecured RMB bank loans	3.66% (2020: 3.26%)	**5,216,241**	1,616,111
Unsecured USD bank loans	0.96% (2020: 2.80%)	**389,850**	1,162,950
Fixed rate-loans:			
Unsecured RMB bank loans	3.83% (2020: 3.90%)	**9,487,648**	8,109,881
Unsecured RMB other loans	1.50% (2020: 1.50%)	**23,605**	22,854
Unsecured other loans	1.15% (2020: 1.15%)	**10,823**	13,665
Unsecured MTN	3.40% (2020: N/A)	**920,245**	–
Total bank loans and other loans		**16,623,412**	11,492,758

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

At the end of the reporting period, the loan from ultimate holding company is denominated in RMB. The loan carries interest at a fixed rate of 4.35% per annum and is unsecured and repayable on demand.

At the end of the reporting period, all loans from joint ventures are denominated in RMB. The loans carry interest at a fixed rate of 2.15% (2020: 2.15%) per annum and are unsecured and repayable on demand.

At the end of the reporting period, the loans from non-controlling shareholders are denominated in RMB. The loans carry interest at effective interest rate ranging from 1% to 4.99% (2020: 1%) per annum and are unsecured and repayable after one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

35. 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 2020	69,309	122,762	264,850	525,149	982,070
Currency realignment	2,346	1,898	25,163	32,564	61,971
(Credit) charge to profit or loss	(4,593)	(4,524)	34,700	(8,256)	17,327
Credit to other comprehensive income	–	–	–	(197,830)	(197,830)
Withholding tax paid	–	–	(15,196)	–	(15,196)
At 31 December 2020	**67,062**	**120,136**	**309,517**	**351,627**	**848,342**
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**

At the end of the reporting period, the Group has unused tax losses of HK$595,840,000 (2020: HK$545,637,000) 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 2026 (2020: year 2025).

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.

36. 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 renewable 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 year ended 31 December 2021. 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 convertible bond, subject to adjustments. 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% 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. 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

37. SHARE CAPITAL

	Number of shares	HK$'000
At 31 December 2021		
– Authorised: Shares of HK$0.10 each	5,000,000,000	500,000
– Issued and fully paid: Shares of HK$0.10 each	3,159,895,343	315,989

Details of the authorised share capital are as follows:

	Number of shares	HK$'000
At 1 January 2020, 31 December 2020 and 31 December 2021	5,000,000,000	500,000

37. 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 2020	2,870,687,008	287,069
Issue of shares upon scrip dividend scheme (note a)	98,247,825	9,824
At 31 December 2020	2,968,934,833	296,893
Issue of shares upon scrip dividend scheme (note b)	74,177,177	7,418
Issue of shares (note c)	116,783,333	11,678
At 31 December 2021	3,159,895,343	315,989

Notes:

(a) On 16 March 2020, a scrip dividend scheme was proposed by the Board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 21 May 2020. On 6 July 2020, 98,247,825 shares of HK$0.10 each were allotted and issued at HK$3.644 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2019 final dividend under the scrip dividend scheme.

(b) 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.

(c) On 18 November 2021, the Company issued and allotted 116,783,333 shares and issued convertible bonds (see note 36) 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.

All the shares which were issued during the years ended 31 December 2020 and 2021 rank pari passu with the then existing shares in all respects.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

38. 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.

39. 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 employees 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. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules and accordingly, no shareholders' approval of the Company is required to adopt the Scheme. 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. Details of the Scheme were disclosed in the announcement of the Company dated 17 August 2021.

During the year ended 31 December 2021, 3,772,000 shares were purchased by the trustee from the market at an average price of approximately HK$5.28 per share, with an aggregate amount of HK$19,928,000. No shares were granted to eligible employees pursuant to the Scheme during the year. At the end of the reporting period, there are 3,772,000 shares held by the trustee.

40. ACQUISITION/DISPOSAL OF SUBSIDIARIES

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).

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

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

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

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 2021

40. 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)

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

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

(ii) Acquisition of smart energy companies

In December 2021, Towngas China Energy Investment Limited ("TCEI"), an indirectly wholly-owned subsidiary of the Group, 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 Hong Kong and China Integrated Power Investment (Shenzhen) Limited ("HCIP"), an indirect wholly-owned subsidiary of HKCG, 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:	
Acquirees' 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 2021

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

For the year ended 31 December 2020

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

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

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

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

	HK$'000
Net cash inflow arising on acquisition:	
Consideration paid	(15,309)
Bank balances and cash acquired	33,488
	18,179

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

41. MAJOR NON-CASH TRANSACTIONS

The Group issued additional shares as scrip dividends during both years as set out in note 37.

During the year ended 31 December 2021, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 1 to 18 years (2020: 1 to 12 years) while for leasehold land for 15 to 70 years (2020: 15 to 70 years). On the lease commencement, the Group recognised HK$52,519,000 (2020: HK$29,979,000) of right-of-use assets and HK$52,519,000 (2020: HK$29,979,000) of lease liabilities.

42. 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	Loans from non-controlling shareholders	Loans from joint ventures	Loan from ultimate holding company	Dividend payable	Debt component of convertible bonds	Lease liabilities	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2020	10,239,362	19,485	30,370	–	–	–	56,606	10,345,823
Financing cash flows	663,989	–	(25,613)	–	(183,140)	–	(29,976)	425,260
New leases entered	–	–	–	–	–	–	29,979	29,979
Interest expenses	–	–	–	–	–	–	3,063	3,063
Exchange differences	589,407	1,405	474	–	–	–	2,444	593,730
Dividend declaration								
– shareholders of the Company	–	–	–	–	430,603	–	–	430,603
– non-controlling shareholders	–	–	–	–	110,551	–	–	110,551
Issue of shares upon scrip dividend scheme	–	–	–	–	(358,014)	–	–	(358,014)
At 31 December 2020	11,492,758	20,890	5,231	–	–	–	62,116	11,580,995
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

Note: The amounts reclassified from hedge reserve are excluded in the reconciliation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

43. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with related parties:

	2021 HK$'000	2020 HK$'000
Transactions with fellow subsidiaries (note a):		
Purchase of goods and services	360,372	306,472
Sale of goods and services	42,929	66,016
Transactions with associates of ultimate controlling shareholder (note b):		
Purchase of goods and services	151,645	275,169
Transactions with a joint venture (note c):		
Purchase of goods	35,463	50,907
Transactions with associates (note d):		
Purchase of goods	177,953	70,780
Sale of goods	13,855	6,888

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.

In December 2021, the Group acquired 100% interest in six companies from an indirect wholly-owned subsidiary of HKCG with nil consideration. These companies have no assets and liabilities on the acquisition date.

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.

44. COMMITMENTS

	2021 HK$'000	2020 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**400,971**	346,691
Capital contribution to Shanghai Gas	**–**	5,167,498
	400,971	5,514,189

Notes:

(a) At 31 December 2020, an amount of RMB350,000,000 (equivalent to HK$415,776,000) was paid by the Group to Shanghai United Assets and Equity Exchange as a deposit for acquisition of Shanghai Gas. Details of the transaction were disclosed in the circular of the Company dated 25 January 2021. During the year ended 31 December 2021, the acquisition was completed and Shanghai Gas became an associate of the Group.

(b) On 3 December 2021, TCEI has entered into 31 equity interest transfer agreements ("Transfer Agreements") with HCIP, pursuant to which HCIP agreed to sell the equity interests in 31 smart energy companies held by it to TCEI at the aggregate consideration of RMB509,206,000 (equivalent to HK$613,206,000) based on and subject to the terms and conditions set out in the relevant Transfer Agreements. Details are disclosed in the announcement dated 3 December 2021. As at 31 December 2021, the acquisition of 15 companies was completed with details set out in notes 40 and 43, while the acquisition of remaining 16 companies has not been completed. Accordingly, the full payment made by the Group for the 16 companies amounting to HK$178,829,000 was recorded as deposit paid.

45. 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 2021 amounted to HK$94,574,000 (2020: HK$11,794,000).

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 2021, the Group made retirement benefit scheme contributions amounting to HK$514,000 (2020: HK$487,000). At 31 December 2021 and 2020, no forfeited contributions are available to reduce the contribution payable in future years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	2021 HK$'000	2020 HK$'000
Non-current assets		
Property, plant and equipment	61	81
Investments in subsidiaries	2,362,123	2,283,292
Investment in an associate	5,784,251	–
Loan to subsidiaries	12,453,172	–
Payments for acquisition of an associate	–	415,776
	20,599,607	2,699,149
Current assets		
Amounts due from subsidiaries	2,944,984	12,203,830
Bank balances and cash	557,537	210,636
	3,502,521	12,414,466
Current liabilities		
Other payables and accrued charges	40,828	55,576
Amounts due to subsidiaries	30,912	218,603
Amount due to ultimate holding company	707	570
Borrowings – amounts due within one year	2,269,939	2,753,204
Other financial liability	–	55,839
	2,342,386	3,083,792
Net current assets	1,160,135	9,330,674
Total assets less current liabilities	21,759,742	12,029,823
Non-current liabilities		
Loan from a subsidiary	11,695,752	6,489,772
Borrowings – amounts due after one year	389,850	387,650
Convertible bonds	2,733,237	–
Other financial liability	40,694	41,370
	14,859,533	6,918,792
Net assets	6,900,209	5,111,031
Capital and reserves		
Share capital	315,989	296,893
Reserves	6,584,220	4,814,138
Total equity	6,900,209	5,111,031

46. 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	Shares held for share award scheme HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2020	287,069	6,033,632	–	(3,572,259)	2,748,442
Profit and other comprehensive income for the year	–	–	–	2,435,178	2,435,178
Issue of shares upon scrip dividend scheme	9,824	348,190	–	–	358,014
Dividends paid to shareholders	–	(430,603)	–	–	(430,603)
At 31 December 2020	296,893	5,951,219	–	(1,137,081)	5,111,031
Profit and other 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

* 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2021 and 2020 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 2021	2020	Principal activities
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

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
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
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
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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 (2020: RMB30,000,000)	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
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

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
大連瓦房店港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction
Da Yi Hong Kong and China Gas Company Limited	PRC – Limited liability company	RMB20,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
Feicheng Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB32,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB77,200,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction
阜新大力燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB13,900,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
阜新新邱港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB34,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
港華舒適家 (成都) 科技服務有限公司	PRC – Wholly foreign-owned enterprise	RMB10,000,000	**100.0%**	100.0%	Investment holding
Gao Chun Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$11,000,000 (2020: US$9,500,000)	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB88,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
廣西中威管道燃氣發展集團有限責任公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Huzhou Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US$10,500,000	98.9%	98.9%	Provision of natural gas and related services and gas pipeline construction
Jiajiang Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB58,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
簡陽港華燃氣有限公司	PRC – Limited liability company	RMB150,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB200,000,000	82.2%	82.2%	Provision of natural gas and related services and gas pipeline construction
九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Longkou Hongkong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$7,070,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB52,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US$10,000,000	75.1%	75.1%	Provision of natural gas and related services and gas pipeline construction
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

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	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
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	61.7%	61.7%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Xingqixiang Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB60,000,000	100.0%	100.0%	Vehicle gas refilling stations
韶關港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$24,532,434	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
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
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%	45.0%	Provision of natural gas distributed energy

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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	RMB232,960,000	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	RMB250,000,000	100.0%	100.0%	Investment holding
Towngas China (Fengxi) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Towngas China (Zhengpugang) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Towngas Investments Limited	PRC – Wholly foreign-owned enterprise	US$200,000,000	100.0%	100.0%	Investment holding
Towngas Natural Gas Sales Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	100.0%	Procurement of natural gas sources
U-Tech (Guang Dong) Engineering Construction Co., Ltd	PRC – Wholly foreign-owned enterprise	RMB74,000,000	100.0%	100.0%	Provision of engineering work services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuhu Jiangbei Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB200,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	100.0%	Provision of natural gas and related services and Gas pipeline construction
Wulian Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB40,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB50,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
徐州工業園區中港熱力有限公司	PRC – Sino-foreign equity joint venture	RMB160,000,000	49.8%	49.8%	Provision of natural gas distributed energy
Xuzhou Economic and Technological Development Zone Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB80,000,000	70.0%	70.0%	Provision of natural gas distributed energy
修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
Anqiu Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB47,000,000	100.0%	–	Smart energy
Qingdao Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB29,000,000	100.0%	–	Smart energy
Shuyang Zhongye Shukai New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	–	Smart energy
Binzhou Xinrunfeng New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB15,000,000	100.0%	–	Smart energy
Yancheng Towngas China Smart Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB34,000,000	100.0%	–	Smart energy
Maanshan Zhengpugang New District Towngas China Photovoltaic Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB3,500,000	100.0%	–	Smart energy
Qingdao Towngas China Photovoltaic Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB80,000,000	100.0%	–	Smart energy
Ben Xi Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB100,000,000	100.0%	–	Smart energy
Wuhan Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB12,000,000	100.0%	–	Smart energy
Tangshan Towngas China Integrated Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB150,000,000	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%	–	Smart energy

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	Attributable equity interest of the Group 2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Liyang Hengdian Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB22,500,000	60.0%	–	Smart energy
Danyang Towngas China Energy Storage Power Plant Co., Ltd.	PRC – Limited liability company	RMB30,000,000	90.0%	–	Smart energy
Suzhou Guangchen Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB15,000,000	80.0%	–	Smart energy
Taizhou Towngas China Energy Co., Ltd.	PRC – Limited liability company	RMB210,000,000	80.0%	–	Smart energy
聊城港能投光伏發電有限公司	PRC – Wholly foreign-owned enterprise	RMB28,000,000	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%	–	Smart Energy
崇陽禾沐新能源科技有限公司	PRC – Wholly foreign-owned enterprise	RMB10,000,000	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%	–	Smart Energy
濟寧港華智慧能源有限公司	PRC – Limited liability company	RMB200,000,000	85.0%	–	Smart Energy

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

None of the subsidiaries had any debt securities outstanding as at the end of both years or at any time during both years.

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 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.

48. EVENT AFTER THE REPORTING PERIOD

From the end of reporting period and up to the date of approval of these financial statements, the acquisition of another 10 renewable energy companies set out in note 44 with an aggregated net asset value of HK$47,387,000 was completed, and the total consideration amounted to HK$47,416,000.

Corporate Information

Board of Directors

Non-Executive Directors

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

Executive Directors

Alfred Chan Wing-kin
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

Authorised Representatives

Alfred Chan Wing-kin
John Ho Hon-ming

Company Secretary

John Ho Hon-ming

Board Audit and Risk Committee

Brian David Li Man-bun *(Chairman)*
Moses Cheng Mo-chi
James Kwan Yuk-choi

Remuneration Committee

Moses Cheng Mo-chi *(Chairman)*
Brian David Li Man-bun
James Kwan Yuk-choi

Nomination Committee

Lee Ka-kit *(Chairman)*
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

Environmental, Social and Governance Committee

Peter Wong Wai-yee *(Chairman)*
John Ho Hon-ming
Martin Kee Wai-ngai
John Qiu Jian-hang

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants and
Registered Public Interest Entity Auditor
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88 Queensway
Hong Kong

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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

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www.towngassmartenergy.com

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