港華燃氣有限公司
Towngas China Company Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

ANNUAL REPORT 2019

Go Green
Every Day

Go Green Every Day

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

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

CONTENTS

Business Overview

NO. OF PROJECTS

127

Piped Gas Projects

Anhui	Anqing, Bowang, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi, Wuhu Fanchang, Wuhu Jiangbei, Zhengpugang Xin Qu Modern Industrial Zone
Chongqing	Qijiang
Fujian	Changting
Guangdong	Fengxi, Foshan, Qingyuan, Shaoguan, Yangdong
Guangxi	Guilin, Liuzhou, Zhongwei (Fusui)
Guizhou	Xingyi
Hebei	Cangxian, Mengcun, Qinhuangdao, Shijiazhuang, Yanshan
Heilongjiang	Qiqihar
Hubei	Zhongxiang
Hunan	Miluo
Inner Mongolia	Baotou
Jiangsu	Dafeng, Nanjing Gaochun, Tongshan
Jiangxi	Changjiu, Fuzhou, Jiujiang, Wuning, Xiushui, Yifeng
Jilin	Changchun, Gongzhuling, Siping
Liaoning	Anshan, Beipiao, Benxi, Chaoyang, Dalian Changxingdao, Dalian Economic and Technical Development Zone, Fuxin, Jianping, Kazuo, Lvshun, Shenyang Coastal Economic Zone, Tieling, Wafangdian, Xinqiu, Yingkou
Shandong	Boxing Economic Development Zone, Chiping, Feicheng, Jimo, Jinan West, Laiyang, Laoshan, Laoshan Bay, Linqu, Longkou, Pingyin, Taian, Weifang, Weihai, Wulian, Yangxin, Zhaoyuan, Zibo, Zibo Lubo
Sichuan	Cangxi, Chengdu, Dayi, Jiajiang, Jianyang, Lezhi, Mianyang, Mianzhu, Pengshan, Pengxi, Pingchang, Weiyuan, Xindu, Xinjin, Yuechi, Zhongjiang, Ziyang
Yunnan	Luliang
Zhejiang	Huzhou, Songyang, Tongxiang, Yuhang

Distributed Energy Projects

Sichuan Energy Investment,
Shenyang Economic and Technological Development Zone,
Qingdao Jimo Chuangzhi New District,
Xuzhou Industrial Park (Jiawang district),
Binzhou Yangxin Economic and Technological Development Zone,
Changchun,
Guilin,
Tangshan Chengnan Economic Development Zone,
Binzhou Boxing Economic Development Zone,
Xuzhou Biomedical Industrial Park,
Maanshan Economic and Technological Development Zone South District,
Dangtu Economic Developement Zone Northern District,
Tangshan Fengnan Lingang Economic Developement Zone,
Zhengzhou Xinmi Yinji International Tourism Resort,
Shenzhen Gas Building,
Lishui Songyang Wangcun Industrial Zone,
Changzhou Photovoltaic Industrial Park,
Anhui Electricity Company,
Tongling Economic and Technological Development Zone Eastern Park

Midstream Projects

Taian Taigang,
Xuancheng-Huangshan,
Inner Mongolia Guyang,
Jinan-Liaocheng

Vehicle Gas Refilling Stations

Qiqihar (Lianfu),
Qiqihar (Xingqixiang)

Others

Maanshan Piping Prefabrication,
Towngas Natural Gas Sales,
U-Tech (Guang Dong) Engineering,
Liaoning Clean Energy Group


Heilongjiang
Jilin
Liaoning
Inner Mongolia
Hebei
Shandong
Jiangsu
Shanghai
Henan
Hubei
Anhui
Sichuan
Chongqing
Zhejiang
Hunan
Jiangxi
Fujian
Guizhou
Yunnan
Guangxi
Guangdong

Five-Year Financial Summary

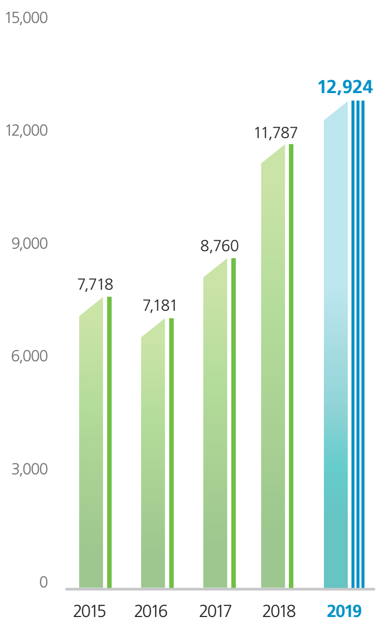
	For the year ended 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
RESULTS					
Revenue	7,718,293	7,181,150	8,759,783	11,787,002	**12,924,371**
Profit before taxation	1,268,043	1,455,403	1,917,654	1,892,130	**2,014,058**
Taxation	(343,511)	(362,133)	(405,373)	(478,981)	**(501,485)**
Profit for the year	924,532	1,093,270	1,512,281	1,413,149	**1,512,573**
Profit for the year attributable to:					
Shareholders of the Company*	807,042	973,997	1,365,385	1,224,274	**1,308,425**
Non-controlling interests	117,490	119,273	146,896	188,875	**204,148**
Profit for the year	924,532	1,093,270	1,512,281	1,413,149	**1,512,573**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	30.45	36.26	49.87	43.89	**46.06**
Diluted	30.43	N/A	N/A	N/A	**N/A**

	As at 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
ASSETS AND LIABILITIES					
Total assets	28,870,524	28,027,110	32,774,810	34,014,606	**38,194,886**
Total liabilities	(14,170,668)	(13,362,927)	(15,576,994)	(16,245,290)	**(17,894,876)**
	14,699,856	14,664,183	17,197,816	17,769,316	**20,300,010**
Equity attributable to shareholders of the Company	13,478,084	13,499,351	15,845,033	16,229,197	**18,612,056**
Non-controlling interests	1,221,772	1,164,832	1,352,783	1,540,119	**1,687,954**
Total equity	14,699,856	14,664,183	17,197,816	17,769,316	**20,300,010**

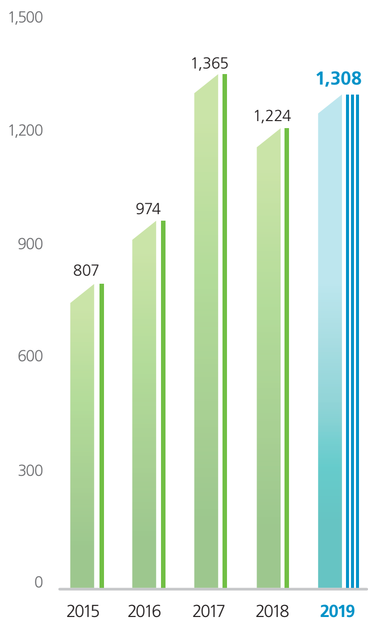
* the Company: Towngas China Company Limited

Financial Highlights

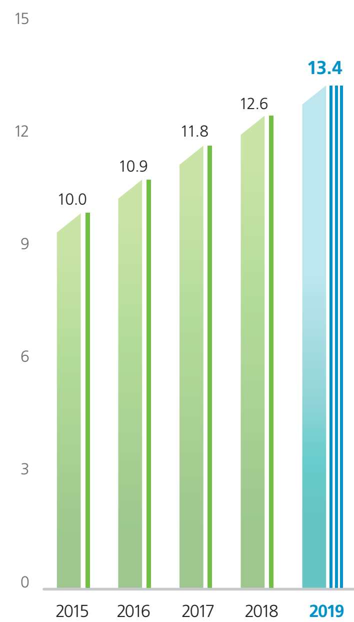
Revenue
(HK$ Millions)



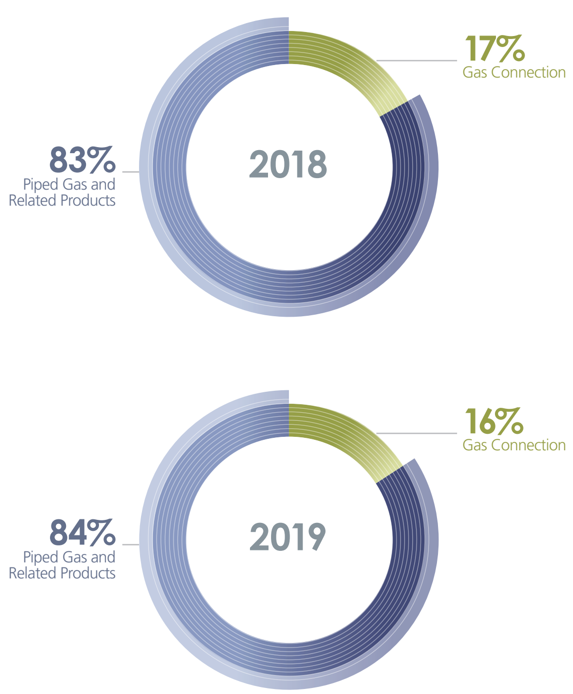
Profit Attributable to Shareholders of the Company
(HK$ Millions)



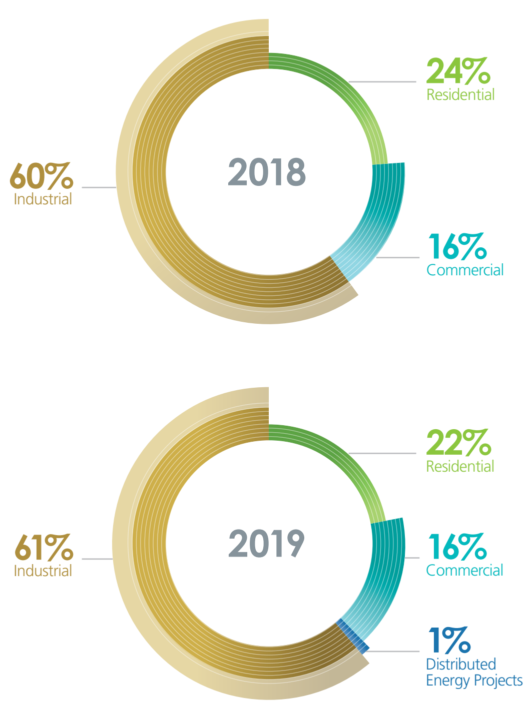
Number of Customers (All Entities)
(Millions)



Analysis of Revenue



Percentage of Gas Volume by Customer Mix (All Entities)



Chairman's Statement

Economic Landscape

Subject to the challenges of decelerating growth and increasing volatility, the global economy weakened generally in 2019. Clouded by the China-US trade conflict and lessening demand, China's economy overall faced substantial downward pressures. Economic growth hit a low of 6.0% in the third quarter, the lowest since 1992; the manufacturing Purchasing Managers' Index ("PMI") stood below 50% for several consecutive months; while the exchange rate of Renminbi ("RMB") against the United States ("US") dollar also slid below the critical psychological level of "7.0".

In view of the many challenges posed by this complex environment both at home and abroad, the Chinese government applied proactive fiscal policies and prudent monetary policies to drive the country's greater access to the outside world. It lowered value-added tax and social security premium rates together with the introduction of tax and fee reduction initiatives amounting to more than RMB2 trillion throughout the year. During the year, three cuts were also made in the deposit-reserve ratio while local governments were allowed to make reasonable use of special bonds for infrastructure construction. The Negative List was cut and restrictions on domestic investment by foreign capital were lifted to help stabilise the economy.

Together with the more conciliatory stance taken by the US, as it shifted from a rate hiking stand to a rate cutting cycle, more positive progress was made in the first phase of China-US trade talks. The RMB exchange rate also began to pick up in the fourth quarter and the manufacturing PMI rose to 50.2% at the end of the year. As a result, annual economic growth rate hit 6.1%, in line with anticipated targets. Although the uncertainties weighing on China's economic growth still exist, the quality of economic development of mainland China is expected to improve, maintaining a positive trend in the medium to long term.

Reforms in the Marketisation of Natural Gas

With the acceleration of the Chinese government's market reforms in the natural gas sector in 2019, a market structure of "regulating the core and relaxing the ends" has started to emerge. With the issuing of "Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Edition)" and "Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises", restrictions on foreign investments in upstream gas explorations, developments and sales were removed to encourage private business organisations to get engaged in this sector.

In December 2019, the China Oil & Gas Pipeline Network Corporation was formally established to reorganise the oil and gas facilities as well as the assets (such as certain pipelines, liquefied natural gas (LNG) receiving stations and gas storage facilities) of state-owned petroleum companies. In line with this new version relating to "Measures for Regulation of Fair and Open Access to Oil and Gas Pipeline Facilities", the sector will be proactively opened to third parties whenever appropriate, together with a natural gas by-capacity pricing mechanism, which will be established within the next two years to facilitate market transactions in a convenient and equitable manner. Downstream reforms will also take place with a focus on the pricing mechanism.

Chairman's Statement

In 2019, the gas volume of bilateral transactions, concluded on the Shanghai Petroleum and Natural Gas Exchange at market prices, topped 80 billion cubic metres. Regional gas exchanges were also under planning in many areas, a prime example being the Guangdong-Hong Kong-Macao Greater Bay Area. In November 2019, the National Development and Reform Commission ("NDRC") published the "Central Pricing Catalog" (revised draft) aiming to remove "city-gate natural gas prices in various provinces (autonomous regions and municipalities)" from the main text, to prepare for the introduction of market-oriented pricing of city-gate natural gas. Measures for upstream and downstream natural gas-linked mechanisms were also published in more prefecture-level cities. These major reform initiatives will have a profound impact on the development of the domestic natural gas industry as well as the industry's value chain. Additionally, according to the "Guiding Opinions on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinions on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" issued by the NDRC in June 2017 and in June 2019 respectively, many places have taken action to determine the sale prices and the engineering installation charging standards for gas users of city gas enterprises' pipelines successively. The Group will reduce cost through work procedures optimization regarding gas engineering and installation fees, so as to minimalize the impact of reduced engineering and installation fees.

Market Prospects for Natural Gas Business

The growth rate in domestic natural gas consumption decelerated in 2019, but supply and demand remained rational and stable. The China-Russia East-Route Natural Gas Pipeline came on stream on 2 December 2019 with a supply of 5 billion cubic metres of natural gas at the first phase. After the pipeline is fully operational in 2023, the plan is to supply 38 billion cubic metres of natural gas a year. The arrival of Russian gas, which will become the main source of gas in northeastern China, will completely change the landscape of natural gas supply in the region. The substantial increase in supply capacity will reverse the previous problems of limited natural gas development due to insufficient gas sources and bring swifter tailwinds to the market development of our companies in northeastern China. As the coal-to-gas policy becomes more deeply entrenched in the years ahead, the proportion of clean energy for heating purposes will increase year-on-year. At the same time, sufficient natural gas resources will greatly promote the transformation of industrial customers' energy consumption and increase the utilisation rate of natural gas. Furthermore, the generation of power by natural gas will drive new growth in the development of the Chinese energy market.

Additionally, the ongoing construction of LNG receiving stations, the continuing operation of underground gas storage as well as eased supplies from international LNG markets, have all helped to mitigate the imbalance between supply and demand in the mainland natural gas market. These positive factors have also been conducive to the healthy and sustainable development of the industry. At the end of 2019, China's natural gas consumption accounted for approximately 8.3% of primary energy consumption. However, it still lags behind the global average of 24% and highlights that there is still tremendous scope for the market's ongoing growth into the future.

The protection of our environment together with the prevention and control of pollution as a national policy provide strong assurances for an increase in the demand for natural gas. The Central Economic Work Conference held at the end of 2019 emphasised that the direction and intensity of pollution prevention and control would not change. As such the "coal-to-gas" reforms on boilers and heating facilities using clean energy in key areas will continue to expand. For instance, the "Guiding Opinions on Stringently Controlling Total Coal Consumption and Promoting Clean and Efficient Utilisation" issued by Shandong province in June 2019, proposed a cut in coal consumption by 50 million tonnes across the province in the next five years or so. Additionally, all coal-fired boilers with a capacity of below 35 tonnes of steam per hour are to be phased out by 2020 in cities with air pollution transmission channels. In July 2019, four ministries and commissions (including the Ministry of Ecology and Environment) jointly issued the "Integrated Treatment Plan for Air Pollution from Industrial Furnaces". Under this proposal, industrial enterprises in key regions will be required to meet all emission standards by the end of 2020 and be banned from building new fuel-related coal gas generators. This is expected to boost more "coal-to-gas" reforms where industrial furnaces are being used. The increasing urbanisation levels in China are also providing growing impetus for natural gas demand. As China lifts restrictions on residing in cities with a population of less than three million and implements national development strategies such as the "Guangdong-Hong Kong-Macao Greater Bay Area" and "Integration of the Yangtze River Delta Region", more people will move in cities, boosting the greater use of natural gas both for residential and commercial purposes. We thus remain fully confident of the sound development of the domestic natural gas industry into the future.

An outbreak of novel coronavirus disease (COVID-19) causing pneumonia, starting in early 2020, is severely impacting the country. Faced with the dire situation of the epidemic, we have united our staff at all levels to respond actively and deploy comprehensively, ensuring the stable and safe supply of gas while making every effort to conduct epidemic prevention and control. These include our full range of customer services from our hotline facilities to our maintenance and emergency response and opening an online business platform to provide the various services needed to meet customers' demands. Group companies also rounded up anti-epidemic and protective supplies such as masks, thermometers and disinfectant, not only working to disinfect office areas and business centres constantly, but Safety and Risk Department also established a monitoring mechanism to better ensure epidemic prevention and control for the safety of our customers and employees while resuming our operations, production and services.

As the epidemic develops, different kinds of production and business premises nationwide have been closed for some time whilst resumption of work after the Chinese New Year holiday was postponed. Consumers spending and production have shrunk significantly, having an impact on industrial and commercial gas consumption. At the same time, local governments on the mainland have launched measures to support the on-going development of small and medium-sized enterprises in response to the epidemic by requiring gas enterprises to implement preferential policies such as reducing fees and deferring fee payment, which will, inevitably, impact the results of the Group for the year 2020.

Chairman's Statement

Business Outlook

The rapid restructuring of China's "green and efficient" energy consumption profile continues to increase the proportion of natural gas in primary energy consumption while greater emphasis is also being placed on raising energy utilisation efficiencies and the reduction of carbon dioxide emissions per unit of Gross Domestic Product. As such, Towngas China expects to see relatively satisfactory increases in the sales volumes of natural gas and to reap positive results in the field of integrated green energy services in the next few years. However, some pressures will be felt from China's ongoing economic restructuring together with the rapid development of, and changes in, the market-oriented reforms in the natural gas sector. In line with these, and other new developments in the economic landscape and industry development, we will continue to strengthen our upstream, midstream and downstream strategies across the natural gas industry chain. At the same time, we will continue enhancing our capacities to make sure that we will be able to cater for peak requirements and maintain supply assurances. We are also working hard to reduce the cost of gas at source in our aim to deliver clean energy and quality services to our customers while furthering our innovative and ongoing development.

In terms of upstream gas sourcing, we also made solid progress in our LNG trading activities both in northern China and southern China. The underground gas storage in Jintan district in Jiangsu province ("Jintan Gas Storage"), owned by The Hong Kong and China Gas Company Limited ("HKCG"), our parent company, is at the forefront to sell peak shaving gas storage products on the Shanghai Petroleum and Natural Gas Exchange, marking a major innovation in the marketisation of gas storage facility services. Jintan Gas Storage currently has external gas transmission capacities of more than 76 million cubic metres, with a project plan scheduled to further expand production capacities. Looking forward, Jintan Gas Storage will be collaborating with Towngas Natural Gas Sales Co., Ltd., a Group company, to better serve a greater number of customers with market-oriented approach.

In the midstream sector, following Jintan Gas Storage's interconnection with PetroChina Company Limited's "West-to-East Gas Pipeline", the Group will also be able to interconnect with China Petroleum & Chemical Corporation's "Sichuan-to-East Gas Pipeline" in 2020, making it possible to supply gas to both the Group's internal and external customers. We are also furthering the interconnection of pipeline networks in various regions in a planned and systematic manner.

With regard to the downstream market, the Group is oriented in line with environmental policies, continuing to develop "coal-to-gas" conversion projects for coal-fired boilers and industrial furnaces to increase gas usage for industrial and commercial purposes. The Group's city-gas project companies are encouraged to look for business opportunities arising from integrated green energy services with the sale of strategic products and services – hot water for commercial purposes, laundry as well as steaming and heating services with heat supply networks, for example – to increase energy efficiencies and save costs for customers with our energy efficient solutions. Our residential customers together with average monthly gas consumption will continue to increase along with the growing population in Chinese cities.

Given the remarkable sales records of our Bauhinia gas appliances, we will continue our innovative developments into the future, particularly as we focus on smart homes. Our Towngas Lifestyle services, through various strategic collaborations, will expand the range of our facilities from the sale of gas insurance and our Mia Cucina kitchen cabinets, to the provision of smart living services on our online cloud service centre, Virtual Customer Centre (VCC).

Towngas China Energy Investment Limited ("TCEI"), a Group subsidiary, which adopts the strategy to "provide heating services first then electricity", is training professionals in the field of electricity whilst exploring and expanding synergistic applications of both gas and electricity. The benefits gained will heighten our competitive advantages in the market. U-Tech (Guang Dong) Engineering Construction Co., Ltd ("U-Tech Guang Dong") was established during the year, to proactively expand our city gas engineering advisory and consulting services.

We are promoting "courtesy", "craftsmanship" and "integrity", the core values of our Total Quality Management (TQM) programme, across the Group. These values provide the springboard for our business, enabling greater innovation and vitality. They have also enhanced our safety and quality service performances and received a great deal of recognition and many commendations from various sectors of the community.

As China continues on its journey to building a well-off and all-rounded society by 2020, there will be ever stronger demand for a better quality of life together with a pleasant and friendly environment. As such, new business opportunities will continue to arise. Moving forward, all of us at Towngas China, are fully confident that we will maintain the sustainable growth of business through innovative development, applying new technology, striving to promote environmental protection and constantly improving product and service quality.

Alfred Chan Wing-kin
Chairman
Hong Kong, 16 March 2020

Financial Review

In 2019, total gas sales volume of the Group grew steadily by **11%** to **11,120 million cubic metres.**

Total number of customers reached **13.44 million,** with **810,000** new customers.

Profit after taxation attributable to shareholders of the Company amounted to

HK$1,308 million.

Excluding the one-off impairment provision of goodwill, profit after taxation attributable to shareholders of the Company amounted to HK$1,456 million, an increase of 19% as compared to last year.

Basic earnings per share amounted to **HK 46.06 cents.**

Revenue

Revenue from the sales of piped gas and related products increased 11% from HK$9,755 million in 2018 to HK$10,835 million in 2019. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. The total consolidated volume of gas sold during the year amounted to 3,395 million cubic metres, representing an increase of 11% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$2,089 million, up 3% as compared to 2018, with approximately 450,000 consolidated new household connections being made in 2019.

Total Operating Expenses

Total operating expenses in 2019 amounted to HK$11,169 million, an increase of 10% as compared to HK$10,190 million in 2018. The increase was mainly due to the Group's business development together with inflation. The cost of gas fuel, stores and materials used amounted to HK$8,905 million, while that was HK$8,099 million in 2018. The increase in expenses was mainly attributable to the increase in the volume of gas sold during the year. Staff costs and depreciation and amortisation expenses rose by 13% and 14%, respectively. At the same time, an increase of HK$19 million in overheads was due to the inclusion of new subsidiaries in 2019.

Finance Costs

Finance costs in 2019 amounted to HK$399 million, a rise of 26% as compared to 2018. This rise in finance costs reflected the increase in loans mainly due to the acquisition and set-up of new projects and business development.

Equity Instruments at Fair Value through Other Comprehensive Income

Equity instruments at fair value through other comprehensive income mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"). Shares of Chengdu Gas in which the Group holds 11.7% equity interest were listed on the Shanghai Stock Exchange in December 2019. The principal activities of Chengdu Gas are city gas transportation and distribution, sales, gas engineering construction and gas meter sales in Chengdu city and its peripheral areas. Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised to other comprehensive income during the year. Shares of Chengdu Gas were publicly listed during the year and the subsequent revaluation with reference to stock price caused a major change in fair value as compared to last year.

Financial Review

Financial Position

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

As at 31 December 2019, the Group's bank loans and other loans amounted to HK$10,239 million, of which HK$3,433 million represented bank loans and other loans due within 1 year, HK$6,790 million represented bank loans and other loans due between 1 to 5 years, and HK$16 million represented bank loans and other loans due over 5 years. Other than the HK$6,876 million in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group recorded an exchange gain of HK$41 million caused by the fluctuations of Renminbi exchange rate in 2019. The Group's borrowings denominated in Renminbi amounted to HK$8,495 million and the remaining HK$1,744 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-Renminbi denominated loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$30 million from joint ventures on a fixed interest rate basis. The loss resulting from change in fair value of other financial assets and liabilities in 2019 was HK$65 million. As at 31 December 2019, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 30.8%.

As at 31 December 2019, the Group's cash and cash equivalents together with time deposits amounted to HK$2,000 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2019, the Group's unutilised available credit facilities amounted to HK$6,369 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.

Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas China at "BBB+" and its rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2019.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2019 of HK fifteen cents per share (2018: HK fifteen cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

Review of Operations

In 2019, the global geopolitical instability, continued uncertainties in mainland China's macro-economy arising from the China-US trade disputes, as well as the downside pressures faced by the mainland's economic development, especially in terms of reduction in the manufacturing industry's export orders due to adverse external factors, have had an impact on the growth of Towngas China's gas sales volume.

Although the global economy continues to face challenges, the Chinese Government is determined to promote green development and build a beautiful China. Thus, it is actively advancing its "coal-to-gas" conversion policy, targeting to position natural gas as the main source of energy, by continuously promoting the transformation of energy use, and increasing the proportion of natural gas. These moves are bringing ongoing growth opportunities for the pipeline natural gas market.

Throughout the year, the Group closely monitored the changes and opportunities emerging in the natural gas market in mainland China. While adhering to our market penetration strategies, we provided customers with more efficient energy services with the in-depth development of our integrated energy services and distributed energy projects. The total number of Towngas China's projects has increased to 127 so far, comprising city-gas supply, distributed energy, gas pipeline network construction, operation of vehicle gas refilling stations, together with the sale of household gas appliances and other extended businesses. The Group's overall gas sales recorded a double-digit increase during the year, up 11% to 11,120 million cubic metres, of which industrial and commercial gas sales accounted for 8,553 million cubic metres, an increase of 12% on 2018. In addition, residential gas sales amounted to 2,489 million cubic metres, and the equivalent of 78 million cubic metres of natural gas sales was recorded for distributed energy projects.

Our vision is to be Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness. Adhering to our mission to improve the environment and provide our customers with reliable, efficient, safe and clean energy, we are committed to ensuring gas supply, improving efficiency, and extending gas applications.

With regard to upstream gas sources, we have been steadily expanding our LNG imports. This has given us the opportunity to fully leverage the storage capacity of the Jintan Gas Storage owned by our parent company, HKCG. It has also provided the supplementary gas supplies necessary for peak-shaving capacity in winter while lowering our gas-sourcing costs. In the midstream sector, we have been proactively driving construction to facilitate inter-connection between the Jintan Gas Storage and the pipeline network of the Group, in addition to expanding investment projects on LNG receiving stations on a continuous basis. In the downstream sector, our industrial and commercial market development strategy has been upgraded with a view to offering customers a diverse range of energy services and efficient energy utilisation options. TCEI, a subsidiary of the Group, also established the "Tsinghua-Towngas China Joint Research Centre for Regional Integrated Energy Planning Technology" in conjunction with Tsinghua University in April 2019. The research centre will help us maintain and consolidate our leading position in integrated energy services.

In December 2019, the 3,000-kilometre China-Russia East-Route Natural Gas Pipeline commenced its gas transmission operations, and the first year supply would be 5 billion cubic metres. According to initial plans, the project will be completed in 2023, and the maximum capacity can reach 38 billion cubic metres a year. This will greatly facilitate the increase of our upstream gas sources for city-gas projects in northeastern China. Building on this platform, Group companies are making every provision for the transmission of Russian gas to China – these include full penetration of the gas market together with ongoing communications with both existing and new customers. The official transmission of Russian gas to China will facilitate the Group in expanding its customer base while resolving the problem of insufficient gas supply for existing customers. Regional consumption of natural gas is expected to show rapid growth.

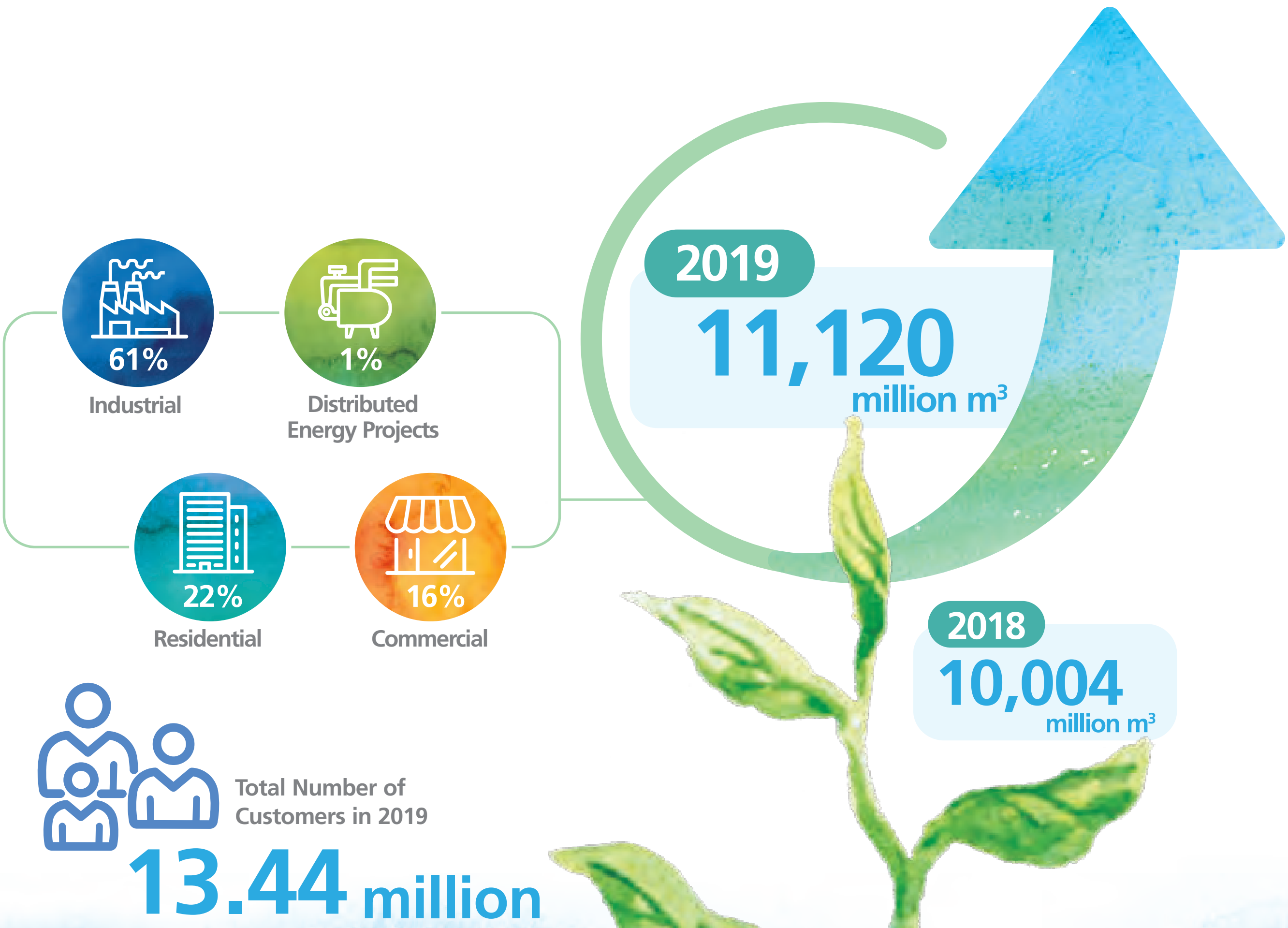
The launch ceremony of peak-shaving gas from the Towngas Jintan Gas Storage was hosted in Shanghai Petroleum and Natural Gas Exchange in 2019. As the first gas storage product to be traded in China, it facilitates the market-oriented reform of peak-shaving storage facilities while providing plentiful gas supply assurance for Towngas China.

Review of Operations

Sales of Piped Gas

In 2019, the Group's total piped gas sales volume grew by 11% to 11,120 million cubic metres. In particular, industrial gas sales increased by 13% to 6,790 million cubic metres, accounting for 61% of total gas sales; commercial gas sales increased by 9% to 1,763 million cubic metres, representing 16% of total gas sales; residential gas sales rose by 5% to 2,489 million cubic metres, accounting for 22% of total gas sales; and the equivalent of 78 million cubic metres of natural gas sales was recorded for distributed energy projects, accounting for 1% of the Group's total gas sales. The total number of customers rose to 13.44 million, representing a year-on-year increase of 810,000 in number of customers.

Our business has covered 21 provinces, municipalities and autonomous regions so far. In addition to transmitting and distributing safe and reliable energy, we supported the national "coal-to-gas" conversion policy, actively encouraging industrial and commercial customers to adopt natural gas, which is a cleaner option as compared to traditional energy sources. In recent years, we have also made every effort to expand the distributed energy market. This not only provides industrial and commercial customers with more efficient energy, but also reduces environmental pollution.



Development of New Projects

We added a city gas project in the eastern coastal area of Laoshan district, Qingdao city in Shandong province, to our portfolio during the year. The project, located in an area that is planned for development into an international standard cluster that will integrate healthcare, rehabilitation, leisure, ecological and vacation facilities. Designed to be an international travel destination targeting the Northeast Asian market, it is also being zoned as a clean energy supply area. The project will expand our regional synergies, hand-in-hand with our two other city gas projects located in Qingdao city.

In addition to focusing on the gas business, we continued to actively explore potential business opportunities for distributed energy. During the year, the Group sets up eight additional distributed energy projects, including initiatives in Maanshan Economic and Technological Development Zone South District and the Dangtu Economic Development Zone Northern District in Anhui province; the Fengnan Lingang Economic Development Zone in Tangshan city in Hebei province; the Xinmi Yinji International Tourism Resort, Zhengzhou city in Henan province; Shenzhen Gas Building, Shenzhen city in Guangdong province; Wangcun Industrial Zone in Songyang county, Lishui city in Zhejiang province; the Changzhou Photovoltaic Industrial Park in Jiangsu province; and a sale of electricity and energy project in Anhui province. These projects are expected to generate natural gas consumption of up to 400 million cubic metres in five years' time, creating regional synergies with our gas and distributed energy projects in neighbouring areas with respect to our market, gas sourcing and other strategic policies.

In addition, the Group had also added a distributed energy project in early 2020. The project is located in the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province. This project is the fourth distributed energy project established by the Group in Anhui province, laying a sound foundation for the Group's business development in 2020. Together with our previously established projects, the Group currently holds 19 distributed energy projects.

We also established U-Tech Guang Dong, an engineering construction and project management company, and invested in Liaoning Clean Energy Group Co., Ltd. during the year. Providing a platform for the development of our project work construction business, U-Tech Guang Dong will be able to swiftly integrate resources from among the Group's construction companies whilst speeding up the development of project companies, in addition to also enhancing our efficiencies in construction management.

Review of Operations

Industrial and Commercial Markets

As indicated in the "Development Report of Domestic Oil and Gas Industry in 2019", the consumption of natural gas in mainland China for the entire year of 2019 was more than 300 billion cubic metres, an increase of almost 10%. In fact, the consumption of natural gas has been on the rise in China since 2010, showing that natural gas has steadily become the main energy source to support the country's vigorous development.

The State Council of China promulgated the "Three-Year Action Plan to Win the Battle for a Blue Sky" in 2018, determined to accelerate the development of clean energy before the end of 2020. A major push under this initiative is to adjust the current energy structure, not only through promoting applications that replace coal with gas for industrial and commercial appliances, but also improving the efficiency of energy use by way of controlling energy consumption and intensity. Seizing the opportunities brought about by this national development strategy and taking advantage of our solid business foundations, we actively promoted distributed energy solutions featuring high energy efficiencies in 2019, while encouraging customers to implement "coal-to-gas" conversions for their boilers. Together with the development of new industrial and commercial customers in the gas consumption market, we were able to inject significant growth momentum to the Group.

New Opportunities Brought by the China-Russia East-Route Natural Gas Pipeline

Northeastern China has frequently suffered from the problems of insufficient gas supply. At the community level, heating appliances used in the winter are mostly fuelled by coal, and clean energy usage rates are relatively low. As the China-Russia East-Route Natural Gas Pipeline commenced gas transmission in December 2019, it is expected to provide sufficient and stable gas supply for the region. Due to this new and abundant source of natural gas supply, we have proactively approached real estate developers to discuss how natural gas-driven boilers can be used to solve the environmental problems caused by coal-fired community heating.

Adhering to the operating policies of our parent company, HKCG, Towngas China has made the transformation from our original business model of merely engaging in gas transmission and distribution to providing customers with extended packages that allow them to enjoy one-stop gas supply services. We handle the entire process, from the installation of industrial and commercial appliances to gas supply and ongoing maintenance. In terms of industrial and commercial appliances, we have accumulated extensive experience in the implementation of industrial furnaces and boiler conversions, central self-ignition air-conditioners and radiation heating, in accordance with the nation's "coal-to-gas" conversion principles. Now with sufficient gas sources and our ongoing preparations for gas transmissions on the China-Russia East-Route Natural Gas Pipeline, our gas sales are expected to go up.

Distributed Energy

Towngas China has been actively investing in distributed energy projects since 2015. During the year we have vigorously promoted the project development of our distributed energy systems and have launched eight new projects. In addition, the Group had also added a distributed energy project in early 2020. The project is located in the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province. This project is the fourth distributed energy project established by the Group in Anhui province, laying a sound foundation for the Group's business development in 2020. Together with the projects established previously, we currently have a total of 19 distributed energy projects.

The Group invested a great deal of effort in exploring the distributed energy market in order to provide its industrial and commercial customers of all professions with more efficient energy services including the production headquarters of an international cosmetics brand pictured. Here, the water vapour generated by natural gas boilers is used for production line's heat supply, container sanitisation and hot water replacement.

Distributed energy systems enjoy wide applications. In addition to industrial parks, they can also be extended to commercial complexes, public buildings and residential premises. The Group collaborated with power plants and large-scale production factories to recycle residual heat.

Inaugurated in 2017, TCEI is principally engaged in the development of distributed energy and heating supply projects. It also provides energy planning and energy conservation consultation services for the Group's project companies. During the year, TCEI confirmed a number of new projects in the provinces of Anhui, Hebei, Henan, Guangdong, Zhejiang and Jiangsu.

In response to the national energy policy of driving coal-to-gas conversion, the Group encourages customers to modify their coal-fired equipment. The cogeneration plant pictured uses water vapour generated by natural gas boilers to heat cold water and supply heating to residential properties as well as corporations, thus reducing environmental pollution.

Coal-to-Gas Boiler Conversions

In line with the State's environmental protection policy, we encourage customers to use natural gas for newly built large-scale industrial and commercial appliances and implement "coal-to-gas" conversions for existing appliances. In 2019, the Group's "coal-to-gas" boiler projects contributed 1,760 million cubic metres to the overall gas sales volume, an increase of approximately 40% over last year.

Review of Operations

New Industrial and Commercial Application – C-Tech Laundry

Riding on the back of our cumulative experience in operating integrated energy services and customer networks, we established a laundry service brand, C-Tech Laundry, in 2019. Using low-pollution natural gas transmitted and distributed by the Group, and a central sewage recycling treatment system, C-Tech Laundry uses advanced automation equipment to provide customers with professional laundry services. The entire process conforms to the principles of high efficiency and low pollution as it significantly reduces water and electricity consumption.

In 2019, C-Tech Laundry established factories in the cities of Chengdu, Guilin and Shaoguan. These factories are expected to commence operations in the first half of 2020 and will contribute about 4 million cubic metres of gas sales each year.

During the year, the Group launched commercial laundry business in Guilin city to provide professional laundry service to hotel customers.

Commercial Hot Water Systems

In response to customer needs, we have been a first-mover, seizing opportunities in the commercial hot water systems market since 2017. The installation of more than 1,800 systems have cumulatively contributed approximately 16 million cubic metres in gas sales. The systems are widely accepted by venues like hotels, gyms and leisure clubs. The number of hot water systems sold and installed in 2019 increased more than 200% over the previous year.

Committed to providing customers with professional and caring services, we made a breakthrough in the operational model of our hot water systems. In 2019, we installed a hot water system with solar panels for a school in Fusui county, Guangxi Zhuang Autonomous Region, allowing for the combined usage of both natural gas and solar energy, a renewable energy, in the heating process for hot water. Not only does this reduce energy costs, it also contributes to environmental protection.

Commercial use natural gas water heating systems are one of the Group's innovative applications in recent years. Hot water at 50 degree Celsius generated by gas heaters is stored at thermal insulated water tanks then pumped to school dormitories to supply hot bathing water.

Residential Market

As at 31 December 2019, the number of our residential customers exceeded 13.3 million, an increase of 6% over last year. During the year, we added nine new customer centres to our portfolio, bringing the total number of our customer centres nationwide to 160. These centres handle all gas-related business for our customers, ranging from making appointments for stove installation and safety inspections to payment services. During the year, the residential market accounted for 22% of the Group's annual gas sales, an increase of 5% over the previous year.

"Corporate Integrity Year" was our management theme for 2019. Driving the Group's integrity, it promoted the culture of manners, etiquette and politeness, referred to as the "Three Courtesies". It encouraged our front-line staff to better grasp every opportunity to provide professional and excellent services during contact with our customers.

In addition to requiring employees to meet rigorous service standards through our corporate culture, we have regularly implemented our "Flying Dandelion Programme" which was first introduced in 2013. The programme trains front-line staff through internal trainers using classroom communication, scenario simulation exercises and competitions. Our aim is to encourage staff to strive for excellence in the provision of services at all times.

During the year, we engaged a third-party consultation agency to conduct a nationwide customer satisfaction survey. The results showed that we have differentiated ourselves from many other public utilities (such as water, electricity and transportation organisations) with the highest customer satisfaction score, confirming the positive results of our service training systems.

Committed to the customer-first principle, the Group now has a total of 160 customer centres across the country, with nine new centres set up during the year in a bid to provide high-quality and caring services.

Review of Operations

Bauhinia Gas Appliances

Bauhinia has kept pace with the times since its establishment in 2005. From sales platforms and product styles to function and structure, we have continuously made improvements, working to provide our customers with the highest quality products and service experience. It has thus become the preferred choice of customers and brand sales figures have continued to rise. For example, Bauhinia sold the remarkable amount of more than 115,000 sets of embedded gas stoves in 2019 alone.

With growing spending power and improved quality of life for people in mainland China. Bauhinia is striving to produce innovative products, while maintaining both safety and practicality. To this end we launched our first "smart appliances" during the year.

We will be installing signal receivers in home appliances such as gas water heaters, cook tops, stoves and range hoods. This will allow for the transmission of information to customers in real time through cloud technology. Customers can also check the usage status of the relevant products anytime, anywhere through a mobile phone application. The application also has a reminder function, which significantly reduces the risks of customers forgetting to turn off an appliance, thereby further improving usage safety. Going forward, we will continue to conduct research and development and move towards innovations and initiatives such as our "smart appliances". This will enhance the customer experience as they enjoy a more convenient and safer service.

To seize the opportunities arising from growing spending power in mainland China, Bauhinia revamped its products during the year and launched "smart appliances" featuring the application of new technology while striking a balance between safety and practicality.

Gas Dryers

Since their launch in 2016, gas dryers have established an excellent reputation. They have the advantages of drying clothes quickly as well as offering large capacities, more effective sterilisation and better fabric softening during the process. Annual sales figures are growing, with more than 17,000 units sold in 2019. During the year, large-scale promotion campaigns targeting three major regions – eastern, southern and southwestern China – were launched. These activities will help boost sales in these regions in the long term. In October 2019, Bauhinia also held a large-scale product promotion conference in Nanjing city, Jiangsu province. Contracts have been confirmed with participating real estate developers to install gas dryers in their well-decorated apartments in five real estate projects.

During the year, the Group launched large-scale promotional campaigns in eastern, southern and southwestern China for the gas dryer which offers antibacterial effect and gentle care to clothes to keep them clean and soft. Sales totalled over 17,000 units in 2019.

Gas Water Heaters

During the year, Bauhinia launched three types of "zero cold water gas water heaters". These products provide 16- and 20-litre per minute options to meet the different needs of customers. The idea of "zero cold water" is to preheat the cold water in the pipe in advance based on customers' usage habits, so that hot water is instantly available upon turning on the tap. This reduces the waiting time for hot water and improves the customer's usage experience significantly.

Dual-Usage Gas Stoves Providing Heat and Hot Water

Due to their compact size, dual function of providing heat and hot water based on customers' needs, as well as attractive price-performance ratio, our dual-usage gas stoves have always been a popular choice for residential customers. To allow customers to experience these quality features for themselves before making a purchase, Bauhinia added special experience zones in some of our customer centres during the year. In terms of business promotions, the brand launched an exclusive home design simulation software, facilitating sales staff to quickly tailor a suitable sales plan according to the customer's needs. In 2019, more than 22,000 dual-usage gas stoves were sold.

Boasting space efficiency, environmental friendliness and energy conservation, the dual-usage gas stove launched by the Group caters for customers' needs for both gas heating and hot water. It has enjoyed immense popularity with a sales record exceeding 22,000 units during the year.

Review of Operations

Extended Services

Towngas Lifestyle

Towngas Lifestyle is committed to building a useful and reliable service platform. To this end, it provides Group companies with cloud service solutions, including technological development of, and consultation on, electronic commodity platforms. In addition to its smart phone-based business management platform, Towngas Lifestyle also provides extended services such as kitchenware, green cooking ingredients and gas insurance services for customers.

In 2019, Towngas Lifestyle and its platforms received a series of international certifications: Towngas Lifestyle obtained ISO 20000 Information Technology Service Management System Certification and ISO 27001 Information Security Management System Certification; six platforms – Gas Business Management System, Bauhinia Mall, Towngas Lifestyle Membership Scheme, Towngas Lifestyle Family Cuisine, Towngas China Virtual Customer Centre (VCC) Platform, and Gas Service Manager – also received their software copyright certification.

The Towngas Lifestyle platform has provided our customers with a wide array of gas services as well as kitchenware and green foods.

Virtual Customer Centre (VCC) Platform

In order to enable customers to enjoy convenient gas services, we launched our VCC in 2016. The following year, we further upgraded the system, expanding its coverage to project companies so that customers can also pay gas bills and make appointments for installation and maintenance services through this online platform.

As at 31 December 2019, 58 Towngas China project companies had joined the VCC platform as service providers, covering over 6,900,000 customers, with membership rising to more than 3,400,000. In addition to logging onto the VCC platform through the desktop application, customers can also search and follow the WeChat public account "Towngas Lifestyle"（港華名氣家）to gain access to gas services and purchase ingredients for cooking.

VCC platform allows customers to pay bills and make appointments for installation and maintenance services anytime, anywhere. It has gradually become one of the main channels for customers to access gas services.

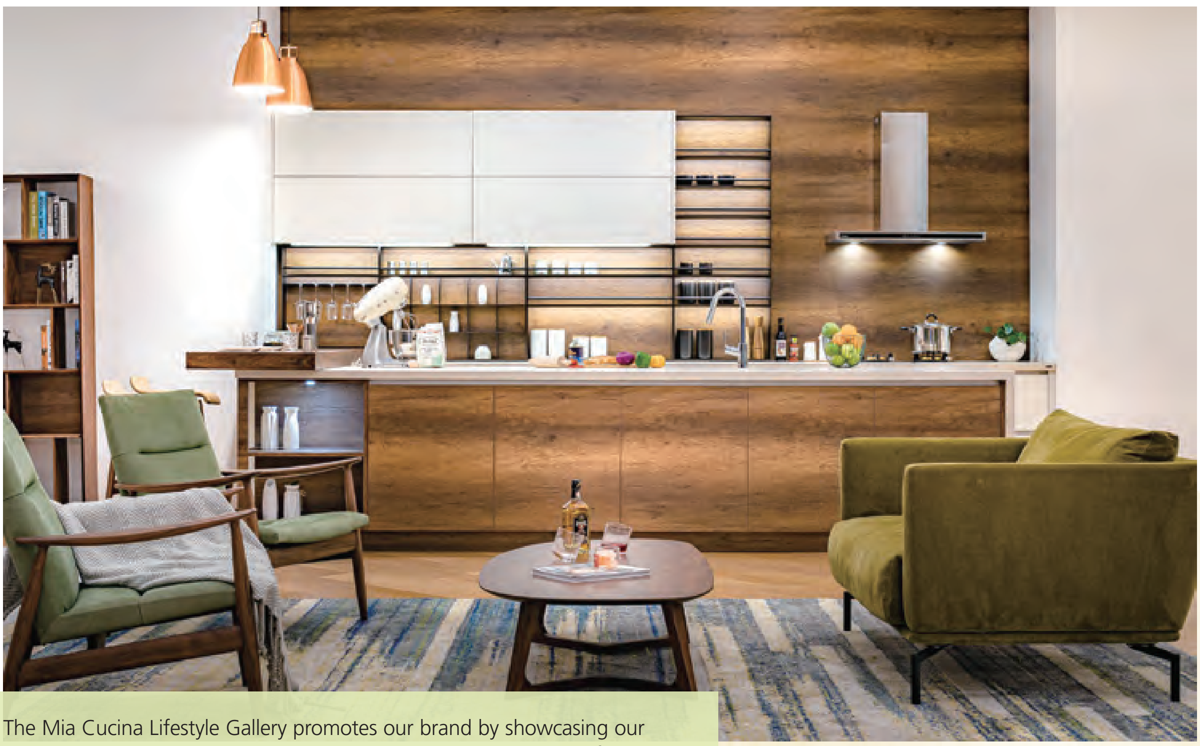
Gas Insurance Business

In addition to supplying safe energy and top-quality gas appliances to hundreds of thousands of households, we have collaborated with insurance agencies to introduce comprehensive domestic gas insurance policies, with a view to providing customers with comprehensive services and protection. As at 31 December 2019, our gas insurance business has been rolled out to 63 project companies.

Mia Cucina

Thanks to the increasing demand for attractive and well-decorated apartments, our Mia Cucina kitchen cabinets, which have great storage capacities despite occupying a relatively small space, have become a highly popular choice for customers. Since 2016, the brand has provided professional kitchen cabinet design services and products for newly completed large-scale residential projects, earning a top-notch reputation in the industry. The service provides a total one-stop solution, handling cabinet design, installation and after-sales services to build customer confidence.

A well-designed kitchen is the soul of a home. Mia Cucina fulfils its philosophy of "The Kitchen with You in Mind" through offering bespoke and meticulous kitchen designs to accommodate customers' needs and cooking preferences. Ensuring total product quality, the surface material of our kitchen cabinets are made of high-grade materials imported from Europe, suitable for Asia's humid environment and with strong load capacities. The kitchen cabinets are thus both of the highest quality and more durable. During the year, we set up a total of nine display areas, presenting stylish kitchen cabinets hand-in-hand with ergonomic work areas to provide customers with kitchen design inspirations.



The Mia Cucina Lifestyle Gallery promotes our brand by showcasing our upscale Italian kitchen cabinets and the latest household products for the public to experience first hand.

Review of Operations

Safety and Risk Management

Safety is one of the most important elements for a public utility. Towngas China is committed to providing safe and reliable city gas to the general public. To this end, we have established a sound safety and risk management framework internally. This includes a dedicated department to follow up on safety inspection results and manage business risk. Thanks to our efforts in the elimination of hidden dangers, in 2019, we recorded a decline of approximately 25% in the number of accidents as compared to last year. There was only one liability accident. This means that we have successfully achieved remarkable improvements in our safety records.

Towngas China set its safety theme for 2019 as "Strengthening Operation and Safety Management".

Under the leadership of our Company's Chairman, Mr. Alfred Chan Wing-kin, we conduct large-scale regional safety inspections every year. In 2019, Mr. Chan, together with Mr. Martin Kee Wai-ngai, Executive Director and Chief Operating Officer of Towngas China, led members of the Safety Committee in a number of safety inspections on our business operations in northern China. They inspected local gas facilities, stations and industrial and commercial equipment, and also carried out accident simulations. The results of these inspections show the relevant work and operations meet the Group's stringent safety standards. The department responsible for safety and risk also analyse the performance demonstrated in these inspections, communicate with the relevant project companies and follow up with suggestions for any necessary improvements. Moreover, designated departments also hold annual safety operation workshops to share the inspection results with a view to further improving their safety performance.

During the year, Mr. Alfred Chan Wing-kin, the Chairman of the Board, led the Group's management team for a large-scale safety inspection in northern China. Aside from examining the operations, the team also carried out drills as a precautionary measure to eliminate safety hazards.

In June 2019, in response to the "Safe Production Month" initiated by the State, Towngas China, together with our parent company, HKCG, organised a Group-wide event which took place across the country. The HSE Walk campaign was held in our places of operation to promote the industry standards in health, safety and environmental protection established by the Group. A total of 90 project companies took part in this initiative supported by almost 8,800 employees, family members and friends. The event was extremely gratifying as it fully demonstrated Towngas China's team spirit. It had a dual focus: promoting work safety as well as encouraging employees and people from all walks of life to pay attention to their personal health.

Engineering Quality Management

During the year, we continued to replace the cast iron pipes built in the early years with anti-corrosion steel pipes and polyethylene (PE) pipes featuring high tenacity and corrosion resistance to further guarantee gas supply safety. As of the end of 2019, a total of 2,662 kilometres of pipelines have been renovated. The remaining pipelines yet to be replaced now only account for 1.2% of the total length.

In terms of pipeline maintenance, the repair technology used during the year consisted of engineering intubation to clean the inner wall of existing pipes. Specifically, we inserted smaller-diameter pipes into the pipelines to be cleaned to squeeze out impurities. Compared with the traditional method of ground excavation, this technology requires a smaller construction area and significantly minimises the impact on the surrounding environment. It also avoids the risk of traditional pipeline cleaning devices getting stuck in the process. This pipeline cleaning technology and the related equipment were successfully patented in 2019.

In the spirit of innovation, Towngas China actively seeks different solutions to improve existing engineering processes. In 2019, we used gas sniffer dogs, first introduced by our parent company, HKCG, to establish a sniffer dog training base in Xiamen city, Fujian province. Gas sniffer dogs can identify the unique smell of natural gas in the air and give early warning, which helps improve the efficiency of emergency repair work.

In view of our outstanding performance in the gas industry, Towngas China is invited from time to time to participate in the establishment of national engineering technology standards. In 2019, we participated in the joint formulation of 20 industry standards relating to construction and equipment installation in the fields of city gas and LNG. This reaffirms our leadership in the field of gas engineering safety.

During the year, the Group introduced gas sniffer dogs from its parent company, HKCG, for leak detection to improve the efficiency of emergency repair work which strengthens the safeguarding measures and safety assurance for our gas pipeline network operations.

Review of Operations

Human Resources

With our ongoing business growth and development, our need for human resources is on the rise. We continue to invest abundant resources in the training of our people with the aim of providing them with every opportunity for promotion, and to ensure that they will grow with the Group. As at 31 December 2019, the Group had 22,385 employees.

We value the cultivation and development of our employees and, to this end, provide professional training for our people at every rank and level. For example, we offer the "Towngas Management Programme ("TMP")" for outstanding management personnel, so that participants can learn about management philosophies and apply them at the workplace. To ensure that trainees can apply what they have learned, we hold a TMP Leadership Application Contest to facilitate participants to share their experience and learn from each other.

A further initiative is the Talent Ladder Scheme for mid- to high-level employees. Scheme participants take part in different key development projects across the Group and the country to better understand our business operations. This scheme helps us better cultivate sufficient talent reserves for our ongoing needs. Since its launch, more than 70 employees have been trained.

Towngas China has dedicated training institutes at various locations to provide professional training for front-line technicians, internal trainers, professional technicians etc. The training there, conducted in the form of small classes, combines both theory and learning applications to help transform our employees into competent professionals.

The Group values the cultivation and development of our employees and provides training for the staff at every rank and level to ensure that they will grow with the Group.

Corporate Social Responsibility

As a public utility, Towngas China's business is closely linked to people's daily lives. Committed to ensuring safe gas supply in line with the highest industry standards and being responsible to customers, we provide support to disadvantaged groups in an effort to shoulder our corporate social responsibility (CSR). Under this initiative, we hope to live out our CSR spirit by actively participating in public welfare activities to contribute to our community, protecting our environment and providing better care to the underprivileged.

In 2018, our Environmental, Social and Governance Committee (formerly named as "Sustainability Committee") consisting of our senior management members was formed. The Committee monitors the performance and effectiveness of our participation in public welfare programmes and environmentally friendly activities, in order to turn "contributing to society" into an intrinsic part of our corporate culture whilst making the best use of resources for the maximum benefit of the beneficiaries.

The Group mobilised corporate volunteers to deliver teaching materials to schools in Sichuan province and Heilongjiang province, in support of rural education work.

Towngas China Gentle Breeze Movement

In 2019, our Towngas China Gentle Breeze Movement programme carried out educational support activities in Pingchang county in Sichuan province and Qiqihar city in Heilongjiang province. Jianshan Primary School and Pingchang Deaf-Mute School in Pingchang county in Sichuan province are both located in remote areas and lack education resources and facilities. As such, we funded the renovation of the canteen at Jianshan Primary School together with the building of new awnings and a new "Towngas China Charity Library". In May, we also mobilised corporate volunteers to deliver teaching materials to the campus, in a bid to improve learning conditions for the students.

Volunteers from the Group set up "Towngas China Charity Libraries" at schools to provide a better schooling environment for students.

Another initiative was taken at Qiankule Primary School in Fularji district, Qiqihar city in Heilongjiang province. The Group's volunteers built two "Towngas China Charity Libraries" and donated a batch of teaching supplies. Corporate volunteers also expanded and renovated a guard room to help the school strengthen its safety management and improve teaching facilities. Exhaust fans and vents were also installed in laboratories to cope with the extreme weather conditions in northern China. These efforts have greatly improved the overall school environment.

Review of Operations

Plastic Reduction Campaign

As an advocate of green culture, we carry out a series of activities every year to address environmental issues and encourage staff to make improvements in their daily lives and to take part in volunteer activities during leisure time to contribute to environmental protection. In 2019, the Plastic Reduction Campaign was organised with four major programmes, namely, "Towngas China Plantation Day", "Earth Hour", "Plastic Reduction Movement" and "Environmental Creative Show". Over 80 project companies took part in this year's campaign. With the participation of more than 2,200 corporate volunteers, approximately 6,000 tree seedlings were planted.

Activities such as plastic waste clean-ups were organised to advocate an environmentally friendly lifestyle and encourage staff to reduce plastic use.

"Towngas China Plantation Day" is one of the four main activities of the Group's Plastic Reduction Campaign, with about 6,000 tree seedlings planted.

As part of our efforts to protect the environment with concrete action, our Plastic Reduction Movement encourages employees to reduce the use of plastic in addition to recruiting volunteers to clean up plastic waste. We also held workshops to educate our staff members on how to recycle waste plastic, echoing our development strategy of "turning waste into treasure".

Rice Dumplings for the Community

Adhering to the tradition of our parent company, HKCG, we invite our corporate volunteers to purchase ingredients for making rice dumplings every year during Dragon Boat Festival. Following that, we work together to prepare rice dumplings for the elderly and those in need in our community using open-flame cooking appliances. In 2019, more than 70 project companies participated in the activity, contributing over 36,700 rice dumplings to the underprivileged.

During the year, the Group continued to head the Rice Dumplings for the Community campaign. With strong support from volunteers of the Group, a total of more than 36,700 rice dumplings were distributed to underprivileged groups.

Long-Term Development Strategy

Looking back on mainland China's "13th Five-Year Plan for Energy Development", the goals of expanding the supply and use of natural gas and promoting the orderly development of the natural gas industry have by and large been achieved. In signing the Paris Agreement in 2016, China joined hands with other countries to work on the issues of climate change. It is believed that the Chinese Government's determination to conserve energy and reduce emissions remains steadfast. Moreover, the China-Russia East-Route Natural Gas Pipeline, which came into operation at the end of 2019, provides solid support for China's natural gas reserves. Driven by these strong tailwinds, the proportion of natural gas in the country's overall energy consumption is expected to go up, further driving the growth of the city-gas industry.

In the "Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Edition)", the NDRC announced their efforts to promote the further opening-up of the service industry. The reform included the removal of the restriction that gas and heat supply pipelines in cities with a population of more than 500,000 must be controlled by Chinese enterprises. This encourages the Group's investment in the city-gas industry, and Towngas China will enjoy greater flexibility and opportunities in project investment. Furthermore, the establishment of the China Oil & Gas Pipeline Network Corporation, which put the piped business into independent operation, will fuel the long-term development of the oil and gas industry. Downstream city-gas companies like Towngas China will thus have access to adequate supply of gas which will generate growth momentum to the Group's future development.

Towngas China supports the national policy by promoting "coal-to-gas" projects. Since 2016, we have actively developed distributed energy systems with high energy efficiencies. This included the establishment of TCEI to invest in such projects. These efforts have proven effective and have provided strong impetus for the growth of the Group's industrial and commercial segments. In the residential market segment, we will keep abreast of the big data trend, leverage our breakthrough launch of "smart appliances" in 2019, and continue to integrate technological solutions into our products and service platforms, such as the VCC platform, to provide customers with friendly and professional service.

Awards and Accolades

The Group was commended through various industry awards presented by a number of organisations during the year in recognition of its commitment of resources and efforts to industry development, products and services, sustainable development and community support. Here are some of the major awards received during 2019:

Industry Development

Most Outstanding Contributor Award

China Energy News and China Institute of Energy Economics Research

This award aims to commend companies for their significant contributions to the field of clean energy in China and around the globe. Towngas China won this award for its outstanding performance in clean energy promotion and technology innovation.

Sustainable Development

ESG Leading Enterprises 2019

Bloomberg Businessweek/Chinese Edition and Deloitte China

Towngas China received this award from ESG Leading Enterprises 2019 in recognition of its efforts in the environmental, social and governance (ESG) aspects, demonstrating the Group's heavy emphasis on ESG strategic planning and execution as well as proactive response to the expectations of stakeholders and the capital market by incorporating ESG into its management strategies and actual operations, resulting in widely acknowledged achievements.

Top 10 Green Contributors among Energy Listed Companies 2019

Energy, China Petroleum & Chemical Corporation and CHN Energy Investment Group Co., Ltd.

This award recognises the efforts of listed companies in promoting green development in the energy industry. Companies are scored in terms of their innovation and leading contribution to the area of energy transformation. Towngas China has promoted the application of clean energy since its establishment. In recent years, it has achieved remarkable success after taking an aggressive approach on the development of energy-efficient distributed energy systems.

Corporate Social Responsibility

Five-star Chinese Corporate Citizen and Chinese Corporate Citizen Public Welfare Project 2019

Corporate Citizenship Committee of the China Association of Social Workers

Towngas China has launched numerous programmes to support disadvantaged groups by leveraging its resources from the business sector, sparing no efforts in fulfilling its corporate citizenship responsibilities. Launched in 2013, Towngas China Gentle Breeze Movement carried out numerous activities in support of education for the next generation.

Top 60 Responsibility Brands among Chinese Corporate Citizens 2019

Organising Committee of the Summit on China's Brands of Corporate Citizenship Responsibility

This award demonstrates the effectiveness of programmes launched and sponsored by the Group, including Towngas China Gentle Breeze Movement and Firefly Centre, in fostering the long-term development of communities.

Products and Services

香港名牌
HONG KONG
TOP BRAND

Hong Kong Brands

Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong

The award aims to commend outstanding brands created by Hong Kong companies. It is also known as an indicative award for the local industry under the product category. Bauhinia, our gas appliance brand, has become a preferred choice of customers for its safety and specialised features.

Outstanding Enterprise for Trusted Product and Service Quality in China 2019

China Association for Quality Inspection

Bauhinia brand gas appliances illustrate the Company's commitment to quality and integrity, and the award serves to reflect the acknowledgment of the brand by consumers and other companies.

Product Innovation Award

Organising Committee of Super Brand Conference

This award is granted in recognition of companies' spirit of innovation and to commend brand innovation transformation. Bauhinia won this award for its ongoing commitment to integrating innovative elements into product research and development.

Top Ten After-sales Service Providers in China

China General Chamber of Commerce, China Foundation of Consumer Protection and National Product After-sales Service Assessment Committee

The evaluation, based on the national standards, Rules for Evaluation of After-sales Services for Products, has been held every two years since 2003. Bauhinia brand received this award again among other well-known brands for its quality after-sales services.

Outstanding Enterprise in the Gas Appliance Industry

China National Hardware Association

This award aims to commend outstanding gas appliance brands, and Bauhinia is the only gas appliance brand launched by a mainland gas company to receive the award.

Risk Factors

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

For further details on how the Group manages its risks, please refer to the "Risk Management and Internal Control" section of our Corporate Governance Report on pages 68 to 71.

Business Environment

In 2019, the global economy went through a synchronised slowdown. The International Monetary Fund further downgraded its expectations for world economic growth by 0.3 per cent to 2.9 per cent for the year, the slowest pace since the global financial crisis of 2008. China-US trade tensions continued to hammer economic growth and heightened risk in the business environment.

Key risks to economic growth include the build-up of trade and geopolitical tensions among major economies, greater uncertainty about the direction in which monetary policy adjustments in the developed economies are headed, and high and rising levels of debt in both developed and developing countries. Any of these factors could continue to affect recent improvements in the global economy.

Despite the negative impact of the US tariff increase on the Chinese economy as a result of the trade war, China's GDP grew in line with market expectations at 6.1 per cent in 2019, which marked the lowest annual growth rate in 29 years.

Business challenges faced by the Group include competition from direct sales by upstream gas companies, as well as suppliers of liquefied natural gas (LNG) and alternative energy sources. Other threats to our business include drops in oil prices and changes in government policy (political, legal, regulatory, environmental or competition-related) that could also affect our operations.

Our strategy for dealing with business risks continues to be critical for the sustainable growth and success of the Group. In line with this strategy, we remain prudent in our capital investments and seek ways to improve the productivity and cost effectiveness of all our operations. Credit monitoring is also reinforced to minimise the risk of a customer default.

Furthermore, we are constantly exploring new gas applications and new business opportunities to achieve business diversification in mainland China, while maintaining close communication with our operational partners and governments whose support is essential for our business growth.

Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and broaden our access to LNG, we are continuing to evaluate the feasibility of developing LNG receiving and regasification terminal in the coastal regions which will enable us to have access to a range of competitive LNG supplies directly from the international market and help minimise supply risks. Besides, LNG storage facilities are in place to facilitate more efficient gas inventory management and reduce supply bottlenecks during high demand periods. New energy sources have also become available, including natural gas from Russia which started to supply northern and northeastern China in late 2019.

To ensure reliable gas transmission, we have a sophisticated Supervisory Control and Data Acquisition (SCADA) system to monitor and control our pressure-regulating stations and network. We also have a comprehensive staff training programme, asset management systems, and contingency plans with regular practice drills, in preparation for unforeseen events that might affect our customers and the public.

Distribution Network Safety

Preventing gas leakages or explosions in our pipelines, networks and storage facilities is a top priority for Towngas China. Risks include the possibility of damage to critical facilities or related infrastructure from a third party, a security threat or extreme weather events such as typhoons, flooding or landslides. These and other factors affecting the safety of our infrastructure or causing an interruption to service would have a significant legal, financial and/or reputational impact on the Group.

Towngas China conducts regular reviews of all operating procedures to mitigate these risks and implements targeted strategies for addressing them. Our Total Quality Management system, for example, covers all critical transmission, distribution and storage facilities. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

Information Security

Our business operations are dependent on information technology systems that are vulnerable to a critical system failure, leakage or loss of sensitive information, all of which would adversely affect the Group's business. Accordingly, we have put in place protective measures to manage data loss and monitor suspicious cyber activities. We also commission third parties to assess our security standards and identify areas for enhancement. Other security measures include contingency plans with regular drills to counter system failures as well as staff awareness programmes on cybersecurity and sensitive information handling to fully safeguard our operations against growing information security threats. Furthermore, the development of new regulatory requirements in mainland China relating to information security is also under close scrutiny for proper compliance.

Ethics and Integrity

Maintaining strong corporate governance standards and operating ethically are among management's top concerns. Poor ethical behaviour by employees could damage our corporate reputation as well as adversely affect our long-established business relationships with stakeholders, including our customers and suppliers, which may have potential financial implications. In order to provide an ethical workplace with integrity, we have policies on the standards of behaviour we expect of our employees and provide them with regular training in these policies. We have also established formal channels for reporting suspected cases of fraud and encourage our business partners to follow the same ethical principles that we promote in our Anti-Fraud Policy.

Health and Safety

We recognise the importance of maintaining high levels of occupational health and safety in all our operations. Serious accidents or the outbreak of a communicable disease, among other risks, could cause injury, loss of life and operational disruption that would result in huge recovery costs, litigation or reputational damage.

To mitigate and contain the risks directly or indirectly under our control, we encourage staff at all levels to monitor and report any hazards or potential threats. We also have comprehensive safety guidelines and measures that ensure our safety performance conforms to the highest industry standards. Our safety management system, certified for compliance with international standards, is reviewed and updated regularly. We also emphasise the importance of maintaining a comprehensive and effective safety culture by providing staff and contractors with systematic professional, technical and safety-related training.

Board of Directors

James Kwan Yuk-choi | Martin Kee Wai-ngai | Alfred Chan Wing-kin | Peter Wong Wai-yee | Moses Cheng Mo-chi | John Ho Hon-ming | Brian David Li Man-bun

Mr. Alfred Chan Wing-kin, *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*, aged 69, has been the Chairman and an Executive Director of the Company since March 2007. Mr. Chan is the Managing Director of HKCG (a listed public company and the controlling shareholder of the Company) and is a director of major local and overseas subsidiaries of HKCG. He is also the Vice Chairman of Shenzhen Gas Corporation Ltd., a Director of Foran Energy Group Co., Ltd. (formerly known as Foshan Gas Group Co., Ltd.) and a Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd., all of which are listed public companies. He is an Honorary President of The Hong Kong Management Association and a Vice Chairman of China Gas Association. Mr. Chan is a Member of the Standing Committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region. He was previously the Deputy Chairman of the Council of The Hong Kong Institute of Education (now known as The Education University of Hong Kong) and a Member of the Board of Stewards of The Education University of Hong Kong Foundation. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006, the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, "The CEO of the Year 2017" Award from China Newsweek in 2017 and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review from 2015 to 2019. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

Mr. Peter Wong Wai-yee, *C.P.A.(CANADA), C.M.A., C.P.A.(H.K.), A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*, aged 68, has been an Executive Director and the Chief Executive Officer of the Company since March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer of the Utilities Business of HKCG (a listed public company and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd. and China-Singapore Suzhou Industrial Park Development Group Co., Ltd.. He was previously the Vice Chairman of Foshan Gas Group Co., Ltd. (now known as Foran Energy Group Co., Ltd.). All of which are listed public companies. He is a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. Mr. Wong was named consecutively as one of "The Best CEO of Chinese Listed Companies" by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada, a certified public accountant of Hong Kong and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of the Institution of Gas Engineers & Managers of the United Kingdom. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Wong was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch, a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. He is a member of the Advisory Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University. Mr. Wong has over 43 years of experience in corporate finance, management and international working experience.

Mr. John Ho Hon-ming, *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.)*, aged 63, has been an Executive Director and the Company Secretary of the Company since March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a listed public company and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd., Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd. (formerly known as Foshan Gas Group Co., Ltd.), all of which are listed public companies. Mr. Ho is a General Committee member of the Chamber of Hong Kong Listed Companies and the Vice Chairman of the Taxation Committee of the Hong Kong General Chamber of Commerce. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Hong Kong Institute of Directors. Mr. Ho graduated from the University of Manchester in the United Kingdom with an honorable Bachelor of Arts degree in Economics and Social Studies (Accounting and Finance). He completed the Advanced Management Program from Harvard Business School in the United States, the Senior Executive Program offered by Harvard Business School, Tsinghua University School of Economics and Management and China Europe International Business School, and the Chief Executive Program from Singapore Institute of Management. Mr. Ho has over 41 years of experience in accounting, corporate finance and investments.

Mr. Martin Kee Wai-ngai, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 53, has been an Executive Director of the Company since May 2015 and was appointed as the Chief Operating Officer of the Company in July 2017. Mr. Kee graduated from the Department of Engineering, The University of Hong Kong and holds a master degree in Business Administration. He joined HKCG (a listed public company and the controlling shareholder of the Company) in 1990. In 2003, Mr. Kee was appointed as the general manager of Changzhou Hong Kong and China Gas Company Limited. He has become the general manager of Nanjing Hong Kong and China Gas Company Limited since October 2006, and was appointed as the senior vice president in February 2009, responsible for the overall operation and management of the gas project companies in Jiangsu region. He was then appointed as the executive vice president in October 2012, responsible for the operation and management of the gas project companies in Jiangsu, Anhui and Zhejiang regions, and then the southwest and Jiangxi regions starting from April 2015. He was appointed as the executive vice president of Hong Kong & China Gas Investment Limited and Hua Yan Water business in July 2017. He is the Vice Chairman of Anhui Province Natural Gas Development Co., Ltd. and a director of Nanjing Public Utilities Development Co., Ltd., both of which are listed public companies. Mr. Kee is a member of the 14th Nanjing Committee of the Chinese People's Political Consultative Conference.

Board of Directors

Dr. Moses Cheng Mo-chi, *GBM, GBS, OBE, JP*, aged 70, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Remuneration Committee and a member of the Board Audit and Risk Committee and the Nomination Committee of the Company. He is also an independent non-executive director of HKCG (a listed public company and the controlling shareholder of the Company). Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is now also serving as Chairman of the Insurance Authority. In addition, he is a Fellow of the Hong Kong Academy of Finance. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all of which are listed public companies in Hong Kong. His other directorships in listed public companies in the last 3 years include Kader Holdings Company Limited and ARA Asset Management Limited, a company whose shares were formerly listed on the Singapore Stock Exchange.

Mr. Brian David Li Man-bun, *JP, FCA, MBA, MA (Cantab)*, aged 45, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Board Audit and Risk Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is Co-Chief Executive of The Bank of East Asia, Limited ("BEA") (a listed company on the Hong Kong Stock Exchange). He is responsible for the overall management and control of the BEA Group with a particular focus on its China and international businesses. He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009, and Deputy Chief Executive of BEA from April 2009 to June 2019. Mr. Li was appointed Executive Director of BEA in August 2014 and Co-Chief Executive of BEA in July 2019. He is also an independent non-executive director of Shenzhen Investment Holdings Bay Area Development Company Limited and China Overseas Land & Investment Limited, both of which are listed companies on the Hong Kong Stock Exchange. Mr. Li holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a Member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council, a member of the Aviation Development and Three-runway System Advisory Committee, and Vice Chairman of the Executive Committee of St. James' Settlement. Mr. Li is a member of the Hong Kong-Europe Business Council and a member of the Hongkong–Japan Business Co-operation Committee. He is also a Vice Chairman of the Asian Financial Cooperation Association and a member of the Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is also a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University as well as a BA degree from the University of Cambridge.

Mr. James Kwan Yuk-choi, *J.P., R.P.E.(Gas), C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng)*, aged 67, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company in 2013. Mr. Kwan was re-designated as an Independent Non-Executive Director and appointed as a member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from May 2015. Mr. Kwan is also an independent non-executive director of MTR Corporation Limited (a listed public company). He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and a VTC Honorary Fellowship by the Vocational Training Council in 2015. He was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Hong Kong Special Administrative Region. Mr. Kwan is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom.

Notes:

1. The interests of Directors of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2019 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying shares and Debentures" in the "Report of the Directors" of this Annual Report.

2. Save as disclosed in the Directors' respective biographical details under the "Board of Directors" section, the Directors (a) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 13 to the consolidated financial statements.

4. The current term of office of Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, each an Independent Non-Executive Director, shall expire on 20 May 2022. It is proposed to re-elect Dr. Moses Cheng Mo-chi as an Independent Non-Executive Director for a term of 3 years commencing on the date of the Company's annual general meeting (the "AGM") in 2020. Their respective terms of office are subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the provisions of the Company's memorandum and the articles of association (the "Articles") in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the AGM. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM.

Report of the Directors

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in Note 46 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement on page 80.

The Directors have recommended the payment of a final dividend out of the share premium account of HK fifteen cents per share (2018: HK fifteen cents per share) to shareholders whose names are on the register of members of the Company on Friday, 29 May 2020.

The proposed final dividend, if approved by the shareholders at the AGM, will be payable in cash, with an option granted to shareholders to receive new and fully paid shares of the Company in lieu of cash, or partly in cash and partly in new shares under the scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the proposed final dividend, but will rank pari passu in all other respects with the existing shares.

The circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Friday, 5 June 2020. Subject to approval by shareholders at the AGM to be held on Thursday, 21 May 2020 and compliance with the Companies Law of the Cayman Islands, the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be distributed to shareholders on or about Monday, 6 July 2020. The register of members of the Company will be closed from Wednesday, 27 May 2020 to Friday, 29 May 2020 (both days inclusive), for the purpose of determining shareholders who qualify for the final dividend and during which period no transfer of shares of the Company will be registered.

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

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent on or about Monday, 6 July 2020 to the shareholders whose names appear on the register of members of the Company on Friday, 29 May 2020.

Business Review

The business review of the Group for the year ended 31 December 2019 including a fair review of the business, an indication of likely future development in the Group's business, and particulars of important events affecting the Group that have occurred since the end of the financial year of 2019 (if any), is set out in the sections headed "Chairman's Statement" on pages 6 to 11, "Financial Review" on pages 12 to 15 and "Review of Operations" on pages 16 to 33 of this Annual Report. A discussion on the Group's environmental policies and performance, an account of the Group's key relationships with its stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group can be found in "Review of Operations" on pages 16 to 33 and "Corporate Governance Report" on pages 57 to 73 as well as the standalone 2019 Environmental, Social and Governance Report.

Description of possible risks and uncertainties that the Group may be facing can be found in the "Financial Review" on pages 12 to 15, "Risk Factors" on pages 36 to 37 and Notes 4 to 6 to the consolidated financial statements on pages 125 to 142 of this Annual Report.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 129 to 139. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Financial Highlights" on page 5 of this Annual Report.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 84.

The Company's reserves available for distribution to shareholders as at 31 December 2019 amounted to HK$2,461 million (2018: HK$3,010 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2019 is set out on page 4.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

Report of the Directors

Share Capital

During the year, the Company declared a final dividend of HK fifteen cents per share for the year ended 31 December 2018 in cash (with scrip option). A total of 60,659,116 shares of the Company, fully paid, were issued and allotted in scrip form at HK$5.712 per share. No consideration was received by the Company for the issue.

Details of movements in the share capital of the Company during the year are set out in Note 36 to the consolidated financial statements.

Directors

The Directors during the year and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Alfred Chan Wing-kin *(Chairman)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-Executive Directors

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

In accordance with article 112 of the Articles, Mr. Alfred Chan Wing-kin, Mr. Martin Kee Wai-ngai and Dr. Moses Cheng Mo-chi, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

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

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

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

The biographical details of the Directors of the Company are set out on pages 38 to 41 of this Annual Report.

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

As at 31 December 2019, the interests or short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares

			Interest in shares				
Name of Company	Name of Director	Capacity	Personal interest	Family interest	Corporate interest	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2019
Towngas China Company Limited	Alfred Chan Wing-kin	Beneficial owner	3,881,901	–	–	3,881,901	0.14%
	Peter Wong Wai-yee	Beneficial owner	3,075,000	–	–	3,075,000	0.11%
	John Ho Hon-ming	Beneficial owner	1,089,034	–	–	1,089,034	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	2,265,000	0.08%
HKCG	Alfred Chan Wing-kin	Interest held jointly with spouse	322,697	–	–	322,697	0.00%
	John Ho Hon-ming	Beneficial owner	50,532	–	–	50,532	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	110,000	129,070	–	239,070	0.00%

Save as stated above, as at 31 December 2019, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked Agreements

No equity-linked agreements were entered into by the Group, or existed during the year.

Directors' Material Interests in Transactions, Arrangements or Contracts

Other than the transactions disclosed under the heading "Connected Transactions" below, there were no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, were entered into in the year or subsisted at the end of the year or at any time during the year.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Permitted Indemnity Provision

The Articles provides that every Director, auditor or other officer of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director, auditor or other officer of the Company in defending any proceedings, in which judgment is given in his/her favour, or in which he/she is acquitted.

The permitted indemnity provision was in force during the year and the Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Alfred Chan Wing-kin, the Chairman of the Company, is the Managing Director of HKCG; Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, is an Executive Director of HKCG.

HKCG and its subsidiaries (excluding the Group) (the "HKCG Group") are principally engaged in the production, distribution and marketing of gas, water supply and emerging environmental-friendly energy businesses in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scales and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

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

Report of the Directors

Substantial Shareholders

As at 31 December 2019, so far as the Directors are aware, the interests or short positions of every person, other than the Directors or chief executive of the Company, in the issued shares of the Company (the "Shares") as recorded in the register of substantial shareholders required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares as at 31.12.2019
Lee Shau-kee	Interest of controlled corporations	1,945,034,864 *(Note 1)*	67.76%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,945,034,864 *(Note 2)*	67.76%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,945,034,864 *(Note 2)*	67.76%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,945,034,864 *(Note 2)*	67.76%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,945,034,864 *(Note 2)*	67.76%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,945,034,864 *(Note 2)*	67.76%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,945,034,864 *(Note 2)*	67.76%
HKCG	Interest of controlled corporations	1,945,034,864 *(Note 3)*	67.76%
Towngas International Company Limited ("TICL")	Interest of controlled corporation	1,777,488,912 *(Note 3)*	61.92%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,777,488,912 *(Note 3)*	61.92%
Towngas Investment Company Limited ("TICL-HK")	Interest of controlled corporations	167,545,952 *(Note 3)*	5.84%
Planwise Properties Limited ("Planwise")	Beneficial owner	164,742,704 *(Note 3)*	5.74%
Mitsubishi UFJ Financial Group, Inc. ("Mitsubishi UFJ")	Interest of controlled corporations	200,440,585 *(Note 4)*	6.98%

Substantial Shareholders *(Continued)*

Long positions in Shares *(Continued)*

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau-kee. Dr. the Hon. Lee Shau-kee was therefore taken to be interested in the same 1,945,034,864 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,945,034,864 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,777,488,912 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("Superfun") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 167,545,952 Shares, which included (i) the 164,742,704 Shares held by Planwise; and (ii) the 2,803,248 Shares held by Superfun by virtue of Part XV of the SFO.

4. Mitsubishi UFJ was taken to be interested in these 200,440,585 Shares which were held by indirect wholly-owned subsidiaries of Mitsubishi UFJ.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2019, were entitled to exercise or control the exercise of 5% or more of the voting power of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short Positions in Shares and Underlying Shares

As at 31 December 2019, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares.

Other Persons

As at 31 December 2019, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders of the Company as disclosed above) in the Shares or underlying shares that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the Listing Rules.

Report of the Directors

Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2019 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and Note 41 to the consolidated financial statements, as appropriate, in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Gas Purchase Transactions and Pipeline Materials Purchase Transactions

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

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

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

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

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2018 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Connected Transactions *(Continued)*

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

The Gas Purchase Transactions and the Pipeline Materials Purchase Transactions were subject to the annual cap amounts of RMB140,000,000 (approximately HK$159,055,000) and RMB200,000,000 (approximately HK$227,221,000) respectively for the year ended 31 December 2019. The actual respective amounts of the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2019 were RMB106,761,000 (approximately HK$121,292,000) and RMB140,799,000 (approximately HK$159,963,000) respectively, which had not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and the Pipeline Materials Purchase Transactions for the year ended 31 December 2019 were entered into:

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

(ii) on normal commercial terms; and

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

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

Report of the Directors

Connected Transactions *(Continued)*

Project Management Transactions and System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions

On 5 December 2016, the Company entered into master agreements with two subsidiaries of HKCG respectively, namely:

(1) an agreement (the "2016 Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 ("Shenyang Sanquan"), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions"); and

(2) an agreement (the "2016 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement", and together with the 2016 Master Project Management Agreement collectively referred to as the "2016 CCT Master Agreements") relating to the provision by 珠海卓銳高科信息技術有限公司 ("Zhuhai S-Tech"), a wholly-owned subsidiary of HKCG, to members of the Group of (i) the user authorisation, installation, management and maintenance and the provision of technical supporting services in respect of the system software developed by Zhuhai S-Tech, including but not limited to Towngas Customer Information System, Geographic Information System, Supervisory Control and Data Acquisition, Mobility Meter Reading Application, Mobility Regular Safety Inspection Application and Mobility Maintenance Service Application and (ii) the user authorisation, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems (the "System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions"),

each for a term commencing from 1 January 2017 to 31 December 2019 (both days inclusive). Particulars of the Project Management Transactions and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions and the 2016 CCT Master Agreements were disclosed in the announcement of the Company dated 5 December 2016.

As the 2016 Master Project Management Agreement was to expire on 31 December 2019 and members of the Group will from time to time in their ordinary and usual course of business continue to enter into Project Management Transactions after the expiration of the said agreement, the Company had on 6 December 2019 entered into a new master agreement relating to the Project Management Transactions with Shenyang Sanquan (the "2019 Master Project Management Agreement") for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

Connected Transactions *(Continued)*

Project Management Transactions and System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions *(Continued)*

As the 2016 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement was to expire on 31 December 2019 and members of the Group will from time to time in their ordinary and usual course of business continue to enter into System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions after the expiration of the term of the said agreement, and it is intended that only S-Tech Smart Technology (Wuhan) Company Limited ("S-Tech (Wuhan)"), a wholly-owned subsidiary of HKCG, and not Zhuhai S-Tech will be engaged in the future to provide the System Software, Cloud Computing System and Safety Inspection Supporting Services, the Company had therefore on 6 December 2019 entered into a new master agreement with S-Tech (Wuhan) relating to the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions (the "2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement") for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive). Particulars of the 2019 Master Project Management Agreement and the 2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement were disclosed in the announcement of the Company dated 6 December 2019.

As each of Shenyang Sanquan, Zhuhai S-Tech and S-Tech (Wuhan) is a subsidiary of HKCG, which in turn is a controlling shareholder of the Company, each of Shenyang Sanquan, Zhuhai S-Tech and S-Tech (Wuhan) is a connected person of the Company under the Listing Rules. The transactions contemplated under the 2016 CCT Master Agreements, the 2019 Master Project Management Agreement and the 2019 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Project Management Transactions and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions were subject to the annual cap amounts of RMB6,826,000 (approximately HK$7,755,000) and RMB43,000,000 (approximately HK$48,853,000) respectively for the year ended 31 December 2019. The actual respective amounts of the Project Management Transactions and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions for the year ended 31 December 2019 were RMB5,242,000 (approximately HK$5,956,000) and RMB3,159,000 (approximately HK$3,589,000) respectively, which had not exceeded the annual cap amounts as stated above.

Report of the Directors

Connected Transactions *(Continued)*

Project Management Transactions and System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions *(Continued)*

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions for the year ended 31 December 2019 were entered into:

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

(ii) on normal commercial terms; and

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

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

Sale of Distributed Energy Transactions and Engineering Work Services Transactions

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

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

(2) an agreement (the "2019 Master Engineering Work Services Agreement") relating to the provision of engineering work services (including but not limited to non-excavation engineering work services, pipeline positioning measurement services, bidding agency services, cost consultation services, sale of innovative tools, urban pipeline engineering services, water supply, drainage and heating engineering work services, technical consultation services for engineering projects, and pipeline inspection services) by U-Tech (Guang Dong), a wholly-owned subsidiary of the Company, to members of the HKCG Group (the "Engineering Work Services Transactions"),

each for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive). Particulars of the 2019 Master Sale of Distributed Energy Agreement and the 2019 Master Engineering Work Services Agreement were disclosed in the announcement of the Company dated 6 December 2019.

As HKCG is a controlling shareholder of the Company, HKCG is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the 2019 Master Sale of Distributed Energy Agreement and the 2019 Master Engineering Work Services Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in Note 41 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Borrowings

Particulars of borrowings of the Group as at 31 December 2019 are set out in Note 33 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$1,217,000.

Public Float

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

Major Customers and Suppliers

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

Pre-Emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

Report of the Directors

Emolument Policy

As at 31 December 2019, the Group had 22,385 employees. Approximately 99% of the Group's employees are located in the PRC. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company for the Board's approval, having regard to the Group's operating results, individual performance and comparable market statistics. No Director or executive, nor any of his/her associates, is involved in deciding his/her own remuneration.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2019.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 57 to 73 of this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

This report is signed for and on behalf of the Board.

John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 16 March 2020

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintaining high standards of corporate governance. They will continue to exercise leadership, control, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

Corporate Governance Practices

The Company has adopted the code provisions in the CG Code as contained in Appendix 14 to the Listing Rules from time to time, as its own code on corporate governance practices since 2005.

The Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2019.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

Board of Directors

Board Composition

As at the date of this Annual Report, the Board comprises seven members as detailed below:

Executive Directors
Mr. Alfred Chan Wing-kin *(Chairman)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-Executive Directors
Dr. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. Directors give sufficient time and attention to the Group's affairs. The Company also requests the Directors to disclose to the Company semi-annually the number and the nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved. The Board believes that the balance of skills and experience are appropriate for safeguarding the interests of shareholders and the Group.

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company. The insurance coverage is reviewed on an annual basis.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and the Stock Exchange.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between any members of the Board, and in particular, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Chairman and the Chief Executive Officer.

All directors entered into formal letters of appointment with the Company. Pursuant to the Articles, at least one-third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

The Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules during the year ended 31 December 2019.

The current term of office of Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, each an Independent Non-Executive Director, shall expire on 20 May 2022. It is proposed to re-elect Dr. Moses Cheng Mo-chi as an Independent Non-Executive Director for a term of 3 years commencing on the date of the 2020 AGM. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

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

Board of Directors *(Continued)*

Functions of the Board

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

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

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

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

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development

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

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

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2019:

Directors	Type of Training
Executive Directors	
Mr. Alfred Chan Wing-kin *(Chairman)*	A, B
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	A, B
Mr. John Ho Hon-ming *(Company Secretary)*	A, B
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*	A, B
Independent Non-Executive Directors	
Dr. Moses Cheng Mo-chi	A, B
Mr. Brian David Li Man-bun	A, B
Mr. James Kwan Yuk-choi	A, B

A: attending seminars and/or conference and/or forums or giving talks at seminars

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.

Board of Directors *(Continued)*

Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2019 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the CG Code. Details of individual attendance of each of the Directors are set out below:

Directors	Attendance/Number of Meetings
Executive Directors	
Mr. Alfred Chan Wing-kin *(Chairman)*	4/4
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	4/4
Mr. John Ho Hon-ming *(Company Secretary)*	4/4
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*	4/4
Independent Non-Executive Directors	
Dr. Moses Cheng Mo-chi	3/4
Mr. Brian David Li Man-bun	4/4
Mr. James Kwan Yuk-choi	4/4

Chairman and Chief Executive Officer

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Responsibilities of the Directors

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

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

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

Board Committees

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

Board Committees *(Continued)*

Remuneration Committee

The Remuneration Committee comprises one Executive Director, Mr. Alfred Chan Wing-kin, and three Independent Non-Executive Directors, namely Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi and is chaired by Dr. Moses Cheng Mo-chi.

Written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board. The Remuneration Committee's responsibilities include but are not limited to the review and consideration of the Company's remuneration policy for Directors and senior management, the making of recommendations to the Board on the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and the making of recommendations relating to remunerations of Non-Executive Directors.

During the year ended 31 December 2019, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2019;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2019.

The Remuneration Committee held one meeting during the year ended 31 December 2019 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/Number of Meeting
Dr. Moses Cheng Mo-chi	1/1
Mr. Brian David Li Man-bun	1/1
Mr. James Kwan Yuk-choi	1/1
Mr. Alfred Chan Wing-kin	1/1

Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Corporate Governance Report

Board Committees *(Continued)*

Board Audit and Risk Committee

The Board Audit and Risk Committee comprises Mr. Brian David Li Man-bun, Dr. Moses Cheng Mo-chi and Mr. James Kwan Yuk-choi, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Brian David Li Man-bun.

The Board Audit and Risk Committee reports directly to the Board and reviews the interim and annual financial statements, risk management and internal controls of the Company, and to protect the interests of the Company's shareholders.

The Board Audit and Risk Committee meets regularly with the Company's external auditor to discuss various accounting issues, and review the effectiveness of the risk management and internal controls of the Group. Written terms of reference, which describe the authority and duties of the Board Audit and Risk Committee, have been adopted and posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board.

During the year ended 31 December 2019, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2018 and for the six months ended 30 June 2019;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the risk management and internal control system;
- reviewed the external auditor's findings; and
- reviewed the Group's continuing connected transactions for the year ended 31 December 2018 pursuant to the Listing Rules.

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2019 with individual attendance as follows:

Members of the Board Audit and Risk Committee	Attendance/Number of Meetings
Mr. Brian David Li Man-bun	2/2
Dr. Moses Cheng Mo-chi	2/2
Mr. James Kwan Yuk-choi	2/2

Board Committees *(Continued)*

Nomination Committee

The Nomination Committee comprises one Executive Director, Mr. Alfred Chan Wing-kin, and three Independent Non-Executive Directors, Dr. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Mr. James Kwan Yuk-choi, and is chaired by Mr. Alfred Chan Wing-kin.

Written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board. The Nomination Committee's responsibilities include but are not limited to formulating the policy and making recommendations to the Board on nominations and appointments of Directors and Board succession. The Nomination Committee is also responsible for reviewing the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board, assessing the independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board. The Nomination Committee shall consider the candidate from a range of backgrounds based on meritocracy and against objective criteria set out by the Board.

Board Diversity Policy

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

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

Nomination Policy

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

Corporate Governance Report

Board Committees *(Continued)*

Nomination Committee *(Continued)*

During the year ended 31 December 2019, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2019 AGM;
- recommended the extension of the terms of office of all Independent Non-Executive Directors for three years;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board.

The Nomination Committee, having reviewed the Board's composition, nominated Mr. Peter Wong Wai-yee, Mr. John Ho Hon-ming and Mr. Brian David Li Man-bun to the Board for it to recommend to the Shareholders for re-election at the AGM held on 21 May 2019. The nominations were made in accordance with the Nomination Policy and the selection criteria (including without limitation skills, knowledge and experience), having regard for the diversity of perspectives as listed out in the Board Diversity Policy.

The Nomination Committee held one meeting during the year ended 31 December 2019 with individual attendance as follows:

Members of the Nomination Committee	Attendance/Number of Meeting
Mr. Alfred Chan Wing-kin	1/1
Dr. Moses Cheng Mo-chi	1/1
Mr. Brian David Li Man-bun	1/1
Mr. James Kwan Yuk-choi	1/1

Model Code

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2019, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2019.

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

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2019. Deloitte also reviewed the 2019 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2019 amounted to HK$7.77million.

Non-audit service fees charged by Deloitte during 2019 were as follows:

Description of non-audit services performed	HK$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2019	750,000
(2) Taxation services to the Company and its subsidiaries	164,000
(3) Annual review on continuing connected transactions for the year ended 31 December 2019	83,000
Total	997,000

Corporate Governance Report

Directors' and Auditor's Responsibility in Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 78 to 79 of this Annual Report.

Going Concern Basis in Preparing Financial Statements

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Risk Management and Internal Control

Internal Control

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

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

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

Risk Management and Internal Control *(Continued)*

Internal Control *(Continued)*

During the year ended 31 December 2019, the Board, through the Board Audit and Risk Committee, has conducted a bi-annual review of the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

The Board ensured that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance or material internal control defects, if any. The Board also considered that the Group's risk management and internal control systems are effective and adequate.

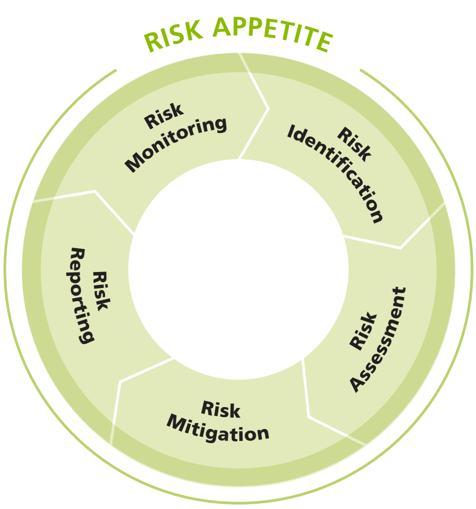
Risk Management

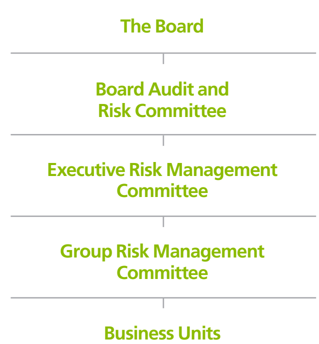
Risk Management Framework

Rooted in its corporate vision and mission, the Group strives the best to provide its customers with a safe, reliable supply of gas as well as the caring, competent and efficient service they expect. Meanwhile, the Group is also working to pursue sustainable development and caring for the environment, people and community.

To ensure growth and long-term value for the key stakeholders, the Group considers risk governance as its top priority and is committed to establishing a robust system of risk identification and management which is central to its ongoing success.

The Group has in place an Enterprise Risk Management Framework (the "Framework") that depicts the system to effectively identify, assess, mitigate, report and monitor key business risks across all business units of the organisation. The system enables the management team to gain a clear view of the significant risks for better strategy setting and project execution which ultimately contribute to enhanced business performance.





Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Risk Management *(Continued)*

Risk Appetite

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

1. Major incidents affecting safety and health of its staff, contractors and the general public;

2. Loss or failure of infrastructures and operations materially affecting production and supply;

3. Material financial loss impacting ability of the Group to carry out its business drivers;

4. Incidents leading to profound negative impact on corporate image or reputation;

5. Legal actions that are liable for major loss or suspension of operations; and

6. Incidents leading to severe impacts on the environment.

Risk Management Structure

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

Risk Management Process

The risk management process is embedded into the day-to-day operation and is an ongoing process carried out by everyone in the organisation across all business units.

Each company of the Group has its own risk management process and system. Regular communication is made among companies, regional offices and headquarters of the Group on the latest risk exposures and mitigation measures to ensure risks are effectively managed and issues are timely reported. Regular independent review would be performed to ensure the risk management system is operating effectively.

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

Risk Management and Internal Control *(Continued)*

Risk Management *(Continued)*

Risk Management Process *(Continued)*

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

A description of the Group's risk factors is shown on pages 36 and 37 of this Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

Company's Constitutional Documents

During the year, there have been no changes to the Company's constitutional documents.

Company Secretary

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

Corporate Governance Report

Communication with Shareholders

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

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

The Company has maintained a website at "www.towngaschina.com" which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived (for documents published in the previous five years) on the Company's website and there are established procedures to ensure timely updates of the same in compliance with the Listing Rules.

At the 2019 AGM held on 21 May 2019, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman of the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2019 AGM to answer questions from the Company's shareholders.

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

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2019 are set out below:

Director	Attendance/Number of Meeting
Executive Directors	
Mr. Alfred Chan Wing-kin *(Chairman)*	1/1
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*	1/1
Mr. John Ho Hon-ming *(Company Secretary)*	1/1
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*	1/1
Independent Non-Executive Directors	
Dr. Moses Cheng Mo-chi	0/1
Mr. Brian David Li Man-bun	0/1
Mr. James Kwan Yuk-choi	1/1

Dividend Policy

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

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders and putting forward proposals

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

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

Making Enquiries to the Board

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

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF TOWNGAS 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 China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 80 to 196, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recognition of gas connection income	
We identified recognition of gas connection income as a key audit matter due to its quantitative significance to the consolidated income statement and management judgments and estimation involved in the recognition. As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK$2,089 million from gas connection during the year ended 31 December 2019. Management judgments and estimation 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 accounting policies and estimation uncertainty in relation to recognition of gas connection income are set out in notes 3 and 4 respectively to the consolidated financial statements.	Our procedures in relation to recognition of gas connection income included: • Understanding and testing 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; • Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis, and considering the historical accuracy of the Group's percentage of completion estimates based on the time costs incurred by labour or value of the services transferred to the customers to date through identifying if there are any significant subsequent adjustments on the same contracts across different years; and • Verifying completion of selected contracts through evidencing delivery of completed contracts.

Independent Auditor's Report

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 2019, the Group has goodwill of approximately HK$5,297 million relating to CGUs principally engaged in the sales and distribution of piped gas and gas connection in the People's Republic of China. Based on the assessment made by management of the Group, an impairment provision of HK$148 million was recognised during the year ended 31 December 2019. Details are disclosed in note 21 to the consolidated financial statements.

Management's assessment of goodwill impairment is highly judgmental and is dependent on certain significant inputs including the discount rates, growth rates, expected changes to selling prices and direct costs and expected impact of the regulatory changes.

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

Our procedures in relation to impairment assessment of goodwill 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 of those CGUs 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 the management's business plans in respect of each CGU; and
- Performing the sensitivity analysis on the key inputs to evaluate the magnitude of their impacts on the results of assessment of goodwill impairment.

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.

Independent Auditor's Report

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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, related safeguards.

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

16 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Revenue	7 & 8	**12,924,371**	11,787,002
Total operating expenses	9	**(11,168,806)**	(10,189,627)
		1,755,565	1,597,375
Other losses, net	10	**(85,330)**	(59,524)
Share of results of associates		**359,313**	323,076
Share of results of joint ventures		**383,217**	346,641
Finance costs	11	**(398,707)**	(315,438)
Profit before taxation	12	**2,014,058**	1,892,130
Taxation	14	**(501,485)**	(478,981)
Profit for the year		**1,512,573**	1,413,149
Profit for the year attributable to:			
Shareholders of the Company		**1,308,425**	1,224,274
Non-controlling interests		**204,148**	188,875
		1,512,573	1,413,149
Proposed final dividend of HK fifteen cents (2018: HK fifteen cents) per ordinary share	15	**430,603**	421,504
		HK cents	HK cents
Earnings per share	16		
– Basic		**46.06**	43.89

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**1,512,573**	1,413,149
Other comprehensive income (expense) for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**(365,792)**	(954,982)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**1,965,045**	78,565
Income tax relating to items that will not be reclassified to profit or loss	**(492,232)**	(19,641)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**39,614**	(15,061)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(40,017)**	(1,216)
	1,106,618	(912,335)
Total comprehensive income for the year	**2,619,191**	500,814
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**2,471,357**	436,688
Non-controlling interests	**147,834**	64,126
Total comprehensive income for the year	**2,619,191**	500,814

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	17	**17,219,229**	15,914,048
Right-of-use assets	18	**799,774**	–
Leasehold land	19	**–**	638,502
Intangible assets	20	**465,432**	492,669
Goodwill	21	**5,297,022**	5,522,253
Interests in associates	22	**4,263,989**	4,009,196
Interests in joint ventures	23	**2,756,425**	2,520,858
Loan to an associate	22	**21,924**	11,159
Loan to a joint venture	23	**–**	39,854
Equity instruments at fair value through other comprehensive income	24	**2,399,044**	381,449
Other financial asset	29	**24,483**	–
		33,247,322	29,529,988
Current assets			
Inventories	25	**587,262**	575,250
Leasehold land	19	**–**	25,629
Loan to an associate	22	**10,962**	–
Loans to joint ventures	23	**215,759**	240,451
Trade and other receivables, deposits and prepayments	26	**1,940,690**	1,833,228
Amounts due from non-controlling shareholders	28	**192,702**	105,168
Other financial assets	29	**–**	37,180
Time deposits over three months	27	**62,752**	56,225
Bank balances and cash	27	**1,937,437**	1,611,487
		4,947,564	4,484,618
Current liabilities			
Trade and other payables and accrued charges	30	**2,215,160**	2,079,926
Contract liabilities	31	**3,309,677**	3,043,956
Lease liabilities	32	**21,034**	–
Amounts due to non-controlling shareholders	28	**64,140**	96,629
Taxation payable		**962,593**	862,740
Borrowings – amounts due within one year	33	**3,433,529**	2,783,581
Loan from a non-controlling shareholder	34	**19,485**	–
Loans from joint ventures	34	**30,370**	24,642
Other financial liabilities	29	**–**	114,865
		10,055,988	9,006,339
Net current liabilities		**(5,108,424)**	(4,521,721)
Total assets less current liabilities		**28,138,898**	25,008,267

	NOTES	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Lease liabilities	32	**35,572**	–
Borrowings – amounts due after one year	33	**6,805,833**	6,720,751
Deferred taxation	35	**982,070**	495,900
Other financial liabilities	29	**15,413**	22,300
		7,838,888	7,238,951
Net assets		**20,300,010**	17,769,316
Capital and reserves			
Share capital	36	**287,069**	281,003
Reserves	37	**18,324,987**	15,948,194
Equity attributable to shareholders of the Company		**18,612,056**	16,229,197
Non-controlling interests		**1,687,954**	1,540,119
Total equity		**20,300,010**	17,769,316

The consolidated financial statements on pages 80 to 196 were approved and authorised for issue by the Board of Directors ("the Board") on 16 March 2020 and are signed on its behalf by:

Alfred Chan Wing-kin
DIRECTOR

Brian David Li Man-bun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to shareholders of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Exchange reserve** HK$'000	**Hedge reserve** HK$'000	**General reserves** HK$'000 (note 37)	**Investment revaluation reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2018	276,869	6,226,762	1,060,747	–	247,280	99,224	8,017,651	15,928,533	1,352,331	17,280,864
Exchange differences on translation from functional currency to presentation currency	–	–	(830,233)	–	–	–	–	(830,233)	(124,749)	(954,982)
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	78,565	–	78,565	–	78,565
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	–	(19,641)	–	(19,641)	–	(19,641)
Net fair value change on derivative instrument designated as cash flow hedge recorded in hedge reserve	–	–	–	(15,061)	–	–	–	(15,061)	–	(15,061)
Reclassification of fair value change on derivative instrument designated as cash flow hedge to profit or loss	–	–	–	(1,216)	–	–	–	(1,216)	–	(1,216)
Profit for the year	–	–	–	–	–	–	1,224,274	1,224,274	188,875	1,413,149
Total comprehensive (expense) income for the year	–	–	(830,233)	(16,277)	–	58,924	1,224,274	436,688	64,126	500,814
Issue of shares upon scrip dividend scheme (note 36)	4,134	303,258	–	–	–	–	–	307,392	–	307,392
Transfer	–	–	–	–	54,928	–	(54,928)	–	–	–
Acquisition of additional interest of a subsidiary	–	–	–	–	–	–	(28,113)	(28,113)	(898)	(29,011)
Acquisition of a business	–	–	–	–	–	–	–	–	46,551	46,551
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	169,209	169,209
Dividends declared to shareholders of the Company (note 15)	–	(415,303)	–	–	–	–	–	(415,303)	–	(415,303)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(91,200)	(91,200)
	4,134	(112,045)	–	–	54,928	–	(83,041)	(136,024)	123,662	(12,362)
At 31 December 2018	281,003	6,114,717	230,514	(16,277)	302,208	158,148	9,158,884	16,229,197	1,540,119	17,769,316
Adjustments (note 2)	–	–	–	–	–	–	(9,751)	(9,751)	–	(9,751)
At 1 January 2019 (restated)	**281,003**	**6,114,717**	**230,514**	**(16,277)**	**302,208**	**158,148**	**9,149,133**	**16,219,446**	**1,540,119**	**17,759,565**
Exchange differences on translation from functional currency to presentation currency	**–**	**–**	**(309,478)**	**–**	**–**	**–**	**–**	**(309,478)**	**(56,314)**	**(365,792)**
Fair value change on investments in equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,965,045**	**–**	**1,965,045**	**–**	**1,965,045**
Income tax relating to items that will not be reclassified to profit or loss	**–**	**–**	**–**	**–**	**–**	**(492,232)**	**–**	**(492,232)**	**–**	**(492,232)**
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**–**	**–**	**–**	**39,614**	**–**	**–**	**–**	**39,614**	**–**	**39,614**
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**–**	**–**	**–**	**(40,017)**	**–**	**–**	**–**	**(40,017)**	**–**	**(40,017)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1,308,425**	**1,308,425**	**204,148**	**1,512,573**
Total comprehensive (expense) income for the year	**–**	**–**	**(309,478)**	**(403)**	**–**	**1,472,813**	**1,308,425**	**2,471,357**	**147,834**	**2,619,191**
Issue of shares upon scrip dividend scheme (note 36)	**6,066**	**340,419**	**–**	**–**	**–**	**–**	**–**	**346,485**	**–**	**346,485**
Transfer	**–**	**–**	**–**	**–**	**40,859**	**–**	**(40,859)**	**–**	**–**	**–**
Acquisition of additional interest of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(3,728)**	**(3,728)**	**(9,304)**	**(13,032)**
Capital contribution from non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**100,090**	**100,090**
Dividends declared to shareholders of the Company (note 15)	**–**	**(421,504)**	**–**	**–**	**–**	**–**	**–**	**(421,504)**	**–**	**(421,504)**
Dividends paid to non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(90,785)**	**(90,785)**
	6,066	**(81,085)**	**–**	**–**	**40,859**	**–**	**(44,587)**	**(78,747)**	**1**	**(78,746)**
At 31 December 2019	**287,069**	**6,033,632**	**(78,964)**	**(16,680)**	**343,067**	**1,630,961**	**10,412,971**	**18,612,056**	**1,687,954**	**20,300,010**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 **HK$'000**	2018 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**2,014,058**	1,892,130
Adjustments for:		
Interest income	**(20,130)**	(17,823)
Interest expenses	**391,983**	309,660
Share of results of associates	**(359,313)**	(323,076)
Share of results of joint ventures	**(383,217)**	(346,641)
Dividend income from equity instruments at fair value through other comprehensive income	**(30,515)**	(52,227)
Amortisation of intangible assets	**18,712**	19,400
Depreciation of right-of-use assets/release of leasehold land	**53,912**	19,945
Depreciation of property, plant and equipment	**620,630**	568,944
Impairment provision of goodwill	**148,000**	–
Impairment loss of trade receivables, net of reversal	**16,121**	14,220
Gain on disposal of property, plant and equipment	**(3,261)**	(20,998)
Gain on disposal of right-of-use assets (leasehold land)/leasehold land	**(2,445)**	(41,183)
Change in fair value of other financial assets and liabilities	**64,825**	(13,304)
Exchange (gain) loss	**(41,271)**	231,484
Operating cash flows before movements in working capital	**2,488,089**	2,240,531
(Increase) decrease in inventories	**(22,178)**	28,239
Increase in trade receivables	**(46,876)**	(221,958)
Increase in other receivables, deposits and prepayments	**(232,255)**	(231,575)
Increase in amounts due from non-controlling shareholders	**(89,393)**	–
(Decrease) increase in trade payables	**(6,105)**	106,741
Increase in contract liabilities	**319,518**	91,176
Increase in other payables and accrued charges	**177,839**	4,681
Decrease in amounts due to non-controlling shareholders	**(30,782)**	(57,547)
Cash generated from operations	**2,557,857**	1,960,288
Interest paid	**(420,808)**	(326,908)
Taxation paid	**(383,745)**	(349,657)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,753,304**	1,283,723

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTE	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,203,455)**	(2,311,695)
Purchase of intangible assets		**–**	(15,372)
Acquisition of equity instruments at fair value through other comprehensive income		**(83,896)**	–
Acquisition of a business (net of cash and cash equivalents acquired)	38	**(42,506)**	(47,655)
Consideration paid for acquisition of businesses acquired in prior periods		**–**	(22,099)
Capital injection to associates		**(2,175)**	(68,322)
Capital injection to joint ventures		**(78,997)**	–
(Increase) decrease in time deposits over three months		**(7,520)**	58,279
Payments for right-of-use assets/leasehold land		**(122,559)**	(103,071)
Repayment of loan to a non-controlling shareholder		**–**	17,417
Advance to an associate		**(22,635)**	–
Dividends received from associates		**148,366**	126,602
Dividends received from joint ventures		**204,615**	90,324
Advance to a joint venture		**(36,664)**	–
Repayment of loans to joint ventures		**94,964**	13,827
Dividend income from equity instruments at fair value through other comprehensive income		**30,515**	52,227
Proceeds from disposal of property, plant and equipment		**10,680**	91,997
Interest received		**20,130**	17,823
Proceeds from disposal of right-of-use assets (leasehold land)/leasehold land		**4,218**	63,449
Net settlement of other financial assets/liabilities		**(126,197)**	(114,060)
NET CASH USED IN INVESTING ACTIVITIES		**(2,213,116)**	(2,150,329)
FINANCING ACTIVITIES			
Repayments of bank and other loans		**(9,280,321)**	(5,374,537)
Dividends paid to shareholders of the Company		**(75,019)**	(107,911)
Dividends paid to non-controlling shareholders of subsidiaries		**(90,785)**	(91,200)
New bank and other loans raised		**10,162,392**	6,394,786
Repayment of lease liabilities		**(23,316)**	–
Capital contribution from non-controlling shareholders of subsidiaries		**100,090**	169,209
Acquisition of additional interest in a subsidiary		**(13,032)**	–
Advance from a non-controlling shareholder		**19,790**	–
Advances from joint ventures		**77,704**	3,306
Repayment of loans from joint ventures		**(71,187)**	(26,167)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**806,316**	967,486

	2019 HK$'000	2018 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**346,504**	100,880
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,611,487**	1,605,300
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(20,554)**	(94,693)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**1,937,437**	1,611,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$5,108 million as at 31 December 2019. The Group's liabilities as at 31 December 2019 included borrowings of approximately HK$3,433 million that are repayable within one year from the end of the reporting period.

As at 31 December 2019, the Group had unutilised facilities amounting to approximately HK$6,369 million and as of the date of approval for issuance of the consolidated financial statements, the Group had unutilised facilities amounting to approximately HK$6,301 million (the "Facilities"). When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$3,433 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and the interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Except as described below, the application of the new and amendments to HKFRSs and the interpretation 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.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16 "Leases" *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative to impairment review;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. applied a single discount rate to a portfolio of leases with similar remaining terms for a similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of plant and equipment and properties in the PRC were determined on a portfolio basis.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16 "Leases" *(Continued)*

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5%.

Lease liabilities as at 1 January 2019

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	103,313
Lease liabilities discounted at relevant incremental borrowing rates as at 1 January 2019	83,466
Analysed as:	
Current portion	19,006
Non-current portion	64,460
	83,466

Right-of-use assets as at 1 January 2019

The carrying amount of right-of-use assets as at 1 January 2019 comprises of right-of-use assets relating to operating leases recognised upon application of HKFRS 16 of HK$76,650,000 and amount reclassified from leasehold land of HK$664,131,000.

Upfront payments for leasehold lands in the PRC were classified as leasehold land as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of leasehold land amounting to HK$25,629,000 and HK$638,502,000 respectively were reclassified to right-of-use assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16 "Leases" ***(Continued)***

As a lessee (Continued)

The following table summarises the impact of transition to HKFRS 16 on retained earnings at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 HK$'000
Retained earnings	
Reversal of rental expenses recognised in accordance with HKAS 17 before date of initial application of HKFRS 16	40,188
Depreciation of right-of-use assets from commencement date of the leases to the date of initial application of HKFRS 16	(36,696)
Interest expenses on lease liabilities from commencement date of the respective leases to the date of initial application of HKFRS 16	(10,308)
Adjustment to interests in joint ventures upon adoption of HKFRS 16 (note)	(2,753)
Adjustment to interests in associates upon adoption of HKFRS 16 (note)	(182)
Impact at 1 January 2019	(9,751)

Note: The initial application of HKFRS 16 resulted in a net decrease in interests in joint ventures and interests in associates of HK$2,753,000 and HK$182,000 respectively (which is arising from the impacts relating to the reversal of rental expenses recognised in accordance with HKAS 17 before date of initial application of HKFRS 16, recognition of depreciation of right-of-use assets and interest expenses on lease liabilities from commencement date of the respective leases to the date of initial application of HKFRS 16) with corresponding adjustments to retained earnings.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	HK$'000	HK$'000
Non-current assets			
Right-of-use assets	–	740,781	740,781
Leasehold land	638,502	(638,502)	–
Interests in joint ventures	2,520,858	(2,753)	2,518,105
Interests in associates	4,009,196	(182)	4,009,014
Current asset			
Leasehold land	25,629	(25,629)	–
Current liability			
Lease liabilities	–	(19,006)	(19,006)
Non-current liability			
Lease liabilities	–	(64,460)	(64,460)
Reserves			
Retained earnings	(9,158,884)	9,751	(9,149,133)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. Application of New and 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[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKFRS 3 "Definition of a Business"

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

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

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

Amendments to HKFRS 3 "Definition of a Business" *(Continued)*

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 "Financial Instruments" and HKAS 39 "Financial Instruments: Recognition and Measurement", which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 "Financial Instruments: Disclosures" regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The application of the amendments will not affect the eligibility of the Group's current hedging relationships but may result in more disclosure in the consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. Significant Accounting Policies

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

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

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

3. Significant Accounting Policies *(Continued)*

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 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

The principal accounting policies are set out below.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

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

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

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.

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Business combinations

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

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

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

- 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.

3. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. 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.

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.

3. Significant Accounting Policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

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

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

The progress towards complete satisfaction of a performance obligation is measured based on the time cost incurred by labour or value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

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

Performance obligations for contracts with customers

Sales and distribution of piped gas and related products

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

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

Gas connection

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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" (upon application of HKFRS 16) or "leasehold land" (before application of HKFRS 16 for operating lease) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Construction in progress

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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 or arising from business combinations on or after the date of initial application, 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.

3. Significant Accounting Policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) ***(Continued)***

Lease liabilities (Continued)

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

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

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

Lease modifications

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

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

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

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.

3. Significant Accounting Policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (prior to 1 January 2019)

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

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

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.

Exclusive operating rights for city pipeline network

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

Distribution network

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Inventories

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

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

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

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

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

3. Significant Accounting Policies *(Continued)*

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

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

Financial instruments

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

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.

All other financial assets are subsequently measured at FVTPL, except derivatives designated in cash flow hedging relationships and except that at the date of initial application of HKFRS 9/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.

3. 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 losses, net" 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, net" line item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. 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 loan to an associate, 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 applies simplified approach to always recognise lifetime ECL for trade receivables from initial recognition until derecognition. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on debtors' aging when necessary.

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

(i) Significant increase in credit risk

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

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

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

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

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

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(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.

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group and loans to related parties are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets (Continued)

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

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

Financial liabilities at FVTPL (Continued)

A financial liability is held for trading if:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

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

Derivative financial instruments

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

Hedge accounting

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

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

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(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.

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.

Derecognition/substantial modification 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Derecognition/substantial modification of financial liabilities (Continued)

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

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

Non-substantial modifications of financial liabilities

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss 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.

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary difference arising from subsequent revisions to the carrying amounts of the right-of-use assets and lease liabilities resulting from remeasurement of the lease liabilities and lease modifications that re not subject to the initial recognition exemption are recognised on the date of remeasurement or modification.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Significant Accounting Policies *(Continued)*

Foreign currencies

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

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

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

Borrowing costs

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

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

Retirement benefits costs

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Critical judgements in applying accounting policies

Control over 唐山港能投智慧能源有限公司 ("Tangshan Energy") and Tangshan Fengnan Towngas China Energy Co., Ltd. ("Tangshan Fengnan") (the "PRC Entities")

The PRC Entities are subsidiaries of the Group although the Group holds 49% or 45% ownership interests and voting rights in the PRC Entities and the remaining equity interests of the PRC Entities are owned by shareholders that are unrelated to the Group. Details of these are set out in note 46.

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

Key sources of estimation uncertainty

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Key sources of estimation uncertainty *(Continued)*

Recognition of gas connection income

The Group recognises the gas connection income when control of the services underlying the particular performance obligations in the contracts is transferred to the customers. The progress towards complete satisfaction of the relevant performance obligation is satisfied over time, which requires management's best estimates in determining the time cost incurred by labour or value of the services transferred to the customers to date. Any change in the estimates of value of services transferred to the customers to date will affect the related gas connection income recognised in the profit or loss prospectively in each reporting period.

Impairment assessment of goodwill

In 2017 and 2019, the National Development and Reform Commission issued "Guiding Opinions on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinions 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.

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. The terminal value is determined by management with reference to applicable valuation basis and relevant rules and regulations. Discount rates ranging between 8.2% to 11.0% were used to reflect the specific risks relating to the investments. In relation to the city-gas business in the PRC operated by the Group's subsidiaries, the carrying value of goodwill related to these individual city-gas projects as at 31 December 2019 amounted to HK$5,297,022,000 (2018: HK$5,522,253,000), net of an impairment provision of HK$148,000,000 (2018: nil).

The assumptions used in the assessment are highly judgemental and are heavily dependent on the timing and the extent of how the pricing mechanism as detailed in the Guiding Opinions will be implemented as well as the discount rate used and the terminal value. The assessment is sensitive to changes in estimates. Details are disclosed in note 21.

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

Key sources of estimation uncertainty *(Continued)*

Income taxes

As at 31 December 2019, 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$649,721,000 (2018: HK$748,306,000) 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.

Impairment assessment of financial assets and measurement of unquoted equity investments under HKFRS 9

Measurement of unquoted equity investments is subject to fair value measurement under HKFRS 9 and impairment assessment of financial assets is subject to the ECL model.

The Group's unquoted equity instruments are measured at fair value with fair value being determined based on significant unobservable inputs using the market comparable valuation techinque, such as market multiples and discount for lack of marketability. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors and in particular to the unobservable inputs in the form of market multiples and size of discount for lack of marketability could result in material adjustments to the fair value of these instruments.

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 that is reasonable and supportable available without undue costs or effort, including but not limited to the expected economic conditions in the PRC, macroeconomic factors affecting the ability of the customers to settle the debtors 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.

5. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes borrowings and loans from joint ventures disclosed in notes 33 and 34 respectively, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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:

	2019 **HK$'000**	2018 HK$'000
Debt[(i)]	**10,269,732**	9,528,974
Time deposits over three months	**(62,752)**	(56,225)
Bank balances and cash	**(1,937,437)**	(1,611,487)
Net debt	**8,269,543**	7,861,262
Equity[(ii)]	**18,612,056**	16,229,197
Net debt to equity ratio	**44.4%**	48.4%
Gearing Ratio[(iii)]	**30.8%**	32.6%

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

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

(iii) Being the proportion of net debt of HK$8,269,543,000 (2018: HK$7,861,262,000) to equity attributable to shareholders of the Company plus net debt of HK$26,881,599,000 (2018: HK$24,090,459,000).

6. Financial Instruments

Categories of financial instruments

	2019 **HK$'000**	2018 HK$'000
Financial assets		
Financial assets at amortised cost	**3,784,366**	2,935,824
Equity instruments at FVTOCI	**2,399,044**	381,449
Derivative financial instruments	**24,483**	37,180
Financial liabilities		
Amortised cost	**12,154,266**	11,407,251
Lease liabilities	**56,606**	–
Derivative financial instruments	**15,413**	137,165

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies

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

Currency risk

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

Details of the Group's bank balances and cash, time deposits over three months and bank and other borrowings, denominated in United States dollars (''USD") and HKD at the end of the reporting period are set out in notes 27 and 33.

The Group entered into cross currency interest rate swap contracts, cross currency swap contracts and foreign currency forward contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Other than the cross currency interest rate swap contract which is designated as effective hedging instrument for a variable-rate bank borrowing denominated in USD with hedge accounting used (see note 29 for details), these derivative financial instruments are not accounted under hedge accounting. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk ***(Continued)***

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2018: 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% (2018: 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% (2018: 3%) against USD and HKD. For a 3% (2018: 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.

	2019 **HK$'000**	2018 HK$'000
Profit before taxation	**1,052**	108,505

The following details the Group's sensitivity based on the exposure to the Group's cross currency swap contracts, cross currency interest rate swap contracts and foreign currency forward contracts outstanding at the end of the reporting period that are not designated as hedging instruments. 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.

The sensitivity to foreign currency risk has been determined based on management's assessment of the reasonably possible change in exchange rate of USD and HKD against RMB. As at 31 December 2019, all the outstanding derivatives are designated in effective hedge accounting relationships. Accordingly, no sensitivity analysis is presented for them. As at 31 December 2018, if the exchange rate of USD and HKD against RMB is 3% (2018: 3%) higher/lower while all other input variables of the valuation models are held constant, the Group's profit before taxation for the year ended 31 December 2018 would increase/decrease by HK$117,899,000 as a result of the change in fair value of derivatives to which hedge accounting is not applied.

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

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("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. Other than the cross currency interest rate swap contract which is designated as effective hedging instrument for a variable-rate bank borrowing as detailed above, these derivative financial instruments are not accounted under hedge accounting. 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.

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For the year ended 31 December 2019

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

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 (2018: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2018: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2019 would decrease/increase by HK$4,084,000 (2018: HK$12,743,000). 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 increased during the current year mainly due to the decrease in variable-rate debt instruments.

The following details the Group's sensitivity based on the exposure to the Group's cross currency interest rate swap contracts outstanding at the end of the reporting period that are not designated as hedging 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. A 25 basis points (2018: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in forward interest rates.

As at 31 December 2019, all the outstanding derivatives are designated in effective hedge accounting relationship. Accordingly, no sensitivity analysis is presented for them. As at 31 December 2018, if forward interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2018 would increase/decrease by HK$3,151,000 as a result of the change in fair value of these financial derivatives.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities 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$69,121,000 (2018: HK$1,312,000) as a result of the changes in fair value of the investments.

Credit risk and impairment assessment

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

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

Category	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired

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For the year ended 31 December 2019

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 2019 HK$'000	2018 HK$'000
Loan to an associate	22	Low risk	12m ECL	**32,886**	11,159
Loans to joint ventures	23	Low risk	12m ECL	**215,759**	280,305
Trade receivables	26	Low risk	Lifetime ECL – not credit-impaired	**695,446**	754,567
		Watch List	Lifetime ECL – not credit-impaired	**216,043**	136,455
		Loss	Lifetime ECL – credit-impaired	**120,895**	112,216
				1,032,384	1,003,238
Other receivables	26	Low risk	12m ECL	**455,996**	337,288
Amounts due from non-controlling shareholders	28	Low risk	12m ECL	**192,702**	105,168
Time deposit over three months	27	N/A	12m ECL	**62,752**	56,225
Bank balances and cash	27	N/A	12m ECL	**1,937,437**	1,611,487

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, including but not limited to the expected economic conditions in the PRC, macroeconomic factors affecting the ability of the customers to settle the debtors 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 30% (2018: 0% to 30%) for trade receivables not credit-impaired based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided HK$16,121,000 (2018: HK$14,220,000) impairment allowance, net of reversals, for trade receivables based on the provision matrix.

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For the year ended 31 December 2019

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Provision matrix – debtors' aging (Continued)

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

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired)* HK$'000	Total HK$'000
As at 1 January 2018	5,641	118,933	124,574
Exchange realignment	(319)	(6,717)	(7,036)
Impairment losses recognised	14,220	–	14,220
As at 31 December 2018	19,542	112,216	131,758
Exchange realignment	(337)	(1,992)	(2,329)
Reversal of impairment losses	–	(6,884)	(6,884)
Impairment losses recognised	5,450	17,555	23,005
As at 31 December 2019	24,655	120,895	145,550

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

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

Time deposits over three months and bank balances

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

Loans to joint ventures, loan to an associate and amounts due from non-controlling shareholders

The credit risks of loans to joint ventures, loan to an associate and amounts due from non-controlling shareholders are concentrated in five (2018: four) joint ventures, one (2018: one) associate and nine (2018: five) non-controlling shareholders respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associate and non-controlling shareholders, believes the credit risk is minimal and the loss allowance is immaterial. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Other receivables and deposits

Based on the ECL assessment, the credit exposures for other receivables and deposits are considered as low risk and the loss allowance is immaterial because the counterparties have a low risk of default and do not have material past-due amounts.

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK$6,301 million (2018: HK$5,360 million). As stated in note 1, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$5,108 million (2018: HK$4,522 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

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

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For the year ended 31 December 2019

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

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 31.12.2018 HK$'000
2018								
Trade payables	–	337,726	290,647	411,321	160,561	48,138	1,248,393	1,248,393
Other payables	–	533,255	–	–	–	–	533,255	533,255
Amounts due to non-controlling shareholders	–	96,629	–	–	–	–	96,629	96,629
Loans from joint ventures	2.78%	24,699	–	–	–	–	24,699	24,642
Bank loans	3.30%	1,320,310	843,587	864,857	7,580,729	12,151	10,621,634	9,466,400
Other loans	1.35%	1,644	84	22,374	6,757	9,336	40,195	37,932
		2,314,263	1,134,318	1,298,552	7,748,047	69,625	12,564,805	11,407,251
Derivatives – gross settlement								
Cross currency interest rate swap								
– inflow		–	(6,530)	(19,214)	(837,518)	–	(863,262)	N/A
– outflow		–	8,662	26,467	852,561	–	887,690	N/A
		–	2,132	7,253	15,043	–	24,428	22,300
Derivatives – gross settlement								
Cross currency swaps								
– inflow		(1,061,639)	(210,452)	(1,725,508)	–	–	(2,997,599)	N/A
– outflow		1,024,384	233,268	1,752,394	–	–	3,010,046	N/A
		(37,255)	22,816	26,886	–	–	12,447	13,428
Foreign currency forward contracts								
– inflow		–	(907,193)	(200,000)	–	–	(1,107,193)	N/A
– outflow		–	958,213	214,414	–	–	1,172,627	N/A
		–	51,020	14,414	–	–	65,434	64,257

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6. Financial Instruments *(Continued)*

Fair value measurements

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

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

Financial assets/ financial liabilities	Fair value as at 31.12.2019	Fair value as at 31.12.2018	Fair value hierarchy	Valuation techniques and key inputs
1) Listed equity investments classified as FVTOCI in the consolidated statement of financial position	**Asset HK$ 2,304,042,000**	Asset HK$ 43,741,000	Level 1	Quoted market price
2) Cross currency swaps and cross currency interest rate swaps classified as other financial assets/liabilities in the consolidated statement of financial position	**Asset HK$ 24,483,000** **Liabilities HK$ 15,413,000**	Assets HK$ 37,180,000 Liabilities HK$ 72,908,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Foreign currency forward contracts classified as other financial assets/liabilities in the consolidated statement of financial position	**Liabilities Nil**	Liabilities HK$ 64,257,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of the various counterparties.

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		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	31.12.2019	31.12.2018			
Unquoted equity investments	**Assets HK$ 95,002,000**	Assets HK$ 337,708,000	Level 3	Market comparable approach	Market multiples ranging from 1.0 to 1.6 and discount for lack of marketability ranging from 0% to 30% (note)

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

Reconciliation of Level 3 fair value measurements of financial assets

	HK$'000
Balance at 1 January 2018	257,929
Currency realignment	(17,318)
Fair value change recognised to other comprehensive income	97,097
Balance at 31 December 2018	337,708
Addition	83,896
Fair value change recognised to other comprehensive income	284,636
Currency realignment	(13,407)
Transfer to level 1	(597,831)
Balance at 31 December 2019	95,002

Fair value measurements and valuation processes

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

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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)*

Fair value measurements and valuation processes (Continued)

The Group owns 11.7% equity interest in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") that is classified as equity instrument at FVTOCI and is measured at fair value at each reporting date. The fair value of the equity instrument at FVTOCI as at 31 December 2019 amounted to HK$2,259,150,000 (2018: HK$326,402,000). The fair value of the equity instrument at FVTOCI as at 31 December 2018 used a valuation technique with significant unobservable inputs and hence was classified as Level 3 of fair value hierarchy. Chengdu Gas has become a listed entity on the Shanghai Stock Exchange on 17 December 2019 with its shares traded in active market. Therefore, the fair value of Chengdu Gas as at 31 December 2019 was determined based on a published price quotation available on the Shanghai Stock Exchange and was classified as Level 1 fair value hierarchy.

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

Fair 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 and distribution of piped gas and related products of HK$10,835,119,000 (2018: HK$9,754,895,000) and (ii) gas connection of HK$2,089,252,000 (2018: HK$2,032,107,000) for the year ended 31 December 2019, as disclosed in note 8.

As at 31 December 2019, 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$1,601,962,000 and HK$1,070,246,000 (2018: HK$1,287,440,000 and HK$1,651,946,000), respectively, and the Group's contract liabilities of HK$914,242,000 (2018: HK$756,526,000) relating to sales and distribution of piped gas and related products, in which the respective performance obligations have not been satisfied, are expected to be recognised as revenue within one year.

8. Segment Information

Operating segments

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

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

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

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

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

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8. Segment Information *(Continued)*

Operating segments *(Continued)*

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

Information regarding these segments is presented below:

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2019			
REVENUE			
Revenue recognised at a point in time	**10,835,119**	**1,552,166**	**12,387,285**
Revenue recognised over time	**–**	**537,086**	**537,086**
External	**10,835,119**	**2,089,252**	**12,924,371**
Segment results	**1,033,527**	**893,605**	**1,927,132**
Other losses, net			**(85,330)**
Unallocated corporate expenses			**(171,567)**
Share of results of associates			**359,313**
Share of results of joint ventures			**383,217**
Finance costs			**(398,707)**
Profit before taxation			**2,014,058**
Taxation			**(501,485)**
Profit for the year			**1,512,573**

8. Segment Information *(Continued)*

Operating segments *(Continued)*

	Sales and distribution of piped gas and related products HK$'000	Gas connection HK$'000	Consolidated HK$'000
For the year ended 31 December 2018			
REVENUE			
Revenue recognised at a point in time	9,754,895	1,506,304	11,261,199
Revenue recognised over time	–	525,803	525,803
External	9,754,895	2,032,107	11,787,002
Segment results	874,492	885,923	1,760,415
Other losses, net			(59,524)
Unallocated corporate expenses			(163,040)
Share of results of associates			323,076
Share of results of joint ventures			346,641
Finance costs			(315,438)
Profit before taxation			1,892,130
Taxation			(478,981)
Profit for the year			1,413,149

Segment results included depreciation and amortisation of HK$693,254,000 (2018: HK$608,289,000), most of which are attributable to the sales and distribution of piped gas and related products segment.

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

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

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

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9. Total Operating Expenses

	2019	2018
	HK$'000	HK$'000
Gas fuel, stores and materials used	**8,905,355**	8,098,571
Staff costs	**1,091,156**	969,123
Depreciation and amortisation	**693,254**	608,289
Other expenses	**479,041**	513,644
	11,168,806	10,189,627

10. Other Losses, Net

Other losses, net mainly comprise of:

	2019	2018
	HK$'000	HK$'000
Dividend income from equity instruments at fair value through other comprehensive income	**30,515**	52,227
Interest income	**20,130**	17,823
Exchange gain (loss), net	**41,271**	(231,484)
Change in fair value of other financial assets and liabilities	**(64,825)**	13,304
Gain on disposal of property, plant and equipment	**3,261**	20,998
Gain on disposal of right-of-use assets (leasehold land) / leasehold land	**2,445**	41,183
Impairment provision of goodwill	**(148,000)**	–

11. Finance Costs

	2019 HK$'000	2018 HK$'000
Interest on bank and other borrowings	**406,640**	326,908
Bank charges	**6,724**	5,778
Interest on lease liabilities	**3,211**	–
	416,575	332,686
Less: amounts capitalised	**(17,868)**	(17,248)
	398,707	315,438

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 4.08% (2018: 2.93%) to expenditure on qualifying assets.

12. Profit Before Taxation

	2019 HK$'000	2018 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 13)	**17,265**	16,256
Other staff costs	**988,886**	873,954
Retirement benefit scheme contributions for other staff	**85,005**	78,913
Total staff costs	**1,091,156**	969,123
Impairment loss of trade receivables, net of reversal	**16,121**	14,220
Amortisation of intangible assets	**18,712**	19,400
Depreciation of right-of-use assets	**53,912**	–
Release of leasehold land	**–**	19,945
Auditor's remuneration	**12,889**	12,243
Cost of inventories sold	**9,638,211**	8,754,478
Depreciation of property, plant and equipment	**620,630**	568,944
Operating lease rentals in respect of land and buildings	**–**	36,198

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13. Directors' and Employees' Emoluments

Directors' emoluments:

The emoluments paid or payable to each of the 7 (2018: 7) directors were as follows:

	Year ended 31 December 2019							
	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)	–	5,172	2,974	2,766	–	–	–	10,912
Total emoluments	200	6,801	4,508	4,256	500	500	500	17,265

	Year ended 31 December 2018							
	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	–	1,249	1,167	1,128	–	–	–	3,544
Retirement benefit scheme contributions	–	125	117	113	–	–	–	355
Performance and discretionary bonus (Note c)	–	4,757	2,740	2,560	–	–	–	10,057
Total emoluments	200	6,331	4,224	4,001	500	500	500	16,256

Notes:

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

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

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

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

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

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

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

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

Employees' emoluments:

For the year ended 31 December 2019, the five highest paid individuals of the Group included three (2018: three) directors of the Company, details of their emoluments are included above. The emoluments of the remaining two (2018: two) highest paid individuals are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**2,927**	2,853
Performance related incentive payments	**2,471**	2,243
Retirement benefit scheme contributions	**220**	233
	5,618	5,329

The emoluments were within the following bands:

	Number of employees	
	2019	2018
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	1

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2019.

14. Taxation

	2019 HK$'000	2018 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**474,665**	446,262
Deferred taxation (note 35)		
– taxation charge for the year	**26,820**	32,719
	501,485	478,981

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14. Taxation *(Continued)*

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 ranged from 15% to 25% (2018: 15% to 25%).

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

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

	2019 HK$'000	2018 HK$'000
Profit before taxation	**2,014,058**	1,892,130
Tax at the applicable rate of 25% (2018: 25%) (note)	**503,515**	473,033
Tax effect of expenses that are not deductible for tax purposes	**218,243**	170,626
Tax effect of income that are not taxable for tax purposes	**(31,554)**	(26,057)
Effect of different tax rates of subsidiaries operating in different regions	**(49,049)**	(40,729)
Tax effect of share of results of associates	**(89,828)**	(80,769)
Tax effect of share of results of joint ventures	**(95,804)**	(86,660)
Tax effect of utilisation of tax losses not previously recognised	**(19,013)**	(13,421)
Tax effect of tax losses not recognised	**27,632**	39,231
Withholding tax on undistributed profits	**37,343**	43,727
Tax charge for the year	**501,485**	478,981

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2019 (2018: 25%).

15. Dividends

During the year, a final dividend in respect of the year ended 31 December 2018 of HK$421,504,000 (2018: HK$415,303,000 in respect of the year ended 31 December 2017) was recognised as distribution, being HK fifteen cents per ordinary share (2018: HK fifteen cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK fifteen cents (2018: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. Earnings Per Share

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

	2019	2018
	HK$'000	HK$'000
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	**1,308,425**	1,224,274

	Number of shares	
	2019	2018
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,840,607**	2,789,529

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

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17. 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 2018	1,852,597	12,723,911	1,660,672	1,970,763	18,207,943
Currency realignment	(108,278)	(734,793)	(93,829)	(105,610)	(1,042,510)
Additions	76,656	700,967	160,012	1,391,308	2,328,943
Acquisition of a business	–	–	909	12,635	13,544
Disposals	(23,560)	(48,867)	(77,132)	–	(149,559)
Transfers	163,949	1,131,580	50,992	(1,346,521)	–
At 31 December 2018	1,961,364	13,772,798	1,701,624	1,922,575	19,358,361
Currency realignment	(38,378)	(269,525)	(32,961)	(38,408)	(379,272)
Additions	94,829	457,816	122,711	1,545,967	2,221,323
Acquisition of a business (Note 38)	812	14,180	2,280	25	17,297
Disposals	(7,107)	(4,719)	(38,697)	–	(50,523)
Transfers	76,860	1,154,056	28,146	(1,259,062)	–
At 31 December 2019	2,088,380	15,124,606	1,783,103	2,171,097	21,167,186
DEPRECIATION					
At 1 January 2018	332,140	2,023,559	792,684	–	3,148,383
Currency realignment	(23,155)	(121,530)	(49,769)	–	(194,454)
Provided for the year	73,821	344,701	150,422	–	568,944
Eliminated on disposals	(10,874)	(10,151)	(57,535)	–	(78,560)
At 31 December 2018	371,932	2,236,579	835,802	–	3,444,313
Currency realignment	(8,919)	(46,758)	(18,206)	–	(73,883)
Provided for the year	79,358	400,196	141,076	–	620,630
Eliminated on disposals	(2,614)	(2,216)	(38,273)	–	(43,103)
At 31 December 2019	439,757	2,587,801	920,399	–	3,947,957
CARRYING VALUES					
At 31 December 2019	1,648,623	12,536,805	862,704	2,171,097	17,219,229
At 31 December 2018	1,589,432	11,536,219	865,822	1,922,575	15,914,048

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

18. Right-of-use Assets

	Leasehold land HK$'000	Leased properties and others HK$'000	Total HK$'000
As at 1 January 2019			
Carrying amount	664,131	76,650	740,781
As at 31 December 2019			
Carrying amount	749,915	49,859	799,774
For the year ended 31 December 2019			
Depreciation charge	(20,949)	(32,963)	(53,912)
Total cash outflow for leases			145,875
Additions to right-of-use assets			139,238

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

19. Leasehold Land

	2018 HK$'000
Balance at the beginning of the year	640,668
Currency realignment	(37,397)
Additions	103,071
Disposals	(22,266)
Charge for the year	(19,945)
Balance at the end of the year	664,131
Analysis for reporting purpose:	
Non-current portion	638,502
Current portion	25,629
	664,131

The amount represented medium-term land use rights situated in the PRC. Leasehold land is reclassified to right-of-use assets on 1 January 2019 upon the adoption of HKFRS 16 as described in note 2.

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20. Intangible Assets

	HK$'000
COST	
At 1 January 2018	656,419
Currency realignment	(33,758)
Additions	15,372
At 31 December 2018	638,033
Currency realignment	(11,189)
At 31 December 2019	626,844
AMORTISATION	
At 1 January 2018	132,947
Currency realignment	(6,983)
Provided for the year	19,400
At 31 December 2018	145,364
Currency realignment	(2,664)
Provided for the year	18,712
At 31 December 2019	161,412
CARRYING VALUES	
At 31 December 2019	465,432
At 31 December 2018	492,669

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.

21. Goodwill

	HK$'000
COST	
At 1 January 2018	5,824,172
Currency realignment	(303,187)
Acquisition of a business	1,268
At 31 December 2018	5,522,253
Currency realignment	(97,598)
Acquisition of a business (Note 38)	20,367
At 31 December 2019	5,445,022
IMPAIRMENT	
At 1 January 2018 and 31 December 2018	–
Impairment provision recognised	148,000
At 31 December 2019	148,000
CARRYING VALUES	
At 31 December 2019	5,297,022
At 31 December 2018	5,522,253

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21. Goodwill *(Continued)*

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

	2019 **HK$'000**	2018 HK$'000
Sub-groups headed by:		
Hong Kong & China Gas (Qingdao) Limited	**320,166**	325,927
Hong Kong & China Gas (Zibo) Limited	**344,348**	350,543
Hong Kong & China Gas (Yantai) Limited	**213,649**	236,747
Hong Kong & China Gas (Weifang) Limited	**109,838**	136,224
Hong Kong & China Gas (Weihai) Limited	**266,408**	271,201
Hong Kong & China Gas (Taian) Limited	**206,093**	239,943
Hong Kong & China Gas (Maanshan) Limited	**279,767**	284,801
Hong Kong & China Gas (Anqing) Limited	**265,171**	269,942
Mianyang Hong Kong & China Gas Co., Ltd.	**285,060**	290,189
成都新都港華燃氣有限公司	**216,649**	220,547
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**397,104**	404,248
阜新新邱港華燃氣有限公司	**119,208**	128,402
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	**120,986**	123,163
Shenyang business	**103,361**	105,221
綿竹港華燃氣有限公司	**102,601**	104,447
潮州楓溪港華燃氣有限公司	**146,382**	149,016
Boxing Hong Kong & China Gas Co., Ltd	**87,115**	88,682
Dafeng Hong Kong and China Gas Company Limited	**245,165**	249,576
廣西中威管道燃氣發展集團有限責任公司	**125,711**	127,973
Baotou Hong Kong & China Gas Company Limited	**160,690**	163,581
Xingyi Hong Kong & China Gas Company Limited	**101,104**	102,923
Others	**1,080,446**	1,148,957
	5,297,022	5,522,253

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

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 and discount rates. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, return on assets and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8.2% to 11% (2018: 8.5%) 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% (2018: 4% to 6%) per annum, which is based on industry growth forecasts. Impairment provision of HK$148,000,000 is recognised during the year ended 31 December 2019 (2018: nil) which was mainly resulted from certain loss-making CGUs and the estimated adjustment of proposed return rates for sale and distribution of piped gas.

Sensitivity analysis

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

If the discount rate is increased by 50 basis points and all other variables are held constant, the carrying amounts of the CGUs would be decreased by approximately HK$201 million. If the terminal value is decreased by 10 per cent and all other variables are held constant, the carrying amounts of the CGUs would be decreased by approximately HK$148 million.

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22. Interests in Associates/Loan to an Associate

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

	2019 **HK$'000**	2018 HK$'000
Cost of investments in associates	**2,190,649**	2,123,234
Share of post-acquisition profits and other comprehensive income, net of dividends received	**2,073,340**	1,885,962
	4,263,989	4,009,196
Fair value of listed investments	**4,707,378**	5,220,882
Loan to an associate		
– Non-current portion	**21,924**	11,159
– Current portion	**10,962**	–
	32,886	11,159

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

Name of associate	**Place of establishment and operation**	**Percentage of equity interest attributable to the Group and voting power attributable to the Group**		**Principal activities**
		2019	2018	
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. (formerly Foshan Gas Group Co., Ltd.)**	PRC – Company limited by shares	**38.7%**	38.7%	Provision of natural gas and related services and gas pipeline construction
撫州市撫北天然氣有限公司	PRC – Limited liability company	**40.0%**	40.0%	Provision of natural gas and related services and gas pipeline construction

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

Details of the Group's principal associates as at the end of the reporting periods are as follows: *(Continued)*

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2019	2018	
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%**	25.0%	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
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 company name was changed in March 2020.

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

Aggregate information of associates that are not individually material

	2019 **HK$'000**	2018 HK$'000
The Group's share of profit for the year	**359,313**	323,076
Aggregate carrying amount of the Group's interests in these associates	**4,263,989**	4,009,196

As at 31 December 2019, the current portion of loan to an associate amounting RMB9,800,000 is interest bearing at a fixed rate of 4.75% per annum and repayable in December 2020. The non-current portion of loan to an associate amounting RMB19,600,000 is interest bearing at a fixed rate of 4.75% per annum and repayable in January 2022.

As at 31 December 2018, the non-current portion of loan to an associate amounting RMB9,800,000 is interest bearing at a fixed rate of 4.75% per annum and was extended from December 2018 to December 2020.

23. Interests in Joint Ventures/Loans to Joint Ventures

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

	2019 **HK$'000**	2018 HK$'000
Cost of investments in joint ventures	**1,213,752**	1,162,065
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,542,673**	1,358,793
	2,756,425	2,520,858
Loans to joint ventures		
– Non-current portion	**–**	39,854
– Current portion	**215,759**	240,451
	215,759	280,305

23. Interests in Joint Ventures/Loans to Joint Ventures *(Continued)*

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2019	2018	Principal activities
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
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

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23. Interests in Joint Ventures/Loans to Joint Ventures *(Continued)*

Aggregate information of joint ventures that are not individually material

	2019 **HK$'000**	2018 HK$'000
The Group's share of profit for the year	**383,217**	346,641
Aggregate carrying amount of the Group's interests in these joint ventures	**2,756,425**	2,520,858

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

Principal amount		**Maturity date**	**Coupon interest rate**	**Effective interest rate**	**Carrying amount**	
2019	2018				**2019** **HK$'000**	2018 HK$'000
RMB10,000,000	RMB10,000,000	June 2020 (2018: August 2019)	4.35%	4.35%	**11,186**	11,387
RMB10,000,000	RMB10,000,000	August 2020 (2018: August 2019)	4.78%	4.78%	**11,186**	11,387
RMB10,000,000	RMB10,000,000	August 2020 (2018: June 2019)	4.78%	4.78%	**11,186**	11,387
RMB151,164,000	RMB151,164,000	Repayable on demand (2018: Repayable on demand)	–	–	**169,087**	172,129
RMB9,627,878	–	Repayable on demand (2018: N/A)	4.78%	4.78%	**10,769**	–
RMB2,096,259	–	Repayable on demand (2018: N/A)	4.78%	4.78%	**2,345**	–
–	RMB35,000,000	N/A (2018: July 2020)	4.75%	4.75%	**–**	39,854
–	RMB10,000,000	N/A (2018: November 2019)	4.35%	4.35%	**–**	11,387
–	RMB10,000,000	N/A (2018: October 2019)	4.35%	4.35%	**–**	11,387
–	RMB10,000,000	N/A (2018: September 2019)	4.35%	4.35%	**–**	11,387
					215,759	280,305

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

24. Equity Instruments at FVTOCI

	2019 **HK$'000**	2018 HK$'000
Listed shares in the PRC	**2,304,042**	43,741
Unlisted shares in the PRC	**95,002**	337,708
	2,399,044	381,449

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

During the year ended 31 December 2019, shares of Chengdu Gas, one of the investees, were listed on the Shanghai Stock Exchange on 17 December 2019. The Group's investment cost is HK$160,663,000 and holds 11.7% interest (104,000,000 shares) in Chengdu Gas as at 31 December 2019. Change in fair value of Chengdu Gas is recognised in other comprehensive income of the Group. As at 31 December 2019, the fair value of Chengdu Gas is HK$2,259,150,000 (constitutes 5.9% of total assets of the Group) with reference to its stock price and fair value movement of HK$1,968,909,000 is recognised during the year.

25. Inventories

	2019 **HK$'000**	2018 HK$'000
Finished goods	**130,727**	126,858
Materials and consumables	**456,535**	448,392
	587,262	575,250

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26. Trade and Other Receivables, Deposits and Prepayments

	2019	2018
	HK$'000	HK$'000
Trade receivables (net of allowance for credit losses)	**886,834**	871,480
Prepayments	**561,195**	597,090
Other receivables and deposits	**492,661**	364,658
	1,940,690	1,833,228

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK$1,032,384,000 (2018: HK$1,003,238,000) and allowance for credit losses of HK$145,550,000 (2018: HK$131,758,000). The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2019	2018
	HK$'000	HK$'000
0 to 90 days	**682,276**	747,436
91 to 180 days	**77,053**	44,553
Over 180 days	**127,505**	79,491
	886,834	871,480

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$14,688,000 (2018: HK$3,117,000) which are past due as at the reporting date. Out of the past due balances, HK$7,236,000 (2018: HK$2,264,000) has been past due 90 days or more and is not considered as in default based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward looking information, including but not limited to the expected economic conditions in the PRC and 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. 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 2.25% (2018: 0.00% to 2.93%) 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.

	2019 HK$'000	2018 HK$'000
USD	**35,081**	20,043
HKD	**14,673**	6,637

28. Amounts Due From/To Non-Controlling Shareholders

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

29. Other Financial Assets/Liabilities

	2019 HK$'000	2018 HK$'000
Other financial assets		
Derivatives (not under hedge accounting)		
Cross currency interest rate swaps under current assets	**–**	37,180
Derivatives (under hedge accounting)		
Cash flow hedge – cross currency interest rate swap contract under non-current assets	**24,483**	–
	24,483	37,180
Other financial liabilities		
Derivatives (not under hedge accounting)		
Foreign currency forward contracts under current liabilities	**–**	64,257
Cross currency swaps and cross currency interest rate swaps under current liabilities	**–**	50,608
	–	114,865
Derivatives (under hedge accounting)		
Cash flow hedge – cross currency interest rate swap contracts under non-current liabilities	**15,413**	22,300
	15,413	137,165

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29. Other Financial Assets/Liabilities *(Continued)*

The classification of the measurement of the derivative financial instruments at 31 December 2019 and 2018 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).

Derivatives (not under hedge accounting)

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

Notional amount	Maturity	Forward contract rate	Interest rate		Exchange frequency	
			Receive	Pay	Receive	Pay
At 31 December 2018						
Foreign currency forward contracts						
RMB366,939,000	2019	HK$1 to RMB0.92	N/A	N/A	N/A	N/A
RMB564,849,000	2019	HK$1 to RMB0.94	N/A	N/A	N/A	N/A
RMB100,000,000	2019	HK$1 to RMB0.93	N/A	N/A	N/A	N/A
Cross currency swaps						
RMB188,822,000	2019	HK$1 to RMB0.94	N/A	N/A	Upon initial date and maturity date	Upon initial date and maturity date
RMB189,520,000	2019	HK$1 to RMB0.95	N/A	N/A	Upon initial date and maturity date	Upon initial date and maturity date
Cross currency interest rate swaps						
RMB1,860,751,000	2019	HK$1 to RMB0.84 – RMB0.89	HIBOR + 0.6% to HIBOR + 0.7%	4.37% to 4.83%	Quarterly from initial date until maturity date	Quarterly from initial date until maturity date

During the year, change in fair value of the foreign currency forward contracts, cross currency swaps and cross currency interest rate swaps amounting to loss of HK$64,825,000 (2018: gain of HK$13,304,000) has been recognised to profit or loss.

29. Other Financial Assets/Liabilities *(Continued)*

Cash flow hedge

During the year ended 31 December 2019, the Group entered into cross currency interest rate swap contracts with total notional amounts of HK$575,000,000 and USD50,000,000 with Crédit Agricole Corporate & Investment Bank and Westpac Banking Corporation, respectively to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the HK$ bank loan with principal amount of HK$575,000,000 and USD bank loan with principal amount of USD50,000,000, respectively. The critical terms of the cross currency interest rate swap and the corresponding HK$ and USD bank loan were closely aligned and the Directors considered that the cross currency interest rate swap was a highly effective hedging instrument and qualified as cash flow hedge. During the year ended 31 December 2019, the fair value change of HK$39,614,000 on derivative instruments designated as cash flow hedge was recorded in hedge reserve, and a fair value change of HK$40,017,000 on derivative instrument designated as cash flow hedge was reclassified to finance costs as a credit of HK$820,000 and credit to exchange differences as a credit of HK$39,197,000 in profit or loss.

During the year ended 31 December 2018, the Group entered into a cross currency interest rate swap contract with total notional amount of USD100,000,000 with Westpac Banking Corporation to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the USD bank loan with principal amount of USD100,000,000. The critical terms of the cross currency interest rate swap and the corresponding 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 2018, the fair value change of HK$15,061,000 on derivative instrument designated as cash flow hedge was recorded in hedge reserve, and reclassification of fair value change of HK$1,216,000 on derivative instrument designated as cash flow hedge was made to charge to finance costs of HK$63,000 and credit to exchange differences of HK$1,279,000 in profit or loss.

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29. Other Financial Assets/Liabilities *(Continued)*

Cash flow hedge *(Continued)*

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

Notional amount	Maturity	Exchange rate	Interest rate Receive	Interest rate Pay	Exchange frequency Receive	Exchange frequency Pay	Total hedged item
At 31 December 2019							
Cross currency interest rate swaps							
USD100,000,000	2021	USD1 to RMB6.8685	London Inter-bank Offered Rate ("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
At 31 December 2018							
Cross currency interest rate swap							
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

30. Trade and Other Payables and Accrued Charges

	2019 HK$'000	2018 HK$'000
Trade payables	**1,220,225**	1,248,393
Consideration payable for acquisitions of businesses	**73,724**	75,019
Other payables and accruals	**920,205**	755,590
Amount due to ultimate holding company (note)	**1,006**	924
	2,215,160	2,079,926

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:

	2019 HK$'000	2018 HK$'000
0 to 90 days	**706,935**	819,120
91 to 180 days	**122,759**	127,950
181 to 360 days	**172,570**	128,181
Over 360 days	**217,961**	173,142
	1,220,225	1,248,393

31. Contract Liabilities

	2019 HK$'000	2018 HK$'000
Sales and distribution of piped gas and related products	**914,242**	756,526
Gas connection	**2,395,435**	2,287,430
	3,309,677	3,043,956

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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 and distribution of piped gas and related products HK$'000	Gas connection HK$'000
For the year ended 31 December 2019		
Revenue recognised that was included in the contract liability balance at the beginning of the year	756,526	830,495
For the year ended 31 December 2018		
Revenue recognised that was included in the contract liability balance at the beginning of the year	639,612	1,140,695

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

Sales and distribution of piped gas and related products

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

Gas connection

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

32. Lease Liabilities

	2019 HK$'000
Lease liabilities payable:	
Within one year	**21,034**
Within a period of more than one year but not more than two years	**18,869**
Within a period of more than two years but not more than five years	**13,475**
Within a period of more than five years	**3,228**
	56,606
Less: Amounts due for settlement with 12 months shown under current liabilities	**(21,034)**
Amounts due for settlement after 12 months shown under non-current liabilities	**35,572**

33. Borrowings

	2019 HK$'000	2018 HK$'000
Bank loans – unsecured	**10,203,172**	9,466,400
Other loans – unsecured	**36,190**	37,932
	10,239,362	9,504,332
Carrying amount repayable:		
On demand or within one year	**3,433,529**	2,783,581
More than one year but not exceeding two years	**1,430,955**	1,168,312
More than two years but not exceeding five years	**5,359,060**	5,533,998
More than five years	**15,818**	18,441
	10,239,362	9,504,332
Less: Amount due within one year shown under current liabilities	**(3,433,529)**	(2,783,581)
Amount due after one year shown under non-current liabilities	**6,805,833**	6,720,751

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33. Borrowings *(Continued)*

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount 2019 HK$'000	2018 HK$'000
Floating-rate loans:			
Unsecured HKD bank loans	3.08% (2018: 2.23%)	**560,864**	3,627,482
Unsecured RMB bank loans	4.87% (2018: 4.70%)	**1,633,774**	1,469,859
Unsecured USD bank loans	2.80% (2018: 2.80%)	**1,168,650**	783,200
Fixed rate loans*:			
Unsecured RMB bank loans	4.09% (2018: 4.05%)	**6,839,884**	3,585,859
Unsecured RMB other loans	1.50% (2018: 1.50%)	**21,519**	21,907
Unsecured other loans	1.15% (2018: 1.15%)	**14,671**	16,025
Total bank loans and other loans		**10,239,362**	9,504,332

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

34. Loans from a Non-Controlling Shareholder and Joint Ventures

At the end of the reporting period, all loans from joint ventures are denominated in RMB. The loans carry interest at a fixed rate of 2.58% (2018: 2.78%) per annum are unsecured and repayable on demand.

At the end of the reporting period, loan from a non-controlling shareholder is denominated in RMB. The loan carries interest at a fixed rate of 1% per annum are unsecured and repayable in December 2020.

35. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Undistributed profits of joint ventures/ associates/ subsidiaries HK$'000	ECL provision/ fair value revaluation of equity instruments at FVTOCI HK$'000	Total HK$'000
At 1 January 2018	78,637	139,750	235,713	22,951	477,051
Currency realignment	(3,984)	(7,082)	(13,674)	(1,425)	(26,165)
(Credit) charge to profit or loss	(2,692)	(4,761)	43,727	(3,555)	32,719
Charge to other comprehensive income	–	–	–	19,641	19,641
Withholding tax paid	–	–	(7,346)	–	(7,346)
At 31 December 2018	**71,961**	**127,907**	**258,420**	**37,612**	**495,900**
Currency realignment	**(724)**	**(580)**	**(6,732)**	**(665)**	**(8,701)**
(Credit) charge to profit or loss	**(1,928)**	**(4,565)**	**37,343**	**(4,030)**	**26,820**
Charge to other comprehensive income	**–**	**–**	**–**	**492,232**	**492,232**
Withholding tax paid	**–**	**–**	**(24,181)**	**–**	**(24,181)**
At 31 December 2019	**69,309**	**122,762**	**264,850**	**525,149**	**982,070**

At the end of the reporting period, the Group has unused tax losses of HK$649,721,000 (2018: HK$748,306,000) 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 2024.

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36. Share Capital

	Number of shares	HK$'000
At 31 December 2019		
– Authorised:		
Shares of HK$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK$0.10 each	2,870,687,008	287,069

Details of the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2018, 31 December 2018 and 2019	5,000,000,000	500,000

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

	Number of shares	HK$'000
At 1 January 2018	2,768,689,545	276,869
Issue of shares upon scrip dividend scheme (note a)	41,338,347	4,134
At 31 December 2018	2,810,027,892	281,003
Issue of shares upon scrip dividend scheme (note b)	60,659,116	6,066
At 31 December 2019	2,870,687,008	287,069

Notes:

(a) On 19 March 2018, a scrip dividend scheme was proposed by the board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 1 June 2018. On 18 July 2018, 41,338,347 shares of HK$0.10 each were allotted and issued at HK$7.436 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2017 final dividend under the scrip dividend scheme.

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

All the shares which were issued during the years ended 31 December 2018 and 2019 rank pari passu with the then existing shares in all respects.

37. 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.

38. Acquisition of a Business

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

The acquisition-related costs were insignificant and were recognised as expenses in the current year within other expenses of note 9.

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

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

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

Acquirees' fair values at acquisition dates:

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

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38. Acquisition of a Business *(Continued)*

Cash outflow arising on acquisition:

	HK$'000
Purchase consideration	42,506

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

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

39. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during both years as set out in note 36.

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

40. 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 HK$'000	Loan from a non-controlling shareholder HK$'000	Loans from joint ventures HK$'000	Dividend payables HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2018	8,779,665	–	49,172	–	–	8,828,837
Financing cash flows	693,341	–	(22,861)	(199,111)	–	471,369
Exchange differences	(278,271)	–	(1,669)	–	–	(279,940)
Interest expenses	309,597	–	–	–	–	309,597
Dividend declaration						
– shareholders of the Company	–	–	–	415,303	–	415,303
– non-controlling shareholders	–	–	–	91,200	–	91,200
Issue of shares upon scrip dividend scheme	–	–	–	(307,392)	–	(307,392)
At 31 December 2018	9,504,332	–	24,642	–	–	9,528,974
Adjustment upon application of HKFRS16	–	–	–	–	83,466	83,466
At 1 January 2019	9,504,332	–	24,642	–	83,466	9,612,440
Financing cash flows	882,071	19,790	6,517	(165,804)	(23,316)	719,258
New leases entered	–	–	–	–	11,845	11,845
Termination of lease	–	–	–	–	(15,241)	(15,241)
Interest expenses	–	–	–	–	3,211	3,211
Exchange differences	(147,041)	(305)	(789)	–	(3,359)	(151,494)
Dividend declaration						
– shareholders of the Company	–	–	–	421,504	–	421,504
– non-controlling shareholders	–	–	–	90,785	–	90,785
Issue of shares upon scrip dividend scheme	–	–	–	(346,485)	–	(346,485)
At 31 December 2019	10,239,362	19,485	30,370	–	56,606	10,345,823

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

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41. Related Party Transactions

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

Name of related party	Nature of transaction	2019 HK$'000	2018 HK$'000
瀋陽三全工程監理諮詢有限公司 (note a)	Project management services	**5,956**	7,264
S-Tech Smart Technology (Wuhan) Company Limited (formerly known as Hong Kong and China Technology (Wuhan) Company Limited) (note a)	Provision of system software, cloud computing system and safety inspection supporting services	**9,835**	8,529
Hong Kong & China Gas Investment Limited (note a)	Expatriate service fee	**9,295**	–
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	**–**	1,784
Anhui Province Natural Gas Development Company limited (note b)	Purchase of compressed natural gas	**142,139**	75,384
山東港華培訓學院 (note a)	Training services	**3,203**	3,115
山東港燃經貿有限公司 (note b)	Purchase of natural gas	**47,766**	702
卓度計量技術(深圳)有限公司 (note a)	Purchase of gas meters	**16,261**	20,250
卓通管道系統(中山)有限公司 (note a)	Purchase of pipeline construction materials and tools	**124,468**	127,676

41. Related Party Transactions *(Continued)*

Name of related party	Nature of transaction	**2019 HK$'000**	2018 HK$'000
珠海卓銳高科信息技術有限公司 (note a)	Provision of system software, cloud computing system and safety inspection supporting services	**3,589**	2,374
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	**235**	1,672
Chaozhou Hong Kong and China Gas Company Limited (note a)	Purchase of pipeline construction materials and tools	**943**	498
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	**44,647**	57,602
名店家(深圳)信息服務有限公司 (note a)	Purchase of food ingredients and materials, and Virtual customer centre (VCC) service charges	**612**	443
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	**13,109**	13,804
港華國際能源貿易有限公司 (note a)	Purchase of liquefied natural gas	**–**	93,022
常州東利港華氣體有限公司 (note b)	Purchase of natural gas	**46,745**	57,818
Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b)	Processing of pipeline materials	**16,672**	9,426

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41. Related Party Transactions *(Continued)*

Name of related party	Nature of transaction	2019 HK$'000	2018 HK$'000
Xuzhou Hong Kong and China Gas Company Limited (note a)	Purchase of natural gas	**11,917**	7,928
Xuzhou Hong Kong and China Gas Company Limited (note a)	Sales of natural gas	**6,384**	–
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of pipeline construction materials and tools	**2,721**	2,741
Guangzhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	**39,852**	35,028
徐州港華能源科技有限公司 (note a)	Purchase of natural gas	**14,687**	2,757
四川空港燃氣有限公司 (note d)	Sale of natural gas	**23,002**	17,247
四川空港燃氣有限公司 (note d)	Sale of fixed assets	**–**	32,244
四川空港燃氣有限公司 (note d)	Gas pipeline installation fee	**6,420**	5,858
GH-Fusion Corporation Ltd. (note b)	Purchase of pipeline construction materials and tools	**1,499**	1,779

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 this company.

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

42. Operating Leases Commitments

At 31 December 2018, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fell due as follows:

	2018 HK$'000
Within one year	25,330
In the second to fifth year inclusive	58,207
Over five years	19,776
	103,313

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

43. Commitments

	2019 **HK$'000**	2018 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**281,362**	262,281
– acquisition of businesses	**–**	18,219

44. 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 2019 amounted to HK$84,888,000 (2018: HK$78,918,000).

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 2019, the Group made retirement benefit scheme contributions amounting to HK$485,000 (2018: HK$350,000).

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45. Statement of Financial Position and Reserves of the Company

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

	2019 **HK$'000**	2018 HK$'000
Non-current assets		
Property, plant and equipment	**66**	32
Investments in subsidiaries	**2,151,603**	2,192,215
	2,151,669	2,192,247
Current assets		
Amounts due from subsidiaries	**11,125,240**	10,836,721
Bank balances and cash	**59,672**	39,661
	11,184,912	10,876,382
Current liabilities		
Other payables and accrued charges	**57,270**	57,087
Amounts due to subsidiaries	**1,505,458**	1,258,301
Amount due to ultimate holding company	**323**	247
Borrowings – amounts due within one year	**2,544,743**	1,935,778
Other financial liabilities	**–**	6,325
	4,107,794	3,257,738
Net current assets	**7,077,118**	7,618,644
Total assets less current liabilities	**9,228,787**	9,810,891
Non-current liabilities		
Loan from a subsidiary	**5,296,282**	4,984,844
Borrowings – amounts due after one year	**1,168,650**	1,513,200
Other financial liabilities	**15,413**	22,300
	6,480,345	6,520,344
Net assets	**2,748,442**	3,290,547
Capital and reserves		
Share capital	**287,069**	281,003
Reserves	**2,461,373**	3,009,544
Total equity	**2,748,442**	3,290,547

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

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

	Share capital HK$'000	Share premium HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2018	276,869	6,226,762	(2,464,509)	4,039,122
Loss and other comprehensive expense for the year	–	–	(640,664)	(640,664)
Issue of shares upon scrip dividend scheme	4,134	303,258	–	307,392
Dividends paid to shareholders	–	(415,303)	–	(415,303)
At 31 December 2018	281,003	6,114,717	(3,105,173)	3,290,547
Loss and other comprehensive expense for the year	–	–	(467,086)	(467,086)
Issue of shares upon scrip dividend scheme	6,066	340,419	–	346,485
Dividends paid to shareholders	–	(421,504)	–	(421,504)
At 31 December 2019	287,069	6,033,632	(3,572,259)	2,748,442

* 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. None of the subsidiaries had any debt securities outstanding as at the end of both years or at any time during both years which is held by the Group.

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46. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2019 and 2018 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 2019	2018	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

46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US$15,000,000	**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 Investment Company Limited	HK – Limited liability company	HK$100	**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

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46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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 (2018: RMB20,000,000)	**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
大連瓦房店港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**90.0%**	60.0%	Provision of natural gas and related services and gas pipeline construction

46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
Gao Chun Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US$7,500,000	**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
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

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46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

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46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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%**	–	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

46. 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 2019	2018	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
青島港能投智慧能源有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**96.0%**	96.0%	Provision of natural gas distributed energy
青島嶗山灣港華能源有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**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

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46. 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 2019	2018	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 (2018: RMB20,000,000)	**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
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
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	**45.0%**	–	Provision of natural gas distributed energy
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

46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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	RMB10,000,000	**100.0%**	–	Provision of engineering work services
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

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46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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
成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100.0%**	100.0%	Provision of natural gas and related services and gas pipeline construction
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

46. 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 2019	2018	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
Shenzhen Towngas China Energy Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB6,000,000	**100.0%**	–	Provision of natural gas distributed energy
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

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For the year ended 31 December 2019

46. 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 2019	2018	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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
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

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

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

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

47. Event after the Reporting Period

The outbreak of the coronavirus disease (the "COVID-19") causing pneumonia has expanded across the PRC and globally after the year end of 2019. While the impact of the COVID-19 on the mainland economy for the whole of 2020 is still uncertain, it will inevitably, unfavorably affect commercial and industrial gas sales in the short term. With public utilities as its core business, the Group has a strong resilience to the impact of economic downturns, given its continuing efforts to broaden sources of revenue and cut expenditure and operating costs. It is expected that when the epidemic is over, the Group's businesses will return to normal within a relatively short period of time. Meanwhile, the Directors will continue to assess the impact on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the coronavirus pneumonia epidemic.

Corporate Information

Board of Directors

Executive Directors

Alfred Chan Wing-kin *(Chairman)*
Peter Wong Wai-yee *(Chief Executive Officer)*
John Ho Hon-ming *(Company Secretary)*
Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-Executive Directors

Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

Authorised Representatives

Alfred Chan Wing-kin
John Ho Hon-ming

Company Secretary

John Ho Hon-ming

Board Audit and Risk Committee

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

Remuneration Committee

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

Nomination Committee

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

Environmental, Social and Governance Committee

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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
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KY1-1104
Cayman Islands

Head Office and Principal Place of Business

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Facsimile	:	(852) 2561 6618
Stock Code	:	1083
Website	:	www.towngaschina.com

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

Towngas China Company Limited

23rd Floor, 363 Java Road, North Point, Hong Kong

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