



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$7,322 million as at 31 December 2020. The Group's liabilities as at 31 December 2020 included borrowings of approximately HK\$5,137 million that are repayable within one year from the end of the reporting period.

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

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

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



## 2. Application of Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

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

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

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

Except as described below, the application of the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the amendments to HKFRSs in the current year had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

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

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

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

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



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For the year ended 31 December 2020

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

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

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

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

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

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

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

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

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

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



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

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

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

##### *Assessment of hedging relationship and effectiveness*

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

##### *Cash flow hedges*

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

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

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

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

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

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16 “Leases”;
- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

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



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

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

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

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

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 “Financial Instruments: Presentation”.

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

The principal accounting policies are set out below.



### 3. Significant Accounting Policies (Continued)

#### Basis of consolidation

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

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

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

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

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

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

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

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

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### **Basis of consolidation *(Continued)***

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

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

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.



### 3. Significant Accounting Policies (Continued)

#### **Business combinations or asset acquisitions**

##### **Optional concentration test**

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

##### **Asset acquisitions**

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

##### **Business combinations**

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard; and



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Business combinations or asset acquisitions (Continued)

#### Business combinations (Continued)

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

#### Goodwill

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

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Goodwill (Continued)

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

#### Investments in associates and joint ventures

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

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

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

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



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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

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

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

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



# Notes to the Consolidated Financial Statements

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

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

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

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

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

#### Performance obligations for contracts with customers

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

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

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

##### *Gas connection*

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

### Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.



### 3. Significant Accounting Policies (Continued)

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

##### Ownership interest in leasehold land and building

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

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

##### Construction in progress

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

#### Leases

##### Definition of a lease

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

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

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

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

#### The Group as a lessee

##### Right-of-use assets

The cost of right-of-use assets includes:

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Leases (Continued)

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

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

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

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

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

##### Refundable rental deposits

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

##### Lease liabilities

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

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

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

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

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

##### Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.



### 3. Significant Accounting Policies (Continued)

#### Leases (Continued)

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

###### *Lease modifications (Continued)*

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

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

#### Intangible assets

##### Intangible assets acquired in a business combination

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

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

###### *Exclusive operating rights for city pipeline network*

Exclusive operating rights for city pipeline network are stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating rights is capitalised and amortised on a straight-line basis over the estimated useful life.

###### *Distribution network*

Distribution network is stated at cost less accumulated amortisation and any identified impairment loss.

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

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

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

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

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

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



### 3. Significant Accounting Policies (Continued)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit or a group of cash-generating units in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Financial instruments**

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

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

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

#### **Financial assets**

##### *Classification and subsequent measurement of financial assets*

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

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

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

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

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

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

###### *Impairment of financial assets*

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

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

The Group always recognise lifetime ECL for trade receivables.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### **Financial instruments *(Continued)***

#### **Financial assets *(Continued)***

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

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

(i) Significant increase in credit risk

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

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

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

##### Impairment of financial assets (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

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

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

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

###### *Derecognition of financial assets*

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

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

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

##### Financial liabilities and equity

###### *Classification as debt or equity*

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

###### *Equity instruments*

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

###### *Financial liabilities*

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

###### *Financial liabilities at FVTPL*

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity (Continued)

##### Financial liabilities at FVTPL (Continued)

A financial liability is held for trading if:

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

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

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

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

##### Other financial liabilities

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



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

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

###### *Derivative financial instruments*

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

###### *Hedge accounting*

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

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

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

###### *Assessment of hedging relationship and effectiveness*

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### **Financial instruments *(Continued)***

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

##### *Assessment of hedging relationship and effectiveness *(Continued)**

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

##### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in the hedge reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

##### *Discontinuation of hedge accounting*

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

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss or the hedged item otherwise affects profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.



### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

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

###### *Derecognition of financial liabilities*

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

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

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

###### *Non-substantial modifications of financial liabilities*

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

#### Taxation

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Taxation (Continued)

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

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

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

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

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

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

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

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



### 3. Significant Accounting Policies (Continued)

#### Taxation (Continued)

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

#### Foreign currencies

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

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

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

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

#### Borrowing costs

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

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. Significant Accounting Policies (Continued)

### Government grants

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

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

### Retirement benefits costs

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

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

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

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

### Critical judgements in applying accounting policies

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

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



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

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

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

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

### Key sources of estimation uncertainty

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

### Impairment assessment of goodwill

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### Key sources of estimation uncertainty (Continued)

#### Impairment assessment of goodwill (Continued)

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

#### Income taxes

As at 31 December 2020, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK\$545,637,000 (2019: HK\$649,721,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits or taxable temporary differences generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

#### ECL assessment of trade receivables

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

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



## 5. Capital Risk Management

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

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

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

The Gearing Ratio at the reporting date was as follows:

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

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. Financial Instruments

### Categories of financial instruments

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

### Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, loans to associates, loans to joint ventures, trade and other receivables, deposits, amounts due from non-controlling shareholders, time deposits over three months, bank balances and cash, other financial assets, trade and other payables, amounts due to non-controlling shareholders, loan from a non-controlling shareholder, loans from joint ventures, borrowings, lease liabilities and other financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Currency risk

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

Details of the Group's bank balances and cash, time deposits over three months and bank and other borrowings, denominated in United States dollars ("USD") and HKD at the end of the reporting period are set out in notes 26 and 32.

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

The management continues to monitor foreign exchange exposure and will consider hedging other significant foreign currency exposure should the need arise.



## 6. Financial Instruments (Continued)

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

#### Currency risk (Continued)

##### Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2019: 3%) in exchange rate of USD and HKD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (excluding derivative financial instruments) and adjusts their translation at the end of each reporting period for a 3% (2019: 3%) change in foreign currency rates.

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

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Profit before taxation	<b>987</b>	1,052

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

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, short-term fixed deposits, loans to joint ventures, loans to associates, loan from a non-controlling shareholder, loans from joint ventures and lease liabilities. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD and RMB bank loans, LIBOR arising from the Group's USD and HKD bank loans and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. Financial Instruments *(Continued)*

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

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

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

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

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

#### Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (excluding derivative financial instruments) at the end of the reporting period. The sensitivity analysis excludes the effect on variable-rate bank borrowings that are under an effective hedging relationship as the Group's net exposure to interest rate risk arising from the hedging relationship is insignificant. For remaining variable-rate bank loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points (2019: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2019: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2020 would decrease/increase by HK\$4,040,000 (2019: HK\$4,084,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings to which hedge accounting is not applied.

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

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

#### Other price risk

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



## 6. Financial Instruments (Continued)

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

#### Other price risk (Continued)

##### Sensitivity analysis

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

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

#### Credit risk and impairment assessment

The Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amounts of the Group's financial assets (excluding equity instruments at FVTOCI) as stated in the consolidated statement of financial position.

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

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. Financial Instruments (Continued)

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

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

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

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

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

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

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



## 6. Financial Instruments *(Continued)*

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

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

##### *Trade receivables*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix. In this regard, the Directors consider that the Group's credit risk is effectively managed.

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

##### *Provision matrix — debtors' aging*

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. Financial Instruments (Continued)

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

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

##### Provision matrix — debtors' aging (Continued)

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

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

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

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

#### Time deposits over three months and bank balances

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

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

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



## 6. Financial Instruments *(Continued)*

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

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

##### *Other receivables and deposits*

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

##### **Liquidity risk**

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised Facilities of HK\$6,588 million. As stated in note 1, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$7,322 million (2019: HK\$5,108 million).

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. Financial Instruments (Continued)

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

#### Liquidity risk (Continued)

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

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



## 6. Financial Instruments (Continued)

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

#### Liquidity risk (Continued)

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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		Fair value hierarchy	Valuation techniques and key inputs	
	31.12.2020	31.12.2019			
1) Listed equity investments classified as FVTOCI in the consolidated statement of financial position	<b>Asset</b> <b>HK\$1,609,942,000</b>	Asset HK\$2,304,042,000	Level 1	Quoted market price	
2) Cross currency interest rate swaps classified as other financial asset/liabilities in the consolidated statement of financial position	<b>Asset</b> <b>Nil</b>  <b>Liabilities</b> <b>HK\$113,077,000</b>	Asset HK\$24,483,000  Liabilities HK\$15,413,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	
Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	31.12.2020	31.12.2019			
Unquoted equity investments	<b>Assets</b> <b>HK\$111,933,000</b>	Assets HK\$95,002,000	Level 3	Market comparable approach	Market multiples ranging from 0.6 to 1.7 (2019: 1.0 to 1.6) and discount for lack of marketability ranging from 0% to 30% (2019: 0% to 30%) (note)

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



## 6. Financial Instruments (Continued)

### Fair value measurements (Continued)

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

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

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

##### Fair value measurements and valuation processes

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

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

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

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

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 7. Revenue

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

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

## 8. Segment Information

### Operating segments

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

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

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

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

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



## 8. Segment Information (Continued)

### Operating segments (Continued)

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other income, other gains (losses), net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Information regarding these segments is presented below:

	<b>Sales and distribution of piped gas and related products HK\$'000</b>	<b>Gas connection HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>For the year ended 31 December 2020</b>			
<b>REVENUE</b>			
Revenue recognised at a point in time	<b>10,616,039</b>	<b>1,651,794</b>	<b>12,267,833</b>
Revenue recognised over time	—	<b>558,404</b>	<b>558,404</b>
External	<b>10,616,039</b>	<b>2,210,198</b>	<b>12,826,237</b>
Segment results	<b>1,065,428</b>	<b>909,852</b>	<b>1,975,280</b>
Other income			<b>106,195</b>
Other gains (losses), net			<b>1,487</b>
Unallocated corporate expenses			<b>(150,913)</b>
Share of results of associates			<b>362,688</b>
Share of results of joint ventures			<b>334,168</b>
Finance costs			<b>(426,204)</b>
Profit before taxation			<b>2,202,701</b>
Taxation			<b>(554,893)</b>
Profit for the year			<b>1,647,808</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 8. Segment Information (Continued)

### Operating segments (Continued)

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
<b>For the year ended 31 December 2019</b>			
<b>REVENUE</b>			
Revenue recognised at a point in time	10,835,119	1,552,166	12,387,285
Revenue recognised over time	—	537,086	537,086
External	10,835,119	2,089,252	12,924,371
Segment results	1,033,527	893,605	1,927,132
Other income			80,518
Other gains (losses), net			(165,848)
Unallocated corporate expenses			(171,567)
Share of results of associates			359,313
Share of results of joint ventures			383,217
Finance costs			(398,707)
Profit before taxation			2,014,058
Taxation			(501,485)
Profit for the year			1,512,573

Segment results included depreciation and amortisation of HK\$762,337,000 (2019: HK\$693,254,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

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

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

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



## 9. Total Operating Expenses

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

## 10A. Other Income

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 11. Finance Costs

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

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

## 12. Profit Before Taxation

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



### 13. Directors' and Employees' Emoluments

#### Directors' emoluments:

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

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

  

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### Directors' emoluments: (Continued)

Notes:

- (a) The Directors' fees of Executive Directors were mainly for their services as Directors of the Company and its subsidiaries and the Directors' fees of Independent Non-Executive Directors were mainly for their services as Directors of the Company.
- (b) The other emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group.
- (c) The performance and discretionary bonus are determined by the Board from time to time with reference to Directors' duties and responsibilities and the Group's performance and profitability.
- (d) Mr. Peter Wong Wai-yee is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.
- (e) Mr. John Ho Hon-ming is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary.
- (f) Mr. Martin Kee Wai-ngai is also the Chief Operating Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Operating Officer.
- (g) No other service contracts were entered into by any Directors with the Company.

### Employees' emoluments:

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

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	2,850	2,927
Performance related incentive payments	2,802	2,471
Retirement benefit scheme contributions	198	220
	<b>5,850</b>	5,618

The emoluments were within the following bands:

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

During both years, no remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived or agreed to waive any remunerations for both years.



## 14. Taxation

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

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

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

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

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

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

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 15. Dividends

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

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

## 16. Earnings Per Share

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

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	<b>1,447,113</b>	1,308,425
	<b>Number of shares</b>	
	<b>2020</b> <b>'000</b>	2019 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,920,079</b>	2,840,607

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



## 17. Property, Plant and Equipment

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

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



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## 18. Right-of-use Assets

	<b>Leasehold land</b>	<b>Leased properties and others</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 December 2020</b>			
Carrying amount	825,714	57,002	882,716
<b>As at 31 December 2019</b>			
Carrying amount	749,915	49,859	799,774
<b>For the year ended 31 December 2020</b>			
Depreciation charge	(22,423)	(34,651)	(57,074)
<b>For the year ended 31 December 2019</b>			
Depreciation charge	(20,949)	(32,963)	(53,912)
<hr/>			
		<b>2020</b>	2019
		<b>HK\$'000</b>	HK\$'000
Total cash outflow for leases		<b>81,372</b>	145,875
Additions to right-of-use assets		<b>81,375</b>	139,238

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



## 19. Intangible Assets

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 20. Goodwill

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



## 20. Goodwill (Continued)

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 20. Goodwill (Continued)

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

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

### Sensitivity analysis

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

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

## 21. Interests in Associates/Loans to Associates

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

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



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

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

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

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

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





# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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



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

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

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



# Notes to the Consolidated Financial Statements

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

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

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

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

## 23. Equity Instruments at FVTOCI

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Listed shares in the PRC	<b>1,609,942</b>	2,304,042
Unlisted shares in the PRC	<b>111,933</b>	95,002
	<b>1,721,875</b>	2,399,044

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

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



## 24. Inventories

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Finished goods	<b>151,591</b>	130,727
Materials and consumables	<b>491,526</b>	456,535
	<b>643,117</b>	587,262

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

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

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

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK\$1,269,048,000 (2019: HK\$1,032,384,000) and allowance for credit losses of HK\$167,797,000 (2019: HK\$145,550,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables net of allowance of credit losses presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
0 to 90 days	<b>883,463</b>	682,276
91 to 180 days	<b>39,115</b>	77,053
Over 180 days	<b>178,673</b>	127,505
	<b>1,101,251</b>	886,834

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

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



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

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

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

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
USD	<b>10,611</b>	35,081
HKD	<b>22,285</b>	14,673

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

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

## 28. Other Financial Asset/Liabilities

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

The classification of the measurement of the derivative financial instruments at 31 December 2020 and 2019 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).



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

### Cash flow hedge

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

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

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

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

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



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For the year ended 31 December 2020

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

### Cash flow hedge (Continued)

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

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

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

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

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

## 29. Trade and Other Payables and Accrued Charges

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

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



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

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

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

## 30. Contract Liabilities

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

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

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

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





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 30. Contract Liabilities (Continued)

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

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

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

### Gas connection

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

## 31. Lease Liabilities

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



## 32. Borrowings

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

The bank and other loans mainly comprise of:

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

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 34. Deferred Taxation

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

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

At the end of the reporting period, the Group has unused tax losses of HK\$545,637,000 (2019: HK\$649,721,000) available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until the year 2025 (2019: year 2024).

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

## 35. Share Capital

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



### 35. Share Capital (Continued)

Details of the authorised share capital is as follows:

	<b>Number of shares</b>	HK\$'000
At 1 January 2019, 31 December 2019 and 31 December 2020	5,000,000,000	500,000

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

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

Notes:

- (a) On 19 March 2019, a scrip dividend scheme was proposed by the Board, which offers the Shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the Company's annual general meeting held on 21 May 2019. On 4 July 2019, 60,659,116 shares of HK\$0.10 each were allotted and issued at HK\$5.712 each to Shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2018 final dividend under the scrip dividend scheme.
- (b) On 16 March 2020, a scrip dividend scheme was proposed by the Board, which offers the Shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the Company's annual general meeting held on 21 May 2020. On 6 July 2020, 98,247,825 shares of HK\$0.10 each were allotted and issued at HK\$3.644 each to Shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2019 final dividend under the scrip dividend scheme.

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

### 36. Reserves

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 37. Acquisition of a Subsidiary/a Business

*For the year ended 31 December 2020*

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

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

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

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

### Net cash inflow arising on acquisition:

	HK\$'000
Consideration paid	(15,309)
Bank balances and cash acquired	33,488
	<hr/> 18,179

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



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

For the year ended 31 December 2019

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

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

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

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

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

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

#### Cash outflow arising on acquisition:

	HK\$'000
Consideration paid	(42,506)

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the business. No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019 was presented as the contributions are insignificant.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 38. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during both years as set out in note 35.

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of offices, warehouses, staff dormitory and equipment for 1 to 12 years while for leasehold land for 15 years to 70 years. On the lease commencement, the Group recognised HK\$29,979,000 (2019: HK\$11,845,000) of right-of-use assets and HK\$29,979,000 (2019: HK\$11,845,000) of lease liabilities.

## 39. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans	Loan from a non- controlling shareholder	Loans from joint ventures	Dividend payable	Lease liabilities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	9,504,332	—	24,642	—	83,466	9,612,440
Financing cash flows	882,071	19,790	6,517	(165,804)	(23,316)	719,258
New leases entered	—	—	—	—	11,845	11,845
Termination of lease	—	—	—	—	(15,241)	(15,241)
Interest expenses	—	—	—	—	3,211	3,211
Exchange differences	(147,041)	(305)	(789)	—	(3,359)	(151,494)
Dividend declaration						
— shareholders of the Company	—	—	—	421,504	—	421,504
— non-controlling shareholders	—	—	—	90,785	—	90,785
Issue of shares upon scrip dividend scheme	—	—	—	(346,485)	—	(346,485)
At 31 December 2019	10,239,362	19,485	30,370	—	56,606	10,345,823
Financing cash flows	663,989	—	(25,613)	(183,140)	(29,976)	425,260
New leases entered	—	—	—	—	29,979	29,979
Interest expenses	—	—	—	—	3,063	3,063
Exchange differences	589,407	1,405	474	—	2,444	593,730
Dividend declaration						
— shareholders of the Company	—	—	—	430,603	—	430,603
— non-controlling shareholders	—	—	—	110,551	—	110,551
Issue of shares upon scrip dividend scheme	—	—	—	(358,014)	—	(358,014)
At 31 December 2020	11,492,758	20,890	5,231	—	62,116	11,580,995

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



## 40. Related Party Transactions

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

<b>Name of related party</b>	<b>Nature of transaction</b>	<b>2020 HK\$'000</b>	2019 HK\$'000
Anhui Province Natural Gas Development Co., Ltd. (note b)	Purchase of compressed natural gas	<b>140,072</b>	142,139
安徽皖能清潔能源有限公司 (note b)	Purchase of natural gas	<b>41,271</b>	27
常州東利港華氣體有限公司 (note b)	Purchase of natural gas	<b>49,336</b>	46,745
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	<b>933</b>	235
Chaozhou Hong Kong and China Gas Company Limited (note a)	Purchase of pipeline construction materials and tools	<b>1,484</b>	943
Chaozhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	<b>9,106</b>	—
港華國際能源貿易有限公司 (note a)	Purchase of natural gas	<b>98,687</b>	18,895
GH-Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	<b>1,884</b>	1,499
Guangzhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	<b>28,976</b>	39,852
Hong Kong & China Gas Investment Limited (note a)	Charges paid for expatriate service	<b>9,138</b>	9,295
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of pipeline construction materials and tools	<b>2,668</b>	2,721
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of liquefied natural gas	<b>10,918</b>	178
吉林港華燃氣有限公司 (note a)	Sale of liquefied natural gas	<b>26,693</b>	—





# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 40. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2020 HK\$'000	2019 HK\$'000
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	<b>50,907</b>	44,647
名氣家(深圳)信息服務有限公司 (note a)	Purchase of food ingredients and materials, and charges paid for Virtual Customer Centre (VCC) service	<b>2,089</b>	612
南京燃氣輸配有限公司 (note b)	Charges paid for construction services	<b>2,344</b>	—
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	<b>12,360</b>	13,109
S-Tech Smart Technology (Wuhan) Company Limited (note a)	Charges paid for system software, cloud computing system and safety inspection supporting services	<b>16,474</b>	9,835
山東港華培訓學院 (note a)	Charges paid for training services	<b>2,396</b>	3,203
山東港燃經貿有限公司 (note d)	Purchase of natural gas	<b>70,780</b>	47,766
瀋陽三全工程監理諮詢有限公司 (note a)	Charges paid for project management services	<b>6,254</b>	5,956
四川空港燃氣有限公司 (note d)	Sale of natural gas	<b>6,888</b>	23,002
四川空港燃氣有限公司 (note d)	Provision for gas pipeline installation	—	6,420
徐州港華能源科技有限公司 (note a)	Purchase of natural gas	<b>3,176</b>	14,687
Xuzhou Hong Kong and China Gas Company Limited (note a)	Purchase of natural gas	<b>9,344</b>	11,917
Xuzhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	<b>308</b>	6,384



#### 40. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2020 HK\$'000	2019 HK\$'000
Xuzhou Hong Kong and China Gas Company Limited (note a)	Charges paid for maintenance service of high-pressure pipeline	865	—
Yangxin Hong Kong & China Gas Company Limited (note b)	Purchase of natural gas	1,991	—
珠海卓銳高科信息技術有限公司 (note a)	Charges paid for system software, cloud computing system and safety inspection supporting services	—	3,589
卓度計量技術(深圳)有限公司 (note a)	Purchase of gas meters	25,133	16,261
Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b)	Charges paid for processing service of pipeline materials	12,325	16,672
卓通管道系統(中山)有限公司 (note a)	Purchase of pipeline construction materials and tools	131,432	124,468

Notes:

- (a) HKCG has controlling interests in these companies.
- (b) HKCG has significant influences in these companies.
- (c) The Group jointly controlled this company with an independent third party.
- (d) The Group has significant influences in these companies.

Emoluments paid to the key management personnel of the Company which represents the Executive Directors and Independent Non-executive Directors of the Company are set out in note 13.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 41. Commitments

	2020 HK\$'000	2019 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	<b>346,691</b>	281,362
Capital contribution to an associate (note)	<b>5,167,498</b>	—
	<b>5,514,189</b>	281,362

Note: On 27 October 2020, the Company entered into a capital increase agreement with Shenergy (Group) Company Limited and Shanghai Gas, pursuant to which the Company agreed to increase the registered capital and capital reserves of Shanghai Gas by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to HK\$5,583,274,000) and the Company will own 25% equity interests in Shanghai Gas upon completion. An amount of RMB350,000,000 (equivalent to HK\$415,776,000) was paid to Shanghai United Assets and Equity Exchange as a deposit for such acquisition. Details of the above transaction were disclosed in the circular of the Company dated 25 January 2021. Up to the date of issuance of these consolidated financial statements, the transaction has not yet completed.

## 42. Retirement Benefit Schemes

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements and the waivers of partial contributions granted from the PRC government due to COVID-19 pandemic, the retirement plan contributions charge for the year ended 31 December 2020 amounted to HK\$11,794,000 (2019: HK\$84,888,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2020, the Group made retirement benefit scheme contributions amounting to HK\$487,000 (2019: HK\$485,000).



## 43. Statement of Financial Position and Reserves of the Company

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

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Property, plant and equipment	81	66
Deposit paid for acquisition of an associate	415,776	—
Investments in subsidiaries	2,283,292	2,151,603
	<b>2,699,149</b>	2,151,669
Current assets		
Amounts due from subsidiaries	12,203,830	11,125,240
Bank balances and cash	210,636	59,672
	<b>12,414,466</b>	11,184,912
Current liabilities		
Other payables and accrued charges	55,576	57,270
Amounts due to subsidiaries	218,603	1,505,458
Amount due to ultimate holding company	570	323
Borrowings — amounts due within one year	2,753,204	2,544,743
Other financial liability	55,839	—
	<b>3,083,792</b>	4,107,794
Net current assets	<b>9,330,674</b>	7,077,118
Total assets less current liabilities	<b>12,029,823</b>	9,228,787
Non-current liabilities		
Loan from a subsidiary	6,489,772	5,296,282
Borrowings — amounts due after one year	387,650	1,168,650
Other financial liabilities	41,370	15,413
	<b>6,918,792</b>	6,480,345
Net assets	<b>5,111,031</b>	2,748,442
Capital and reserves		
Share capital	296,893	287,069
Reserves	4,814,138	2,461,373
Total equity	<b>5,111,031</b>	2,748,442



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

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

	Share capital HK\$'000	Share premium HK\$'000	Others* HK\$'000	Total HK\$'000
At 1 January 2019	281,003	6,114,717	(3,105,173)	3,290,547
Loss and other comprehensive expense for the year	—	—	(467,086)	(467,086)
Issue of shares upon scrip dividend scheme	6,066	340,419	—	346,485
Dividends declared to shareholders of the Company	—	(421,504)	—	(421,504)
At 31 December 2019	287,069	6,033,632	(3,572,259)	2,748,442
Profit and other comprehensive income for the year	—	—	2,435,178	2,435,178
Issue of shares upon scrip dividend scheme	9,824	348,190	—	358,014
Dividends declared to shareholders of the Company	—	(430,603)	—	(430,603)
At 31 December 2020	296,893	5,951,219	(1,137,081)	5,111,031

\* Others represent hedge reserve, exchange reserve and accumulated losses.

### (c) Amounts due from/to subsidiaries

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



## 44. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2020 and 2019 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Directly-owned subsidiaries</b>					
Hong Kong & China Gas (Anqing) Limited	British Virgin Islands ("BVI") — Limited liability company/ Hong Kong ("HK")	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
TCCL (Finance) Limited	HK — Limited liability company	HK\$1	<b>100.0%</b>	100.0%	Financing
Towngas China Group Limited	BVI — Limited liability company/HK	US\$12,821	<b>100.0%</b>	100.0%	Investment holding
Towngas China Holdings Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding



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## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries</b>					
An Shan Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	US\$15,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB20,000,000	<b>85.0%</b>	85.0%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB56,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Ben Xi Hongkong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB335,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>65.0%</b>	65.0%	Provision of natural gas and related services and gas pipeline construction
C-Tech Laundry Company Limited	PRC — Wholly foreign-owned enterprise	RMB50,000,000	<b>100.0%</b>	—	Investment holding
C-Tech Laundry Investment Company Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Cang Xi Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB20,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Cangxian Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB10,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB22,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Changzhou Towngas China Energy Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB31,000,000	<b>45.0%</b>	45.0%	Provision of natural gas distributed energy
Chao Sheng Investments Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Chaoyang Hongkong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	US\$10,791,838	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
潮州楓溪港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB60,000,000	<b>60.0%</b>	60.0%	Provision of natural gas and related services and gas pipeline construction
成都新都港華燃氣有限公司	PRC — Limited liability company	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Chi Ping Hongkong and China Gas Co. Ltd.	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>85.0%</b>	85.0%	Provision of natural gas and related services and gas pipeline construction





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## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Chizhou Hong Kong and China Gas Company Ltd	PRC — Wholly foreign-owned enterprise	RMB70,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB80,000,000	<b>51.0%</b>	51.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co. Ltd.	PRC — Wholly foreign-owned enterprise	US\$14,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co. Ltd.	PRC — Wholly foreign-owned enterprise	US\$15,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Da Yi Hong Kong and China Gas Company Limited	PRC — Limited liability company	RMB20,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Feicheng Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB32,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Fuxin Hongkong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB77,200,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
阜新大力燃氣有限責任公司	PRC — Wholly foreign-owned enterprise	RMB13,900,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
阜新新邱港華燃氣有限公司	PRC — Wholly foreign-owned enterprise	RMB34,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
港華舒適家(成都)科技服務有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	<b>100.0%</b>	—	Investment holding
Gao Chun Hong Kong and China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$9,500,000 (2019: US\$7,500,000)	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB88,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
廣西中威管道燃氣發展集團有限責任公司	PRC — Wholly foreign-owned enterprise	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
廣西港華智慧能源有限公司	PRC — Wholly foreign-owned enterprise	RMB10,000,000	<b>100.0%</b>	100.0%	Provision of natural gas distributed energy



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For the year ended 31 December 2020

## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Guilin Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited	PRC — Sino-foreign equity joint venture	RMB13,000,000	<b>55.0%</b>	55.0%	Vehicle gas refilling stations
Hong Kong and China Gas (Dalian) Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Huang Shan Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB40,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$2,100,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Huang Shan Taiping Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$3,500,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	US\$10,500,000	<b>98.9%</b>	98.9%	Provision of natural gas and related services and gas pipeline construction
Jiajiang Hong Kong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB20,000,000	<b>70.0%</b>	70.0%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB58,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
簡陽港華燃氣有限公司	PRC — Limited liability company	RMB150,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB200,000,000	<b>82.2%</b>	82.2%	Provision of natural gas and related services and gas pipeline construction
九江港華燃氣有限公司	PRC — Limited liability company	RMB10,000,000	<b>60.0%</b>	60.0%	Provision of natural gas and related services and gas pipeline construction



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For the year ended 31 December 2020

## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Kazuo Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$6,400,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$11,520,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Liuzhou Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB50,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Longkou Hongkong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	US\$7,070,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB52,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	US\$10,000,000	<b>75.1%</b>	75.1%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Maanshan Jiangbei Hong Kong and China Towngas Company Limited	PRC — Wholly foreign-owned enterprise	US\$10,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Towngas China Energy Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB50,000,000	<b>85.0%</b>	85.0%	Provision of natural gas distributed energy
Mengcun Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB10,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Mianyang Heqing Towngas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB10,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB90,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB5,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Miluo Hong Kong and China Gas Co. Ltd	PRC — Sino-foreign equity joint venture	RMB50,000,000	<b>70.0%</b>	70.0%	Provision of natural gas and related services and gas pipeline construction
Mei Shan Peng Shan Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB20,000,000	<b>70.0%</b>	70.0%	Provision of natural gas and related services and gas pipeline construction
Peng Xi Hong Kong and China Gas Company Limited	PRC — Limited liability company	RMB20,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
平昌港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB20,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>60.0%</b>	60.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Towngas China Energy Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB15,380,000 (2019: RMB10,000,000)	<b>62.4%</b>	96.0%	Provision of natural gas distributed energy
青島嶗山灣港華能源有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>60.0%</b>	60.0%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Qingdao Zhongji Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB73,500,000	<b>90.0%</b>	90.0%	Provision of natural gas equity joint venture and related services and gas pipeline construction
清遠港華燃氣有限公司	PRC — Limited liability company	RMB50,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB15,000,000	<b>51.0%</b>	51.0%	Provision of natural gas and related services and gas pipeline construction
齊齊哈爾港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB128,561,800	<b>61.7%</b>	61.7%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Xingqixiang Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB60,000,000	<b>100.0%</b>	100.0%	Vehicle gas refilling stations
韶關港華燃氣有限公司	PRC — Limited liability company	RMB50,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited	PRC — Wholly foreign-owned enterprise	US\$24,532,434	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction





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For the year ended 31 December 2020

## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
瀋陽智慧能源系統科技 有限公司	PRC — Sino-foreign equity joint venture	RMB100,000,000	<b>55.0%</b>	55.0%	Provision of natural gas distributed energy
Shenzhen Towngas China Energy Co., Ltd.	PRC — Wholly foreign- owned enterprise	RMB6,000,000	<b>100.0%</b>	100.0%	Provision of natural gas distributed energy
四川港華合縱能源有限公司	PRC — Limited liability company	RMB230,000,000	<b>98.8%</b>	—	Upstream
Siping Hong Kong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB45,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
松陽港華燃氣有限公司	PRC — Limited liability company	RMB80,000,000	<b>51.4%</b>	51.4%	Provision of natural gas and related services and gas pipeline construction
Songyang Towngas China Energy Co., Ltd	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>85.4%</b>	85.4%	Provision of natural gas distributed energy
唐山港能投智慧能源 有限公司	PRC — Sino-foreign equity joint venture	RMB80,000,000	<b>49.0%</b>	49.0%	Provision of natural gas distributed energy
Tangshan Fengnan Towngas China Energy Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB96,000,000	<b>45.0%</b>	45.0%	Provision of natural gas distributed energy
TCCL (Project Finance) Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	—	Financing
Tie Ling Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB232,960,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment/ and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Tongshan Hong Kong and China Gas Co. Ltd	PRC — Wholly foreign-owned enterprise	RMB124,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	US\$7,000,000	<b>76.0%</b>	76.0%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI — Limited liability company/HK	US\$1	<b>100.0%</b>	100.0%	Investment holding
Towngas China Energy Investment Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Towngas China Energy Investment Limited	PRC — Wholly foreign-owned enterprise	RMB250,000,000	<b>100.0%</b>	100.0%	Investment holding
Towngas China (Fengxi) Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Towngas China (Zhengpugang) Limited	HK — Limited liability company	HK\$100	<b>100.0%</b>	100.0%	Investment holding
Towngas Investments Limited	PRC — Wholly foreign-owned enterprise	US\$200,000,000	<b>100.0%</b>	100.0%	Investment holding
Towngas Natural Gas Sales Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB50,000,000	<b>100.0%</b>	100.0%	Procurement of natural gas sources
U-Tech (Guang Dong) Engineering Construction Co., Ltd	PRC — Wholly foreign-owned enterprise	RMB74,000,000 (2019: RMB10,000,000)	<b>100.0%</b>	100.0%	Provision of engineering work services



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For the year ended 31 December 2020

## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
威遠港華燃氣有限公司	PRC — Limited liability company	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuhu Jiangbei Hong Kong & China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB200,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB40,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Wulian Hong Kong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB20,000,000	<b>70.0%</b>	70.0%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB40,000,000	<b>60.0%</b>	60.0%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB50,000,000	<b>70.0%</b>	70.0%	Provision of natural gas and related services and gas pipeline construction
徐州工業園區中港熱力有限公司	PRC — Sino-foreign equity joint venture	RMB160,000,000	<b>49.8%</b>	49.8%	Provision of natural gas distributed energy



#### 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Xuzhou Economic and Technological Development Zone Towngas China Energy Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB80,000,000	<b>70.0%</b>	70.0%	Provision of natural gas distributed energy
修水港華燃氣有限公司	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>80.0%</b>	80.0%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB50,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Yan Shan Hong Kong & China Gas Co., Ltd.	PRC — Sino-foreign equity joint venture	RMB10,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Yangxin Hongkong & China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB18,000,000	<b>51.0%</b>	51.0%	Provision of natural gas and related services and gas pipeline construction
陽信港能投智慧能源有限公司	PRC — Sino-foreign equity joint venture	RMB15,000,000	<b>67.8%</b>	67.8%	Provision of natural gas distributed energy
Yifeng Hongkong and China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB32,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	US\$9,400,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction



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## 44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2020	2019	
<b>Indirectly-owned subsidiaries (Continued)</b>					
Yue Chi Hong Kong and China Gas Company Limited	PRC — Sino-foreign equity joint venture	RMB30,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
Zhao Yuan Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB22,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Zhong Jiang Hong Kong and China Gas Company Limited	PRC — Wholly foreign-owned enterprise	RMB30,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
Zhongxiang Hong Kong & China Gas Co., Ltd.	PRC — Wholly foreign-owned enterprise	RMB42,000,000	<b>100.0%</b>	100.0%	Provision of natural gas and related services and gas pipeline construction
資陽港華燃氣有限公司	PRC — Limited liability company	RMB30,000,000	<b>90.0%</b>	90.0%	Provision of natural gas and related services and gas pipeline construction
內蒙古港億天然氣有限公司	PRC — Sino-foreign equity joint venture	RMB80,000,000	<b>85.0%</b>	85.0%	Midstream

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

No financial information of the non-wholly owned subsidiary is disclosed in the consolidated financial statements as the non-controlling interest is not material to the Group.

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