Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

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

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales of piped gas and other types of energy, construction of gas pipelines, the sale of gas appliances and related products, and other value-added services in the People's Republic of China (the "PRC").

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

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

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

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

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least 12 months from reporting date for classification of liabilities as current or non-current, which:

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

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

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

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

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

As at 31 December 2021, the Group's right to defer settlement for certain borrowings are subject to compliance with certain financial ratios within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such ratios at 31 December 2021. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess the potential impacts of the amendments in relation to the borrowings with financial and other covenants. The impacts on application, if any, will be disclosed in the Group's future consolidated financial statements.

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

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

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

As at 31 December 2021, the Group's outstanding convertible bonds include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32. The Group classified as current or non-current based on the earliest date in which the Group has the obligation to redeem these instruments through cash settlement. The debt component is measured at amortised cost with carrying amount of HK$1,956,598,000 and the embedded derivative component (including the conversion options) is measured at fair value with carrying amount of HK$776,639,000 as at 31 December 2021, both of which are classified as non-current as set out in Note 36. Upon the application of the amendments, in addition to the obligation to redeem through cash settlement, the transfer of equity instruments upon the exercise of the conversion options that do not meet equity instruments classification also constitute settlement of the convertible instruments. Given that the conversion options are exercisable anytime, the debt and the embedded derivative component amounting to HK$2,733,237,000 would be reclassified to current liabilities as the holders have the option to convert within 12 months.

Except for as disclosed above, the application of the amendments will not result in reclassification of the Group's other liabilities as at 31 December 2021.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

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

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

Amendments to HKAS 8 "Definition of Accounting Estimates"

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

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

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

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

3.1 Basis of preparation of consolidated financial statements

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$9,645 million as at 31 December 2021. The Group's liabilities as at 31 December 2021 included borrowings of approximately HK$8,633 million that are repayable within one year from the end of the reporting period.

As at 31 December 2021, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$14,674 million and unutilised facilities from banks and ultimate controlling shareholder amounting to approximately HK$9,397 million ("Facilities"). As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised source of fund from MTN Programme and the Facilities amounting to approximately HK$14,691 million and HK$8,214 million, respectively. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$8,633 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

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

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

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries **(Continued)**

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

Business combinations or asset acquisition

Optional concentration test

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisition *(Continued)*

Asset acquisitions

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

Business combinations

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisition *(Continued)*

Business combinations **(Continued)**

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

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

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

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

Goodwill

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Goodwill *(Continued)*

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

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

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

Investments in associates and joint ventures

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

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

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

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

Revenue from contracts with customers

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

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

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

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

Performance obligations for contracts with customers

Sales of piped gas and energy and extended business

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

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

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

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

Performance obligations for contracts with customers **(Continued)**

Gas connection

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

Property, plant and equipment

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

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

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

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

Ownership interest in leasehold land and building

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

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

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

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

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

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

Refundable rental deposits

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

Lease liabilities

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

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

Lease modifications

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

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

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

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

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

Intangible assets

Intangible assets acquired in a business combination

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

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

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

3.2 Significant accounting policies *(Continued)*

Intangible assets *(Continued)*

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

Exclusive operating rights for city pipeline network

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

Distribution network

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

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

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

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

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

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

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

Financial instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

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

A financial asset is held for trading if:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(i) *Amortised cost and interest income*

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

(ii) *Equity instruments designated as at FVTOCI*

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

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

(iii) *Financial assets at FVTPL*

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

Impairment of financial assets

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

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

The Group always recognise lifetime ECL for trade receivables.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(i) *Significant increase in credit risk* ***(Continued)***

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

(ii) *Definition of default*

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

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

(iii) *Credit-impaired financial assets*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

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

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

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

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets ***(Continued)***

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

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

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

Other financial liabilities

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

Convertible bonds

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

Derecognition of financial liabilities

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

Embedded derivatives

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

Hedge accounting

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Hedge accounting ***(Continued)***

Assessment of hedging relationship and effectiveness

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Hedge accounting ***(Continued)***

Cash flow hedges

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

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

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

Discontinuation of hedge accounting

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

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

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

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

Foreign currencies

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

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

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

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

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

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

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

Borrowing costs

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

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

Government grants

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Retirement benefits costs

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

Short-term employee benefits

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

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

Share award scheme

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgements in applying accounting policies

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

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

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

Key sources of estimation uncertainty

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

Impairment assessment of goodwill

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Key sources of estimation uncertainty *(Continued)*

Impairment assessment of goodwill *(Continued)*

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

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

Income taxes

As at 31 December 2021, no deferred tax asset is recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of the Group of HK$595,840,000 (2020: HK$545,637,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits or taxable temporary differences generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

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

Key sources of estimation uncertainty *(Continued)*

ECL assessment of trade receivables

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

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

Fair value measurement of embedded derivative in convertible bonds

Embedded derivative in convertible bonds amounting to HK$776,639,000 as at 31 December 2021 (2020: nil) is measured at fair value which are determined based on unobservable inputs, including expected volatility of share price, using valuation technique. Judgement and estimation are required in establishing the relevant valuation technique and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair value of embedded derivative in convertible bonds. Further disclosures of the embedded derivative in convertible bonds are set out in notes 6 and 36.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes convertible bonds, borrowings, loan from ultimate holding company, loans from non-controlling shareholders and loans from joint ventures disclosed in notes 36, 33 and 34 respectively, equity attributable to shareholders of the Company, comprising issued share capital, reserves and non-controlling interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. CAPITAL RISK MANAGEMENT *(Continued)*

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

The Gearing Ratio at the reporting date was as follows:

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

(i) Debt is defined as long term and short-term borrowings and loans from ultimate holding company, non-controlling shareholders and joint ventures, as detailed in notes 33 and 34, respectively.

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

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

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

Financial risk management objectives and policies

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

Currency risk

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

Details of the Group's bank balances and cash, time deposits over three months and bank and other borrowings, denominated in United States dollars (''USD'') and HKD at the end of the reporting period are set out in notes 28 and 33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

The Group entered into cross currency interest rate swap contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Those cross currency interest rate swap contracts are designated as effective hedging instrument for a variable-rate bank borrowing denominated in USD with hedge accounting used (see note 29 for details). The Group reviewed the continuing effectiveness of the designated hedging instruments at least at the end of each reporting period. The Group mainly uses regression analysis and comparison of change in fair value of the hedging instrument and the hedged item for assessing the hedge effectiveness. The Directors considered the Group's net exposure to foreign currency risk to the extent that it is under an effective hedging relationship as insignificant.

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

Sensitivity analysis

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

The sensitivity analysis includes bank balances and cash and borrowings denominated in a currency other than the functional currency of the respective group entities. The sensitivity analysis excludes the effect on foreign currency denominated borrowings that are under an effective hedging relationship as the Group's net exposure to currency risk arising from the hedging relationship is insignificant. A positive number below indicates an increase in profit before taxation where RMB strengthens by 3% (2020: 3%) against USD and HKD. For a 3% (2020: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings to which hedge accounting is not applied.

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk

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

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

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

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

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (excluding derivative financial instruments) at the end of the reporting period. The sensitivity analysis excludes the effect on variable-rate bank borrowings that are under an effective hedging relationship as the Group's net exposure to interest rate risk arising from the hedging relationship is insignificant. For remaining variable-rate bank loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points (2020: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Sensitivity analysis ***(Continued)***

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

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

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

Other price risk

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

Sensitivity analysis

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

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

Credit risk and impairment assessment

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

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

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

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix. In this regard, the Directors consider that the Group's credit risk is effectively managed.

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

Provision matrix – debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The Group used estimated loss rates ranging from less than 0.1% to 35% (2020: 0.1% to 34%) for trade receivables not credit-impaired based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information, including but not limited to the expected economic conditions in the PRC, i.e. the corporate default rate forecasts for utilities and construction sectors affecting the ability of the customers to settle the debtors, that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired)* HK$'000	Total HK$'000
As at 1 January 2020	24,655	120,895	145,550
Exchange realignment	1,843	3,534	5,377
Impairment written-off	—	(16,156)	(16,156)
Impairment losses recognised for new financial assets originated	8,857	24,169	33,026
As at 31 December 2020	35,355	132,442	167,797
Exchange realignment	1,206	1,991	3,197
Impairment written-off	—	(7,366)	(7,366)
Impairment losses recognised for new financial assets originated	2,490	3,784	6,274
As at 31 December 2021	39,051	130,851	169,902

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

During the year ended 31 December 2021, the Group provided HK$6,274,000 (2020: HK$33,026,000) impairment allowance, net of reversals, for trade receivables based on the provision matrix and individual assessment.

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

Time deposits over three months and bank balances

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

The credit risks of loans to joint ventures, loans to associates and amounts due from non-controlling shareholders are concentrated in two (2020: three) joint ventures, five (2020: five) associates and eleven (2020: nine) non-controlling shareholders respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associates and non-controlling shareholders, believes the credit risk is minimal and the loss allowance is immaterial. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

Other receivables and deposits

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

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised source of fund from MTN Programme and the Facilities of HK$14,691 million and 8,214 million (2020: nil and HK$6,588 million), respectively. As stated in note 3, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$9,645 million (2020: HK$7,322 million).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform

As listed in note 33, several of the Group's LIBOR (3-month US dollar setting) and HIBOR bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

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

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

- immediately after 30 June 2023, in the case of the remaining US dollar settings.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist. For bank loans linked to HIBOR but not hedged by cross currency interest rate swaps, the Group is currently considering whether to modify these loans as to replace HIBOR by HONIA. For the bank loan linked to HIBOR and hedged by cross currency interest rate swaps, the Group does not intend to transition the agreements to HONIA.

(i) Risks arising from the interest rate benchmark reform

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

Interest rate related risks

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform *(Continued)*

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

Liquidity risk

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

Litigation risk

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

Interest rate basis risk

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

(ii) Progress towards implementation of alternative benchmark interest rates

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate benchmark reform *(Continued)*

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

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

Fair value measurements

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

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

	Financial assets/ financial liabilities	Fair value as at 31.12.2021	31.12.2020	Fair value hierarchy	Valuation techniques and key inputs
1)	Listed equity investments classified as FVTOCI in the consolidated statement of financial position	**Assets – HK$1,378,353,000**	Assets – HK$1,609,942,000	Level 1	Quoted market price
2)	Cross currency interest rate swaps classified as other financial liabilities in the consolidated statement of financial position	**Liabilities – HK$70,686,000**	Liabilities – HK$113,077,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements *(Continued)*

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

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

Notes:

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

(b) An increase in the expected volatility used in isolation would result in an increase in the fair value of the embedded derivative component of convertible bonds and vice versa. A 5% increase/decrease in the expected volatility holding all other variables constant would increase/decrease the fair value of the embedded derivative component of convertible bonds by HK$82,333,000 (2020: N/A).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements *(Continued)*

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

Reconciliation of Level 3 fair value measurements

	Unquoted equity investments HK$'000	Embedded derivative component of convertible bonds HK$'000
Balance at 1 January 2020	95,002	–
Addition	8,909	–
Fair value change recognised in other comprehensive income	2,019	–
Currency realignment	6,003	–
Balance at 31 December 2020	111,933	–
Addition	5,695	(409,430)
Fair value change recognised in other comprehensive income	(1,783)	–
Fair value change recognised in profit or loss	–	(358,643)
Currency realignment	3,648	(8,566)
Balance at 31 December 2021	119,493	(776,639)

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

The fair value loss recognised in profit or loss relating to embedded derivative component of convertible bonds of HK$358,643,000 (2020: nil) is included in "other (losses) gains, net" line item.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under Level 3, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the Directors half yearly to explain the cause of fluctuations in the fair value of the assets and liabilities.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements *(Continued)*

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

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

7. REVENUE

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

As at 31 December 2021, the amounts of transaction price allocated to the remaining performance obligations of gas connection (unsatisfied or partially unsatisfied) are expected to be recognised as revenue within one year and over one year are HK$1,800,499,000 and HK$1,296,228,000) (2020: HK$1,697,014,000 and HK$1,413,364,000), respectively, and the Group's contract liabilities of HK$1,412,023,000 (2020: HK$1,080,173,000), as disclosed in note 31, relating to sales of piped gas and energy, in which the respective performance obligations have not been satisfied, are expected to be recognised as revenue within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

8. SEGMENT INFORMATION

Operating segments

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

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

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

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

8. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

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

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

Information regarding these segments is presented below:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

8. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

	Sales of piped gas and energy HK$'000	Gas connection HK$'000	Extended business HK$'000	Consolidated HK$'000
For the year ended 31 December 2020 (restated)				
REVENUE				
Revenue recognised at a point in time	10,227,961	1,651,794	388,078	12,267,833
Revenue recognised over time	–	558,404	–	558,404
External	10,227,961	2,210,198	388,078	12,826,237
Segment results	999,208	909,852	66,220	1,975,280
Other income				106,195
Other gains, net				1,487
Unallocated corporate expenses				(150,913)
Share of results of associates				362,688
Share of results of joint ventures				334,168
Finance costs				(426,204)
Profit before taxation				2,202,701
Taxation				(554,893)
Profit for the year				1,647,808

Segment results included depreciation and amortisation of HK$867,895,000 (2020: HK$762,337,000), most of which are attributable to the sales of piped gas and energy.

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

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

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

9. TOTAL OPERATING EXPENSES

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

10. OTHER INCOME

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

11. OTHER (LOSSES) GAINS, NET

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

12. FINANCE COSTS

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

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

13. PROFIT BEFORE TAXATION

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments:

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

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

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

Notes:

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Directors' emoluments: *(Continued)*

Notes: *(Continued)*

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

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

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

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

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

Employees' emoluments:

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

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

The emoluments were within the following bands:

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

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

15. TAXATION

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

16. DIVIDENDS

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

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

17. EARNINGS PER SHARE

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

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

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

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

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

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Gas and other pipelines HK$'000	Plant and equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2020	2,088,380	15,124,606	1,783,103	2,171,097	21,167,186
Currency realignment	146,643	1,028,085	123,068	153,836	1,451,632
Additions	45,615	447,126	107,279	1,732,679	2,332,699
Acquisition of a subsidiary (Note 40)	–	–	–	438	438
Disposals	(1,522)	(2,005)	(28,773)	–	(32,300)
Transfers	193,495	1,125,696	64,717	(1,383,908)	–
At 31 December 2020	2,472,611	17,723,508	2,049,394	2,674,142	24,919,655
Currency realignment	99,377	618,513	86,682	97,943	902,515
Additions	108,287	608,370	69,102	1,959,452	2,745,211
Acquisition of subsidiaries (Note 40)	–	–	110,346	66,648	176,994
Disposal of a subsidiary (Note 40)	–	–	(13,243)	–	(13,243)
Disposals	(19,929)	(27,216)	(42,929)	–	(90,074)
Transfers	390,194	1,365,699	142,077	(1,897,970)	–
At 31 December 2021	3,050,540	20,288,874	2,401,429	2,900,215	28,641,058
DEPRECIATION AND IMPAIRMENT					
At 1 January 2020	439,757	2,587,801	920,399	–	3,947,957
Currency realignment	36,206	189,242	70,379	–	295,827
Provided for the year	88,962	454,475	143,280	–	686,717
Eliminated on disposals	(561)	(672)	(26,266)	–	(27,499)
At 31 December 2020	564,364	3,230,846	1,107,792	–	4,903,002
Currency realignment	22,299	117,327	42,386	–	182,012
Provided for the year	100,101	526,545	158,061	–	784,707
Impairment	8,939	–	–	–	8,939
Eliminated on disposals	(8,739)	(2,637)	(36,638)	–	(48,014)
At 31 December 2021	686,964	3,872,081	1,271,601	–	5,830,646
CARRYING VALUES					
At 31 December 2021	2,363,576	16,416,793	1,129,828	2,900,215	22,810,412
At 31 December 2020	1,908,247	14,492,662	941,602	2,674,142	20,016,653

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

19. RIGHT-OF-USE ASSETS

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

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

For both years, the Group leases various offices, warehouses, staff dormitory, equipment and vehicles for its operations. Lease contracts other than land leases are entered into for fixed terms ranging from 12 months to 30 years (2020: 12 months to 30 years) while for land leases are entered into for fixed terms ranging from 15 years to 70 years (2020: 15 years to 70 years). Lease terms are negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

20. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2020	626,844
Currency realignment	38,564
At 31 December 2020	665,408
Currency realignment	21,324
Acquisition of a subsidiary (Note 40)	103,106
Disposal of a subsidiary (Note 40)	(102,712)
At 31 December 2021	687,126
AMORTISATION	
At 1 January 2020	161,412
Currency realignment	10,376
Provided for the year	18,546
At 31 December 2020	190,334
Currency realignment	5,983
Provided for the year	19,726
At 31 December 2021	216,043
CARRYING VALUES	
At 31 December 2021	471,083
At 31 December 2020	475,074

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

21. GOODWILL

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

21. GOODWILL *(Continued)*

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

21. GOODWILL *(Continued)*

The recoverable amounts of CGUs are determined from value in use calculations. The value in use calculations are derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, expected changes to selling prices and direct costs and expected impact of the regulatory changes during the budgeted period. Management estimates discount rates of 8.2% to 16.0% (2020: 8.5% to 11.5%) that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Cash flows beyond 5-year period have been extrapolated using growth rates from 5% to 10% (2020: 5% to 10%) per annum, which is based on industry growth forecasts. Impairment provision of HK$60,000,000 is recognised during the year ended 31 December 2021 (2020: nil) in respect of a CGU engaged in sales of piped gas and energy, gas connection and extended business in the PRC which was unable to achieve the expected growth. The recoverable amount of the CGU is HK$223,383,000 and the management applied discount rate of 12.5% (2020:10.5%) to the CGU. No other write-down of the assets is considered necessary.

Sensitivity analysis

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

If the discount rate is increased by 50 basis points and all other variables are held constant, the carrying amounts of certain CGUs would be decreased by approximately HK$62,000,000 (2020: HK$107,000,000).

22. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Name of entity	Place of establishment and operation	Equity interest attributable to the Group 2021	2020	Principal activities
撫州市撫北天然氣有限公司	PRC – Limited liability company	40.0%	40.0%	Provision of natural gas and related services and gas pipeline construction
臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	42.4%	42.4%	Provision of natural gas and related services and gas pipeline construction
四川能投分布式能源有限公司	PRC – Limited liability company	24.4%	24.4%	Provision of natural gas distributed energy
Shandong Jihua Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Provision of natural gas and related services and gas pipeline construction
石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	45.0%	45.0%	Provision of natural gas and related services and gas pipeline construction
Shanghai Gas Co., Ltd. ("Shanghai Gas")	PRC – Limited liability company	25.0%	–	Provision of natural gas and related services and gas pipeline construction
Zhuojia Public Engineering (Maanshan) Co., Ltd.	PRC – Sino-foreign equity joint venture	37.5%	37.5%	Provision of gas pipe assembly
Zibo Lubo Gas Company Limited	PRC – Sino-foreign equity joint venture	27.0%	27.0%	Provision of natural gas and related services and gas pipeline construction

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

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

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

Summarised financial information of a material associate

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

	Shanghai Gas 31.12.2021 HK$'000
Current assets	9,841,641
Non-current assets	16,615,243
Current liabilities	(9,527,163)
Non-current liabilities	(3,517,825)

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

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

Notes:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Aggregate information of associates that are not individually material

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

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

23. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Aggregate information of joint ventures that are not individually material

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

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

24. EQUITY INSTRUMENTS AT FVTOCI

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

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

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

25. INVENTORIES

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

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

Note: Included in the balance of other receivables and deposits are amounts due from related companies of HK$47,838,000 (2020: HK$17,817,000). The amounts are unsecured, interest-free and repayable on demand.

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK$1,411,192,000 (2020: HK$1,269,048,000) and allowance for credit losses of HK$169,902,000 (2020: HK$167,797,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables net of allowance of credit losses presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$21,455,000 (2020: HK$13,565,000) which are past due as at the reporting date. Out of the past due balances, HK$4,507,000 (2020: HK$6,458,000) has been past due 90 days or more and is not considered as in default based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC affecting the ability of the customers to settle the debtors and expected subsequent settlements. The Group does not hold any collateral over these balances.

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

27. AMOUNTS DUE FROM/TO NON-CONTROLLING SHAREHOLDERS

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

28. TIME DEPOSITS OVER THREE MONTHS AND BANK BALANCES AND CASH

The deposits and bank balances carry interest at prevailing market rates ranging from 0.00% to 3.65% (2020: 0.00% to 3.70%) per annum.

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

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

29. OTHER FINANCIAL LIABILITIES

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

The classification of the measurement of the derivative financial instruments at 31 December 2021 and 2020 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Cash flow hedge

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

29. OTHER FINANCIAL LIABILITIES *(Continued)*

Cash flow hedge *(Continued)*

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

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

The Group is exposed to the USD LIBOR within its hedge accounting relationships, which are subject to interest rate benchmark reform. The hedged item represented the USD LIBOR floating rate borrowings. The Group designates as hedging instruments cross currency interest rates linked to USD LIBOR as cash flow hedges under HKFRS 9. The amendments to HKFRS 9 permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

29. OTHER FINANCIAL LIABILITIES *(Continued)*

Cash flow hedge *(Continued)*

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition away from USD LIBOR to the Secured Overnight Financing Rate (SOFR).

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

30. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

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

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

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

31. CONTRACT LIABILITIES

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

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

31. CONTRACT LIABILITIES *(Continued)*

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

	Sales of piped gas and energy HK$'000	Gas connection HK$'000	Extended business HK$'000
For the year ended 31 December 2021			
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,080,173	748,944	71,360
For the year ended 31 December 2020 (restated)			
Revenue recognised that was included in the contract liability balance at the beginning of the year	871,749	644,312	42,493

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

Sales of piped gas and energy

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

Gas connection

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

Extended business

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

32. LEASE LIABILITIES

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

33. BORROWINGS

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

33. BORROWINGS *(Continued)*

The borrowings mainly comprise of:

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

35. DEFERRED TAXATION

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

	Accelerated tax depreciation	Intangible assets	Undistributed profits of joint ventures/ associates/ subsidiaries	ECL provision/ fair value revaluation of equity instruments at FVTOCI	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2020	69,309	122,762	264,850	525,149	982,070
Currency realignment	2,346	1,898	25,163	32,564	61,971
(Credit) charge to profit or loss	(4,593)	(4,524)	34,700	(8,256)	17,327
Credit to other comprehensive income	–	–	–	(197,830)	(197,830)
Withholding tax paid	–	–	(15,196)	–	(15,196)
At 31 December 2020	**67,062**	**120,136**	**309,517**	**351,627**	**848,342**
Currency realignment	**1,374**	**1,032**	**23,847**	**11,562**	**37,815**
(Credit) charge to profit or loss	**(5,205)**	**(4,846)**	**63,640**	**(1,568)**	**52,021**
Credit to other comprehensive income	**–**	**–**	**–**	**(69,983)**	**(69,983)**
Withholding tax paid	**–**	**–**	**(37,356)**	**–**	**(37,356)**
At 31 December 2021	**63,231**	**116,322**	**359,648**	**291,638**	**830,839**

At the end of the reporting period, the Group has unused tax losses of HK$595,840,000 (2020: HK$545,637,000) available for offsetting against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire progressively until the year 2026 (2020: year 2025).

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

36. CONVERTIBLE BONDS

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

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

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

There was no movement in the number of the convertible bonds during the year ended 31 December 2021. The convertible bonds entitle the Investor to convert them into ordinary shares of the Company in whole or in part at any time during the conversion period at a conversion price of HK$6.33 per convertible bond, subject to adjustments. The conversion period commences from the date of issue and will expire on the close of business on the earlier of (i) the date which is 5 business days prior to the maturity date, i.e. 18 November 2026, and (ii) if the convertible bonds shall have been called for redemption prior to the maturity date, the date which is 5 business days prior to the date fixed for redemption. The convertible bonds carry interest at a rate of 1% per annum, which is payable annually in arrears.

The convertible bonds comprise two components:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. CONVERTIBLE BONDS *(Continued)*

	Debt component HK$'000	Embedded derivative component HK$'000	Total HK$'000
Fair value of convertible bonds issued on 18 November 2021	1,940,283	409,430	2,349,713
Currency realignment	11,165	8,566	19,731
Direct transaction costs attributable to debt component	(1,502)	–	(1,502)
Interest expense	9,265	–	9,265
Interest paid	(2,613)	–	(2,613)
Loss arising on change of fair value	–	358,643	358,643
As at 31 December 2021	1,956,598	776,639	2,733,237

37. SHARE CAPITAL

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

Details of the authorised share capital are as follows:

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

37. SHARE CAPITAL *(Continued)*

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

	Number of shares	HK$'000
At 1 January 2020	2,870,687,008	287,069
Issue of shares upon scrip dividend scheme (note a)	98,247,825	9,824
At 31 December 2020	2,968,934,833	296,893
Issue of shares upon scrip dividend scheme (note b)	74,177,177	7,418
Issue of shares (note c)	116,783,333	11,678
At 31 December 2021	3,159,895,343	315,989

Notes:

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

(b) On 18 March 2021, a scrip dividend scheme was proposed by the Board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the Company's annual general meeting held on 27 May 2021. On 13 July 2021, 74,177,177 shares of HK$0.10 each were allotted and issued at HK$5.08 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2020 final dividend under the scrip dividend scheme.

(c) On 18 November 2021, the Company issued and allotted 116,783,333 shares and issued convertible bonds (see note 36) to the Investor with an aggregated amount of HK$2,801,632,000 pursuant to the subscription agreement dated 25 October 2021. Details of the subscription of shares and convertible bonds were disclosed in the announcements of the Company dated 25 October 2021 and 18 November 2021.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

38. RESERVES

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

39. SHARE-BASED PAYMENT TRANSACTIONS

Share award scheme

On 17 August 2021, the Company adopted the share award scheme (the "Scheme") for the purposes of (a) recognising the contributions by certain employees and providing them with incentives in order to retain them for the continual operation and development of the Group and (b) attracting suitable personnel for the further development of the Group and to contribute to the long-term growth of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules and accordingly, no shareholders' approval of the Company is required to adopt the Scheme. Unless terminated earlier by the Board pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date. Details of the Scheme were disclosed in the announcement of the Company dated 17 August 2021.

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

40. ACQUISITION/DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2021

(i) Acquisition and disposal of Jiangsu Jinzhuo

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

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

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

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

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

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

No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021 is presented as contributions are insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

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

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

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	13,243
Intangible assets	102,712
Inventories	56,625
Trade and other receivables	50,572
Taxation recoverable	1,190
Bank balances and cash	53,376
Trade and other payables	(107,262)
	170,456

Result on disposal of a subsidiary:	
Fair value of retained interest in an associate	85,057
Consideration received	51,307
Non-controlling interests	34,092
Net assets disposed of	(170,456)
	–

Satisfied by:	
Cash consideration received	51,307

Net cash outflow on disposal:	
Consideration received	51,307
Bank balances and cash disposed	(53,376)
	(2,069)

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

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

(ii) Acquisition of smart energy companies

In December 2021, Towngas China Energy Investment Limited ("TCEI"), an indirectly wholly-owned subsidiary of the Group, has acquired the controlling interests in nine companies which are principally engaged in the business of encompassing photovoltaics, energy conservation, charging and Zero Carbon Smart City in the PRC from Hong Kong and China Integrated Power Investment (Shenzhen) Limited ("HCIP"), an indirect wholly-owned subsidiary of HKCG, at the aggregate consideration of HK$445,963,000. The primary reason for the acquisition is for the expansion of the Group's smart energy business and to increase returns to its shareholders.

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

	HK$'000
Net assets acquired:	
Property, plant and equipment	163,420
Trade and other receivables	40,110
Amounts due from non-controlling shareholders	51,534
Bank balances and cash	321,180
Trade and other payables	(59,685)
	516,559
Result on the acquisition:	
Acquirees' fair values of net identifiable assets	516,559
Consideration paid	(445,963)
Non-controlling interests	(70,596)
	–
Net cash outflow on acquisition:	
Consideration paid	(445,963)
Bank balances and cash acquired	321,180
	(124,783)

No proforma information of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021 is presented as contributions are insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

For the year ended 31 December 2020

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

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

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

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

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

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

41. MAJOR NON-CASH TRANSACTIONS

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

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

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank and other loans	Loans from non-controlling shareholders	Loans from joint ventures	Loan from ultimate holding company	Dividend payable	Debt component of convertible bonds	Lease liabilities	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2020	10,239,362	19,485	30,370	–	–	–	56,606	10,345,823
Financing cash flows	663,989	–	(25,613)	–	(183,140)	–	(29,976)	425,260
New leases entered	–	–	–	–	–	–	29,979	29,979
Interest expenses	–	–	–	–	–	–	3,063	3,063
Exchange differences	589,407	1,405	474	–	–	–	2,444	593,730
Dividend declaration								
– shareholders of the Company	–	–	–	–	430,603	–	–	430,603
– non-controlling shareholders	–	–	–	–	110,551	–	–	110,551
Issue of shares upon scrip dividend scheme	–	–	–	–	(358,014)	–	–	(358,014)
At 31 December 2020	11,492,758	20,890	5,231	–	–	–	62,116	11,580,995
Financing cash flows	4,761,403	16,651	(4,594)	65,484	(203,629)	1,940,283	(45,132)	6,530,466
New leases entered	–	–	–	–	–	–	52,519	52,519
Interest expenses	–	–	–	–	–	9,265	3,747	13,012
Interest paid	–	–	–	–	–	(2,613)	–	(2,613)
Exchange differences	369,251	(23)	93	1,133	–	11,165	2,236	383,855
Dividend declaration								
– shareholders of the Company	–	–	–	–	445,340	–	–	445,340
– non-controlling shareholders	–	–	–	–	135,109	–	–	135,109
Issue of shares upon scrip dividend scheme	–	–	–	–	(376,820)	–	–	(376,820)
Transaction costs	–	–	–	–	–	(1,502)	–	(1,502)
At 31 December 2021	16,623,412	37,518	730	66,617	–	1,956,598	75,486	18,760,361

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

43. RELATED PARTY TRANSACTIONS

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

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

Notes:

(a) HKCG has controlling interests in these companies.

(b) HKCG has significant influences in these companies.

(c) The Group jointly controlled this company with an independent third party.

(d) The Group has significant influences in these companies.

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

Emoluments paid to the key management personnel of the Company which represents the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are set out in note 14.

44. COMMITMENTS

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

Notes:

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

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

45. RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2021 amounted to HK$94,574,000 (2020: HK$11,794,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2021, the Group made retirement benefit scheme contributions amounting to HK$514,000 (2020: HK$487,000). At 31 December 2021 and 2020, no forfeited contributions are available to reduce the contribution payable in future years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

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

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

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

	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2020	287,069	6,033,632	–	(3,572,259)	2,748,442
Profit and other comprehensive income for the year	–	–	–	2,435,178	2,435,178
Issue of shares upon scrip dividend scheme	9,824	348,190	–	–	358,014
Dividends paid to shareholders	–	(430,603)	–	–	(430,603)
At 31 December 2020	296,893	5,951,219	–	(1,137,081)	5,111,031
Profit and other comprehensive income for the year	–	–	–	1,426,102	1,426,102
Issue of shares upon scrip dividend scheme	7,418	369,402	–	–	376,820
Dividends paid to shareholders	–	(445,340)	–	–	(445,340)
Issue of shares	11,678	440,241	–	–	451,919
Transaction cost of attributable to issue of shares	–	(395)	–	–	(395)
Purchase of shares under share award scheme	–	–	(19,928)	–	(19,928)
At 31 December 2021	315,989	6,315,127	(19,928)	289,021	6,900,209

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

(c) Amounts due from/to subsidiaries

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2021 and 2020 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	Attributable equity interest of the Group 2020	Principal activities
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	British Virgin Islands ("BVI") – Limited liability company/ Hong Kong ("HK")	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
TCCL (Finance) Limited	HK – Limited liability company	HK$1	100.0%	100.0%	Financing
Towngas China Group Limited	BVI – Limited liability company/HK	US$12,821	100.0%	100.0%	Investment holding
Towngas China Holdings Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$20,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	**85.0%**	85.0%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB56,000,000	**80.0%**	80.0%	Provision of natural gas and related services and gas pipeline construction
Ben Xi Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB335,000,000	**80.0%**	80.0%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd	PRC – Sino-foreign equity joint venture	RMB40,000,000	**65.0%**	65.0%	Provision of natural gas and related services and gas pipeline construction
C-Tech Laundry Company Limited	PRC – Wholly foreign-owned enterprise	RMB50,000,000	**100.0%**	100.0%	Investment holding
C-Tech Laundry Investment Company Limited	HK – Limited liability company	HK$100	**100.0%**	100.0%	Investment holding
Cang Xi Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
Cangxian Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB22,000,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Changzhou Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB31,000,000	45.0%	45.0%	Provision of natural gas distributed energy
Chao Sheng Investments Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Chaoyang Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US$10,791,838	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
成都新都港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000 (2020: RMB30,000,000)	100.00%	100.00%	Provision of natural gas and related services and gas pipeline construction
Chi Ping Hongkong and China Gas Co. Ltd.	PRC – Sino-foreign equity joint venture	RMB40,000,000	85.0%	85.0%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Ltd	PRC – Wholly foreign-owned enterprise	RMB70,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB80,000,000	51.0%	51.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co. Ltd.	PRC – Wholly foreign-owned enterprise	US$14,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co. Ltd.	PRC – Wholly foreign-owned enterprise	US$15,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
廣西港華智慧能源有限公司	PRC – Wholly foreign-owned enterprise	RMB10,000,000	100.0%	100.0%	Provision of natural gas distributed energy
Guilin Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited	PRC – Sino-foreign equity joint venture	RMB13,000,000	55.0%	55.0%	Vehicle gas refilling stations
Hong Kong and China Gas (Dalian) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Huang Shan Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$2,100,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Huang Shan Taiping Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$3,500,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Huzhou Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US$10,500,000	98.9%	98.9%	Provision of natural gas and related services and gas pipeline construction
Jiajiang Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB58,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
簡陽港華燃氣有限公司	PRC – Limited liability company	RMB150,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB200,000,000	82.2%	82.2%	Provision of natural gas and related services and gas pipeline construction
九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$6,400,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$11,520,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Liuzhou Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Longkou Hongkong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$7,070,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB52,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US$10,000,000	75.1%	75.1%	Provision of natural gas and related services and gas pipeline construction
Maanshan Jiangbei Hong Kong and China Towngas Company Limited	PRC – Wholly foreign-owned enterprise	US$10,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB50,000,000	85.0%	85.0%	Provision of natural gas distributed energy
Mengcun Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Mianyang Heqing Towngas Co., Ltd	PRC – Sino-foreign equity joint venture	RMB10,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB90,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB30,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Miluo Hong Kong and China Gas Co. Ltd	PRC – Sino-foreign equity joint venture	RMB50,000,000	**70.0%**	70.0%	Provision of natural gas and related services and gas pipeline construction
Mei Shan Peng Shan Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70.0%**	70.0%	Provision of natural gas and related services and gas pipeline construction
Peng Xi Hong Kong and China Gas Company Limited	PRC – Limited liability company	RMB20,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
平昌港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB30,000,000	**60.0%**	60.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB15,380,000	**62.4%**	62.4%	Provision of natural gas distributed energy
青島嶗山灣港華能源有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**60.0%**	60.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB73,500,000	**90.0%**	90.0%	Provision of natural gas and related services and gas pipeline construction
清遠港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	**80.0%**	80.0%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB15,000,000	**51.0%**	51.0%	Provision of natural gas and related services and gas pipeline construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	61.7%	61.7%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Xingqixiang Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB60,000,000	100.0%	100.0%	Vehicle gas refilling stations
韶關港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$24,532,434	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
瀋陽智慧能源系統科技有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	55.0%	55.0%	Provision of natural gas distributed energy
Shenzhen Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB6,000,000	100.00%	100.00%	Provision of natural gas distributed energy
四川港華合縱能源有限公司	PRC – Limited liability company	RMB230,000,000	98.8%	98.8%	Upstream
Siping Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB45,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
松陽港華燃氣有限公司	PRC – Limited liability company	RMB80,000,000	51.4%	51.4%	Provision of natural gas and related services and gas pipeline construction
Songyang Towngas China Energy Co., Ltd	PRC – Sino-foreign equity joint venture	RMB30,000,000	85.4%	85.4%	Provision of natural gas distributed energy
唐山港能投智慧能源有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	49.0%	49.0%	Provision of natural gas distributed energy
Tangshan Fengnan Towngas China Energy Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB96,000,000	51.0%	45.0%	Provision of natural gas distributed energy

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
TCCL (Project Finance) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Financing
Tie Ling Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB232,960,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Tongshan Hong Kong and China Gas Co. Ltd	PRC – Wholly foreign-owned enterprise	RMB124,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US$7,000,000	76.0%	76.0%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI – Limited liability company/HK	US$1	100.0%	100.0%	Investment holding
Towngas China Energy Investment Limited	HK– Limited liability company	HK$100	100.0%	100.0%	Investment holding
Towngas China Energy Investment Limited	PRC – Wholly foreign-owned enterprise	RMB250,000,000	100.0%	100.0%	Investment holding
Towngas China (Fengxi) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Towngas China (Zhengpugang) Limited	HK – Limited liability company	HK$100	100.0%	100.0%	Investment holding
Towngas Investments Limited	PRC – Wholly foreign-owned enterprise	US$200,000,000	100.0%	100.0%	Investment holding
Towngas Natural Gas Sales Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	100.0%	Procurement of natural gas sources
U-Tech (Guang Dong) Engineering Construction Co., Ltd	PRC – Wholly foreign-owned enterprise	RMB74,000,000	100.0%	100.0%	Provision of engineering work services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Yan Shan Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Yangxin Hongkong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB18,000,000	51.0%	51.0%	Provision of natural gas and related services and gas pipeline construction
陽信港能投智慧能源有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	67.8%	67.8%	Provision of natural gas distributed energy
Yifeng Hongkong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB32,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$9,400,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Yue Chi Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB30,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Zhao Yuan Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB22,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Zhong Jiang Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Zhongxiang Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB42,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
內蒙古港億天然氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	85.0%	85.0%	Midstream
Anqiu Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB47,000,000	100.0%	–	Smart energy
Qingdao Towngas China PV Power Generation Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB29,000,000	100.0%	–	Smart energy
Shuyang Zhongye Shukai New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	–	Smart energy
Binzhou Xinrunfeng New Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB15,000,000	100.0%	–	Smart energy
Yancheng Towngas China Smart Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB34,000,000	100.0%	–	Smart energy
Maanshan Zhengpugang New District Towngas China Photovoltaic Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB3,500,000	100.0%	–	Smart energy
Qingdao Towngas China Photovoltaic Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB80,000,000	100.0%	–	Smart energy
Ben Xi Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB100,000,000	100.0%	–	Smart energy
Wuhan Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB12,000,000	100.0%	–	Smart energy
Tangshan Towngas China Integrated Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB150,000,000	100.0%	–	Smart energy
Yangtze River Delta Integrated Development Demonstration Zone (Suzhou Wujiang) Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB150,000,000	100.0%	–	Smart energy

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2021	2020	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Liyang Hengdian Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB22,500,000	**60.0%**	–	Smart energy
Danyang Towngas China Energy Storage Power Plant Co., Ltd.	PRC – Limited liability company	RMB30,000,000	**90.0%**	–	Smart energy
Suzhou Guangchen Towngas China PV Power Generation Co., Ltd.	PRC – Limited liability company	RMB15,000,000	**80.0%**	–	Smart energy
Taizhou Towngas China Energy Co., Ltd.	PRC – Limited liability company	RMB210,000,000	**80.0%**	–	Smart energy
聊城港能投光伏發電有限公司	PRC – Wholly foreign-owned enterprise	RMB28,000,000	**100.0%**	–	Smart Energy
港華時代智慧能源科技 (蘇州) 有限公司	PRC – Limited liability company	RMB20,000,000	**65.0%**	–	Smart Energy
崇陽禾沐新能源科技有限公司	PRC – Wholly foreign-owned enterprise	RMB10,000,000	**100.0%**	–	Smart Energy
港華 (深圳) 碳資產運營有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	**100.0%**	–	Smart Energy
濟寧港華智慧能源有限公司	PRC – Limited liability company	RMB200,000,000	**85.0%**	–	Smart Energy

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

No financial information of the non-wholly owned subsidiaries is disclosed in the consolidated financial statements as the non-controlling interests are not individually material to the Group.

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

48. EVENT AFTER THE REPORTING PERIOD

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