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.

Notes to the Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. Total Operating Expenses

	2019 HK$'000	2018 HK$'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 HK$'000	2018 HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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	2018
	HK$'000	HK$'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	2018
	HK$'000	HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2019	2018	Principal activities
Anhui Province Wenery Towngas Natural Gas Company Limited	PRC – Sino-foreign equity joint venture	**49.0%**	49.0%	Midstream
Changchun Gas Co., Ltd.*	PRC – Company limited by shares	**28.2%**	28.2%	Provision of natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	**40.0%**	40.0%	Provision of natural gas and related services and gas pipeline construction
Foran Energy Group Co., Ltd. (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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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		Principal activities
		2019	2018	
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2019	Principal amount 2018	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2019 HK$'000	Carrying amount 2018 HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

26. Trade and Other Receivables, Deposits and Prepayments

	2019 HK$'000	2018 HK$'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 HK$'000	2018 HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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	Loan from a non-controlling shareholder	Loans from joint ventures	Dividend payables	Lease liabilities	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Notes to the Consolidated Financial Statements

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)*					
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

Notes to the Consolidated Financial Statements

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)*					
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

Notes to the Consolidated Financial Statements

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)*					
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

Notes to the Consolidated Financial Statements

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)*					
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

Notes to the Consolidated Financial Statements

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)*					
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

Notes to the Consolidated Financial Statements

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.