Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$5,760 million as at 31 December 2017. The Group's liabilities as at 31 December 2017 included borrowings of approximately HK$3,708 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised facilities (the "Facilities") amounting to approximately HK$2,916 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$3,708 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 and the available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

Amendments to HKFRSs that are mandatorily effective for 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 in the current year.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures relating to changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing activities; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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

Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for annual periods beginning on or after a date to be determined

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

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 presented 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 are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instruments: Recognition and Measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

HKFRS 9 "Financial Instruments" (Continued)

- for non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

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

HKFRS 9 "Financial Instruments" (Continued)

Classification and measurement

Loan and receivables carried at amortised cost as disclosed in note 6 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

Listed equity security classified as available-for-sale investment carried at fair value as disclosed in note 23 qualifies for designation as measured at FVTOCI under HKFRS 9. The fair value losses accumulated in the investment revaluation reserve amounting to HK$75,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 23 also qualify for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at initial recognition and at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to these securities would be adjusted to the investment revaluation reserve as at 1 January 2018; and

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables and amounts due from non-controlling shareholders. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 as the Group is in the process of performing a detailed review.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$114,127,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

HKFRS 16 "Leases" (Continued)

In addition, the Group currently considers refundable rental deposits paid as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets, however, the Group anticipates such adjustments may not be significant to the consolidated financial statements.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, 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".

3. Significant Accounting Policies (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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. 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 HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net 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.

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

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

3. Significant Accounting Policies (Continued)

Investments in associates and joint ventures

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

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

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

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

3. Significant Accounting Policies (Continued)

Investments in associates and joint ventures (Continued)

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

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 HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

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

3. Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Property, plant and equipment

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

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

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

3. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

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

Leasehold land and building

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

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

Construction in progress

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

Intangible assets

Intangible assets acquired in a business combination

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

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

3. Significant Accounting Policies (Continued)

Intangible assets (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 networks are stated at cost less accumulated amortisation and any identified impairment loss.

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

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.

Construction contracts

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

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

3. Significant Accounting Policies (Continued)

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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. 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. An impairment loss is recognised as expense immediately in profit or loss.

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

3. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into one of the following categories, financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FTVPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of 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 asset 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 HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains, net" line item. Fair value is determined in the manner described in note 6.

Loans and receivables

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

Available-for-sale financial assets

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted investments whose fair value cannot be reliably measured (see below). Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

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

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

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

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

Financial liabilities and equity

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Borrowings

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

Other financial liabilities

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

Derivative financial instruments and hedging

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

Hedge accounting

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

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

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 hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Cash flow hedges (Continued)

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

Derecognition

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

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

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

Taxation

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

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

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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

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

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

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

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

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

3. Significant Accounting Policies (Continued)

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

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

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

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

Borrowing costs

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

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

3. Significant Accounting Policies (Continued)

Retirement benefits costs

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

4. Key Sources of Estimation Uncertainty

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

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

The following 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.

Recognition of gas connection income and estimation of profit margins

The Group recognises the amounts of gas connection income and margins based on the percentage of completion method, measured by reference to the value of work carried out during the year which requires management's best estimates and judgments in determining the extent of progress towards completion of the construction contracts, budgeted costs to complete, and the ability to deliver contracts within forecast timescales as at the end of the reporting period. Any change in the estimates of gas connection income or margins will affect the related amounts recognised in the profit or loss prospectively in each reporting period using the percentage of completion method.

Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is HK$5,824,172,000 (2016: HK$5,349,340,000). Details of the recoverable amount calculation are disclosed in note 19.

4. Key Sources of Estimation Uncertainty (Continued)

Income taxes

As at 31 December 2017, 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$708,374,000 (2016: HK$555,054,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

Estimated impairment of trade receivables and amounts due from non-controlling shareholders

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2017, the carrying amounts of trade receivables, net of impairment losses and amounts due from non-controlling shareholders are HK$710,349,000 (2016: HK$653,540,000) and HK$63,847,000 (2016: HK$29,738,000) respectively.

5. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes borrowings and loans from joint ventures disclosed in notes 29 and 30 respectively, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

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

5. Capital Risk Management (Continued)

The Gearing Ratio at the reporting date was as follows:

	2017 HK$'000	2016 HK$'000
Debt [i]	**8,828,837**	7,836,812
Time deposits over three months	**(120,790)**	(227,557)
Bank balances and cash	**(1,605,300)**	(1,351,072)
Net debt	**7,102,747**	6,258,183
Equity [ii]	**15,845,033**	13,499,351
Net debt to equity ratio	**44.8%**	46.4%
Gearing Ratio [iii]	**31.0%**	31.7%

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

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

(iii) Being the proportion of net debt of HK$7,102,747,000 (2016: HK$6,258,183,000) to equity attributable to shareholders of the Company plus net debt of HK$22,947,780,000 (2016: HK$19,757,534,000).

6. Financial Instruments

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,839,797**	2,414,423
Available-for-sale investments	**225,415**	234,785
Derivative financial instruments	**–**	168,488
Financial liabilities		
Amortised cost	**10,607,558**	9,325,893
Derivative financial instruments	**205,049**	–

6. Financial Instruments (Continued)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables, amounts due from non-controlling shareholders, time deposits over three months, bank balances and cash, other financial assets, trade and other payables, amounts due to non-controlling shareholders, loans from joint ventures, 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 price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

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

Details of the Group's bank balances and cash, time deposits over three months and bank and other borrowings, denominated in United States Dollar ("USD") and HKD at the end of the reporting period are set out in notes 26 and 29.

The Group entered into cross currency swap contracts and foreign currency forward contracts with certain financial institutions to reduce its exposure to currency fluctuation risk. These derivative financial instruments are not accounted under hedge accounting. The management continues to monitor foreign exchange exposure and will consider hedging other significant foreign currency exposure should the need arise.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2016: 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% (2016: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash and borrowings where the denomination of the balances is in a currency other than the functional currency of the respective group entities. A positive number below indicates an increase in profit before taxation for the year where RMB strengthens by 3% (2016: 3%) against USD and HKD. For a 3% (2016: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2017 **HK$'000**	2016 HK$'000
Profit before taxation for the year	**95,600**	89,281

The following details the Group's sensitivity based on the exposure to the Group's cross currency swap contracts and foreign currency forward contracts outstanding at the end of the reporting period. The sensitivity to foreign currency risk has been determined based on management's assessment of the reasonably possible change in forward exchange rate of USD and HKD against RMB. If the forward exchange rate of USD and HKD against RMB is 3% (2016: 3%) higher/lower while all other input variables of the valuation models are held constant, the Group's profit before taxation for the year ended 31 December 2017 would increase/decrease by HK$90,366,000 (2016: HK$86,144,000) as a result of the change in fair value of these financial derivatives.

The aggregate sensitivity to foreign currency risk on the outstanding foreign currency denominated monetary items and derivative financial instruments as disclosed above is as follows:

If the exchange rate of RMB against USD and HKD is 3% (2016: 3%) higher/lower, the Group's profit before taxation for the year would increase/decrease by HK$5,234,000 (2016: HK$3,137,000).

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 loans, fixed-rate short-term bank fixed deposits, loans to joint ventures, loan to an associate, loan to a non-controlling shareholder and loans from joint ventures. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not use hedging instrument to manage the interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans, 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 (2016: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2016: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2017 would decrease/increase by HK$11,941,000 (2016: HK$8,641,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. 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 price risk at the reporting date.

If the prices of the respective equity instruments had been 3% higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$1,948,000 (2016: HK$2,565,000) as a result of the changes in fair value of the investments.

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is effectively managed.

The credit risk of loans to joint ventures, loan to an associate and loan to a non-controlling shareholder are concentrated in three (2016: four) joint ventures, one (2016: nil) associate and one (2016: one) non-controlling shareholder respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associate and non-controlling shareholder, believes there is no significant credit risk. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

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

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

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 bank loan facilities of HK$2,916 million (2016: HK$3,150 million). As stated in note 1, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$5,760 million (at 31 December 2016: HK$4,228 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.

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.

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.

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 31.12.2017 HK$'000
2017								
Trade payables	–	195,111	372,516	378,207	195,594	56,565	1,197,993	1,197,993
Other payables	–	465,182	–	–	–	–	465,182	465,182
Amounts due to non-controlling shareholders	–	115,546	–	–	–	–	115,546	115,546
Loans from joint ventures	2.57%	49,277	–	–	–	–	49,277	49,172
Bank loans	3.03%	1,221,409	1,364,673	1,307,086	5,655,390	13,190	9,561,748	8,739,164
Other loans	2.00%	1,647	132	23,843	6,831	10,922	43,375	40,501
		2,048,172	1,737,321	1,709,136	5,857,815	80,677	11,433,121	10,607,558
Derivatives – gross settlement								
Cross currency swaps								
– inflow		–	–	–	(400,000)	–	(400,000)	N/A
– outflow		–	–	–	438,876	–	438,876	N/A
		–	–	–	38,876	–	38,876	38,733
Foreign currency forward contracts								
– inflow		–	(600,000)	(505,214)	(1,107,193)	–	(2,212,407)	N/A
– outflow		–	641,539	534,176	1,196,874	–	2,372,589	N/A
		–	41,539	28,962	89,681	–	160,182	166,316

	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 31.12.2016 HK$'000
2016								
Trade payables	–	275,219	241,106	287,556	179,855	61,680	1,045,416	1,045,416
Other payables	–	336,003	–	–	–	–	336,003	336,003
Amounts due to non-controlling shareholders	–	107,662	–	–	–	–	107,662	107,662
Bank loans	2.65%	1,544,347	424,138	829,718	5,675,228	41,617	8,515,048	7,793,346
Other loans	2.02%	1,585	143	26,108	6,542	11,995	46,373	43,466
		2,264,816	665,387	1,143,382	5,861,625	115,292	10,050,502	9,325,893
Derivatives – gross settlement								
Cross currency swaps								
– inflow		–	(300,000)	(1,300,000)	–	–	(1,600,000)	N/A
– outflow		–	283,374	1,228,702	–	–	1,512,076	N/A
		–	(16,626)	(71,298)	–	–	(87,924)	(87,511)
Foreign currency forward contracts								
– inflow		–	–	–	(1,404,140)	–	(1,404,140)	N/A
– outflow		–	–	–	1,327,002	–	1,327,002	N/A
		–	–	–	(77,138)	–	(77,138)	(80,977)

6. Financial Instruments (Continued)

Fair value measurements

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

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

Financial assets/ financial liabilities	Fair value as at 31.12.2017	Fair value as at 31.12.2016	Fair value hierarchy	Valuation techniques and key inputs
1) Listed equity investment classified as available-for-sale investment in the consolidated statement of financial position	**Asset HK$64,930,000**	Asset HK$85,496,000	Level 1	Quoted market price
2) Cross currency swaps classified as other financial assets/liabilities in the consolidated statement of financial position	**Assets Nil Liabilities HK$38,733,000**	Assets HK$87,511,000	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.
3) Foreign currency forward contracts classified as other financial assets/liabilities in the consolidated statement of financial position	**Assets Nil Liabilities HK$166,316,000**	Assets HK$80,977,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of the various counterparties.

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.

There were no transfers between Level 1 and 2 during the year.

7. Segment Information

Operating segments

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

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

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

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

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

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other 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.

7. Segment Information (Continued)

Operating segments (Continued)

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2017			
TURNOVER			
External	6,995,858	1,763,925	8,759,783
Segment results	632,642	806,844	1,439,486
Other gains, net			257,363
Unallocated corporate expenses			(150,186)
Share of results of associates			341,922
Share of results of joint ventures			291,394
Finance costs			(262,325)
Profit before taxation			1,917,654
Taxation			(405,373)
Profit for the year			1,512,281

7. Segment Information (Continued)

Operating segments (Continued)

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2016			
TURNOVER			
External	5,517,866	1,663,284	7,181,150
Segment results	450,388	721,638	1,172,026
Other gains, net			64,903
Unallocated corporate expenses			(148,897)
Share of results of associates			339,927
Share of results of joint ventures			278,023
Finance costs			(250,579)
Profit before taxation			1,455,403
Taxation			(362,133)
Profit for the year			1,093,270

Segment results included depreciation and amortisation of HK$540,491,000 (2016: HK$499,429,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

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

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

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2017 and 2016.

8. Total Operating Expenses

	2017 HK$'000	2016 HK$'000
Gas fuel, stores and materials used	**5,552,365**	4,311,500
Staff costs	**913,713**	856,622
Depreciation, amortisation and release of leasehold land	**540,491**	499,429
Other expenses	**463,914**	490,470
	7,470,483	6,158,021

9. Other Gains, Net

Other gains, net mainly comprise of:

	2017 HK$'000	2016 HK$'000
Dividend income from available-for-sale investments	**91,156**	62,577
Interest income	**24,155**	25,244
Exchange gain (loss)	**231,254**	(258,747)
Imputed interest income on loans to joint ventures	**–**	121
Gain on disposal of associates	**23,769**	–
Gain on deemed partial disposal of interest in an associate (note)	**209,390**	–
Change in fair value of other financial assets and liabilities	**(364,376)**	168,488

Note: During the year, Foshan Gas Group Co., Ltd. ("Foshan Gas") listed its shares on Shenzhen Stock Exchange. Upon the listing, new ordinary shares were issued by Foshan Gas to the public and the Group's interest in Foshan Gas reduced from 43% to 39% and the Group had a gain of HK$209,390,000 on deemed partial disposal of interest in Foshan Gas.

10. Finance Costs

	2017 HK$'000	2016 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	**275,861**	261,664
– bank and other borrowings not wholly repayable within five years	**514**	526
Bank charges	**5,289**	4,111
	281,664	266,301
Less: amounts capitalised	**(19,339)**	(15,722)
	262,325	250,579

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 2.76% (2016: 2.85%) to expenditure on qualifying assets.

11. Profit Before Taxation

	2017 HK$'000	2016 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 12)	**13,751**	10,934
Other staff costs	**827,853**	776,831
Retirement benefit scheme contributions (excluding directors)	**72,109**	68,857
Total staff costs	**913,713**	856,622
Allowance for doubtful debts	**19,802**	11,077
Amortisation of intangible assets	**18,822**	19,524
Release of leasehold land	**19,957**	19,429
Auditor's remuneration	**11,481**	10,917
Cost of inventories sold	**6,146,570**	4,853,966
Depreciation of property, plant and equipment	**501,712**	460,476
Operating lease rentals in respect of land and buildings	**31,541**	28,602
(Gain) loss on disposal of property, plant and equipment	**(5,376)**	15,160
Loss (gain) on disposal of leasehold land	**322**	(45,123)

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 7 (2016: 7) directors were as follows:

	Year ended 31 December 2017							
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi, Moses HK$'000	Kwan Yuk Choi, James HK$'000	Kee Wai Ngai, Martin HK$'000 (Note f)	Ho Hon Ming, John HK$'000 (Note e)	Li Man Bun, Brian David HK$'000	Wong Wai Yee, Peter HK$'000 (Note d)	Total HK$'000
Directors' fees (Note a)	200	500	500	200	200	500	200	2,300
Other emoluments (Note b)								
Salaries and other benefits	–	–	–	634	1,111	–	1,190	2,935
Retirement benefit scheme contributions	–	–	–	142	111	–	119	372
Performance and discretionary bonus (Note c)	–	–	–	941	2,632	–	4,571	8,144
Total emoluments	200	500	500	1,917	4,054	500	6,080	13,751

	Year ended 31 December 2016							
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi, Moses HK$'000	Kwan Yuk Choi, James HK$'000	Kee Wai Ngai, Martin HK$'000	Ho Hon Ming, John HK$'000 (Note e)	Li Man Bun, Brian David HK$'000	Wong Wai Yee, Peter HK$'000 (Note d)	Total HK$'000
Directors' fees (Note a)	200	500	500	200	200	500	200	2,300
Other emoluments (Note b)								
Salaries and other benefits	–	–	–	–	1,111	–	1,190	2,301
Retirement benefit scheme contributions	–	–	–	–	111	–	119	230
Performance and discretionary bonus (Note c)	–	–	–	–	2,192	–	3,911	6,103
Total emoluments	200	500	500	200	3,614	500	5,420	10,934

Notes:

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

(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. Wong Wai Yee, Peter is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.

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

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

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

12. Directors' and Employees' Emoluments (Continued)

Employees' emoluments:

For the year ended 31 December 2017, the five highest paid individuals of the Group included three (2016: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining two (2016: three) highest paid individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefit	2,723	4,089
Performance related incentive payments	1,892	2,047
Contribution to retirement benefit scheme	225	312
	4,840	6,448

The emoluments were within the following bands:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	1	2
HK$2,500,001 to HK$3,000,000	1	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2017.

13. Taxation

	2017 HK$'000	2016 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**373,461**	337,524
Deferred taxation (note 31)		
– taxation charge for the year	**31,912**	24,609
	405,373	362,133

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

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2016: 15% to 25%).

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

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	**1,917,654**	1,455,403
Tax at the applicable rate of 25% (2016: 25%) (note)	**479,414**	363,851
Tax effect of expenses that are not deductible for tax purposes	**196,123**	133,722
Tax effect of income that are not taxable for tax purposes	**(122,176)**	(26,600)
Effect of different tax rates of subsidiaries operating in different regions	**(46,181)**	(15,630)
Tax effect of share of results of associates	**(85,481)**	(84,982)
Tax effect of share of results of joint ventures	**(72,849)**	(69,506)
Tax effect of utilisation of tax losses not previously recognised	**(17,155)**	(7,306)
Tax effect of tax losses not recognised	**44,398**	41,673
Withholding tax on undistributed profits	**29,280**	26,911
Tax charge for the year	**405,373**	362,133

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2017 (2016: 25%).

14. Dividends

During the year, a final dividend in respect of the year ended 31 December 2016 of HK$325,392,000 (2016: HK$266,506,000 in respect of the year ended 31 December 2015) was recognised as distribution, being HK twelve cents per ordinary share (2016: HK ten cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK fifteen cents (2016: HK twelve cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

	2017 **HK$'000**	2016 HK$'000
Earnings for the purposes of basic earnings per share, being profit for the year attributable to shareholders of the Company	**1,365,385**	973,997

	Number of shares	
	2017 **'000**	2016 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,737,878**	2,686,298

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

16. Property, Plant and Equipment

	Buildings HK$'000	Gas pipelines HK$'000	Plant and equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2016	1,371,784	9,796,760	1,375,447	1,719,870	14,263,861
Currency realignment	(104,430)	(686,165)	(98,889)	(126,208)	(1,015,692)
Additions	102,388	346,011	96,687	1,370,472	1,915,558
Additions from acquisition of business	–	–	41,256	2,375	43,631
Disposals	(12,249)	(9,538)	(38,068)	–	(59,855)
Transfer	142,176	861,389	45,957	(1,049,522)	–
At 31 December 2016	1,499,669	10,308,457	1,422,390	1,916,987	15,147,503
Currency realignment	128,293	849,711	115,731	141,786	1,235,521
Additions	107,975	332,043	98,687	1,304,481	1,843,186
Additions from acquisition of businesses	16,348	10,309	189	1,478	28,324
Disposals	(5,843)	(8,424)	(32,324)	–	(46,591)
Transfer	106,155	1,231,815	55,999	(1,393,969)	–
At 31 December 2017	1,852,597	12,723,911	1,660,672	1,970,763	18,207,943
DEPRECIATION					
At 1 January 2016	214,732	1,427,341	567,190	–	2,209,263
Currency realignment	(20,468)	(108,718)	(47,543)	–	(176,729)
Provided for the year	57,743	270,598	132,135	–	460,476
Eliminated on disposals	(5,306)	(3,292)	(28,805)	–	(37,403)
At 31 December 2016	246,701	1,585,929	622,977	–	2,455,607
Currency realignment	23,699	138,968	58,858	–	221,525
Provided for the year	65,845	299,537	136,330	–	501,712
Eliminated on disposals	(4,105)	(875)	(25,481)	–	(30,461)
At 31 December 2017	332,140	2,023,559	792,684	–	3,148,383
CARRYING VALUES					
At 31 December 2017	1,520,457	10,700,352	867,988	1,970,763	15,059,560
At 31 December 2016	1,252,968	8,722,528	799,413	1,916,987	12,691,896

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

No property, plant and equipment of the Group was pledged as at 31 December 2017 and 2016.

17. Leasehold Land

	2017 HK$'000	2016 HK$'000
Balance at the beginning of the year	**577,449**	527,909
Currency realignment	**43,112**	(39,528)
Additions	**39,415**	79,619
Addition relating to acquisition of business	**6,178**	39,108
Disposals	**(5,529)**	(10,230)
Charge for the year	**(19,957)**	(19,429)
Balance at the end of the year	**640,668**	577,449
Analysis for reporting purpose:		
Non-current portion	**613,218**	550,847
Current portion	**27,450**	26,602
	640,668	577,449

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

18. Intangible Assets

	HK$'000
COST	
At 1 January 2016	655,921
Currency realignment	(45,401)
At 31 December 2016	610,520
Currency realignment	45,899
At 31 December 2017	656,419
AMORTISATION	
At 1 January 2016	95,664
Currency realignment	(10,167)
Provided for the year	19,524
At 31 December 2016	105,021
Currency realignment	9,104
Provided for the year	18,822
At 31 December 2017	132,947
CARRYING VALUES	
At 31 December 2017	523,472
At 31 December 2016	505,499

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.

19. Goodwill

	HK$'000
At 1 January 2016	5,732,259
Currency realignment	(423,064)
Addition relating to acquisition of business	40,145
At 31 December 2016	5,349,340
Currency realignment	406,426
Additions relating to acquisition of businesses (note 34)	68,406
At 31 December 2017	5,824,172

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

	2017 **HK$'000**	2016 HK$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	**343,818**	319,594
Hong Kong & China Gas (Zibo) Limited	**369,786**	343,733
Hong Kong & China Gas (Yantai) Limited	**249,743**	232,148
Hong Kong & China Gas (Weifang) Limited	**143,702**	133,577
Hong Kong & China Gas (Weihai) Limited	**286,088**	265,932
Hong Kong & China Gas (Taian) Limited	**253,114**	235,281
Hong Kong & China Gas (Maanshan) Limited	**300,435**	279,267
Hong Kong & China Gas (Anqing) Limited	**284,761**	264,698
Mianyang Hong Kong & China Gas Co., Ltd.	**306,118**	284,551
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	**232,654**	216,262
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**426,439**	396,394
Fuxin Xinqiu Hong Kong and China Gas Company Limited	**135,451**	125,908
Jinan Pingyin Hongkong & China Gas Co., Ltd.	**129,924**	120,771
Shenyang business	**110,997**	103,177
Mianzhu Hong Kong & China Gas Co., Ltd.	**110,181**	102,418
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd.	**157,196**	146,121
Boxing Hong Kong & China Gas Co., Ltd.	**93,551**	86,959
Dafeng Hong Kong and China Gas Company Limited	**263,276**	244,727

19. Goodwill (Continued)

	2017 HK$'000	2016 HK$'000
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd	**135,451**	125,486
Baotou Hong Kong & China Gas Company Limited	**172,561**	160,403
Xingyi Hong Kong and China Gas Company Limited	**108,573**	100,924
Others	**1,210,353**	1,061,009
	5,824,172	5,349,340

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

The recoverable amounts of CGUs are determined from value in use calculations. The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management and discount rates. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8.5% (2016: 8.5%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2016: 4% to 6%) per annum, which is based on industry growth forecasts. The Directors of the Company considered no impairment loss is necessary as at 31 December 2017 (2016: nil).

20. Interests in Associates/Loan to an Associate

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

	2017 HK$'000	2016 HK$'000
Cost of investments in associates	**2,167,627**	1,806,641
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,767,488**	1,226,130
	3,935,115	3,032,771
Fair value of listed investments	**8,697,257**	1,172,786
Loan to an associate		
– Current portion	**11,772**	–

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

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2017	2016	
Anhui Province Wenery Towngas Natural Gas Company Limited 安徽省皖能港華天然氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Midstream
Bozhou WanHua Gas Company Limited 亳州皖華燃氣有限公司	PRC – Sino-foreign equity joint venture	**–**	49%	Provision of natural gas and related services and gas pipeline construction
Changchun Gas Co., Ltd.* 長春燃氣股份有限公司	PRC – Limited liability company	**28%**	25%	Provision of natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Foshan Gas Group Co., Ltd.** 佛山市燃氣集團股份有限公司	PRC – Sino-foreign equity joint venture	**39%**	43%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC – Limited liability company	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**42%**	42%	Provision of natural gas and related services and gas pipeline construction
SCEI Distributed Energy Systems Co., Ltd. 四川能投分布式能源有限公司	PRC – Sino-foreign equity joint venture	**25%**	25%	Provision of natural gas distributed energy

* Its shares are listed on the Shanghai Stock Exchange.

** Its shares are listed on the Shenzhen Stock Exchange since 2017.

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group 2017	2016	Principal activities
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Provision of natural gas and related services and gas pipeline construction
Shijiazhuang Huabo Gas Co., Ltd. 石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	**45%**	45%	Provision of natural gas and related services and gas pipeline construction
Zhuojia Public Engineering (Maanshan) Co., Ltd. 卓佳公用工程(馬鞍山)有限公司	PRC – Sino-foreign equity joint venture	**38%**	38%	Provision of gas pipe assembly
Zibo Lubo Gas Company Limited 淄博綠博燃氣有限公司	PRC – Sino-foreign equity joint venture	**27%**	27%	Provision of natural gas and related services and gas pipeline construction

Aggregate information of associates that are not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of profit and total comprehensive income	**341,922**	339,927
Aggregate carrying amount of the Group's interests in these associates	**3,935,115**	3,032,771

The loan to an associate with principal amount of RMB9,800,000 bearing interest at a fixed rate of 4.75% per annum will be matured and fully repaid in December 2018.

21. Interests in Joint Ventures/Loans to Joint Ventures

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

	2017 HK$'000	2016 HK$'000
Cost of investments in joint ventures	**1,232,675**	1,095,649
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,174,522**	927,105
	2,407,197	2,022,754
Loans to joint ventures		
– Non-current portion	**24,024**	–
– Current portion	**286,298**	136,326
	310,322	136,326

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2017	2016	Principal activities
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC – Limited liability company	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Taian City Taigang Gas Company Limited 泰安市泰港燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	29%	Midstream

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2017	2016	Principal activities
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Wuhu Hong Kong & China Gas Company Limited 蕪湖港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

Aggregate information of joint ventures that are not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of profit and total comprehensive income	**291,394**	278,023
Aggregate carrying amount of the Group's interests in these joint ventures	**2,407,197**	2,022,754

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

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

Principal amount		Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
2017	2016				**2017 HK$'000**	2016 HK$'000
–	USD690,000	Nil (2016: Repayable on demand)	4.50%	4.50%	–	5,351
RMB35,000,000	RMB35,000,000	Repayable on demand (2016: July 2017)	4.75%	4.75%	**42,042**	39,080
–	USD310,000	Nil (2016: January 2017)	4.50%	6.12%	–	2,399
–	RMB32,000,000	Nil (2016: August 2017)	5.46%	5.46%	–	35,730
RMB2,180,000	RMB8,153,000	Repayable on demand (2016: Repayable on demand)	5.88%	5.88%	**2,618**	9,103
RMB10,000,000	RMB10,000,000	November 2018 (2016: November 2017)	4.35%	4.35%	**12,012**	11,166
RMB20,000,000	RMB20,000,000	October 2018 (2016: October 2017)	4.35%	4.35%	**24,024**	22,331
RMB10,000,000	RMB10,000,000	September 2018 (2016: August 2017)	4.35%	4.35%	**12,012**	11,166
RMB10,000,000	–	August 2019 (2016: Nil)	4.75%	4.75%	**12,012**	–
RMB10,000,000	–	August 2019 (2016: Nil)	4.75%	4.75%	**12,012**	–
RMB10,000,000	–	June 2018 (2016: Nil)	4.35%	4.35%	**12,012**	–
RMB151,164,000	–	Repayable on demand (2016: Nil)	–	–	**181,578**	–
					310,322	136,326

The principal and interest will be received on the maturity date for each loan.

22. Loan to a Non-Controlling Shareholder

The loan to a non-controlling shareholder is unsecured and carried at amortised cost with the following details:

Principal amount		Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
2017	2016				**2017 HK$'000**	2016 HK$'000
RMB14,500,000	RMB14,500,000	March 2018 (2016: March 2018)	6%	6%	**17,417**	16,190

The principal and interest will be received on respective payment due dates set out in the loan agreement.

23. Available-For-Sale Investments

	2017 HK$'000	2016 HK$'000
Listed shares in the PRC, at fair value	**64,930**	85,496
Unlisted shares in the PRC, at cost	**160,485**	149,289
	225,415	234,785

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

24. Other Financial Assets/Liabilities

	2017 HK$'000	2016 HK$'000
Other financial assets		
Derivatives (not under hedge accounting)		
Foreign currency forward contracts under non-current assets	–	80,977
Cross currency swaps under current assets	–	87,511
	–	168,488
Other financial liabilities		
Derivatives (not under hedge accounting)		
Foreign currency forward contracts under current liabilities	76,172	–
Foreign currency forward contracts under non-current liabilities	90,144	–
Cross currency swaps under non-current liabilities	38,733	–
	128,877	–
	205,049	–

The classification of the measure of the derivative financial instruments at 31 December 2017 and 2016 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).

24. Other Financial Assets/Liabilities (Continued)

The major terms of the outstanding foreign currency forward contracts and cross currency swaps are set out below:

Notional amount	Maturity	Forward contract rate	Exchange frequency Receive	Exchange frequency Pay
Foreign currency forward contracts				
RMB448,793,000	2018	HK$1 to RMB0.90	N/A	N/A
RMB456,105,000	2018	USD1 to RMB7.02	N/A	N/A
RMB90,680,000	2018	HK$1 to RMB0.91	N/A	N/A
RMB366,939,000	2019	HK$1 to RMB0.92	N/A	N/A
RMB564,849,000	2019	HK$1 to RMB0.94	N/A	N/A
RMB100,000,000	2019	HK$1 to RMB0.93	N/A	N/A
Cross currency swaps				
RMB188,822,000	2019	HK$1 to RMB0.94	Upon initial date and maturity date	Upon initial date and maturity date
RMB189,520,000	2019	HK$1 to RMB0.95	Upon initial date and maturity date	Upon initial date and maturity date

During the year, change in fair value of the foreign currency forward contracts and cross currency swaps amounting to loss of HK$364,376,000 (2016: gain of HK$168,488,000) has been recognised to profit or loss.

25. Inventories

	2017 HK$'000	2016 HK$'000
Finished goods	**120,860**	96,693
Materials and consumables	**515,759**	396,145
	636,619	492,838

26. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash

	2017 HK$'000	2016 HK$'000
Trade receivables	**710,349**	653,540
Prepayments	**461,746**	327,267
Other receivables and deposits	**221,049**	209,600
	1,393,144	1,190,407

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables (net of impairment losses) of HK$710,349,000 (2016: HK$653,540,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
0 to 90 days	**551,597**	493,819
91 to 180 days	**45,781**	45,624
181 to 360 days	**112,971**	114,097
	710,349	653,540

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK$11,741,000 (2016: HK$24,772,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances but the management expects they are recoverable with reference to satisfactory settlement records.

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

	2017 HK$'000	2016 HK$'000
0 to 90 days	**4,932**	12,951
91 to 180 days	**2,144**	3,153
181 to 360 days	**4,665**	8,668
Total	**11,741**	24,772

26. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash (Continued)

Trade receivables (Continued)

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

	2017 HK$'000	2016 HK$'000
Balance at the beginning of the year	99,131	88,054
Impairment losses recognised on receivables	19,802	11,077
Balance at the end of the year	118,933	99,131

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

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

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

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 3.50% (2016: 1.56% to 3.00%) per annum.

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

	2017 HK$'000	2016 HK$'000
United States Dollar	28,236	26,720
Hong Kong Dollar	7,571	16,271

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. Trade and Other Payables and Accrued Charges

	2017 HK$'000	2016 HK$'000
Trade payables	**1,197,993**	1,045,416
Receipt in advance	**3,092,720**	2,581,508
Consideration payable for acquisitions of businesses	**100,591**	63,055
Other payables and accruals	**780,852**	642,058
Amount due to the ultimate holding company (note)	**863**	895
	5,173,019	4,332,932

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:

	2017 HK$'000	2016 HK$'000
0 to 90 days	**775,346**	676,711
91 to 180 days	**139,989**	158,557
181 to 360 days	**137,281**	111,813
Over 360 days	**145,377**	98,335
	1,197,993	1,045,416

29. Borrowings

	2017 HK$'000	2016 HK$'000
Bank loans – unsecured	**8,739,164**	7,793,346
Other loans – unsecured	**40,501**	43,466
	8,779,665	7,836,812
Carrying amount repayable:		
On demand or within one year	**3,707,803**	2,652,660
More than one year but not exceeding two years	**2,804,347**	1,322,299
More than two years but not exceeding five years	**2,246,573**	3,814,517
More than five years	**20,942**	47,336
	8,779,665	7,836,812
Less: Amount due within one year shown under current liabilities	**(3,707,803)**	(2,652,660)
Amount due after one year	**5,071,862**	5,184,152

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount 2017 HK$'000	Carrying amount 2016 HK$'000
Floating-rate loans:			
Unsecured HKD bank loans	1.60% (2016: 1.41%)	**2,700,267**	2,500,000
Unsecured RMB bank loans	4.58% (2016: 3.26%)	**1,568,402**	452,180
Unsecured USD bank loans	1.80% (2016: 1.47%)	**507,910**	504,140
Fixed rate loans*:			
Unsecured RMB bank loans	3.92% (2016: 4.25%)	**3,962,585**	4,337,026
Unsecured RMB other loans	2.69% (2016: 2.65%)	**23,109**	25,310
Unsecured other loans	1.12% (2016: 1.12%)	**17,392**	18,156
Total bank loans and other loans		**8,779,665**	7,836,812

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

30. Loans from Joint Ventures

At the year end date, loans from joint ventures were denominated in RMB with the carrying amount of HK$49,172,000 (2016: Nil). The loans carrying interest at a fixed rate of 2.57% per annum are unsecured and wholly repayable on demand.

31. Deferred Taxation

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

	Accelerated tax depreciation	Intangible assets	Undistributed profits of joint ventures/ associates/ subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	66,531	149,013	221,621	437,165
Addition relating to acquisition of business	894	–	–	894
Currency realignment	(4,228)	(9,453)	(15,155)	(28,836)
Charge (credit) for the year	2,867	(5,169)	26,911	24,609
Withholding tax paid	–	–	(25,306)	(25,306)
At 31 December 2016	66,064	134,391	208,071	408,526
Currency realignment	5,302	9,998	16,233	31,533
Charge (credit) for the year	7,271	(4,639)	29,280	31,912
Withholding tax paid	–	–	(17,871)	(17,871)
At 31 December 2017	78,637	139,750	235,713	454,100

At the end of the reporting period, the Group has unused tax losses of HK$708,374,000 (2016: HK$555,054,000) 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 2022.

32. Share Capital

	Number of shares	HK$'000
At 31 December 2017		
– Authorised:		
Shares of HK$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK$0.10 each	2,768,689,545	276,869

Details of the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2016, 31 December 2016 and 2017	5,000,000,000	500,000

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

	Number of shares	HK$'000
At 1 January 2016	2,665,062,650	266,506
Issue of shares upon scrip dividend scheme (note a)	46,539,113	4,654
At 31 December 2016	2,711,601,763	271,160
Issue of shares upon scrip dividend scheme (note b)	57,087,782	5,709
At 31 December 2017	2,768,689,545	276,869

Notes:

(a) On 17 March 2016, 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 3 June 2016. On 18 July 2016, 46,539,113 shares of HK$0.10 each were allotted and issued at HK$4.376 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2015 final dividend under the scrip dividend scheme.

(b) On 15 March 2017, 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 1 June 2017. On 17 July 2017, 57,087,782 shares of HK$0.10 each were allotted and issued at HK$4.836 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2016 final dividend under the scrip dividend scheme.

All the shares which were issued during the years ended 31 December 2016 and 2017 rank pari passu with the then existing shares in all respects.

33. Reserves

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

34. Acquisition of Businesses

During the year ended 31 December 2017, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas, distributed energy and other related business in the PRC. The primary reason for the below acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK$'000
Business combination in:			
Zhongxiang Hong Kong & China Gas Co., Ltd. ("Zhongxiang")	July 2017	100%	34,442
瀋陽智慧能源系統科技有限公司 ("Shenyang")	November 2017	55%	67,943

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

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

	Zhongxiang HK$'000	Shenyang HK$'000	Total HK$'000
Purchase considerations	34,442	67,943	102,385
Non-controlling interests	–	25,948	25,948
Acquirees' fair value of net identifiable assets acquired (see below)	(2,264)	(57,663)	(59,927)
Goodwill arising on acquisition	32,178	36,228	68,406

The non-controlling interests recognised at the acquisition dates in respect of the acquisitions in 2017 were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK$25,948,000.

34. Acquisition of Businesses (Continued)

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

Acquirees' fair values at acquisition dates:

	Zhongxiang HK$'000	Shenyang HK$'000	Total HK$'000
Net assets acquired:			
Property, plant and equipment	28,252	72	28,324
Leasehold land	6,178	–	6,178
Inventories	301	–	301
Trade and other receivables (note)	819	531	1,350
Amount due from non-controlling interests	–	58,371	58,371
Cash and bank balances	970	4,135	5,105
Trade and other payables	(34,256)	(5,446)	(39,702)
	2,264	57,663	59,927

Note: The trade and other receivables acquired with fair value of HK$1,350,000 had gross contractual amounts of HK$1,350,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Net cash outflow arising on acquisitions:

	Zhongxiang HK$'000	Shenyang HK$'000	Total HK$'000
Purchase considerations	34,442	67,943	102,385
Amounts unpaid and included in:			
– consideration payable for acquisition	–	(43,129)	(43,129)
Bank balances and cash acquired	(970)	(4,135)	(5,105)
	33,472	20,679	54,151

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

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

34. Acquisition of Businesses (Continued)

Net cash outflow arising on acquisitions: (Continued)

During the year, acquired businesses contributed HK$16,028,000 to the Group's turnover and incurred profit of HK$1,222,000 for the period between the dates of acquisitions and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2017 would have been HK$8,759,783,000, and the amount of the profit for the year would have been HK$1,511,059,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

35. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during the year ended 31 December 2017 as set out in note 32(b) (2016: note 32(a)).

36. 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 joint ventures	Dividend payable	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	7,836,812	–	–	7,836,812
Financing cash flows	285,906	49,172	(148,753)	186,325
Exchange differences	399,911	–	–	399,911
Interest expenses	257,036	–	–	257,036
Dividend declaration				
– shareholders of the Company	–	–	325,392	325,392
– non-controlling shareholders	–	–	99,438	99,438
Issue of shares upon scrip dividend scheme	–	–	(276,077)	(276,077)
At 31 December 2017	8,779,665	49,172	–	8,828,837

Note: Interest payable is included in trade and other payables and accrued charges.

37. Related Party Transactions

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

Name of related party	Nature of transaction	2017 HK$'000	2016 HK$'000
HKCG	Interest expense	–	18,697
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	7,839	7,670
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	7,124	20,318
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	3,739	3,274
Anhui Province Natural Gas Development Co., Ltd. (note b)	Purchase of compressed natural gas	85,050	69,841
Shandong Hong Kong and China Gas Training Institute (note a)	Training services	3,220	2,226
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	17,031	9,886
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	118,902	60,454
Zhuhai S-Tech Technology Limited (note a)	Provision of system software, cloud computing system and safety inspection supporting services	1,406	426
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	1,083	1,056
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	42,833	28,417
南京港華棲霞燃氣有限公司 (note b)	Purchase of liquefied natural gas	3,687	1,596

37. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2017 HK$'000	2016 HK$'000
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	**7,905**	6,240
南京港華能源投資發展有限公司 (note b)	Purchase of liquefied natural gas	**6,774**	–
港華國際能源貿易有限公司 (note a)	Purchase of liquefied natural gas	**52,070**	–
Changzhou Dongli Hong Kong and China Gas Company Limited (note b)	Purchase of natural gas	**7,631**	–
Feng County Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	**4,491**	–
Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b)	Processing of pipeline materials	**5,661**	4,031
Xuzhou Hong Kong and China Gas Company Limited (note a)	Purchase of natural gas	**1,719**	512
Jiangsu Overseas Hong Kong and China Gas Co., Ltd. (note b)	Purchase of pipeline construction materials and tools	**2,135**	210

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.

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

38. Operating Lease Commitments

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

	2017 HK$'000	2016 HK$'000
Within one year	**24,414**	16,896
In the second to fifth year inclusive	**67,560**	27,084
Over five years	**22,153**	23,714
	114,127	67,694

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

39. Commitments

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**180,941**	85,729
– acquisition of businesses	**19,219**	82,626
– acquisition of an associate	**86,486**	–

40. 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 2017 amounted to HK$72,005,000 (2016: HK$68,753,000).

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 2017, the Group made retirement benefit scheme contributions amounting to HK$476,000 (2016: HK$334,000).

41. Statement of Financial Position and Reserves of the Company

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

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	30	17
Investments in subsidiaries	2,316,990	2,146,202
Other financial asset	–	28,669
	2,317,020	2,174,888
Current assets		
Other receivables, deposits and prepayments	–	77
Amounts due from subsidiaries	10,983,034	10,003,118
Bank balances and cash	40,836	69,781
	11,023,870	10,072,976
Current liabilities		
Other payables and accrued charges	72,201	42,653
Amounts due to subsidiaries	1,219,747	971,102
Amounts due to the ultimate holding company	198	246
Borrowings – amount due within one year	3,144,547	2,026,574
Other financial liabilities	41,042	–
	4,477,735	3,040,575
Net current assets	6,546,135	7,032,401
Total assets less current liabilities	8,863,155	9,207,289
Non-current liabilities		
Loan from a subsidiary	4,815,097	4,557,139
Borrowings – amount due after one year	–	504,140
Other financial liabilities	8,936	–
	4,824,033	5,061,279
Net assets	4,039,122	4,146,010
Capital and reserves		
Share capital	276,869	271,160
Reserves	3,762,253	3,874,850
	4,039,122	4,146,010

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

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

	Share capital HK$'000	Share premium HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2016	266,506	6,349,291	(1,782,221)	4,833,576
Loss and other comprehensive expense for the year	–	–	(624,715)	(624,715)
Issue of shares upon scrip dividend scheme	4,654	199,001	–	203,655
Dividends paid to shareholders	–	(266,506)	–	(266,506)
At 31 December 2016	271,160	6,281,786	(2,406,936)	4,146,010
Loss and other comprehensive expense for the year	–	–	(57,573)	(57,573)
Issue of shares upon scrip dividend scheme	5,709	270,368	–	276,077
Dividends paid to shareholders	–	(325,392)	–	(325,392)
At 31 December 2017	276,869	6,226,762	(2,464,509)	4,039,122

* Others represent 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.

42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
TCCL (Finance) Limited 港華燃氣(融資)有限公司	HK – Limited liability company	HK$1	**100%**	100%	Financing
Towngas China Group Limited 港華燃氣集團有限公司	BVI – Limited liability company/HK	US$12,821	**100%**	100%	Investment holding
Towngas China Holdings Limited 港華燃氣控股有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2017	2016	Principal activities
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited 包頭港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000 (2016: RMB100,000,000)	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB56,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Ben Xi Hongkong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB335,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd. 博興港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**65%**	65%	Provision of natural gas and related services and gas pipeline construction
Cang Xi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Cangxian Hong Kong & China Gas Co., Ltd. 滄縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited 長汀港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB22,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Chao Sheng Investments Limited 潮盛投資有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Chaoyang Hongkong and China Gas Company Limited 朝陽港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US$10,791,838	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. 潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Chi Ping Hong Kong and China Gas Company Limited 茌平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Ltd 池州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited 大豐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co. Ltd. 大連長興港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$14,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co. Ltd. 大連旅順港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店金宇港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Da Yi Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2017	2016	Principal activities
Feicheng Hong Kong and China Gas Company Limited 肥城港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hongkong and China Gas Company Limited 阜新港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB77,200,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Fuxin Dali Gas Company Limited 阜新大力燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB13,900,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Xinqiu Hong Kong and China Gas Company Limited 阜新新邱港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB34,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$7,500,000 (2016: US$4,010,000)	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited 公主嶺港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB88,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd 廣西中威管道燃氣發展集團有限責任公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong and China Gas Co., Ltd. 桂林港華燃氣有限公司	PRC – Wholly foreign owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited 黑龍江港華聯孚能源有限公司	PRC – Sino-foreign equity joint venture	RMB13,000,000	**55%**	55%	Vehicle gas refilling stations

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Hong Kong and China Gas (Dalian) Limited 香港中華煤氣(大連)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited 香港中華煤氣(營口)有限公司	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited 香港中華煤氣(駐馬店)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Huang Shan Hong Kong & China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong & China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$2,100,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huang Shan Taiping Hong Kong & China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$3,500,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited 湖州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US$10,500,000	**98.85%**	98.85%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Jiajiang Hong Kong & China Gas Company Limited 夾江港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited 建平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Jianyang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司	PRC – Limited liability company	RMB150,000,000 (2016: RMB30,000,000)	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Pingyin Hongkong & China Gas Co., Ltd. 濟南平陰港華燃氣有限公司	PRC – Sino-foreign-equity joint venture	RMB100,000,000	**82.15%**	82.15%	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong & China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$6,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$11,520,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hongkong and China Gas Company Limited 龍口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$7,070,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2017	2016	Principal activities
Luliang Hong Kong & China Gas Company Limited 陸良港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB52,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd. 馬鞍山博望港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US$10,000,000	**75.1%**	75.1%	Provision of natural gas and related services and gas pipeline construction
Maanshan Jiangbei Hong Kong & China Gas Co., Ltd. 馬鞍山江北港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Mengcun Hong Kong & China Gas Co., Ltd. 孟村回族自治縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Mianyang Heqing Towngas Co., Ltd. 綿陽河清港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong & China Gas Co., Ltd. 綿陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB90,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd. 綿竹港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd. 綿竹玉泉港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Miluo Hong Kong and China Gas Company Limited 汨羅港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Peng Shan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Peng Xi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Company Limited 青島東億港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Company Limited 青島中即港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB73,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingyuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong & China Gas Co., Ltd. 秦皇島港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	**61.67%**	61.67%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Xingqixiang Gas Company Limited 齊齊哈爾興企祥燃氣有限責任公司	PRC – Wholly foreign-equity enterprise	RMB60,000,000	**100%**	100%	Vehicle gas refilling stations

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$24,532,434	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Siping Hong Kong and China Gas Company Limited 四平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB45,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Songyang Hong Kong & China Gas Company Limited 松陽港華燃氣有限公司	PRC – Limited liability company	RMB80,000,000	**51.35%**	51.35%	Provision of natural gas and related services and gas pipeline construction
Tie Ling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB232,960,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Tongshan Hong Kong and China Gas Co. Ltd. 銅山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB124,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC – Sino-foreign equity joint venture	US$7,000,000	**76%**	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited 港華燃氣(維爾京)控股有限公司	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Towngas China Energy Investment Limited 港華燃氣能源投資有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2017	2016	Principal activities
Towngas China Energy Investment (Shenzhen) Limited 港華能源投資(深圳)有限公司	PRC – Wholly foreign-owned enterprise	RMB100,000,000	**100%**	100%	Investment holding
Towngas China (Fengxi) Limited 港華燃氣(楓溪)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Towngas China (Zhengpugang) Limited 港華燃氣(鄭蒲港)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Wholly foreign-owned enterprise	US$200,000,000	**100%**	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wuhu Jiangbei Hong Kong and China Gas Company Limited 蕪湖江北港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB200,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Co., Ltd. 武寧港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wulian Hong Kong and China Gas Company Limited 五蓮港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited 新津港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited 新津永雙港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong and China Gas Company Limited 興義港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB50,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yanshan Hong Kong & China Gas Co., Ltd. 鹽山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Yangxin Hong Kong & China Gas Co., Ltd. 陽信港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB18,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Yifeng Hong Kong and China Gas Co., Ltd. 宜豐港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Co., Ltd. 營口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$9,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yue Chi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

42. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
Zhao Yuan Hong Kong & China Gas Co., Ltd. 招遠港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB22,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Zhong Jiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Zhongxiang Hong Kong & China Gas Co., Ltd. 鍾祥港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB42,000,000	**100%**	N/A	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
內蒙古港億天然氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	**85%**	N/A	Midstream

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

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