



Independent Auditor's Report

Deloitte.

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TO THE SHAREHOLDERS OF TOWNGAS SMART ENERGY COMPANY LIMITED

港華智慧能源有限公司

(FORMERLY KNOWN AS TOWNGAS CHINA COMPANY LIMITED

港華燃氣有限公司)

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Towngas Smart Energy Company Limited (formerly known as Towngas China Company Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 101 to 232, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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Key Audit Matters *(Continued)*

Key audit matter

Recognition of gas connection income

We identified recognition of gas connection income as a key audit matter due to its quantitative significance to the consolidated income statement and management judgments involved in the recognition.

As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK\$2,429 million from gas connection during the year ended 31 December 2021. Management judgments involved in the recognition of revenue from gas connection, which relates to contracts for construction of gas connection facilities, in accordance with HKFRS 15 "Revenue from Contracts with Customers" include identifying performance obligations, timing of revenue recognition (a point in time or over time), and progress towards complete satisfaction of the relevant performance obligation being satisfied over time. The recognition of revenue depends on whether the control of services underlying the performance obligations is transferred to customers or measured based on progress towards complete satisfaction of the performance obligations. The accounting policies in relation to recognition of gas connection income are set out in note 3 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to recognition of gas connection income included:

- Understanding the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion;
- Discussing with management with respect to the basis for recognising revenue of gas connection;
- Evaluating the terms set out in the relevant contracts, on a sample basis, to assess whether the revenue recognition is accounted for in accordance with HKFRS 15; and
- Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis to ensure the revenue is recorded in the correct accounting period.



Key Audit Matters *(Continued)*

Key audit matter *(Continued)*

Impairment assessment of goodwill

We identified impairment assessment of goodwill as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, combined with the significant judgments made by management in assessing the recoverable amounts of cash-generating units (“CGUs”) comprising goodwill, which are derived from value in use calculations by using a discounted cash flow model.

At 31 December 2021, the Group has goodwill of approximately HK\$5,750 million relating to CGUs principally engaged in the sales of piped gas and energy, gas connection and extended business in the People’s Republic of China. Based on the assessment made by management of the Group, an accumulated impairment provision of HK\$222 million was recognised as at 31 December 2021. Details are disclosed in note 21 to the consolidated financial statements.

During the process of impairment assessment of goodwill, the management considered the assessment of certain CGUs is highly judgemental and is dependent on certain significant inputs including the discount rates, growth rates, expected changes to selling prices, direct costs and expected impact of the regulatory changes. The carrying amount of goodwill of the identified CGUs at 31 December 2021 amounted to HK\$928 million, net of accumulated impairment provision of HK\$116 million. During the year ended 31 December 2021, an impairment provision of HK\$60 million was recognised.

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

Our procedures in relation to impairment assessment of goodwill of the identified CGUs included:

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



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Other Information

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

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

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

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

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

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

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



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

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

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2022