ANNUAL REPORT 2016

港華燃氣有限公司
Towngas China Company Limited

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

Expanding NEW HORIZONS

Guided by our management theme

"Expanding New Horizons"

we continue to pursue every innovation to not only revitalise our services, but also to ensure that our diversified businesses will continue to grow.

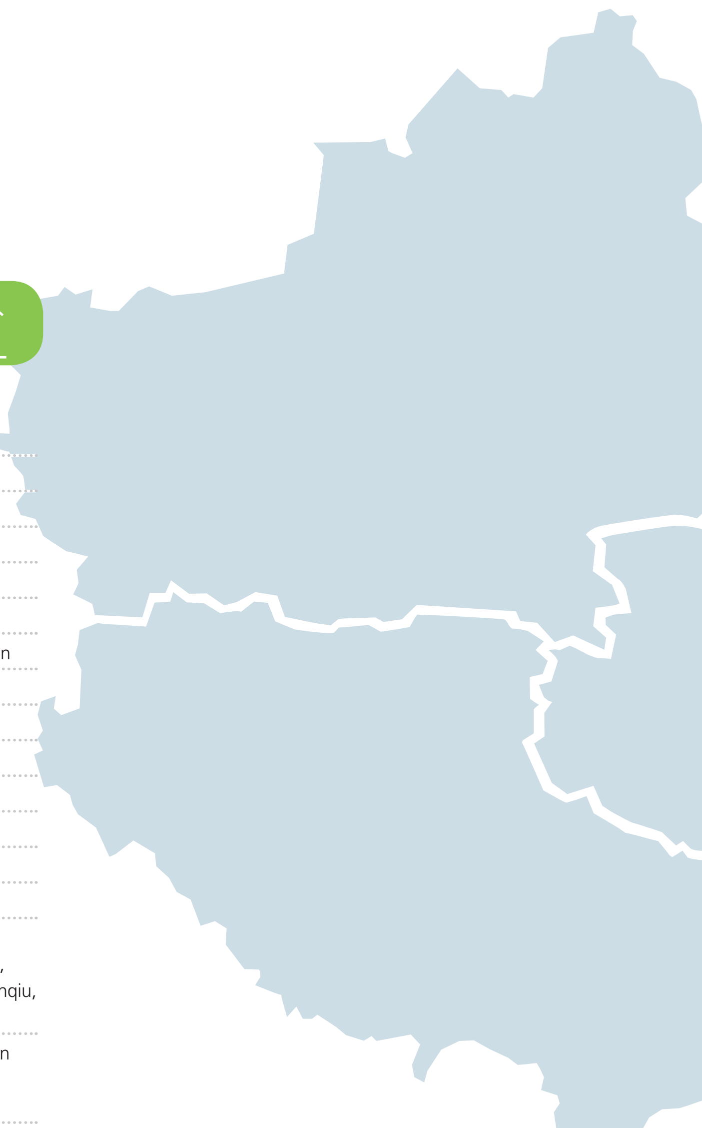
We are committed to providing our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.

Contents

Business Overview

NO. OF PROJECTS

105



Piped Gas Projects

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

Vehicle Gas Refilling Stations	Qiqihar (Lianfu), Qiqihar (Xingqixiang)
Midstream Projects	Taian Taigang, Xuancheng-Huangshan
Other Projects	Maanshan (Piping Prefabrication), Sichuan Distributed Energy Systems, Towngas China Energy Investment


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

Five-Year Financial Summary

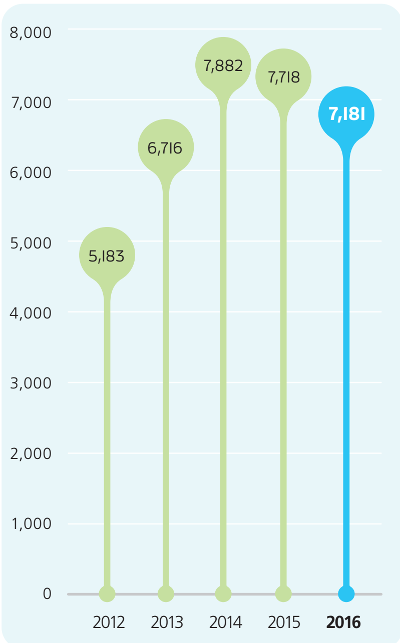
	For the year ended 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
RESULTS					
Turnover	5,183,466	6,715,709	7,881,833	7,718,293	**7,181,150**
Profit before taxation	1,235,548	1,608,852	1,531,059	1,268,043	**1,455,403**
Taxation	(299,393)	(382,509)	(350,085)	(343,511)	**(362,133)**
Profit for the year	936,155	1,226,343	1,180,974	924,532	**1,093,270**
Profit for the year attributable to:					
Shareholders of the Company*	840,798	1,106,286	1,054,189	807,042	**973,997**
Non-controlling interests	95,357	120,057	126,785	117,490	**119,273**
Profit for the year	936,155	1,226,343	1,180,974	924,532	**1,093,270**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	34.17	42.46	40.19	30.45	**36.26**
Diluted	34.10	42.34	40.08	30.43	**N/A**

	As at 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	21,255,284	25,628,676	27,350,239	28,870,524	**28,027,110**
Total liabilities	(9,968,323)	(12,150,413)	(12,905,761)	(14,170,668)	**(13,362,927)**
	11,286,961	13,478,263	14,444,478	14,699,856	**14,664,183**
Equity attributable to shareholders of the Company	10,481,716	12,531,303	13,253,951	13,478,084	**13,499,351**
Non-controlling interests	805,245	946,960	1,190,527	1,221,772	**1,164,832**
Total equity	11,286,961	13,478,263	14,444,478	14,699,856	**14,664,183**

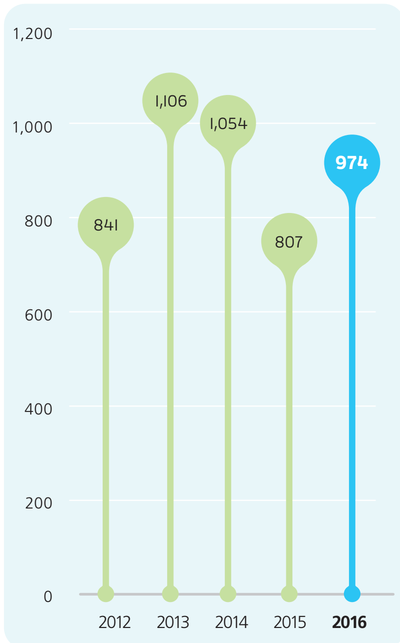
* the Company: Towngas China Company Limited

Financial Highlights

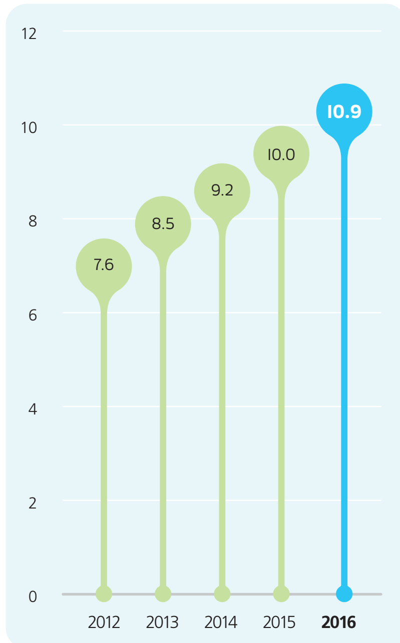
Turnover
(HK$ Millions)



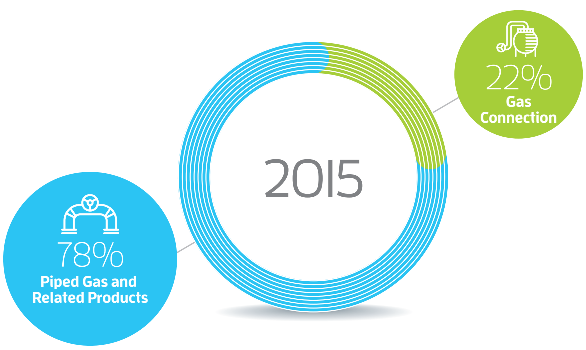
Profit Attributable to Shareholders of the Company
(HK$ Millions)

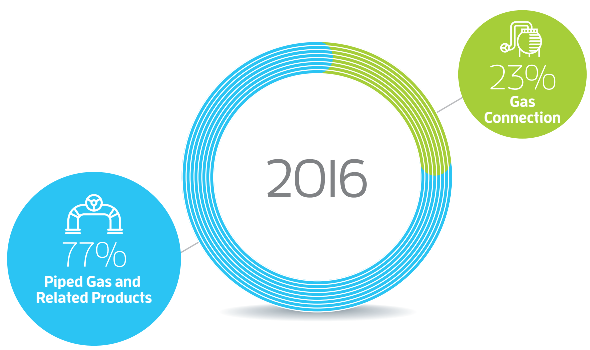


Number of Customers (All Entities)
(Millions)

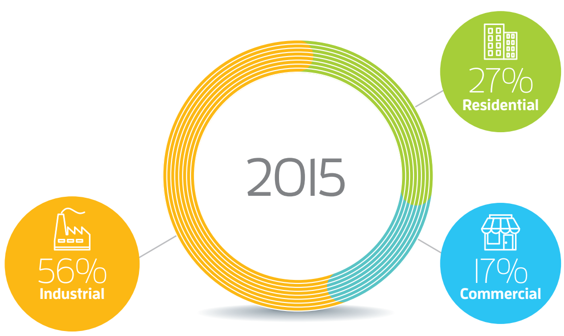


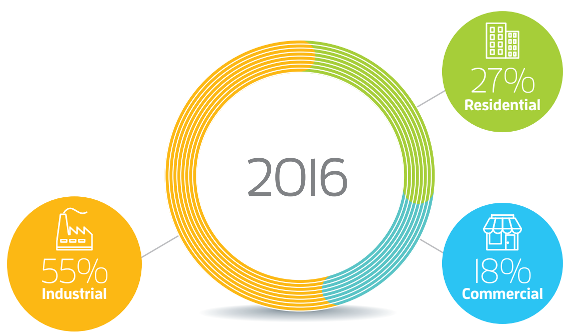
Turnover Analysis





Percentage of Gas Volume by Customer Mix (All Entities)





Chairman's Statement

Economic Landscape

The global economy continued to recover albeit at a slow pace in 2016. Against the backdrop of Brexit, the strong US Dollar and complicated geopolitical conditions in the Middle East and the Asia-Pacific region, international oil prices continued to stumble. During the year, China's economy focused on the reform of supply management and de-capacity, to facilitate its structural adjustments and the transformation of development mode. Its domestic economy grew steadily throughout the year – the Gross Domestic Product (GDP) expanded by 6.7% in the first three quarters and 6.8% in the fourth. According to the National Bureau of Statistics, China's contribution to global economic growth was as high as 33.2%, was still the world's primary economic driver. The country's purchasing managers' index (PMI) for 2016 recorded small increases for four consecutive seasons with a rebound to 51.9% in the fourth quarter. The annual average of 50.3% represented an increase of 0.4 percentage points over 2015. This macro-economic data reflects favourable signs underpinned by rejuvenated market demand as well as an improving operating environment for businesses. Despite the potential depreciation of the RMB against the US dollar in the short term, the Chinese government stabilised the exchange rate by actively adjusting its foreign exchange reserves in US Dollars. Therefore, in the mid-to-long term, the RMB exchange rate is expected to remain steady.

Reforms in the Liberalisation of Natural Gas

In recent years, the Chinese government has been working towards market-oriented reform in the natural gas industry. In view of the government's core principle to relax gas sourcing and pricing in the market and its transformation to market-orientation – the government currently only regulates the prices for network transmission and distribution that fall into the natural monopoly through network category ("regulate the core and relax the ends"), this reform is continuing to pick up pace. In April 2016, the National Energy Administration of China issued a "*Notice on Actively Promoting the Mode of Public-Private-Partnership in the Energy Field*" in a bid to attract private capital for investment in the natural gas infrastructure. Following an attempt to open up the construction market for natural gas infrastructure with fair and equal participation in 2014, relevant policies were launched in 2016 to facilitate similar development for

the natural gas infrastructure under the three largest energy corporations in China (CNPC, Sinopec and CNOOC) and across different provinces. With regard to the price of transportation through pipelines, the Chinese government promulgated "*Measures for the Administration of the Price of Natural Gas Pipeline Transportation*" and "*Measures for the Supervision and Examination of the Pricing and Costs of Natural Gas Pipeline Transportation*", which set out details in the pricing methodology for domestic natural gas supply through transmission networks and established the pricing principle. It also sets the standard entry charge for third-party piped gas suppliers when the market opens up to the public. Service prices for gas storage facilities, which have not been subject to independent determination in the past, will also be market-driven from now on. Fujian Province also commenced its pilot scheme for market-oriented reforms in the natural gas industry. As such the gateway prices for natural gas are no longer divided into residential and non-residential rates. Residential prices are linked to upstream gas prices and adjusted accordingly, while non-residential prices are determined by supply and demand. The experience generated in these trial reforms in Fujian Province is expected to act as a model for larger scale market-oriented reforms in the natural gas industry throughout the country in the future. In addition to these developments, the Shanghai Petroleum and Natural Gas Exchange commenced official operations, which in turn was followed by the Chongqing Petroleum and Natural Gas Exchange. China has so far established two national trading platforms for bulk energy products while a market-oriented mechanism for the trading and pricing of natural gas is just around the corner.

Chairman's Statement

Market Prospects of the City Gas Business

China underwent changes on energy consumption patterns in 2016, transforming into the adoption of clean, low-carbon and efficient sources as the new standard for energy consumption. Being a clean energy, development and application of natural gas remain a priority for the Chinese government, particularly in view of the worsening haze in the country. The National Development and Reform Commission and National Energy Administration is seeking to accelerate the progress of "coal-to-gas" substitution nationwide. The country's "13th Five-Year Plan of Energy Development" and the "13th Five-Year Plan of Natural Gas Development" propose an increase in the consumption of natural gas to 10% of primary energy consumption in 2020 with a comprehensive guaranteed supply of up to 360 billion cubic metres, a total pipeline length of up to 104,000 kilometres and a gas supply ratio for urban residents of up to 57%. During the term of the 13th Five-Year Plan, "coal-to-gas" substitution works will boost gas consumption by 45 billion cubic metres and replace 189,000 steam tonnes in coal-fired boilers. In 2020, approximately 10 million natural gas vehicles are expected to be in operation, supported by the operation of 12,000 gas refilling stations together with 200 gas refilling stations for marine vessels. These policies and the market environment will thus promote the ongoing development and growth of the city gas industry.

Business Outlook

In view of our operational environment, which has been subjected to structural adjustments in China's economy, the slowdown in energy demand, de-capacity and cost reduction, together with escalating competitive pricing for alternative energies, the Group is sparing no efforts to improve innovation and explore new markets to enhance corporate efficiencies. As such, we are implementing our "creative development" strategy. Actively exploring the industrial and commercial customer base, as well as conventional urban gas markets (including "coal-to-gas" boilers), we continue to leverage our wide client base in China together with our many advantages with regard to gas sourcing coordination, safety management and quality services. These advantages are helping us to lay the foundations for natural gas distributed energy and central heating operations in the domestic gas market. To this end, we provide energy planning and energy savings consultancy together with other services to over 100 member companies in the Group. We are also proactively exploring the new integrated energy supply market. In the development of our distributed energy business, Towngas China Energy Investment (Shenzhen) Limited was established in Qianhai, Shenzhen in 2016.

The "13th Five-Year Plan of Natural Gas Development" has firmly set out objectives to promote the gas utilization in the transportation sector. The implementation of these policies will bring additional opportunities for the Group's gas refilling business for vehicles and marine vessels. Furthermore, there have been constant improvements in technology and additional investments in international gas exploration and development. With an increasing sufficiency in gas supplies and a significant decrease in price in the Asia-Pacific region, imported liquefied natural gas has become much more cost effective. As a result, the Group is planning to tap these sources to complement piped gas supplies, both to lower the costs, as well as to explore opportunities in the trading market of liquefied natural gas.

With regard to the residential market, apart from the active development of the gas heating and water heating markets, the first gas dryer was launched in China in 2016. This move is injecting a new momentum in the Group's "customer oriented" service philosophy.

With signs of economic recovery in mainland China and the continuous expansion of its urban population, demand for energy and green industries remain strong. Looking forward, the Group will continue to promote innovative development and explore new sectors such as clean energy, technology advancement, safety levels and service quality with a view to achieve further growth and improve our overall performance. We believe that in light of the favourable policies and direction for clean energy and the increasing sufficiency of gas supplies, prospects for the further advancement of our business are bright and will achieve not only stable, but outstanding growth. We are on the threshold of a new chapter in our development!

Chan Wing Kin, Alfred
Chairman
Hong Kong, 15 March 2017

Major Accolade

Mr. Chan Wing Kin, Alfred (left), Chairman and Executive Director, and Mr. Wong Wai Yee, Peter, Executive Director and Chief Executive Officer, were truly honoured that Towngas China received the Grand Award of the 2016 HKMA Quality Award. This was a recognition of the joint efforts of all staff members.

During the year, the Group was honoured with the Grand Award of the 2016 HKMA Quality Award, presented by The Hong Kong Management Association ("HKMA"). The Group is the first Hong Kong corporation whose principal businesses operate outside Hong Kong to receive this highest honour, which is known as the "Oscars" among various management awards.

The rich and quality management culture in Towngas China is inherited from The Hong Kong and China Gas Company Limited ("HKCG"), our parent company, which has over 150 years of history. We introduced "Superior Quality Service", a strategic management scheme with remarkable achievements to our businesses in China. The outstanding management mechanism has enabled the Group to maintain a leading position in China's gas industry, our top quality standard has also set the industry benchmarks for other parties.

The assessment process of the HKMA Quality Award is strict and well-structured. The Group was given the Grand Award as we have achieved outstanding performance in all seven judging criteria: Leadership, Strategy, Customers, Workforce, Operations, Results, Measurement, Analysis and Knowledge Management.

The Group has managed to implement its outstanding quality management in all project companies. This gained high recognition from the visiting judging panel.

Mr. Wong Wai Yee, Peter (centre), Executive Director and Chief Executive Officer, received the Grand Award of the 2016 HKMA Quality Award. The award showcased our commitment to quality management and outstanding performance.

While our project companies span across multiple provinces in China, the Group's quality management culture has been well integrated and implemented in each of them. This was highly complemented by the judging panel that contributed a key part to our victory. In Towngas China, our management does practice what they preach and have set up multi-faceted top-down approaches to enhance staff unity. The key measures include establishing a Key Performance Indicator system to ensure the Group's vision, mission and core values are well integrated into daily operations and Key Management Focus project groups to organize cross-departmental discussions, trainings and seminars on a regular basis, two-way communication is fostered while adjustments are being made with reference to opinions received.

Our corporate governance standard was highly recognised as utilizing a long established set of systems. We have managed to deliver our corporate culture, safety standards and service pledge to all project companies, maintaining top standards and creating synergies with the Group's existing business.

With well-defined performance indicators, the Group has been able to overcome management barriers and to integrate a team of workforce with diverse backgrounds. This not only has allowed Towngas China to stand out from groups of leading companies, it has also set an example for the industry and is our key to victory.

Financial Review

Growing for Sustainable Future

In 2016, total gas sales volume of the Group grew steadily by 9% to 7,120 million cubic metres. Profit after taxation attributable to shareholders of the Company amounted to HK$974 million, an increase of 21% as compared to last year. Basic earnings per share amounted to HK36.26 cents, representing an increase of 19% compared to 2015.

Turnover

Turnover from the sales of piped gas and related products declined 8% from HK$6,011 million in 2015 to HK$5,518 million in 2016 mainly due to devaluation of Renminbi and downward adjustments to the natural gas price as made by the Chinese government in November 2015. The total consolidated volume of gas sold during the year amounted to 1,890 million cubic metres, representing an increase of 10% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$1,663 million, a decrease of 3% compared to 2015, mainly due to devaluation of Renminbi. Approximately 400,000 consolidated new household connections were made in 2016.

Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used amounted to HK$4,312 million in 2016, while that was HK$4,936 million in 2015. The decrease in expenses was mainly attributable to the downward adjusted purchase price of natural gas and the devaluation of Renminbi during the year.

Overhead Costs

Overhead costs in 2016 amounted to HK$1,847 million, up 5% as compared to HK$1,765 million in 2015. The increase was mainly due to the Group's business development together with escalations in inflation. Staff costs were on a par with last year while depreciation and amortisation expenses rose by 7%. At the same time, an increase of HK$20 million in overheads was due to the inclusion of new subsidiaries in 2016.

Finance Costs

Finance costs in 2016 amounted to HK$251 million, an increase of 39% as compared to 2015. The Group replaced the Hong Kong dollar-denominated loans with the Renminbi-denominated loans, which resulted in a rise in finance costs.

Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"), which contributed dividends to the Group. Chengdu Gas was stated at cost while Nanjing Public was stated at fair value and no impairment provision was required during the year.

Financial Review

Financial Position

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

As at 31 December 2016, the Group's total borrowings amounted to HK$7,837 million, of which HK$2,653 million represented bank loans and other loans due within 1 year, HK$5,137 million represented bank loans and other loans due between 1 to 5 years, and HK$47 million represented bank loans and other loans due over 5 years. Other than the HK$4,380 million in bank loans and other borrowings which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group are mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group recorded an exchange loss of HK$259 million caused by the fluctuations of Renminbi exchange rate in 2016. Therefore, the Group raised the proportion of borrowings denominated in Renminbi to the total borrowings which amounted to HK$4,815 million and the remaining HK$3,022 million borrowings were denominated mainly in Hong Kong dollars and United States dollars. The Group entered into cross currency swap contracts and foreign currency forward transactions during the current year to hedge foreign currency risk for non-Renminbi denominated bank loans. The change in fair value of other financial assets in 2016 was HK$168 million. As at 31 December 2016, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 31.7%.

As at 31 December 2016, the Group's cash and cash equivalents together with time deposits amounted to HK$1,579 million, of which 97% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2016, the Group's unutilised available facilities amounted to HK$2,923 million.

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

Credit Ratings

In 2016, Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also maintained the long-term corporate credit rating of Towngas China at "BBB+" and its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of the Group's sound financial position.

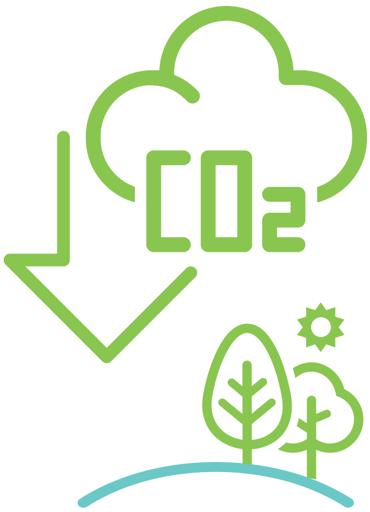
Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2016.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2016 of HK twelve cents per share (2015: HK ten cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

Review of Operations



Natural gas is considered a clean energy which has become a substitute for traditional energy such as coal and crude oil. In response to the targets set by the Chinese government to reduce energy consumption and emissions while also building a low-carbon society, Towngas China is committed to expanding the application of natural gas in urban areas with a view to fully support the national development in improving the environment and air quality. During the "13th Five-Year Plan" period, the percentage of natural gas as a primary energy is expected to reach 10% by 2020, in order to satisfy the long-term goal of reducing dependency on traditional energy resources, optimising the energy structure and moving towards clean and low-carbon development.

Although 2016 saw unstable global markets and the economic slowdown in China, the Group, leveraging our customer network, was able to actively expand our existing markets and customer resources, thus has paved the way for rapid business growth in the future. We have also enhanced our strategic partnership so that we are ideally placed to capture any opportunities arising from periodic economic rebounds and gradual recovery with added impetus in our operations.

In the first year of the "13th Five-Year Plan" period, the Group adhered to favourable policies that accelerated both the urbanisation process and environment protection, resulting in an active extension of our business scope, expansion of our one-stop household gas product line and more diversified extended services. All these enable our customers to benefit from a creative and stylish living experience, while creating value for our investors.

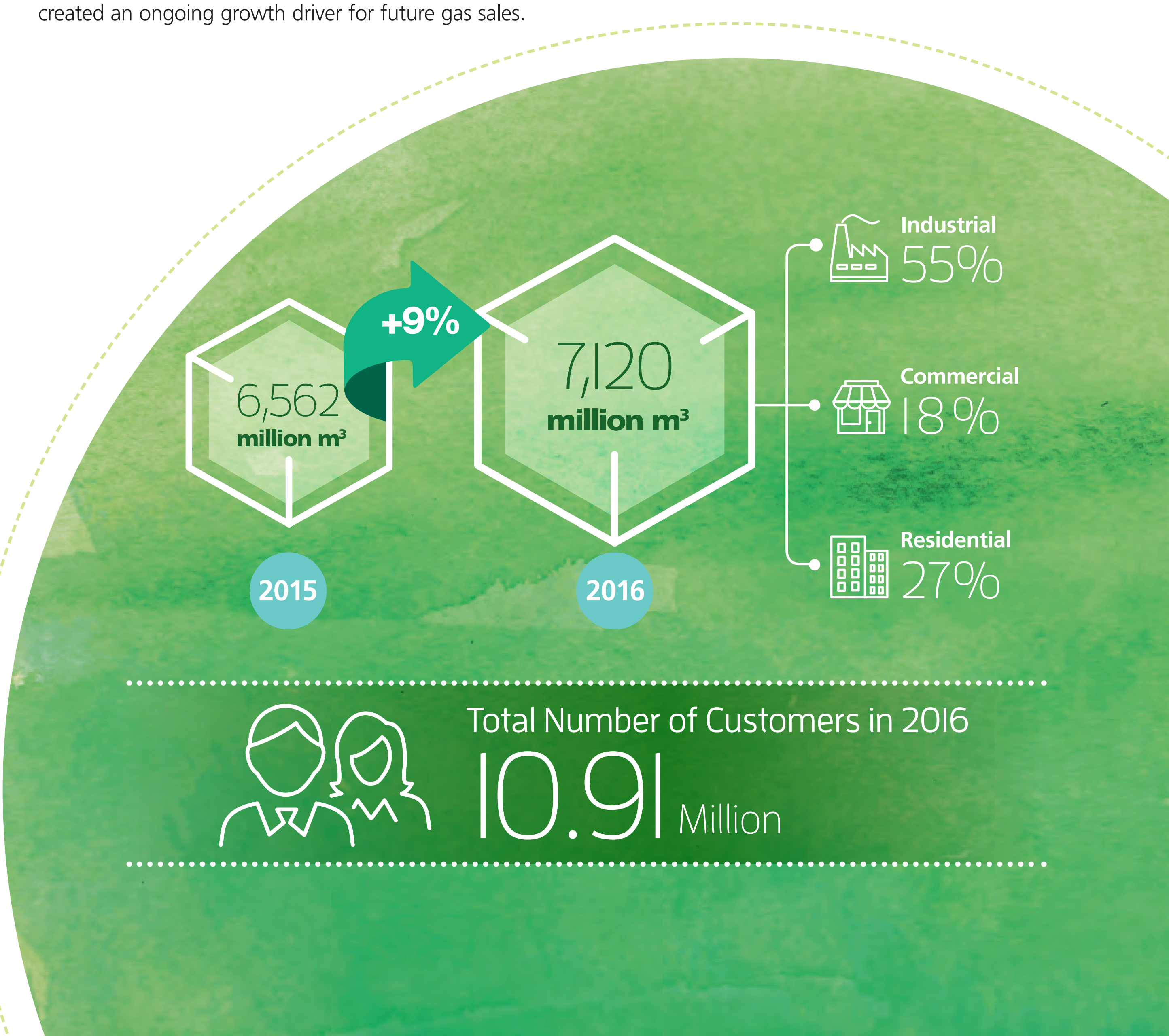
Riding on the trend of "Internet plus", Towngas China offered customers with convenient online platforms and mobile applications to allow them to log into their accounts anytime and anywhere to manage their gas account and to make enquires, in order to enjoy the comfort of shopping in their own homes.

In pursuit of excellence, we have been promoting the corporate culture of "Master Craft" spirit across the Group to reinforce our total quality management. While we strive to provide the best service to customers, we continue to make an active contribution to society.

Sales of Piped Gas

In 2016, the Group sold a total of 7,120 million cubic metres of piped gas, representing a steady increase of 9%, with a total of 10.91 million customers. Industrial gas sales amounted to 3,918 million cubic metres, accounting for 55% of the total volume of gas sold by the Group, while commercial gas sales reached 1,285 million cubic metres, accounting for 18% of the total volume of gas sold. Residential gas sales accounted for 27% of the total volume of gas sold by the Group.

In view of the volatile global economy and the Chinese Government's economic reform policies, the development of the industrial and commercial market is facing immense pressure that indirectly leads to a shrink in overall gas consumption of the industrial and commercial markets. However, the Group has made the best use of its extensive network to further develop our existing market, launching a new line of ancillary gas products in order to explore more business opportunities. We have also ridden on our abundant gas supplies to capitalise on the rise of the clean energy market to actively take part in natural gas development projects, which created an ongoing growth driver for future gas sales.



Review of Operations

Development of New Projects

In 2016, the Group's scope of business continued to expand to include two new distributed energy projects: SCEI Distributed Energy Systems Co., Ltd. ("SCEI") and Towngas China Energy Investment (Shenzhen) Limited ("TCEI"). A distributed energy project uses natural gas as fuel and is able to achieve energy cascade utilisation by adopting combined cooling, heating and power model. The energy efficiencies of these projects can reach 70% or more. In addition, state-of-the-art power supply methods are being adopted close to load centres to achieve higher efficiency of natural gas utilisation.

SCEI's primary market targets are regions with substantial energy consumption, such as metropolitan areas and industrial parks, where the use of distributed renewable energy technology will be extensively applied and actively promoted. SCEI intends to establish its leading market position within Sichuan Province and gain an initial foothold outside Sichuan in 2016 to 2017. In 2018 to 2020, it aims to become the market leader within the Province while extending its business to cover all of China. To date, SCEI has an operating project, a project in trial operation and 4 projects under construction. 4 projects have also gained approvals.

The Group has actively promoted the use of clean energy in line with the "13th Five-Year Plan of Energy Development" and unswervingly pursued the development of integrated energy service operations in response to the policy guideline – "reducing carbon emission and smog". By establishing its base in Shenzhen's Qianhai Free Trade Zone, TCEI has been taking advantage of the supportive policies and regulatory regime on capital and financing in this free trade zone, and leveraging the Group's huge client base and market resources in the mainland, to invest primarily in natural gas distributed energy and central heating projects. It also provides Group members with energy planning, energy saving consultancy and other services. With the Group's advantages in natural gas sources, safety management and quality services, TCEI expects to provide all-around support for investments in distributed energy projects, continuing to drive growth in the integrated energy operations of the Group. Currently, TCEI has undertaken over ten key projects.

At the beginning of 2017, the Group acquired a new city gas project in Huji Town, Zhongxiang City, Hubei Province. The project mainly involves the production of phosphate compound fertiliser and is wholly owned by the Group. This project marks the Group's maiden expansion into Hubei Province.

Industrial and Commercial Markets

Under the shadow of the global economic downturn, China being seen as the world's factory, saw a decline in export volumes for the second consecutive year. A number of industrial enterprises experienced weak growth due to production cuts. With the implementation of energy-saving measures in the commercial market, growth in energy demand has also slowed down.

Despite challenges in the macro-economy, the Group has formulated visionary strategies to strengthen our core competence. We will continue to expand the existing markets and client resources to capture opportunities under a favourable energy policy framework to pick up growth momentum in future businesses.

Industrial

Distributed Energy

In line with the new electricity system reform and policy update on combined heat and power projects while coping with the increasing demand of distributed energy from different client groups, the Group has completed two distributed energy projects during the year. These projects can provide industrial parks, commercial buildings and other industrial and commercial customers with a comprehensive energy solution that combined cooling, heating and power.

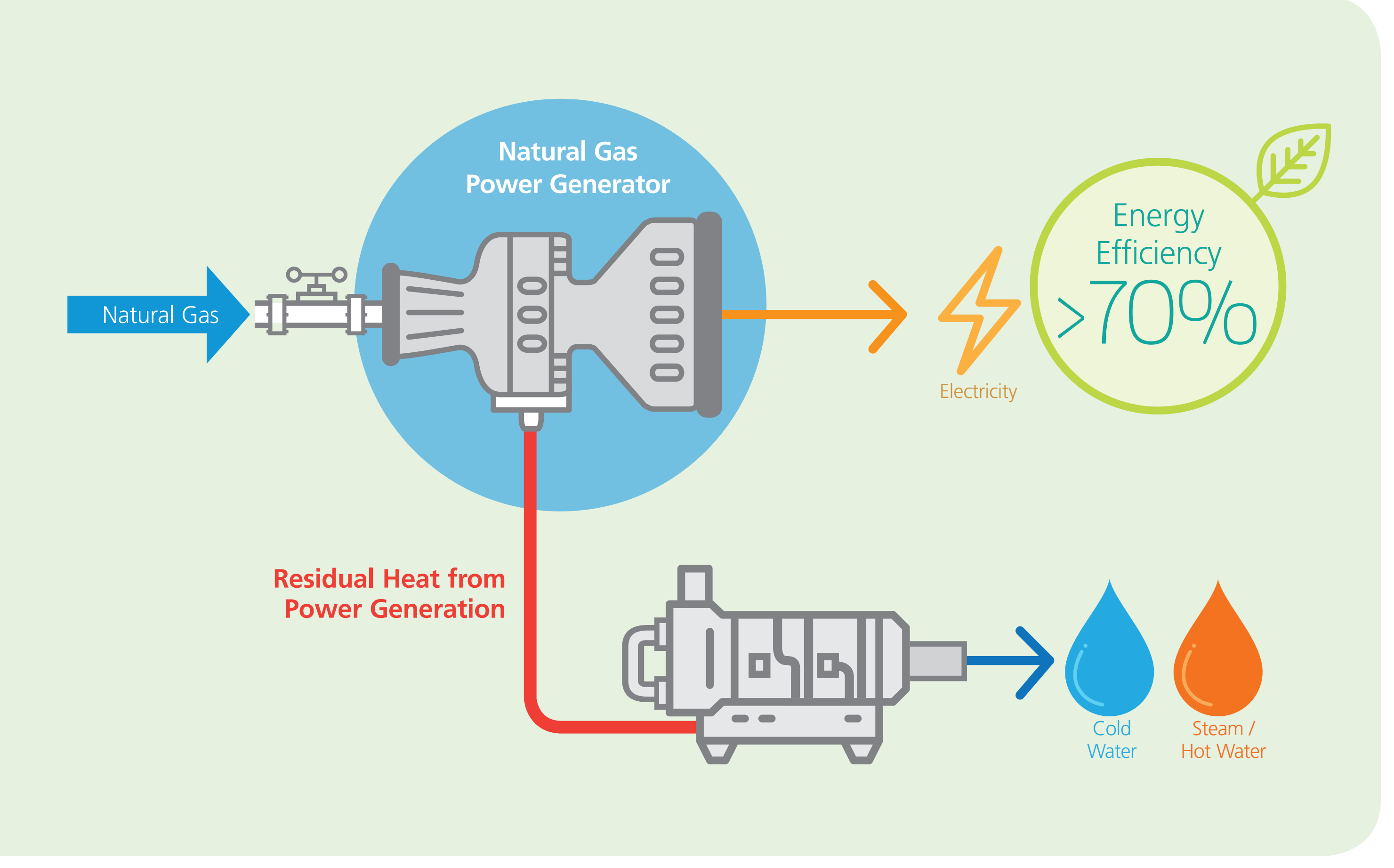
Snow Brewery in Xindu district, Chengdu City of Sichuan Province has installed a distributed energy system that makes use of natural gas to generate electricity and residual heat for cooling and steam production. This marked a new era for energy efficiency and productivity.

The Group has made significant investment in distributed energy projects. One of these is the Luoshanhu Travel Holiday Area in the city of Guilin.

Such technology makes use of a synthetic energy system that incorporates cooling, heating and power generation functions, with clean natural gas being used as the fuel for electricity generation. As the residual heat of electricity production processed by natural gas can be used for steam production and cooling, it realises the progressive use of energy with energy efficiency reaching over 70%.

Review of Operations

Distributed Energy System



Natural gas-powered distributed energy is an energy efficient approach and is widely applicable in different markets, ranging from hospitals, key commercial buildings, hotels, industrial customers and industrial parks. Such technology can help China achieve its objectives of energy diversification, environmental protection, energy saving etc.

The Group has strategically expanded its business by establishing TCEI to explore new business opportunities and to invest in natural gas distributed energy projects while to provide energy consultancy services for potential customers, with a view to expand the distributed energy market. With the aforesaid strategic moves, the Group has managed to take up a leading position and will continue to capture opportunities aroused from the growing market.

Boiler Conversion from Coal to Natural Gas

In support of the Chinese government's environmental policy to promote the use of clean energy, the Group has carried out strategic market research to better understand customers' needs for boiler conversion so that we can offer them energy-saving solutions and encourage them to shift from coal to gas.

A good management and visionary marketing strategy has helped the Group to focus on expanding the industrial market that consumes a larger volume of gas. This has proven to be a success and the scale of gas consumption has increased. The gas consumption by coal-to-gas boiler conversion projects grew by nearly 80% as compared to the same period of last year.

The boiler conversion at Yupei Logistics in Changchun City, Jilin Province is a good example of the Group's effort in offering our customers with environmentally-friendly solutions.

Commercial

Small and Medium-sized Food Outlets

The Group continued to offer its customers with cost-saving proposals. These have continued to improve through market research exercises and preliminary preparation, the optimisation of relevant procedures through the reduction of quotation times, as well as the laying of pipelines in advance at construction sites. We also provided substitute energy that is more convenient and safer than traditional liquefied gas cylinders.

The Group is well-positioned in the market of small and medium-sized food outlets, with double-digit growth recorded in gas consumption during the year. Our visionary strategies are expected to be the long-term driving force of the market.

The Chengdu Tianfu International Airport Piped Gas Project

Ongoing effective communication with the Government has gained us support during the year. The Group will collaborate with CNPC in supplying gas to Chengdu Tianfu International Airport, which will be completed in 2019, and its adjacent economic zone. It involves the investment, construction and operation of gas pipelines and infrastructure. A concession will be granted for the supply of compressed natural gas or liquefied natural gas.

Mr. Chan Wing Kin, Alfred, Chairman and Executive Director, officiated at the unveiling ceremony of Sichuan Airport Gas Co. Ltd.

Review of Operations

Residential

In 2016, the number of our residential customers increased by approximately 9% year-on-year, leading to another year of moderate growth in gas sales. This accounted for approximately one-fourth of the Group's total gas sales.

Our customer service network has also expanded accordingly. A total of 8 new customer centres were opened during the year to meet growing customer needs.

In order to enhance our customer service experience, we have been promoting our long-standing service culture that emphasizes the delivery of "Customer-oriented, Professional and Efficient"services. In addition, we have introduced a new set of key elements that promotes politeness, caring and etiquette as we strive for customer service excellence.

Through service training programmes and cultural promotions, for example, the "Dandelion Scheme" which specialises in training customer service tutors internally, we pass on customer service techniques, etiquette and management. During the year, the first "Star Officer of Politeness, Caring and Etiquette Competition" was kicked off with the "Service with a Smile Ambassador Competition" which is organised every three years to encourage customer service representatives to provide caring, professional and sincere services.

The service culture of "Customer-oriented" penetrates all of our project companies.

Gas Appliances and Extended Services

In recent years, given the sufficient supply of natural gas source in China and the Chinese government's increasing demand for energy conservation and emission reduction, the Group has ridden on the opportunities to diversify its business scope. We have expanded from our core gas business to provide a wide selection of household gas products and extended services. With the aim to bring customers with a better living experience, especially the middle-class from the Chinese market, not only did the Group create a safe and reliable living habit for customers, it also generated new business opportunities for the Group to support its sustainable development.

Bauhinia Gas Appliances

With over 10 years of history, Bauhinia, the gas appliances brand established by Towngas China, is well known for its quality, safety and reliability.

Bauhinia covers a wide range of gas appliances ranging from cookers to water heaters and space heaters. Over the years, the products have gained tremendous popularity among the public with a significant increase in sales volume over the years. With the reliable brand image and our successful marketing strategies, Bauhinia gas appliances recorded a total sales of 360,000 gas appliances units during the year, and was again named as Hong Kong Top Brand.

Review of Operations

Gas dryers work **50%** faster than electric dryers

The gas dryer utilises heat temperature of 65˚c to dry clothes with sterilisation, germicidal and anti-mite functions. Dried clothes are softer in texture with fewer wrinkles as compared to those undergo traditional sun-drying or old-fashioned dryers using water vapourisation as the drying medium. Gas dryers can save up to 50% in time when compared to electric dryers and can reduce energy consumption. These advantages have made gas dryers a popular choice.

Gas Dryers

In 2016, the Group rode on the successful launch of gas dryers into the Hong Kong market by HKCG, its parent company, while Towngas China launched the first gas dryer model in China. Outdoor clothes drying condition and hygienic issues have been worsened due to the thickening haze in China. Therefore gas dryers with anti-mite and germicidal functions have become popular. Though the gas dryers have been launched for nine months only, close to 4,000 units have already been sold. With the installation of gas dryers, the average household gas consumption has increased by 30% and has generated growth momentum for our business.

Gas Cookers

Over the years, we have continuously brought forward innovative ideas and developed a large selection of gas cookers to cope with growing household needs. To date, our newly designed products have met stringent safety standards and grade 2 of the national energy standard.

Bauhinia offers a wide range of gas cookers to cater for the diverse needs of different households.

Gas Heating Appliances

Dating back to 2005, the Group started a cooperation with the North China Municipal Engineering Design & Research Institute to develop household heating appliances, providing users with alternatives to the central heating system. With an independent gas heater installed, users can enjoy more comfortable living and can adjust the room temperature based on their own needs.

The demand for household gas heating appliances has continued to grow in respect to the improved quality of living. Riding on the booming needs, the Group has actively promoted the usage of gas heating appliances in eastern, southern and south-western parts of China during the year. With strategic alliance formed with contractors, the Group has managed to pre-plant gas pipes in newly-built residential buildings. The Group also offered bulk buying promotions for gas heating appliances in newly developed projects. During the year, total sales grew by nearly 30%.

During the year, we have added a wall-mounted gas boiler to the catalogue which the boiler is operated in smart system and has swept the European market. The boiler itself goes with a water tank that can enhance stability and water storage. Our active promotions in eastern, southern and south-western parts of China have stimulated sales growth of our gas heating products.

Gas Water Heaters

We strive to promote innovation across the Group. Gas and solar-energy compatible heaters were launched during the year. It can improve water temperature stability that used to be an issue associated with the old model powered by renewable energy. With the new heaters installed, customers can enjoy a stabilized water temperature with instantaneous heating function as well as being environmentally-friendly. Compared to electrical heaters, water heaters emit close to 80% less carbon dioxide with a significant saving in power expenses, bringing customers dual advantages.

Gas water heater is a must-buy item for modern households. The multi-functional gas water heater not only can instantly offer users with hot water, the temperature stability function is enhanced while being environmentally friendly.

Review of Operations

Extended Services

With our aim to provide a quality lifestyle, "Towngas Lifestyle" provides a wide range of exceptional cooking utensils and services, including premium cabinets, kitchen goods, household gas detector alarms, gas insurance services and the sourcing of healthy food ingredients. The Group established a virtual customer centre and in light of the ever-growing social media trend, a WeChat service account under the name "Towngas Lifestyle" was also being launched during the year. The new platforms offer customers more flexibility and a cost effective approach in managing their gas related services while enabling the purchase of ancillary gas products anywhere at anytime.

Mia Cucina Cabinets with New Complementary Gas Appliances

Mia Cucina, which comes from the Italian word "my kitchen", is a high-end cabinet brand name owned by the Group. Its product design has incorporated the essence of a "people-oriented" philosophy. The brand uses first class materials imported from Europe along with automated and buffering devices. On the design perspective, it has adopted ergonomic minimalist designs to create stylish cabinets and cooking areas.

Our brand Mia Cucina is widely recognized for its spectacular design and best quality standards, tailor-making elegant and stylish kitchens.

With the growing property market in China, there is an increasing demand for fine decorated rooms. We have therefore extended our business to cover every part of the kitchen and also to provide modern kitchen design services to customers. Under the brand name of Mia Cucina, we offered a full range of services ranging from consultation, product sales, design and installation of cabinets and gas appliances to household customers for their modern and stylish living experience. In 2017, Mia Cucina will be expanding its catalogue to offer top notch cooking utensils, bringing customers the concept of a "Total Kitchen Solution".

A wide range of imported colourful kitchen accessories are available for purchase in the showrooms.

Kitchen Goods

We source stylish kitchen products from all over the world to enhance the cooking experience for our customers. For example, we have imported top-selling rose ceramic pots from the Republic of Korea, taro mini pans, candy-coloured Swiss multi-purpose stainless steel knives and measuring devices.

During the year, we have extended our footsteps by launching new showrooms selling kitchen furniture and accessories in Shandong and Anhui Provinces. There are currently four showrooms in China to cater for the growth of customers while to provide them with enhanced cooking experience.

Household Gas Detector Alarm

Following the launch of gas insurance last year, we are at the trial launch phase of the household gas leakage detecting service. With the gas alarm installed, it can detect gas leakage with an added value of safety protection. It also provides reassurance to our customers with a safe environment.

Online Customer Centre and Social Media Platform

Riding on the trend of "Internet Plus" and the successful launch of "Ganghua Pay" which has attracted over 600,000 users in over a year, the Group has newly launched the "Towngas VCC (Virtual Customer Centre)" platform (Website: http://www.towngasvcc.com) together with the "Towngas Lifestyle" WeChat public account during the year, extending our quality customer services to the internet and smart phone platform. Customers can now manage their gas accounts anytime and anywhere while purchasing ancillary gas products through both online and offline platforms. To provide customers with a more flexible and cost-effective experience, a mobile application is currently under development and is expected to be launched in the near future.

Food Ingredients Sourcing

By utilising our extensive business coverage across China, the Group also sources seasonal and fresh food ingredients for purchase, such as mixed grains and rice from northeastern China, wild camellia oil from Zhejiang and Jiangxi, Tian purple tea from Yixing, etc. These products are all available for group buying purchase at the Wechat platform of "Towngas Lifestyle" which aims to provide quality food ingredients at an affordable price for customers in pursue of a healthy diet.

Review of Operations

We provide free on-site inspections for our residential customers on a regular basis to ensure their safe use of gas.

Engineering and Safety

The Group has always regarded gas safety as our top priority. Not only are we concerned about customers' safety when using gas, the safety of our employees and contractors is of utmost importance.

To reassure our engineering projects are of the best quality, we have established our own technical and management guidelines for new pipelines and facilities. Leveraging advanced technologies, we strictly managed our project companies to meet the highest safety standards in construction works and day-to-day operation. The Group also produces precast pipeline parts in its own factories, which is part of its prefabricated scheme. By improving project planning and implementation as well as standardising production, the scheme enhances the overall efficiency and precision of projects, shorten project duration and reduce cost without compromising the quality.

Adhering to the well-established safety standards of our parent company, the Group has replicated a similar management system led by our Chairman and the Chief Executive Officer, for which they also take on safety supervision and inspection roles. Our management team is heavily involved in monthly safety inspections, safety cross-check exercises in project companies which are held twice a year, and also the annual General Manager Safety Inspections.

On the community level, our project companies hold at least one joint drilling exercise with local police and fire service authorities every two years. We also organise community promotional campaigns in the safe usage of gas as a further precautionary measure.

In light of our outstanding safety performance, we were once again invited to participate in the preparation of national technical standards on engineering during the year. This contribution included both the review and proposal of amendments to industrial standards and codes. Widely known for our gas safety, we also play a part in the Industry Codes and Standards Preparation and Formulation Committee under the Ministry of Housing and Urban-Rural Development of China.

Apart from regular joint drilling exercise, the Group has also sent staff to participate in training sessions on fire-fighting and courses covering risk management topics run by the Hong Kong Fire Services Department to reinforce the precautionary knowledge and skills of our staff.

The second generation of Zhuojia production line in Maanshan city, Anhui province, commenced operations during the year, which marks a new milestone in regards to the Group's prefabrication scheme.

Human Resources

Through contests and exhibitions of winning projects, the pursuit of excellence and our Total Quality Management culture as encapsulated in our "Master Craft" initiative, were extensively promoted.

Adhering to the "people-oriented" principle we uphold, we attach high importance in talent retention while fostering sustainable development for both our employees and the Group. It has always been our goal to align employees' career development with our business direction, staying well prepared whenever opportunities arise from the rapid development of the Group.

As at the end of 2016, the Group employed a total of 22,129 staff. With a comprehensive and effective talent retention strategy in place, the staff turnover over the years has only recorded at around 2%.

We have also set up a well-established career progression programme with a series of training schemes in place, including the Professional Talent Development, the Talent Nurturing and the Reserve Pool for General Manager schemes. On top, we organised customized management courses to equip our future managers with advanced skill sets, getting them ready prior to their promotions.

We invest substantial resources both in training courses and in online training sessions, targeting staff in different functions and levels, in our attempt to ensure the long-term development of our people and to enable them to grow in parallel with the Group. We provide on-the-job trainings through the Hong Kong and China Gas Training Institute set up by HKCG in Shandong. Together with training institutes elsewhere, we have a total of 5 training bases to provide engineering-related trainings to help our people earning professional qualifications. During the year, over 3,000 participants attended these engineering training sessions.

We also cooperate with well-known organisations, such as HKMA and University of Technology Sydney to offer a Master of Engineering Management programme, and help our staff broaden their horizons and obtain internationally-recognised qualifications.

Through partnering with a series of universities and education institutions, the Group actively recruits fresh graduates to join and provide them with a full range of on-the-job training schemes, including the Undergraduate Internship, the Graduate Training and Development as well as the Management Trainee schemes.

During the year, we are dedicated to promoting the spirit of "Master Craft", to encourage all employees, not limited to engineering staff, to improve their professionalism and service quality. We also encourage them to apply the same spirit as seen in traditional craftsmanship, to their scope of work, all in the pursuit of ongoing excellence, innovation and continuous progression.

Professional trainers at our Hong Kong and China Gas Training Institute worked with trainees to strengthen their engineering knowledge and technical skills.

Comprehensive talent training programmes were organised to enhance the management and leadership capabilities of staff who were recently promoted to management positions.

Review of Operations

Corporate Social Responsibilities

We keep our corporate social responsibilities in mind and strive to integrate sustainability into every aspect of our daily operations. Building on a solid foundation of resources, we thus work to help the underprivileged in society. Apart from monetary sponsorships, our volunteers contribute both time and expertise to help create a better community as well as a greener environment.

Through "Gentle Breeze Movement" programme, the Group donated resources to schools in remote areas in Liaoning and Sichuan Provinces. The teaching building was refurbished and a library was built for impoverished students.

The Group's signature community programme, the "Rice Dumplings for the Community" initiative, our corporate volunteers prepared rice dumplings in person and delivered them to the children.

Community Support

The "Gentle Breeze Movement", one of the Group's annual charitable events, celebrated its fourth anniversary. To date, the Group has donated more than RMB1.8 million to 20 schools in remote mountainous areas in provinces such as Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Sichuan, etc. The donations are used to refurbish school buildings together and to set up "Towngas China Charity Libraries" for impoverished students. It also provides uniforms, sports equipment, computers and other materials. In 2016, this education assistance scheme expanded to cover provinces, such as Liaoning and Sichuan. The learning environment for approximately 800 local teachers and students has been improved in respect to the newly built libraries and teaching equipments we supplied.

Rice Dumplings for the Community

Our "Rice Dumplings for the Community" initiative, another annual signature event, was again held to celebrate the Dragon Boat Festival with the needy. Under this initiative, we have prepared and distributed traditional rice dumplings to the elderly and people in need. The management and nearly 40 of our project companies came together to make more than 36,000 dumplings, which were distributed to charitable organisations, health and construction workers across the country. At the same time, we have distributed festive gifts to more than 7,000 beneficiaries in celebration of the festival.

Supporting the "Firefly Project", we constructed a multi-media classroom for a resource-strapped school in Taian City, Shandong Province during the year. This is the fifth "Firefly Centre" funded by the Group.

Firefly Project

During the year, we continued to support the "Firefly Project" which is run by the "Shanghai Soong Ching Ling Foundation – BEA Charity Fund", to construct multi-media classrooms for resource-strapped schools. Our fifth "Firefly Centre" was completed in Taian City, Shandong Province during the year. We also donated equipments such as computers, textbooks and stationery as well as a range of equipments to the schools in order to improve teaching quality.

Environmental Protection

We remain committed to environmental protection. Not only are we a clean energy supplier, we also play an active role in promoting urban greening movements, low-carbon lifestyles and community care initiatives that demonstrate our commitment to apply environmental conscious concepts in every aspect of our business operation.

During the year, we rolled out an environmental campaign across the Group, named "Contest of Low Carbon Creativity", to encourage staff members with their family, customers and the general public to participate in more than 30 innovative environmentally friendly activities. As part of the campaign, community greening events took place, including tree planting activities where more than 1,400 trees were planted, covering an area of over 3,600 square metres. We also organized a competition to call for staff entries with low-carbon ideas, putting the concept of "trash to treasure" and surplus recycling into action. The Towngas volunteer team also organised community cleaning activities in building a better community.

During the year, the Group together with our project companies planted more than 1,400 trees in total, covering a green area of over 3,600 square metres.

Our staff made good use of worn safety helmet (left) and PE tubes and anti-dust covers (right), to produce plant pots. Not only do they reduce general waste, the items can help lighten up both the household and the workplace.

A beach cleaning volunteer event was initiated by our staff in Longkou City, Shandong Province during the year.

Review of Operations

Long-term Development Strategy

Towngas China's mission is to provide our customers with a safe, reliable supply of gas and the caring, competent and efficient services they expect, while working to preserve, protect and improve our environment.

Moving forward, we will continue to focus on gas-related investments, exploration, and sales and operation management. We will continue to uphold the principle of financial management while at the same time grasping every business opportunity to boost reasonable returns for our shareholders.

According to China's "13th Five-Year Plan", the country's clean energy policies will continue to foster city-gas development. It will also play an important role in the government's response to climate change. Looking forward, we will keep leveraging our strengths, which include our existing customer network, outstanding industry safety record, reputable gas and stove brands as well as our professional and reliable customer services, to capture the benefits of being the first in the market, to seize every opportunity to expand business horizons and to strengthen our leading position in the industry.

While the Group is leading project companies to focus on expansion into new areas, we will remain committed to our corporate social responsibilities and charity spirit and to working tirelessly to give back to the community and to protect our environment, spurring our sustainable and ongoing business development.

Awards

In 2016, Towngas China was honoured with the Grand Award of the 2016 Quality Award, presented by The Hong Kong Management Association. The Group is the first Hong Kong corporation whose principal businesses operate outside Hong Kong to receive this highest honour. Having a portfolio of more than 100 projects which spans across provinces and municipal cities in mainland China, Towngas China has inherited the quality management culture from the mother company. We have been dedicated to continuous improvement and creating synergies between businesses across mainland China and Hong Kong to achieve the vision, mission and value. This prestigious award is a testament to the Group's commitment to the development of quality products, services and performance across its operations.

Over the years, Towngas China has received a series of awards and recognitions. In the light of the outstanding management in leading the Group conquering new heights, Mr Chan Wing Kin, Alfred, Chairman and Executive Director of the Group, was again named as one of the 100 Best-Performing CEOs in the World in 2016 by Harvard Business Review. He is the one and only executive from the public utility industry in Hong Kong earning this well recognised achievement.

The Group has furthermore been honoured with a number of awards, reaffirming its solid performance in a number of aspects. Some of the awards received during the year include:

Award	Presented by
Quality management	
Grand Award of the 2016 HKMA Quality Award	Hong Kong Management Association
The Investor relations	
The 6th China Securities Golden Bauhinia Awards: Best Investment Value Award for Listed Companies	Hong Kong Ta Kung Wen Wei Media Group
Corporate social responsibility	
Pioneer in Social Responsibility Performance Award in CSR China Education Awards 2016	The Communist Youth League of China, the Ministry of Education and the Ministry of Industry and Information Technology of China
5-star Outstanding Corporate Citizen in China 2016	Corporate Citizenship Committee of China Association of Social Workers, CCTV, Tencent Charity Foundation
CSR Brand Award 2016 of the 6th China Charity Festival	Organizing committee of China Charity Festival

Risk Factors

Towngas China continues to expand across mainland China. To ensure growth, Towngas China constantly analyses the risks we encounter every day, allowing us to prepare for whatever we may face while maintaining our dedication to sustainable and environmentally sound practices.

Business Environment

Following the decision of Britain's exit from the European Union and the US presidential election, the fluctuating global economic situation is causing associated uncertainties to prevail in the business environment. In addition, mainland China's rapid economic growth has slowed to a more moderate pace as a result of contracting exports, overcapacity and weak industrial output. These, together with the global warming effect, may gradually lower the regional energy demand. However, the need to mitigate air pollution through clean energy and the demand for housing to support urbanisation will continue to rise.

The mainland China market faces competition from direct sales by dominating upstream gas companies, as well as liquefied natural gas (LNG) and alternative energy suppliers. Volatility of energy prices and government policy changes (whether political, legal, regulatory, environmental or competition-related) may further impact our operations. Therefore, our strategy to cope with such business risks is crucial to the prolonged success of the Group.

Measures taken include remaining prudence in capital investments whilst enhancing productivity and cost effectiveness in all aspects of our operations. In addition, close credit monitoring is also reinforced to manage default risks.

Furthermore, Towngas China is continually exploring new applications for gas in mainland China. Close communication is also maintained with operational partners and government for prominent support.

Reliability of Gas Supply

Towngas China continues to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and broader our access to LNG, we are continuing to evaluate the feasibility of developing LNG receiving and regasification terminal in the coastal regions which will enable us to have access to a range of competitive LNG supplies directly from the international market and help minimize supply risks. Furthermore, LNG storage facilities are in place to ensure a reliable source of supply in natural gas.

Reliable gas transmission is achieved through a sophisticated Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls our pressure-regulating stations and network. Comprehensive training is provided to operational staff while asset management systems are also deployed. Contingency plans, with regular practice drills, prepare us for events impacting customers and the public.

Distribution Network Safety

It is among our top priorities to prevent any major leakages or explosions in our pipelines, networks and storage facilities. In the event that our critical facilities or related infrastructure suffer physical harm from, e.g. third party damage, security threats or extreme weather events such as severe typhoons, flooding or landslides, the resulting safety incidents and interruption to service may have a significant legal, financial and/or reputational impact on the Group.

To mitigate these risks, Towngas China conducts regular reviews of all operating procedures and implements strategies tailored to addressing such risks. Our total quality management system covers all critical transmission, distribution and storage facilities, and ensures assets are well managed according to international standards with external certifications. Furthermore, Towngas China maintains adequate insurance coverage against any property damage and financial loss.

Information Security

Our business operations rely on information technology systems. Any critical system failure, leakage or loss of sensitive information could have unfavourable material consequences for the Group. Towngas China adopts different protective measures to manage data loss, monitor suspicious cyber activities and regularly assess security by having third parties to identify any system enhancement areas. While contingency plans with regular drills are in place to counter system failures, group-wide staff awareness programmes on cyber-security and sensitive information handling are implemented to properly safeguard against increasing information security threats.

Health and Safety

Minimising occupational health and safety risks is crucial to the operation of Towngas China. Incidents such as serious accidents or the outbreak of a communicable disease could cause injury, loss of life and operational disruption, resulting in huge recovery costs, litigation and reputational damage.

To mitigate and contain those risks that are either directly or indirectly under our control, we actively encourage the reporting and monitoring of hazards and potential problems at all levels.

Comprehensive guidelines and established measures ensure that the safety performance of Towngas China conforms to the highest industry standards, whilst our thorough safety management system, certified for compliance with international standards, is reviewed and updated regularly to ensure that the relevant issues are properly managed. Moreover, to maintain a perpetual, comprehensive and effective culture of safety, Towngas China provides staff and contractors alike with systematic professional, technical and safety-related training.

Board of Directors

Kwan Yuk Choi, James | Kee Wai Ngai, Martin | Chan Wing Kin, Alfred | Wong Wai Yee, Peter | Cheng Mo Chi, Moses | Ho Hon Ming, John | Li Man Bun, Brian David

Mr. Chan Wing Kin, Alfred, *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*, aged 66, has been the Chairman and an Executive Director of the Company since March 2007. Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and is a director of major local and overseas subsidiaries of HKCG. He is also the Vice Chairman of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Chan is an Honorary President of The Hong Kong Management Association and a Vice Chairman of China Gas Association. He is a Member of the Standing Committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006, the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review in 2015 and 2016. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

Mr. Wong Wai Yee, Peter, *C.P.A.(CANADA), C.M.A., A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*, aged 65, has been an Executive Director and the Chief Executive Officer of the Company since March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer – Utilities Business of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is a director of Shenzhen Gas Corporation Ltd., which is a listed company on the Shanghai Stock Exchange. Mr. Wong was named consecutively as one of "The Best CEO of Chinese Listed Companies" by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of the Institution of Gas Engineers & Managers of the United Kingdom. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Wong was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University and a member of the Advisory Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University. Mr. Wong has over 40 years of experience in corporate finance, management and international working experience.

Mr. Ho Hon Ming, John, *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.)*, aged 60, has been an Executive Director and the Company Secretary of the Company since March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd. and Shenzhen Gas Corporation Ltd., both are listed companies on the Shanghai Stock Exchange. Mr. Ho is a General Committee member of the Chamber of Hong Kong Listed Companies and a member of the Taxation Committee of the Hong Kong General Chamber of Commerce. He is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho completed the Advanced Management Program from Harvard Business School in the United States. Mr. Ho has over 38 years of experience in accounting, corporate finance and investment.

Mr. Kee Wai Ngai, Martin, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 50, has been an Executive Director of the Company since May 2015. Mr. Kee graduated from the Department of Engineering, The University of Hong Kong and holds a master degree in Business Administration. He joined the Engineering Department of HKCG (a public listed company in Hong Kong and the controlling shareholder of the Company) in 1990, and has been participating in HKCG's business development in the Mainland since 1994. In 2003, Mr. Kee was appointed as the general manager of Changzhou Hong Kong and China Gas Company Limited. He has become the general manager of Nanjing Hong Kong and China Gas Company Limited since October 2006, and was appointed as the senior vice president in February 2009, responsible for the overall operation and management of the gas project companies in Jiangsu region, and was further responsible for managing the gas project companies in Anhui region in April 2012. He was then appointed as the executive vice president in October 2012, responsible for the operation and management of the gas project companies in Jiangsu, Anhui and Zhejiang regions, and is also in charge of the operation and management of the gas project companies in the southwest and Jiangxi regions starting from April 2015. He is the Vice Chairman of Anhui Province Natural Gas Development Co., Ltd., a listed company on the Shanghai Stock Exchange and a director of Nanjing Public Utilities Development Co., Ltd., a listed company on the Shenzhen Stock Exchange. Mr. Kee is a member of the 13th Nanjing Committee and previously a member of the 11th and 12th Changzhou Committee of the Chinese People's Political Consultative Conference.

Board of Directors

Dr. Cheng Mo Chi, Moses, *GBM, GBS, OBE, JP*, aged 67, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Remuneration Committee and a member of the Board Audit and Risk Committee and the Nomination Committee of the Company. Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng serves as a member of the National Committee of the Chinese People's Political Consultative Conference, the Chairman of the Process Review Panel for the Securities and Futures Commission and the Chairman of the Insurance Authority. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited (formerly known as China Resources Enterprise, Limited), Guangdong Investment Limited, Kader Holdings Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on the Singapore Stock Exchange. His other directorship in public listed company in the last 3 years includes Hong Kong Television Network Limited (formerly known as City Telecom (H.K.) Limited).

Mr. Li Man Bun, Brian David, *JP, FCA, MBA, MA (Cantab)*, aged 42, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Board Audit and Risk Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Li is an Executive Director & Deputy Chief Executive of The Bank of East Asia, Limited ("BEA") (a listed company on the Hong Kong Stock Exchange). He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009. He was appointed Deputy Chief Executive of BEA in April 2009 in which capacity he is primarily responsible for BEA's China and international businesses. He is also an independent non-executive director of Hopewell Highway Infrastructure Limited and China Overseas Land & Investment Limited, both of which are listed companies on the Hong Kong Stock Exchange. Mr. Li currently holds a number of public and honorary positions, including being a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong, Chairman of the Traffic Accident Victims Assistance Advisory Committee of the Government of the Hong Kong Special Administrative Region ("HKSARG"), a member of the HKSARG Aviation Development and Three-runway System Advisory Committee, a member of the Market Development Committee, Financial Services Development Council of the HKSARG, a member of the Hong Kong-Europe Business Council, a member of the Hong Kong-Taiwan Business Co-operation Committee, a member of Asian Financial Forum 2017 Steering Committee, a Committee member of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales ("ICAEW"), a member of the Inaugural Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, and a Council Member of The Hong Kong Management Association. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Full Member of the Treasury Markets Association. Mr. Li is also a Fellow of the ICAEW. He holds an MBA degree from Stanford University as well as MA and BA degrees from the University of Cambridge.

Mr. Kwan Yuk Choi, James, *J.P., R.P.E.(Gas), C.Eng., Hon.F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E., M.B.A., B.Sc. (Eng)*, aged 65, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company in 2013. Mr. Kwan was re-designated as an Independent Non-Executive Director and appointed as a member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from May 2015. Mr. Kwan is also an independent non-executive director of MTR Corporation Limited, a public listed company in Hong Kong. He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. He was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Hong Kong Special Administrative Region. Mr. Kwan is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Mechanical Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers of the United Kingdom.

Notes:

1. The interests of Directors of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2016 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in the "Report of the Directors" of this Annual Report.

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

3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 12 to the consolidated financial statements.

4. The term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2019. The term of office of Mr. Kwan Yuk Choi, James, an Independent Non-Executive Director, shall expire on 2 June 2019. Their respective terms of office are subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the provisions of the Company's memorandum and the articles of association (the "Articles") in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the Company's annual general meeting (the "AGM"). A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the AGM.

Report of the Directors

The Board has pleasure in presenting the Directors' Report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances. Particulars of its principal subsidiaries are set out in Note 42 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 77.

The Directors have recommended the payment of a final dividend out of the share premium account of HK twelve cents per share (2015: HK ten cents per share) to shareholders whose names are on the register of members of the Company on Friday, 9 June 2017.

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

The circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Friday, 16 June 2017. Subject to approval by shareholders at the AGM to be held on Thursday, 1 June 2017 and compliance with the Companies Law of the Cayman Islands, the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be distributed to shareholders on or about Monday, 17 July 2017. The register of members of the Company will be closed from Wednesday, 7 June 2017 to Friday, 9 June 2017 (both days inclusive), for the purpose of determining shareholders who qualify for the final dividend and during which period no transfer of shares of the Company will be registered.

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

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent on or about 17 July 2017 to the shareholders whose names appear on the register of members of the Company on 9 June 2017.

Business Review

The business review of the Group for the year ended 31 December 2016 including a fair review of the business, an indication of likely future development in the Group's business, and particulars of important events affecting the Group that have occurred since the end of the financial year of 2016 (if any), is set out in the sections headed "Chairman's Statement" on pages 6 to 9 and "Financial Review" and "Review of Operations" on pages 12 to 32 respectively of this Annual Report. A discussion on the Group's environmental policies and performance, an account of the Group's key relationships with its stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group can be found in "Review of Operations" on pages 16 to 32 and "Corporate Governance Report" on pages 54 to 70 as well as the standalone 2016 Corporate Social Responsibility Report.

Description of possible risks and uncertainties that the Group may be facing can be found in the "Financial Review" on pages 12 to 15, "Risk Factors" on pages 34 to 35 and Notes 4 to 6 to the consolidated financial statements on pages 107 to 114.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 109 to 114. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Financial Highlights" on page 5 of this Annual Report.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 81.

The Company's reserves available for distribution to shareholders as at 31 December 2016 amounted to HK$3,875 million (2015: HK$4,567 million), subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2016 is set out on page 4.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

Report of the Directors

Share Capital

During the year, the Company declared a final dividend of HK ten cents per share for the year ended 31 December 2015 in cash (with scrip option) during the year. A total of 46,539,113 shares of the Company, fully paid, were issued and allotted in scrip form at HK$4.376 per share. No consideration was received by the Company for the issue.

Details of movements in the share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

Directors

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

Executive Directors
Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Ho Hon Ming, John *(Company Secretary)*
Mr. Kee Wai Ngai, Martin

Independent Non-Executive Directors
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David
Mr. Kwan Yuk Choi, James

In accordance with article 112 of the Articles, Mr. Ho Hon Ming, John, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, having been longest in office since their respective last election, shall retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

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

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

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

The biographical details of the Directors of the Company are set out on pages 36 to 39 of this Annual Report.

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

As at 31 December 2016, the interests or short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") , to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares

			Interest in shares				
Name of Company	Name of Director	Capacity	Personal interest	Family interest	Corporate interest	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2016
Towngas China Company Limited	Chan Wing Kin, Alfred	Beneficial owner	3,618,000	–	–	3,618,000	0.13%
	Wong Wai Yee, Peter	Beneficial owner	3,015,000	–	–	3,015,000	0.11%
	Ho Hon Ming, John	Beneficial owner	1,015,000	–	–	1,015,000	0.04%
	Kwan Yuk Choi, James	Beneficial owner	2,515,000	–	–	2,515,000	0.09%
HKCG	Chan Wing Kin, Alfred	Interest held jointly with spouse	242,448	–	–	242,448	0.00%
	Ho Hon Ming, John	Beneficial owner	37,967	–	–	37,967	0.00%
	Kwan Yuk Choi, James	Beneficial owner and interest of spouse	85,589	96,972	–	182,561	0.00%

Save as stated above, as at 31 December 2016, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

Equity-linked Agreements

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

Directors' Material Interests in Transactions, Arrangements or Contracts

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

Management Contracts

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

Permitted Indemnity Provision

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

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for Directors and officers of the Company.

Competing Business

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

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

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

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

Substantial Shareholders

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than the Directors or the chief executive of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued shares of the Company (the "Shares"):

Long positions in Shares and underlying Shares in the Company

Name of shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of issued Shares as at 31.12.2016
Lee Shau Kee	Interest of controlled corporations	1,738,673,246 *(Note 1)*	64.12%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,738,673,246 *(Note 2)*	64.12%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,738,673,246 *(Note 2)*	64.12%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,738,673,246 *(Note 2)*	64.12%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,738,673,246 *(Note 2)*	64.12%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,738,673,246 *(Note 2)*	64.12%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,738,673,246 *(Note 2)*	64.12%
HKCG	Interest of controlled corporations	1,738,673,246 *(Note 3)*	64.12%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	1,656,650,221 *(Note 3)*	61.09%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,656,650,221 *(Note 3)*	61.09%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	216,042,785 *(Note 4)*	7.97%

Report of the Directors

Substantial Shareholders *(Continued)*

Long positions in Shares and underlying Shares in the Company *(Continued)*

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,738,673,246 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 1,738,673,246 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,656,650,221 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 79,410,349 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,612,676 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.

4. Commonwealth Bank was taken to be interested in these 216,042,785 Shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2016, were entitled to exercise or control the exercise of 5% or more of the voting power of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short Positions in Shares and Underlying Shares

As at 31 December 2016, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares.

Other Persons

As at 31 December 2016, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executive and the substantial shareholders as disclosed above) in the Shares or underlying Shares that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the Listing Rules.

Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2016 which are required to be disclosed in this Annual Report in accordance with Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group below and Note 35 to the consolidated financial statements, as appropriate, in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Gas Purchase and Pipeline Materials Purchase Transactions

On 3 December 2015, the Company and HKCG entered into two master agreements respectively, namely:

(1) an agreement (the "2015 Gas Purchase Master Agreement") relating to the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group (the "Gas Purchase Transactions"); and

(2) an agreement (the "2015 Pipeline Materials Purchase Master Agreement", and together with the 2015 Gas Purchase Master Agreement collectively referred to as the "2015 CCT Master Agreements") relating to the purchase of various pipeline construction materials and tools (including but not limited to gas meters) by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"),

each for a term commencing from 1 January 2016 to 31 December 2018 (both days inclusive). Particulars of the Gas Purchase Transactions, the Pipeline Materials Purchase Transactions and the 2015 CCT Master Agreements were disclosed in the announcement of the Company dated 3 December 2015.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The transactions contemplated under the 2015 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Report of the Directors

Connected Transactions *(Continued)*

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

The Gas Purchase Transactions and Pipeline Materials Purchase Transactions are subject to annual cap amounts of RMB41,000,000 (approximately HK$47,914,000) and RMB93,000,000 (approximately HK$108,683,000) respectively for the year ended 31 December 2016. The actual respective amounts of the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2016 were RMB5,308,000 (approximately HK$6,203,000) and RMB67,080,000 (approximately HK$78,392,000), which have not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2016 were entered into:

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

(ii) on normal commercial terms; and

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

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

Connected Transactions *(Continued)*

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

On 5 September 2014, the Company entered into master agreements with three subsidiaries of HKCG respectively, namely:

(1) an agreement (the "2014 Master Project Management Agreement") for the provision of project management services relating to the monitoring and managing of gas facilities and construction and installation projects of the Group by 瀋陽三全工程監理諮詢有限公司 (Shenyang Sanquan Project Management Consulting Co., Ltd.) ("Shenyang Sanquan"), a non wholly-owned subsidiary of HKCG, to members of the Group (the "Project Management Transactions");

(2) an agreement (the "2014 Master System Software and Supporting Services Agreement") relating to the user authorisation, installation, management and maintenance and the provision of technical supporting services in respect of system software developed by 港華科技（武漢）有限公司 (Hongkong and China Technology (Wuhan) Company Limited) ("HKCG (Wuhan)"), including but not limited to the Towngas Customer Information System, the Towngas Customer Services Centre Hotline System and the Production Operating Management System by HKCG (Wuhan), a non wholly-owned subsidiary of HKCG, to members of the Group (the "System Software and Supporting Services Transactions"); and

(3) an agreement (the "2014 Master Cloud Computing System and Supporting Services Agreement", and together with the 2014 Master Project Management Agreement and the 2014 Master System Software and Supporting Services Agreement collectively referred to as the "2014 CCT Master Agreements") relating to the user authorisation, installation, management and maintenance and the provision of technical supporting services relating to a cloud computing hardware system which will manage, operate and monitor the network infrastructure of information systems (the "Cloud Computing System and Supporting Services"), including but not limited to, Towngas Customer Information System by 名氣通智能科技（深圳）有限公司 (Towngas Telecommunications (Shenzhen) Limited ("Towngas Telecom (Shenzhen)"), a wholly-owned subsidiary of HKCG, to members of the Group (the "Cloud Computing System and Supporting Services Transactions"),

each for a term commencing from 1 October 2014 to 31 December 2016 (both days inclusive). Particulars of the Project Management Transactions, the System Software and Supporting Services Transactions, the Cloud Computing System and Supporting Services Transactions and the 2014 CCT Master Agreements were disclosed in the announcement of the Company dated 5 September 2014.

As the 2014 Master Project Management Agreement was to expire on 31 December 2016 and members of the Group will from time to time in their ordinary course of business continue to enter into Project Management Transactions after the expiration of the 2014 Master Project Management Agreement, the Company had on 5 December 2016 entered into a new master agreement relating to the Project Management Transactions with Shenyang Sanquan (the "2016 Master Project Management Agreement") for a term commencing from 1 January 2017 to 31 December 2019 (both days inclusive).

Report of the Directors

Connected Transactions *(Continued)*

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

As the 2014 Master Cloud Computing System and Supporting Services Agreement was to expire on 31 December 2016 and members of the Group will from time to time in their ordinary course of business continue to enter into transactions for obtaining (1) the Cloud Computing System and Supporting Services and (2) the user authorization, installation, management and maintenance and the provision of technical supporting services relating to the system software developed by 珠海卓銳高科信息技術有限公司 (Zhuhai S-Tech Technology Limited ("Zhuhai S-Tech")) including but not limited to Towngas Customer Information System, Geographic Information System, Supervisory Control and Data Acquisition, Mobility Meter Reading Application, Mobility Regular Safety Inspection Application and Mobility Maintenance Service Application (the "System Software and Safety Inspection Supporting Services", and together with the Cloud Computing System and Supporting Services collectively referred to as the "System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions") after the expiration of the term of the 2014 Master Cloud Computing System and Supporting Services Agreement on 31 December 2016, the Company had on 5 December 2016 entered into a master agreement relating to the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions with Zhuhai S-Tech (the "2016 Master System Software, Cloud Computing System and Safety Inspection Supporting Services Agreement", and together with the 2016 Master Project Management Agreement collectively referred to as the "2016 CCT Master Agreements"), for a term commencing from 1 January 2017 to 31 December 2019 (both days inclusive). Particulars of the 2016 CCT Master Agreements were disclosed in the announcement of the Company dated 5 December 2016.

As each of Shenyang Sanquan, HKCG (Wuhan), Towngas Telecom (Shenzhen) and Zhuhai S-Tech is a subsidiary of HKCG, which in turn is a controlling shareholder of the Company, each of Shenyang Sanquan, HKCG (Wuhan), Towngas Telecom (Shenzhen) and Zhuhai S-Tech is a connected person of the Company under the Listing Rules. The transactions contemplated under the 2014 CCT Master Agreements and the 2016 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions were subject to annual cap amounts of RMB11,500,000 (approximately HK$13,439,000), RMB33,600,000 (approximately HK$39,266,000) and RMB10,600,000 (approximately HK$12,388,000) respectively for the year ended 31 December 2016. The actual respective amounts of the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2016 were RMB6,563,000 (approximately HK$7,670,000), RMB17,386,000 (approximately HK$20,318,000) and RMB1,377,000 (approximately HK$1,609,000), which have not exceeded the annual cap amounts as stated above.

Connected Transactions *(Continued)*

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

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions, System Software and Supporting Services Transactions and Cloud Computing System and Supporting Services Transactions for the year ended 31 December 2016 were entered into:

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

(ii) on normal commercial terms; and

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

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

Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in Note 35 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Report of the Directors

Borrowings

Particulars of borrowings of the Group as at 31 December 2016 are set out in Note 29 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$824,000.

Public Float

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

Major Customers and Suppliers

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

Pre-Emptive Rights

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Emolument Policy

As at 31 December 2016, the Group had 22,129 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

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

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2016.

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" on pages 54 to 70 in this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

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

Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 15 March 2017

Corporate Governance Report

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

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

Corporate Governance Practices

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

The Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2016.

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

Board of Directors

Board Composition

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

Executive Directors
Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Ho Hon Ming, John *(Company Secretary)*
Mr. Kee Wai Ngai, Martin

Independent Non-Executive Directors
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David
Mr. Kwan Yuk Choi, James

Board of Directors *(Continued)*

Board Composition *(Continued)*

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

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

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

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

The Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules during the year ended 31 December 2016.

The term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2019. The term of office of Mr. Kwan Yuk Choi, James, an Independent Non-Executive Director, shall expire on 2 June 2019. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

The Board adopted a Board Diversity Policy in March 2013 setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

Board of Directors *(Continued)*

Functions of the Board

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

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

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

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

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development

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

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

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2016:

Directors	Type of Training
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	A, B
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	A, B
Mr. Ho Hon Ming, John *(Company Secretary)*	A, B
Mr. Kee Wai Ngai, Martin	A, B
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	A, B
Mr. Li Man Bun, Brian David	A, B
Mr. Kwan Yuk Choi, James	A, B

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

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

Board of Directors *(Continued)*

Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2016 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the Code. Details of individual attendance of each of the Directors are set out below:

Directors	Attendance/Number of Meetings
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	4/4
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	4/4
Mr. Ho Hon Ming, John *(Company Secretary)*	4/4
Mr. Kee Wai Ngai, Martin	4/4
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4
Mr. Kwan Yuk Choi, James	4/4

Chairman and Chief Executive Officer

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Responsibilities of the Directors

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

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- actively participating on the boards of the Company's subsidiaries and associated companies;
- approving the annual budgets for each operating company covering financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering any misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and ethics.

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

Board Committees

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

Board Committees *(Continued)*

Remuneration Committee

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

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

During the year ended 31 December 2016, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2016;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2016.

The Remuneration Committee held two meetings during the year ended 31 December 2016 with individual attendance as follows:

Members of the Remuneration Committee	**Attendance/Number of Meetings**
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Kwan Yuk Choi, James	2/2
Mr. Chan Wing Kin, Alfred	2/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximise their potential and their contribution to the Group.

Corporate Governance Report

Board Committees *(Continued)*

Board Audit and Risk Committee

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

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

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

During the year ended 31 December 2016, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2015 and for the six months ended 30 June 2016;
- reviewed the amendments to its terms of reference and the change of its name from Audit Committee to Board Audit and Risk Committee with effect from 16 August 2016;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the risk management and internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2015 pursuant to the Listing Rules.

Board Committees *(Continued)*

Board Audit and Risk Committee *(Continued)*

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2016 with individual attendance as follows:

Members of the Board Audit and Risk Committee	Attendance/Number of Meetings
Mr. Li Man Bun, Brian David	2/2
Dr. Cheng Mo Chi, Moses	1/2
Mr. Kwan Yuk Choi, James	2/2

Nomination Committee

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

The written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Nomination Committee's responsibilities include but are not limited to formulating the policy and making recommendations to the Board on nominations and appointments of Directors and Board succession. The Nomination Committee is also responsible for reviewing the structure, size, composition and diversity of the Board, assessing the independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board.

During the year ended 31 December 2016, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2016 AGM;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held one meeting during the year ended 31 December 2016 with individual attendance as follows:

Members of the Nomination Committee	Attendance/Number of Meeting
Mr. Chan Wing Kin, Alfred	1/1
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Kwan Yuk Choi, James	1/1

Corporate Governance Report

Model Code

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2016, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2016.

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

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2016. Deloitte also reviewed the 2016 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2016 amounted to HK$6.8 million.

Non-audit service fees charged by Deloitte during 2016 are as follows:

Description of non-audit services performed	HK$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2016	650,000
(2) Filing of tax returns of the Company and its subsidiaries for the year of assessment 2015/2016	62,500
(3) Annual review on continuing connected transactions for the year ended 31 December 2016	75,000
Total	787,500

Directors' and Auditor's Responsibility in Preparing Financial Statements

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

The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 71 to 76 of this Annual Report.

Going Concern Basis in Preparing Financial Statements

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

Risk Management and Internal Control

Internal Control

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

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

Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Internal Control *(Continued)*

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

During the year ended 31 December 2016, the Board, through the Board Audit and Risk Committee, reviewed the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

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

Risk Management

Risk Management Framework

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

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

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

Risk Appetite

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

1. Major incidents affecting safety and health of its staff, contractors and the general public;
2. Loss or failure of infrastructures and operations materially affecting production and supply;
3. Material financial loss impacting ability of the Group to carry out its business drivers;
4. Incidents leading to profound negative impact on corporate image or reputation;
5. Legal actions that are liable for major loss or suspension of operations; and
6. Incidents leading to severe impacts on the environment.

Corporate Governance Report

Risk Management *(Continued)*

Risk Management Structure

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

Risk Management Process

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

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

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

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

A description of the Group's risk factors are shown on pages 34 and 35 of the Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

Company's Constitutional Documents

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

Company Secretary

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

Communication with Shareholders

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

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

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

At the 2016 AGM held on 3 June 2016, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2016 AGM to answer questions from the Company's shareholders.

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

Corporate Governance Report

Communication with Shareholders *(Continued)*

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2016 are set out below:

Director	Attendance/Number of Meeting
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	1/1
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	1/1
Mr. Ho Hon Ming, John *(Company Secretary)*	1/1
Mr. Kee Wai Ngai, Martin	1/1
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Kwan Yuk Choi, James	1/1

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders and putting forward proposals

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

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

Making Enquiries to the Board

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

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED
港華燃氣有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 164, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Recognition of gas connection income and estimation of profit margins	
We identified recognition of gas connection income and estimation of profit margins as a key audit matter due to its quantitative significance to the consolidated income statement and significant judgments involved in the recognition. As disclosed in note 3 to the consolidated financial statements, revenue from gas connection, which relates to contracts for construction of gas connection facilities, is recognised based on the percentage of completion method and measured by reference to the value of work carried out during the year. The Group recognised revenue of approximately HK$1,663 million from gas connection during the year ended 31 December 2016. As set out in note 4 to the consolidated financial statements, significant judgments are applied in determining the extent of progress towards completion of the construction contracts, budgeted costs to complete, and the ability to deliver contracts within forecast timescales as at the end of the reporting period for gas connection income.	Our procedures in relation to recognition of gas connection income and estimation of profit margins included: • Understanding and testing the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion; • Discussing with management with respect to the recognition basis on gas connection income and margins; • Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis; assessing the reasonableness of budgeted material costs against recent purchase prices and budgeted labour cost by reference to historical experience taking into account the size and complexity of the gas connection contracts on a sample basis; and verifying if the costs incurred during the year and budgeted costs to complete correspond with the stage of completion on a sample basis; and • Considering the historical accuracy of the Group's percentage of completion estimates through identifying if there are any subsequent adjustments on the same contracts across different years and verifying completion of selected contracts through evidencing delivery of completed contracts.

Independent Auditor's Report

Key audit matter *(Continued)*

Impairment assessment of goodwill

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

At 31 December 2016, the Group has goodwill of approximately HK$5,349 million relating to CGUs principally engaged in the sales and distribution of piped gas in the People's Republic of China (the "PRC") which are subject to annual impairment assessment. Details are disclosed in note 19 to the consolidated financial statements.

Management's assessment of goodwill impairment is highly judgmental and is dependent on certain significant inputs including the discount rates, growth rates and expected changes to selling prices and direct costs, which are affected by expected future market or economic conditions, particularly those in the PRC.

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

Our procedures in relation to impairment assessment of goodwill included:

- Understanding the Group's impairment assessment process, including the impairment model, CGUs allocation and the preparation of the cash flow projections;
- Evaluating the appropriateness of impairment model applied by the management;
- Evaluating the accuracy of management's cash flow forecasts by comparing the actual results of those CGUs to the previously forecasted results;
- Testing discount rates applied in the forecast by comparing them to economic and industry data;
- Assessing the reasonableness of growth rates applied in the forecast based on historical experiences and trends;
- Comparing the expected changes in selling prices and direct costs against historical performance and the management's business plans in respect of each CGU; and
- Performing the sensitivity analysis on the key inputs to evaluate the magnitude of their impacts on the results of assessment of goodwill impairment.

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

Independent Auditor's Report

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Li Man Kei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Turnover	7	**7,181,150**	7,718,293
Total operating expenses	8	**(6,158,021)**	(6,700,648)
		1,023,129	1,017,645
Other gains (losses), net	9	**64,903**	(161,887)
Share of results of associates		**339,927**	265,587
Share of results of joint ventures		**278,023**	327,202
Finance costs	10	**(250,579)**	(180,504)
Profit before taxation	11	**1,455,403**	1,268,043
Taxation	13	**(362,133)**	(343,511)
Profit for the year		**1,093,270**	924,532
Profit for the year attributable to:			
Shareholders of the Company		**973,997**	807,042
Non-controlling interests		**119,273**	117,490
		1,093,270	924,532
Proposed final dividend of HK twelve cents (2015: HK ten cents) per ordinary share	14	**325,392**	266,506
		HK cents	HK cents
Earnings per share	15		
– Basic		**36.26**	30.45
– Diluted		**N/A**	30.43

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 **HK$'000**	2015 HK$'000
Profit for the year	**1,093,270**	924,532
Other comprehensive (expense) income		
Item that will not be reclassified subsequently to profit or loss		
Exchange differences arising on translation to presentation currency	**(973,438)**	(617,004)
Items that may be reclassified subsequently to profit or loss		
Fair value change on available-for-sale investment	**(7,331)**	33,250
Cash flow hedge:		
Fair value change on cash flow hedge	**2,361**	3,348
Reclassification of fair value adjustments to profit or loss	**1,239**	–
	(977,169)	(580,406)
Total comprehensive income for the year	**116,101**	344,126
Total comprehensive income attributable to:		
Shareholders of the Company	**84,118**	280,954
Non-controlling interests	**31,983**	63,172
Total comprehensive income for the year	**116,101**	344,126

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**12,691,896**	12,054,598
Leasehold land	17	**550,847**	502,146
Intangible assets	18	**505,499**	560,257
Goodwill	19	**5,349,340**	5,732,259
Interests in associates	20	**3,032,771**	2,940,684
Interests in joint ventures	21	**2,022,754**	2,071,013
Loans to joint ventures	21	**–**	92,796
Loan to a non-controlling shareholder	22	**16,190**	–
Available-for-sale investments	23	**234,785**	259,506
Other financial assets	24	**80,977**	–
		24,485,059	24,213,259
Current assets			
Inventories	25	**492,838**	558,421
Leasehold land	17	**26,602**	25,763
Loan to an associate	20	**–**	17,912
Loans to joint ventures	21	**136,326**	155,845
Trade and other receivables, deposits and prepayments	26	**1,190,407**	1,506,681
Amounts due from non-controlling shareholders	27	**29,738**	16,317
Other financial assets	24	**87,511**	–
Time deposits over three months	26	**227,557**	237,938
Bank balances and cash	26	**1,351,072**	2,138,388
		3,542,051	4,657,265
Current liabilities			
Trade and other payables and accrued charges	28	**4,332,932**	4,159,819
Amounts due to non-controlling shareholders	27	**107,662**	151,299
Taxation		**676,995**	650,428
Borrowings – amount due within one year	29	**2,652,660**	3,183,174
Other financial liabilities	24	**–**	3,600
		7,770,249	8,148,320
Net current liabilities		**(4,228,198)**	(3,491,055)
Total assets less current liabilities		**20,256,861**	20,722,204

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Loans from the ultimate holding company	30	–	993,750
Borrowings – amount due after one year	29	5,184,152	4,591,433
Deferred taxation	31	408,526	437,165
		5,592,678	6,022,348
Net assets		14,664,183	14,699,856
Capital and reserves			
Share capital	32	271,160	266,506
Reserves		13,228,191	13,211,578
Equity attributable to shareholders of the Company		13,499,351	13,478,084
Non-controlling interests		1,164,832	1,221,772
Total equity		14,664,183	14,699,856

The consolidated financial statements on pages 77 to 164 were approved and authorised for issue by the Board of Directors ("the Board") on 15 March 2017 and are signed on its behalf by:

Chan Wing Kin, Alfred
DIRECTOR

Li Man Bun, Brian David
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Hedge reserve HK$'000	General reserves HK$'000 (note 33)	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	263,266	6,393,246	1,453,975	16,106	(6,948)	130,259	–	5,004,047	13,253,951	1,190,527	14,444,478
Exchange differences arising on translation to presentation currency	–	–	(562,686)	–	–	–	–	–	(562,686)	(54,318)	(617,004)
Fair value change on cash flow hedge	–	–	–	–	3,348	–	–	–	3,348	–	3,348
Fair value change on available–for-sale investment	–	–	–	–	–	–	33,250	–	33,250	–	33,250
Profit for the year	–	–	–	–	–	–	–	807,042	807,042	117,490	924,532
Total comprehensive income for the year	–	–	(562,686)	–	3,348	–	33,250	807,042	280,954	63,172	344,126
Issue of shares upon scrip dividend scheme	2,139	164,738	–	–	–	–	–	–	166,877	–	166,877
Issue of shares upon exercise of share options	1,101	55,598	–	(16,106)	–	–	–	–	40,593	–	40,593
Transfer	–	–	–	–	–	55,076	–	(55,076)	–	–	–
Additions relating to acquisition of businesses	–	–	–	–	–	–	–	–	–	11,079	11,079
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	46,478	46,478
Dividends paid to shareholders of the Company	–	(264,291)	–	–	–	–	–	–	(264,291)	–	(264,291)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(89,484)	(89,484)
	3,240	(43,955)	–	(16,106)	–	55,076	–	(55,076)	(56,821)	(31,927)	(88,748)
At 31 December 2015	266,506	6,349,291	891,289	–	(3,600)	185,335	33,250	5,756,013	13,478,084	1,221,772	14,699,856
Exchange differences arising on translation to presentation currency	**–**	**–**	**(886,148)**	**–**	**–**	**–**	**–**	**–**	**(886,148)**	**(87,290)**	**(973,438)**
Fair value change on cash flow hedge and reclassification of fair value adjustments to profit or loss	**–**	**–**	**–**	**–**	**3,600**	**–**	**–**	**–**	**3,600**	**–**	**3,600**
Fair value change on available–for-sale investment	**–**	**–**	**–**	**–**	**–**	**–**	**(7,331)**	**–**	**(7,331)**	**–**	**(7,331)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**973,997**	**973,997**	**119,273**	**1,093,270**
Total comprehensive income for the year	**–**	**–**	**(886,148)**	**–**	**3,600**	**–**	**(7,331)**	**973,997**	**84,118**	**31,983**	**116,101**
Issue of shares upon scrip dividend scheme	**4,654**	**199,001**	**–**	**–**	**–**	**–**	**–**	**–**	**203,655**	**–**	**203,655**
Transfer	**–**	**–**	**–**	**–**	**–**	**33,211**	**–**	**(33,211)**	**–**	**–**	**–**
Capital contribution from non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,401**	**3,401**
Dividends paid to shareholders of the Company	**–**	**(266,506)**	**–**	**–**	**–**	**–**	**–**	**–**	**(266,506)**	**–**	**(266,506)**
Dividends paid to non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(92,324)**	**(92,324)**
	4,654	**(67,505)**	**–**	**–**	**–**	**33,211**	**–**	**(33,211)**	**(62,851)**	**(88,923)**	**(151,774)**
At 31 December 2016	**271,160**	**6,281,786**	**5,141**	**–**	**–**	**218,546**	**25,919**	**6,696,799**	**13,499,351**	**1,164,832**	**14,664,183**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**1,455,403**	1,268,043
Adjustments for:		
Interest income	**(25,244)**	(26,362)
Imputed interest on loans to joint ventures and deferred consideration receivable	**(121)**	(2,811)
Interest expenses	**246,468**	176,832
Share of results of associates	**(278,023)**	(265,587)
Share of results of joint ventures	**(339,927)**	(327,202)
Dividends from available-for-sale investments	**(62,577)**	(64,174)
Release of leasehold land	**19,429**	16,963
Amortisation of intangible assets	**19,524**	20,479
Depreciation of property, plant and equipment	**460,476**	428,446
Loss (gain) on disposal of property, plant and equipment	**15,160**	(664)
Gain on disposal of leasehold land	**(45,123)**	(9,752)
Gain on partial disposal of interest in a joint venture	**–**	(91)
Change in fair value of other financial assets	**(168,488)**	–
Allowance for doubtful debts	**11,077**	4,476
Exchange loss	**258,747**	301,479
Operating cash flows before movements in working capital	**1,566,781**	1,520,075
Decrease (increase) in inventories	**29,415**	(17,606)
Decrease (increase) in trade receivables	**34,731**	(24,180)
Decrease in other receivables, deposits and prepayments	**187,627**	124,539
Increase (decrease) in trade payables	**162,718**	(42,449)
Increase in other payables and accrued charges	**289,868**	313,408
Decrease in amounts due to non-controlling shareholders	**(48,286)**	(26,607)
Cash generated from operations	**2,222,854**	1,847,180
Interest paid	**(262,190)**	(188,863)
Taxation paid	**(293,994)**	(241,732)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,666,670**	1,416,585

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTE	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,899,835)**	(1,943,112)
Acquisition of businesses (net of cash and cash equivalents acquired)	34	**(98,718)**	7,192
Consideration paid for acquisition of businesses acquired in prior periods		**(37,193)**	(153,231)
Acquisition of interest in a joint venture		**–**	(55,768)
Acquisition of interest in an associate		**(37,219)**	–
Capital injection to associates		**(102,352)**	(71,465)
Capital injection to a joint venture		**(16,190)**	(955)
Decrease in time deposits over three months		**10,381**	106,976
Purchase of leasehold land		**(79,619)**	(92,302)
Purchase of available-for-sale investment		**(2,951)**	(65,681)
Loans to joint ventures		**(11,166)**	(106,156)
Loan to a non-controlling shareholder		**(16,190)**	–
Dividends received from joint ventures		**222,040**	202,998
Dividends received from an associate		**197,016**	107,416
Repayment of loans from joint ventures		**108,086**	70,637
Repayment of loans from an associate		**17,542**	–
Dividends from available-for-sale investments		**62,577**	64,174
Deferred consideration received		**–**	114,063
Proceeds from disposal of property, plant and equipment		**7,292**	5,071
Interest received		**25,244**	26,362
Proceeds from disposal of leasehold land		**55,353**	10,282
Proceeds from partial disposal of interest in a joint venture		**–**	3,496
NET CASH USED IN INVESTING ACTIVITIES		**(1,595,902)**	(1,770,003)
FINANCING ACTIVITIES			
Repayments of bank and other loans		**(4,284,671)**	(3,465,623)
Repayments of loans from the ultimate holding company		**(993,750)**	–
Dividends paid to shareholders of the Company		**(62,851)**	(97,414)
Dividends paid to non-controlling shareholders of subsidiaries		**(92,324)**	(89,484)
New bank and other loans raised		**4,670,864**	4,726,761
Capital contribution from non-controlling shareholders of subsidiaries		**3,401**	46,478
Issue of shares upon exercise of share options		**–**	40,593
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(759,331)**	1,161,311
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(688,563)**	807,893
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,138,388**	1,451,652
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(98,753)**	(121,157)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**1,351,072**	2,138,388

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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$4,228 million as at 31 December 2016. The Group's liabilities as at 31 December 2016 included borrowings of approximately HK$2,653 million that are repayable within one year from the end of the reporting period.

As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised facilities (the "Facilities") amounting to approximately HK$3,150 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank loans of approximately HK$2,653 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has good relationship with the banks 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

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

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

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

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after a date to be determined.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 presented 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 are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

HKFRS 9 "Financial Instruments" *(Continued)*

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

HKFRS 16 "Leases" *(Continued)*

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$67,694,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Except those mentioned above, the directors of the Company anticipate that the application of the other new and revised HKFRSs that have been issued but are not yet effective may have no material impact on the results and the financial position of the Group.

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 of Hong Kong Limited 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 value, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, 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".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

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.

Where 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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 interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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, 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. 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 HKAS 39 "Financial Instruments: Recognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

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

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

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

- 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.

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 of the acquisition-date amounts 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 may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

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, and is presented separately in the consolidated statement of financial position.

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

A cash-generating unit (or group of cash-generating unit) 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 unit) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis on the carrying amount of each asset in the unit (or group of cash-generating unit). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent years.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. 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. 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 requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 HKAS 39, 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) when the equity method is discontinued.

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 (such as a sale or contribution of assets), 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 recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from gas connection, which relates to contracts for construction of gas connection facilities, is recognised based on the percentage of completion method, measured by reference to the value of work carried out during the year, when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

Revenue from gas supply is recognised when gas is used by the customers.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 value, using the straight-line method, as follows:

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Leasehold land and building *(Continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for 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.

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 are 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probably recoverable. Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenues, the expected loss is recognised as an expense immediately.

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, 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 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. 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. 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. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into one of the following categories, financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FTVPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of 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 asset 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 HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains (losses), net' line item. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables (including loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade receivables, other receivables, amounts due from non-controlling shareholders, time deposits over three months and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets (Continued)

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Bank and other borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

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

Derivative financial instruments and hedging

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 entity 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.

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 hedging reserve. 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 (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. 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 transaction is ultimately recognised in 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Derecognition

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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Taxation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

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

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.

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.

Leasing

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. Significant Accounting Policies *(Continued)*

Leasing *(Continued)*

The Group as lessee

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies which are described in note 3, management has made 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.

The following 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.

Recognition of gas connection income and estimation of profit margins

The Group recognises the amounts of gas connection income and margins based on the percentage of completion method, measured by reference to the value of work carried out during the year which requires management's best estimates and judgments in determining the extent of progress towards completion of the construction contracts, budgeted costs to complete, and the ability to deliver contracts within forecast timescales as at the end of the reporting period. Any change in the estimates of gas connection income or margins will affect the related amounts recognised in the profit or loss prospectively in each reporting period using the percentage of completion method.

Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is HK$5,349,340,000 (2015: HK$5,732,259,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2016, 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$555,054,000 (2015: HK$468,070,000) 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Key Sources of Estimation Uncertainty *(Continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2016, the carrying amount of trade receivables is HK$653,540,000 (2015: HK$734,598,000).

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 the ultimate holding company disclosed in notes 29 and 30, equity attributable to shareholders of the Company, comprising issued share capital and reserves.

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:

	2016	2015
	HK$'000	HK$'000
Debt[(i)]	**7,836,812**	8,768,357
Time deposits over three months	**(227,557)**	(237,938)
Bank balances and cash	**(1,351,072)**	(2,138,388)
Net debt	**6,258,183**	6,392,031
Equity[(ii)]	**13,499,351**	13,478,084
Net debt to equity ratio	**46.4%**	47.4%
Gearing Ratio[(iii)]	**31.7%**	32.2%

(i) Debt is defined as long– and short-term borrowings, as detailed in notes 29 and 30.

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

(iii) Being the proportion of net debt of HK$6,258,183,000 (2015: HK$6,392,031,000) to equity plus net debt of HK$19,757,534,000 (2015: HK$19,870,115,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Financial Instruments

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,414,423**	3,393,794
Available-for-sale instruments	**234,785**	259,506
Derivative financial instruments	**168,488**	–
Financial liabilities		
Amortised cost	**9,325,893**	10,219,615
Derivative financial instruments	**–**	3,600

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables, 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, borrowings, loans from the ultimate holding company 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 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, bank and other borrowings and loans from the ultimate holding company 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, bank and other borrowings and loans from the ultimate holding company, denominated in United States Dollar (''USD'') and HKD at the end of the reporting period are set out in notes 26, 29 and 30.

The Group entered into cross currency swap contracts and foreign currency forward contracts with certain financial institutions to reduce its exposure to currency fluctuation risk. These derivative financial instruments are not accounted under hedge accounting. The Group currently does not have other foreign currency hedging policy, and the management continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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% (2015: 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% (2015: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash, borrowings and loans from the ultimate holding company where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit before taxation for the year where RMB strengthens by 3% (2015: 3%) against USD and HKD. For a 3% (2015: 3%) weakening of RMB against USD and HKD, there would be an equal but opposite impact on the profit before taxation for the year, and the balances below would be negative. This is mainly attributable to the Group's exposure to foreign exchange on its foreign currency borrowings.

	2016 **HK$'000**	2015 HK$'000
Profit before taxation for the year	**89,281**	201,460

The following details the Group's sensitivity based on the exposure to the Group's cross currency swap contracts and foreign currency forward contracts outstanding at the end of the reporting period. The sensitivity to foreign currency risk has been determined based on management's assessment of the reasonably possible change in forward exchange rate of USD and HKD against RMB. If the forward exchange rate of USD and HKD is 3% (2015: 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 2016 would increase/decrease by HK$86,144,000 (2015: Nil) as a result of the change in fair value of these financial derivatives.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to joint ventures, loan to an associate and loan to a non-controlling shareholder. 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 and the loans from the ultimate holding company and pay-fixed interest rate swap. 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 currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

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 arising from the Group's HKD loans and the loans from the ultimate holding company and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans and loans from the ultimate holding company, 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 (2015: 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 (2015: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2016 would decrease/increase by HK$8,641,000 (2015: HK$17,596,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and loans from the ultimate holding company.

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

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. 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 price risk at the reporting date.

If the prices of the respective equity instruments had been 3% higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$2,565,000 (2015: HK$2,968,000) as a result of the changes in fair value of the investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2016, 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 amount of the respective financial assets as stated in the consolidated statement of financial position. 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 reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to joint ventures, loan to an associate and loan to a non-controlling shareholder are concentrated in four (2015: four) joint ventures, nil (2015: one) associate and one (2015: nil) non-controlling shareholder respectively. However, the management, having considered the financial background and good creditability of the associate, joint ventures and non-controlling shareholder, believes there is no significant credit risk. Management will closely monitor the financial position of each counterparty to ensure overdue debts are timely recovered.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

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$3,150 million (2015: HK$3,200 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$4,228 million (at 31 December 2015: HK$3,491 million).

The following table details the Group's remaining contractual maturity for its 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 31.12.2016 HK$'000
2016								
Trade payables	–	275,219	241,106	287,556	179,855	61,680	1,045,416	1,045,416
Other payables	–	336,003	–	–	–	–	336,003	336,003
Amounts due to non-controlling shareholders	–	107,662	–	–	–	–	107,662	107,662
Bank loans	2.65%	1,544,347	424,138	829,718	5,675,228	41,617	8,515,048	7,793,346
Other loans	2.02%	1,585	143	26,108	6,542	11,995	46,373	43,466
		2,264,816	665,387	1,143,382	5,861,625	115,292	10,050,502	9,325,893
Derivatives – gross settlement								
Cross currency swaps								
– inflow		–	(300,000)	(1,300,000)	–	–	(1,600,000)	N/A
– outflow		–	283,374	1,228,702	–	–	1,512,076	N/A
		–	(16,626)	(71,298)	–	–	(87,924)	(87,511)
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow		–	–	–	(1,404,140)	–	(1,404,140)	N/A
– outflow		–	–	–	1,327,002	–	1,327,002	N/A
		–	–	–	(77,138)	–	(77,138)	(80,977)

	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 31.12.2015 HK$'000
2015								
Trade payables	–	383,169	293,301	265,294	–	–	941,764	941,764
Other payables	–	358,195	–	–	–	–	358,195	358,195
Amounts due to non-controlling shareholders	–	151,299	–	–	–	–	151,299	151,299
Loans from the ultimate holding company	2.86%	1,598	3,695	20,378	1,029,595	–	1,055,266	993,750
Bank loans	1.34%	1,012,329	70,146	2,179,916	4,795,999	17,096	8,075,486	7,728,519
Other loans	2.12%	573	160	27,199	2,964	17,665	48,561	46,088
		1,907,163	367,302	2,492,787	5,828,558	34,761	10,630,571	10,219,615
Derivative - net settlement								
Interest rate swap		–	1,543	2,104	–	–	3,647	3,600

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Financial Instruments *(Continued)*

Fair value measurements

Fair value 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 31.12.2016	Fair value as at 31.12.2015	Fair value hierarchy	Valuation techniques and key inputs
1) Listed equity investment classified as available-for-sale investment in the consolidated statement of financial position	**Asset** **HK$85,496,000**	Asset HK$98,931,000	Level 1	Quoted market price
2) Cross currency swaps classified as other financial assets in the consolidated statement of financial position	**Assets** **HK$87,511,000**	Nil	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 the Group.
3) Foreign currency forward contracts classified as other financial assets in the consolidated statement of financial position	**Assets** **HK$80,977,000**	Nil	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 Group.
4) Interest rate swap classified as other financial liabilities in the consolidated statement of financial position	**Nil**	Liabilities (designated for hedging) HK$3,600,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group.

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.

There were no transfers between Level 1 and 2 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. Segment Information

Operating segments

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. Segment Information *(Continued)*

Operating segments *(Continued)*

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 2016			
TURNOVER			
External	5,517,866	1,663,284	7,181,150
Segment results	450,388	721,638	1,172,026
Other gains, net			64,903
Unallocated corporate expenses			(148,897)
Share of results of associates			339,927
Share of results of joint ventures			278,023
Finance costs			(250,579)
Profit before taxation			1,455,403
Taxation			(362,133)
Profit for the year			1,093,270

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. 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 2015			
TURNOVER			
External	6,010,691	1,707,602	7,718,293
Segment results	454,560	714,703	1,169,263
Other losses, net			(161,887)
Unallocated corporate expenses			(151,618)
Share of results of associates			265,587
Share of results of joint ventures			327,202
Finance costs			(180,504)
Profit before taxation			1,268,043
Taxation			(343,511)
Profit for the year			924,532

Segment results included depreciation and amortisation of HK$499,429,000 (2015: HK$465,888,000), 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 the years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. Total Operating Expenses

	2016 **HK$'000**	2015 HK$'000
Gas fuel, stores and materials used	**4,311,500**	4,935,953
Staff costs	**856,622**	856,973
Depreciation, amortisation and release of leasehold land	**499,429**	465,888
Other expenses	**490,470**	441,834
	6,158,021	6,700,648

9. Other Gains (Losses), Net

Other gains (losses), net mainly comprised of:

	2016 **HK$'000**	2015 HK$'000
Dividend income from available-for-sale investments	**62,577**	64,174
Interest income	**25,244**	26,362
Exchange loss	**(258,747)**	(301,479)
Imputed interest income on loans to joint ventures	**121**	759
Imputed interest income on deferred consideration receivable	**–**	2,052
Gain on partial disposal of a joint venture	**–**	91
Change in fair value of other financial assets	**168,488**	–

10. Finance Costs

	2016 **HK$'000**	2015 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	**261,664**	188,305
– bank and other borrowings not wholly repayable within five years	**526**	559
Bank charges	**4,111**	3,672
	266,301	192,536
Less: amounts capitalised	**(15,722)**	(12,032)
	250,579	180,504

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. Profit Before Taxation

	2016 **HK$'000**	2015 HK$'000
Profit before taxation has been arrived at after charging and (crediting):		
Directors' remuneration (note 12)	**10,934**	10,906
Other staff costs	**776,831**	777,773
Retirement benefit scheme contributions (excluding directors)	**68,857**	68,294
Total staff costs	**856,622**	856,973
Allowance for doubtful debts	**11,077**	4,476
Amortisation of intangible assets	**19,524**	20,479
Release of leasehold land	**19,429**	16,963
Auditor's remuneration	**10,917**	9,940
Cost of inventories sold	**4,853,966**	5,448,876
Depreciation of property, plant and equipment	**460,476**	428,446
Operating lease rentals in respect of land and buildings	**28,602**	30,343
Loss (gain) on disposal of property, plant and equipment	**15,160**	(664)
Gain on disposal of leasehold land	**(45,123)**	(9,752)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 7 (2015: 8) directors were as follows:

	Year ended 31 December 2016							
	Chan Wing Kin, Alfred HK$'000	**Cheng Mo Chi, Moses HK$'000**	**Kwan Yuk Choi, James HK$'000**	**Kee Wai Ngai, Martin HK$'000**	**Ho Hon Ming, John HK$'000 (Note e)**	**Li Man Bun, Brian David HK$'000**	**Wong Wai Yee, Peter HK$'000 (Note d)**	**Total HK$'000**
Directors' fees (Note a)	**200**	**500**	**500**	**200**	**200**	**500**	**200**	**2,300**
Other emoluments (Note b)								
Salaries and other benefits	**–**	**–**	**–**	**–**	**1,111**	**–**	**1,190**	**2,301**
Retirement benefit scheme contributions	**–**	**–**	**–**	**–**	**111**	**–**	**119**	**230**
Performance and discretionary bonus (Note c)	**–**	**–**	**–**	**–**	**2,192**	**–**	**3,911**	**6,103**
Total emoluments	**200**	**500**	**500**	**200**	**3,614**	**500**	**5,420**	**10,934**

	Year ended 31 December 2015								
	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi, Moses HK$'000	Chow Vee Tsung, Oscar HK$'000	Kwan Yuk Choi, James HK$'000	Kee Wai Ngai, Martin HK$'000	Ho Hon Ming, John HK$'000 (Note e)	Li Man Bun, Brian David HK$'000	Wong Wai Yee, Peter HK$'000 (Note d)	Total HK$'000
Directors' fees (Note a)	200	500	175	378	119	200	500	200	2,272
Other emoluments (Note b)									
Salaries and other benefits	–	–	–	–	–	1,111	–	1,190	2,301
Retirement benefit scheme contributions	–	–	–	–	–	111	–	119	230
Performance and discretionary bonus (Note c)	–	–	–	–	–	2,192	–	3,911	6,103
Total emoluments	200	500	175	378	119	3,614	500	5,420	10,906

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Notes:

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

(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. Wong Wai Yee, Peter 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. Ho Hon Ming, John is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary.

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

Employees' emoluments:

For the year ended 31 December 2016, the five highest paid individuals of the Group included two (2015: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining three (2015: three) highest paid individuals are as follows:

	2016	2015
	HK$'000	HK$'000
Salaries and other benefit	**4,089**	4,211
Performance related incentive payments	**2,047**	2,093
Contribution to retirement benefit scheme	**312**	311
	6,448	6,615

The emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,500,001 to HK$3,000,000	**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 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

13. Taxation

	2016 HK$'000	2015 HK$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**337,524**	319,968
Deferred taxation (note 31)		
– taxation charge for the year	**24,609**	23,543
	362,133	343,511

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 range from 15% to 25% (2015: 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:

	2016 HK$'000	2015 HK$'000
Profit before taxation	**1,455,403**	1,268,043
Tax at the applicable rate of 25% (2015: 25%) (Note)	**363,851**	317,011
Tax effect of expenses that are not deductible for tax purposes	**133,722**	137,516
Tax effect of income that are not taxable for tax purposes	**(26,600)**	(26,075)
Effect of different tax rates of subsidiaries operating in different regions	**(15,630)**	(16,040)
Tax effect of share of results of associates	**(84,982)**	(66,397)
Tax effect of share of results of joint ventures	**(69,506)**	(81,800)
Tax effect of utilisation of tax losses not previously recognised	**(7,306)**	(3,663)
Tax effect of tax losses not recognised	**41,673**	52,287
Withholding tax on undistributed profits	**26,911**	30,672
Tax charge for the year	**362,133**	343,511

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2016 (2015: 25%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

14. Dividends

During the year, a final dividend in respect of year ended 31 December 2015 of HK$266,506,000 (2015: HK$264,291,000 in respect of year ended 31 December 2014) was recognised as distribution, being HK ten cents per ordinary share (2015: HK ten cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK twelve cents (2015: HK ten cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

	2016	2015
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to shareholders of the Company	**973,997**	807,042

	Number of shares	
	2016	2015
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,686,298**	2,649,961
Effect of dilutive potential ordinary shares:		
Share options	**N/A**	1,971
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	2,651,932

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

16. Property, Plant and Equipment

	Buildings HK$'000	Gas pipelines HK$'000	Plant and equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2015	1,203,998	8,768,437	1,292,541	1,661,993	12,926,969
Currency realignment	(56,617)	(400,872)	(61,141)	(72,683)	(591,313)
Additions	146,907	437,372	122,644	1,248,220	1,955,143
Additions from acquisition of businesses	–	–	2,480	2,508	4,988
Disposals	(3,539)	(2,475)	(25,912)	–	(31,926)
Transfer	81,035	994,298	44,835	(1,120,168)	–
At 31 December 2015	1,371,784	9,796,760	1,375,447	1,719,870	14,263,861
Currency realignment	(104,430)	(686,165)	(98,889)	(126,208)	(1,015,692)
Additions	102,388	346,011	96,687	1,370,472	1,915,558
Additions from acquisition of business	–	–	41,256	2,375	43,631
Disposals	(12,249)	(9,538)	(38,068)	–	(59,855)
Transfer	142,176	861,389	45,957	(1,049,522)	–
At 31 December 2016	1,499,669	10,308,457	1,422,390	1,916,987	15,147,503
DEPRECIATION					
At 1 January 2015	177,911	1,244,380	478,327	–	1,900,618
Currency realignment	(10,448)	(55,815)	(26,019)	–	(92,282)
Provided for the year	49,765	240,151	138,530	–	428,446
Eliminated on disposals	(2,496)	(1,375)	(23,648)	–	(27,519)
At 31 December 2015	214,732	1,427,341	567,190	–	2,209,263
Currency realignment	(20,468)	(108,718)	(47,543)	–	(176,729)
Provided for the year	57,743	270,598	132,135	–	460,476
Eliminated on disposals	(5,306)	(3,292)	(28,805)	–	(37,403)
At 31 December 2016	246,701	1,585,929	622,977	–	2,455,607
CARRYING VALUES					
At 31 December 2016	1,252,968	8,722,528	799,413	1,916,987	12,691,896
At 31 December 2015	1,157,052	8,369,419	808,257	1,719,870	12,054,598

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

No property, plant and equipment of the Group was pledged as at 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17. Leasehold Land

	2016 **HK$'000**	2015 HK$'000
Balance at the beginning of the year	**527,909**	473,509
Currency realignment	**(39,528)**	(20,409)
Additions	**79,619**	92,302
Additions relating to acquisition of business	**39,108**	–
Disposals	**(10,230)**	(530)
Charge for the year	**(19,429)**	(16,963)
Balance at the end of the year	**577,449**	527,909
Analysis for reporting purpose:		
Non-current portion	**550,847**	502,146
Current portion	**26,602**	25,763
	577,449	527,909

The amount represented medium-term land use rights situated in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

18. Intangible Assets

	HK$'000
COST	
At 1 January 2015	687,139
Currency realignment	(31,472)
Additions relating to acquisition of businesses	254
At 31 December 2015	655,921
Currency realignment	(45,401)
At 31 December 2016	610,520
AMORTISATION	
At 1 January 2015	78,531
Currency realignment	(3,346)
Provided for the year	20,479
At 31 December 2015	95,664
Currency realignment	(10,167)
Provided for the year	19,524
At 31 December 2016	105,021
CARRYING VALUES	
At 31 December 2016	505,499
At 31 December 2015	560,257

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. Goodwill

	HK$'000
At 1 January 2015	5,890,298
Currency realignment	(266,618)
Additions relating to acquisition of businesses	108,579
At 31 December 2015	5,732,259
Currency realignment	(423,064)
Additions relating to acquisition of business (note 34)	40,145
At 31 December 2016	5,349,340

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-group") represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	2016 HK$'000	2015 HK$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	**319,594**	341,807
Hong Kong & China Gas (Zibo) Limited	**343,733**	367,622
Hong Kong & China Gas (Yantai) Limited	**232,148**	248,282
Hong Kong & China Gas (Weifang) Limited	**133,577**	142,861
Hong Kong & China Gas (Weihai) Limited	**265,932**	284,414
Hong Kong & China Gas (Taian) Limited	**235,281**	251,633
Hong Kong & China Gas (Maanshan) Limited	**279,267**	298,677
Hong Kong & China Gas (Anqing) Limited	**264,698**	283,094
Mianyang Hong Kong & China Gas Co., Ltd.	**284,551**	304,327
Xin Du Hong Kong and China Gas Company Limited, Cheng Du	**216,262**	231,293
Towngas (BVI) Holdings Limited ("Towngas BVI")*	**396,394**	423,944
Fuxin Xinqiu Hong Kong and China Gas Company Limited ("Xinqiu")	**125,908**	134,658
Jinan Pingyin Hongkong & China Gas Co., Ltd.	**120,771**	129,164
Shenyang business ("Shenyang")	**103,177**	110,348
Mianzhu Hong Kong and China Gas Co., Ltd. ("Mianzhu")	**102,418**	109,536
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. ("Fengxi")	**146,121**	156,276
Boxing Hong Kong & China Gas Co., Ltd. ("Boxing")	**86,959**	93,003
Dafeng Hong Kong and China Gas Company Limited ("Dafeng")	**244,727**	261,735
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd ("Zhongwei")	**125,486**	134,208

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. Goodwill *(Continued)*

	2016 **HK$'000**	2015 HK$'000
Baotou Hong Kong & China Gas Company Limited ("Baotou")	**160,403**	171,551
Xingyi Hong Kong and China Gas Company Limited ("Xingyi")	**100,924**	107,938
Others	**1,061,009**	1,145,888
	5,349,340	5,732,259

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

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 8.5% (2015: 8.0%) using pre-tax rates 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.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2015: 4% to 6%) per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary as at 31 December 2016 (2015: nil).

20. Interests in Associates/Loan to an Associate

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

	2016 **HK$'000**	2015 HK$'000
Cost of investments in associates	**1,806,641**	1,783,054
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,226,130**	1,157,630
	3,032,771	2,940,684
Loan to an associate		
– Current portion	**–**	17,912

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

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activity
		2016	2015	
Anhui Province Wenery Towngas Natural Gas Company Limited 安徽省皖能港華天然氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Midstream
Bozhou WanHua Gas Company Limited 亳州皖華燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Provision of natural gas and related services and gas pipeline construction
Changchun Gas Co., Ltd. 長春燃氣股份有限公司	PRC – Limited liability company	**25%**	25%	Production and distribution of natural gas, coal gas, metallurgical coke and coke oil
Dalian DETA Hong Kong and China Gas Co., Ltd. 大連德泰港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Foshan Gas Group Co., Ltd. 佛山市燃氣集團股份有限公司	PRC – Sino-foreign equity joint venture	**43%**	43%	Provision of natural gas and related services and gas pipeline construction
Fuzhou Fubei Natural Gas Co., Ltd. 撫州市撫北天然氣有限公司	PRC – Limited liability company	**40%**	40%	Provision of natural gas and related services and gas pipeline construction
Linqu Hong Kong & China Gas Company Limited 臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**42%**	42%	Provision of natural gas and related services and gas pipeline construction
SCEI Distributed Energy Systems Co., Ltd. 四川能投分布式能源有限公司	PRC – Sino-foreign equity joint venture	**25%**	N/A	Provision of natural gas distributed energy
Shandong Jihua Gas Co., Ltd. 山東濟華燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Provision of natural gas and related services and gas pipeline construction
Shijiazhuang Huabo Gas Co., Ltd. 石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	**45%**	45%	Provision of natural gas and related services and gas pipeline construction

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group 2016	2015	Principal activity
Zhuojia Public Engineering (Maanshan) Co., Ltd. 卓佳公用工程(馬鞍山)有限公司	PRC – Sino-foreign equity joint venture	**38%**	38%	Provision of gas pipe assembly
Zibo Lubo Gas Company Limited 淄博綠博燃氣有限公司	PRC – Sino-foreign equity joint venture	**27%**	27%	Provision of natural gas and related services and gas pipeline construction

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs, which were not audited by the certified public accountants registered in the PRC.

This associate is accounted for using the equity method in these consolidated financial statements.

Foshan Gas Group Co., Ltd. ("Foshan")

	2016 HK$'000	2015 HK$'000
Current assets	**977,097**	1,053,038
Non-current assets	**3,881,051**	4,088,952
Current liabilities	**(1,556,870)**	(1,593,629)
Non-current liabilities	**(834,692)**	(1,126,335)

	2016 HK$'000	2015 HK$'000
Revenue	**4,376,306**	5,015,480
Profit and total comprehensive income for the year	**344,777**	458,854
Dividends received from the associate during the year	**100,503**	92,867

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

Foshan Gas Group Co., Ltd. ("Foshan") *(Continued)*

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

	2016 **HK$'000**	2015 HK$'000
Net assets of Foshan	**2,466,586**	2,422,026
Less: non-controlling interests of Foshan	**(598,952)**	(589,984)
	1,867,634	1,832,042
Proportion of the Group's ownership interest in Foshan	**803,083**	787,778
Goodwill	**42,276**	45,214
Carrying amount of the Group's interest in Foshan	**845,359**	832,992

Aggregate information of associates that are not individually material

	2016 **HK$'000**	2015 HK$'000
The Group's share of profit and total comprehensive income	**191,673**	68,280
Aggregate carrying amount of the Group's interests in these associates	**2,187,412**	2,107,692

The loan to an associate with principal amount of RMB15,000,000 bearing interest at a fixed rate of 5.88% per annum was matured and fully repaid during the year.

21. Interests in Joint Ventures/Loans to Joint Ventures

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

	2016 **HK$'000**	2015 HK$'000
Cost of investments in joint ventures	**1,095,649**	1,154,608
Share of post-acquisition profits and other comprehensive income, net of dividends received	**927,105**	916,405
	2,022,754	2,071,013
Loans to joint ventures		
– Non-current portion	**–**	92,796
– Current portion	**136,326**	155,845
	136,326	248,641

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

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2016	2015	Principal activities
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision for natural gas and related services and gas pipeline construction
Chongqing Hong Kong and China Gas Company Limited 重慶港華燃氣有限公司	PRC – Limited liability company	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited 杭州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Taian City Taigang Gas Company Limited 泰安市泰港燃氣有限公司	PRC – Sino-foreign equity joint venture	**29%**	29%	Midstream
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**49%**	49%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Wuhu Hong Kong & China Gas Company Limited 蕪湖港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

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

Aggregate information of joint ventures that are not individually material

	2016 HK$'000	2015 HK$'000
The Group's share of profit and total comprehensive income	**278,023**	327,202
Aggregate carrying amount of the Group's interests in these joint ventures	**2,022,754**	2,071,013

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

Principal amount		**Maturity date**	**Coupon interest rate**	**Effective interest rate**	**Carrying amount**	
2016	2015				**2016 HK$'000**	2015 HK$'000
USD690,000	USD690,000	Repayable on demand (2015: Repayable on demand)	4.50%	4.50%	**5,351**	6,831
RMB35,000,000	RMB35,000,000	July 2017 (2015: July 2017)	4.75%	4.75%	**39,080**	41,791
USD310,000	USD310,000	January 2017 (2015: January 2017)	4.50%	6.12%	**2,399**	12,792
RMB32,000,000	RMB32,000,000	August 2017 (2015: August 2017)	5.46%	5.46%	**35,730**	38,213
RMB8,153,000	RMB44,784,000	Repayable on demand (2015: Repayable on demand)	5.88%	5.88%	**9,103**	53,486
RMB10,000,000	RMB10,000,000	November 2017 (2015: November 2016)	4.35%	4.35%	**11,166**	11,942
RMB20,000,000	RMB20,000,000	October 2017 (2015: October 2016)	4.35%	4.35%	**22,331**	23,883
RMB10,000,000	–	August 2017 (2015: Nil)	4.35%	4.35%	**11,166**	–
–	RMB50,000,000	Nil (2015: December 2016)	4.79%	4.79%	**–**	59,703
					136,326	248,641

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

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22. Loan to a Non-controlling Shareholder

The loan to a non-controlling shareholder is unsecured and carried at amortised cost with the following details:

Principal amount 2016	Principal amount 2015	Maturity date	Coupon interest rate	Effective interest rate	Carrying amount 2016 HK$'000	Carrying amount 2015 HK$'000
RMB14,500,000	–	March 2018 (2015: Nil)	6%	6%	**16,190**	–

The principal and interest will be received on respective payment due dates set out in the loan agreement.

23. Available-For-Sale Investments

	2016 HK$'000	2015 HK$'000
Listed shares in the PRC, at fair value	**85,496**	98,931
Unlisted shares in the PRC, at cost	**149,289**	160,575
	234,785	259,506

At the end of the reporting period, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. These investees are all engaged in the provision of natural gas and related services and gas pipeline construction business.

24. Other Financial Assets/Liabilities

	2016 HK$'000	2015 HK$'000
Other financial assets		
Derivatives (not under hedge accounting)		
Foreign currency forward contracts under non-current assets	**80,977**	–
Cross currency swaps under current assets	**87,511**	–
	168,488	–
Other financial liabilities		
Derivative under hedge accounting		
Cash flow hedge – Interest rate swap	**–**	3,600

The classification of the measure of the derivative financial instruments at 31 December 2016 and 2015 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).

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

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

Notional amount	Maturity	Forward contract rate	Interest rate		Exchange Frequency	
			Receive	Pay	Receive	Pay
Foreign currency forward contracts						
RMB448,793,000	2018	HK$1 to RMB0.90	N/A	N/A	N/A	N/A
RMB456,105,000	2018	USD1 to RMB7.02	N/A	N/A	N/A	N/A
RMB366,939,000	2019	HK$1 to RMB0.92	N/A	N/A	N/A	N/A
Cross currency swaps						
RMB1,344,507,000	2017	HK$1 to RMB0.83 – RMB0.86	N/A	1.94% – 2.39%	N/A	Quarterly or annually

During the year, change in fair value of the foreign currency forward contracts and cross currency swaps amounting to HK$168,488,000 (2015: nil) has been recognised to profit or loss.

Cash flow hedges

As at 31 December 2015, the Group had an interest rate swap contract designated as highly effective hedging instrument in order to minimise its exposure to cash flow change of its floating-rate loan which had HK$350,000,000 principal and was matured in 2016. The terms of the interest rate swap contract had been negotiated to match the terms of the loan. The interest rate swap contract swapped the interest rate on the floating rate loan from HIBOR plus 0.75% to 2.725%.

25. Inventories

	2016 **HK$'000**	2015 HK$'000
Finished goods	**96,693**	108,499
Materials and consumables	**396,145**	449,922
	492,838	558,421

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26. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash

	2016 **HK$'000**	2015 HK$'000
Trade receivables	**653,540**	734,598
Prepayments	**327,267**	502,695
Other receivables and deposits	**209,600**	269,388
	1,190,407	1,506,681

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables of HK$653,540,000 (2015: HK$734,598,000). 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:

	2016 **HK$'000**	2015 HK$'000
0 to 90 days	**493,819**	544,639
91 to 180 days	**45,624**	99,045
181 to 360 days	**114,097**	90,914
	653,540	734,598

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK$24,772,000 (2015: HK$32,453,000) which have been past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	2016 **HK$'000**	2015 HK$'000
0 to 90 days	**12,951**	12,117
91 to 180 days	**3,153**	5,147
181 to 360 days	**8,668**	15,189
Total	**24,772**	32,453

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26. Trade and Other Receivables, Deposits and Prepayments/Time Deposits over Three Months and Bank Balances and Cash *(Continued)*

Trade receivables *(Continued)*

Movement in the allowance for doubtful debts for trade and other receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Balance at the beginning of the year	**88,054**	83,578
Impairment losses recognised on receivables	**11,077**	4,476
Balance at the end of the year	**99,131**	88,054

The allowance for doubtful debts is all individually impaired receivables which represents amounts that have been long overdue and recoverability has been considered remote.

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

The directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

Time deposits over three months and bank balances and cash

The deposits and bank balances carry interest at prevailing market rates ranging from 1.56% to 3.00% (2015: 1.17% to 3.05%) per annum.

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

	2016 **HK$'000**	2015 HK$'000
United States Dollar	**26,720**	62,086
Hong Kong Dollar	**16,271**	56,349

27. Amounts Due from/to Non-Controlling Shareholders

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

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28. Trade and Other Payables and Accrued Charges

	2016 HK$'000	2015 HK$'000
Trade payables	**1,045,416**	941,764
Receipt in advance	**2,581,508**	2,403,811
Consideration payable for acquisitions of businesses	**63,055**	106,366
Consideration payable to a joint venture (note a)	**–**	1,528
Other payables and accruals	**642,058**	705,113
Amount due to the ultimate holding company (note b)	**895**	1,237
	4,332,932	4,159,819

Notes:

(a) The amount represents consideration payable to a joint venture for acquisition of Pingyin business.

(b) 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:

	2016 HK$'000	2015 HK$'000
0 to 90 days	**676,711**	673,382
91 to 180 days	**158,557**	100,631
181 to 360 days	**111,813**	88,848
Over 360 days	**98,335**	78,903
	1,045,416	941,764

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29. Borrowings

	2016 HK$'000	2015 HK$'000
Bank loans – unsecured	**7,793,346**	7,728,519
Other loans – unsecured	**43,466**	46,088
	7,836,812	7,774,607
Carrying amount repayable:		
On demand or within one year	**2,652,660**	3,183,174
More than one year but not exceeding two years	**1,322,299**	910,861
More than two years but not exceeding five years	**3,814,517**	3,647,523
More than five years	**47,336**	33,049
	7,836,812	7,774,607
Less: Amount due within one year shown under current liabilities	**(2,652,660)**	(3,183,174)
Amount due after one year	**5,184,152**	4,591,433

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount 2016 HK$'000	Carrying amount 2015 HK$'000
Floating-rate loans:			
Unsecured HKD bank loans	1.41%	**2,500,000**	4,970,760
Unsecured RMB bank loans	3.26%	**452,180**	570,058
Unsecured USD bank loans	1.47%	**504,140**	503,810
Fixed rate loans*:			
Unsecured HKD bank loans**	2.73%	**–**	350,000
Unsecured RMB bank loans	4.25%	**4,337,026**	1,333,891
Unsecured RMB other loans	2.65%	**25,310**	27,069
Unsecured other loans	1.12%	**18,156**	19,019
Total bank loans and other loans		**7,836,812**	7,774,607

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

** An interest rate swap agreement was entered into by the Group to swap floating interest rate on the loan for a fixed rate. Please see note 24 for details.

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30. Loans from the Ultimate Holding Company

The two unsecured loans from the ultimate holding company with principal amounts of HK$800,000,000 and US$25,000,000, which bore interest at the Hong Kong Interbank Offered Rate plus a premium ranging from 1.25% to 3% per annum and would be matured in June 2017 to December 2020, were fully repaid during the year.

31. Deferred Taxation

The following is the major deferred tax liability 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$'000	Total HK$'000
At 1 January 2015	70,612	156,006	213,985	440,603
Additions relating to acquisition of businesses	–	63	–	63
Currency realignment	(2,014)	(1,994)	(7,064)	(11,072)
(Credit) charge for the year	(2,067)	(5,062)	30,672	23,543
Withholding tax paid	–	–	(15,972)	(15,972)
At 31 December 2015	66,531	149,013	221,621	437,165
Additions relating to acquisition of business (note 34)	894	–	–	894
Currency realignment	(4,228)	(9,453)	(15,155)	(28,836)
Charge (credit) for the year	2,867	(5,169)	26,911	24,609
Withholding tax paid	–	–	(25,306)	(25,306)
At 31 December 2016	66,064	134,391	208,071	408,526

At the end of the reporting period, the Group has unused tax losses of HK$555,054,000 (2015: HK$468,070,000) 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 2021.

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32. Share Capital

	Number of shares	HK$'000
At 31 December 2016		
– Authorised:		
Shares of HK$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK$0.10 each	2,711,601,763	271,160

Details of the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2015, 31 December 2015 and 2016	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 2015	2,632,657,769	263,266
Issue of shares upon scrip dividend scheme (note a)	21,389,081	2,139
Issue of shares upon exercise of share options (note b)	11,015,800	1,101
At 31 December 2015	2,665,062,650	266,506
Issue of shares upon scrip dividend scheme (note c)	46,539,113	4,654
At 31 December 2016	2,711,601,763	271,160

Notes:

(a) On 17 March 2015, 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 29 May 2015. On 10 July 2015, 21,389,081 shares of HK$0.10 each were allotted and issued at HK$7.802 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2014 final dividend under the scrip dividend scheme.

(b) During the year ended 31 December 2015, the Company allotted and issued 1,367,800 and 9,648,000 shares of HK$0.10 each for cash at the price of HK$2.796 and HK$3.811 per share respectively as a result of the exercise of share options.

(c) On 17 March 2016, 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 3 June 2016. On 18 July 2016, 46,539,113 shares of HK$0.10 each were allotted and issued at HK$4.376 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2015 final dividend under the scrip dividend scheme.

All the shares which were issued during the year ended 31 December 2016 rank pari passu with the then existing shares in all respects.

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33. 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.

34. Acquisition of Business

During the year ended 31 December 2016, the Group acquired the following business which is principally engaged in the operation of gas fuel automobile refilling stations and related business in the PRC. The primary reason for the below acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration HK$'000
Business combination in:			
Qiqihar Xingqixiang Gas Company Limited ("Xingqixiang")	**January 2016**	**100%**	**110,222**

The acquisition-related costs were insignificant and were recognised as expenses in the current year, within other expenses of note 8.

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

	Xingqixiang HK$'000
Purchase consideration	**110,222**
Acquiree's fair value of net identifiable assets acquired (see below)	**(70,077)**
Goodwill arising on acquisition	**40,145**

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34. Acquisition of Business *(Continued)*

The net identifiable assets acquired in the transaction are as follows:
Acquiree's fair values at acquisition date:

	Xingqixiang HK$'000
Net assets acquired:	
Property, plant and equipment	**43,631**
Leasehold land	**39,108**
Inventories	**121**
Interest in a joint venture	**2,048**
Trade and other receivables, deposit, and prepayments (note)	**2,522**
Cash and bank balances	**733**
Trade and other payables and accrued charges	**(17,192)**
Deferred taxation	**(894)**
	70,077

Note: The trade and other receivables acquired with fair value of HK$2,522,000 had gross contractual amounts of HK$2,522,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

Net cash outflow arising on acquisition:

	Xingqixiang HK$'000
Purchase consideration	**110,222**
Amounts unpaid and included in:	
– consideration payable for acquisitions	**(10,771)**
Bank balances and cash acquired	**(733)**
	98,718

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.

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

During the year, acquired business contributed HK$41,104,000 to the Group's turnover and incurred loss of HK$420,000 for the period between the date of acquisition and the end of the reporting period, respectively.

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34. Acquisition of Business *(Continued)*

Net cash outflow arising on acquisition: *(Continued)*

Had the above acquisition been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2016 would have been HK$7,181,150,000, and the amount of the profit for the year would have been HK$1,093,270,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

35. Related Party Transactions

Save as disclosed elsewhere in the consolidated financial statements, the following related party transactions took place during the year:

Name of related party	Nature of transaction	2016 HK$'000	2015 HK$'000
HKCG	Outstanding loan balances (See note 30)	–	993,750
	Interest expense	18,697	28,454
Shenyang Sanquan Project Management Consulting Co., Ltd. (note a)	Project management services	7,670	6,398
Hongkong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	20,318	10,170
GH-Fusion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	1,017	1,920
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	3,274	9,813
Anhui Province Natural Gas Development Co., Ltd. (note b)	Purchase of compressed natural gas	69,841	77,393

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For the year ended 31 December 2016

35. Related Party Transactions *(Continued)*

Name of related party	Nature of transaction	2016 HK$'000	2015 HK$'000
Towngas Telecommunications (Shenzhen) Limited (note a)	Cloud computing system and supporting services	**1,609**	5,783
Shandong Hong Kong and China Gas Training Institute (note a)	Training services	**2,226**	1,417
M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a)	Purchase of pipeline construction materials and tools	**9,886**	6,174
G-Tech Piping Tech (Zhongshan) Ltd. (note a)	Purchase of pipeline construction materials and tools	**60,454**	31,104
Taizhou Hong Kong and China Gas Company Limited (note a)	Purchase of compressed natural gas	**–**	1,013
Zhuhai S-Tech Technology Limited (note a)	Provision of software	**426**	65
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	**1,056**	1,425
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	**28,417**	25,849
南京港華棲霞燃氣有限公司 (note b)	Purchase of liquefied natural gas	**1,596**	–
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	**6,240**	–

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.

Emoluments paid to the key management personnel of the Company which represents the executive directors of the Company are set out in note 12.

Notes to the Consolidated Financial Statements

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36. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**16,896**	17,372
In the second to fifth year inclusive	**27,084**	26,140
Over five years	**23,714**	29,836
	67,694	73,348

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

37. Commitments

	2016 **HK$'000**	2015 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**85,729**	117,771
– acquisition of businesses	**82,626**	272,522
– acquisition of an associate	**–**	39,086

38. Share Options

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink Worldwide Holdings Limited ("Sinolink") pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 28 November 2005.

The share options under the Scheme (the "Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

The Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option.

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38. Share Options *(Continued)*

During the year ended 31 December 2015, movements of the share options, which were all held by directors and senior management, were as follows:

	Number of share options			
	Outstanding at the beginning of the year	**Exercised during the year**	**Outstanding at the end of the year**	**Exercisable share options at the end of the year**
For the year ended 31 December 2015				
Scheme				
2006 options (note)	1,367,800	(1,367,800)	–	–
2007 options (note)	9,648,000	(9,648,000)	–	–
	11,015,800	(11,015,800)	–	–
Weighted average exercise price (HK$)	3.685	3.685	–	–

The weighted average price of the Company's shares as at the dates of exercise of 200,000 options on 30 March 2015, 6,030,000 options on 27 April 2015, 3,618,000 options on 28 April 2015, 403,000 options on 28 April 2015, 202,000 options on 13 August 2015 and 562,800 options on 18 November 2015 were HK$7.126, HK$7.320, HK$7.336, HK$7.397 and HK$6.760 respectively.

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

The Group did not recognise any expenses for the year ended 31 December 2016 (2015: nil) in relation to share options granted by the Company in previous year.

Note: The 2006 and 2007 option represented the share options granted under the Scheme.

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39. 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 2016 amounted to HK$68,753,000 (2015: HK$68,059,000).

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 2016, the Group made retirement benefit scheme contributions amounting to HK$334,000 (2015: HK$465,000).

40. Major Non-cash Transactions

The Group issued additional shares as scrip dividends during the year ended 31 December 2016 as set out in note 32(c).

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41. Statement of Financial Position and Reserves of the Company

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

	2016 HK$'000	2015 HK$'000
Non-current assets		
Property, plant and equipment	**17**	12
Investments in subsidiaries	**2,146,202**	2,302,805
Other financial asset	**28,669**	–
	2,174,888	2,302,817
Current assets		
Other receivables, deposits and prepayments	**77**	60
Amounts due from subsidiaries	**10,003,118**	10,918,248
Bank balances and cash	**69,781**	182,688
	10,072,976	11,100,996
Current liabilities		
Other payables and accrued charges	**42,598**	22,394
Dividend payable	**55**	51
Amounts due to subsidiaries	**971,102**	760,974
Amounts due to the ultimate holding company	**246**	683
Borrowings – amount due within one year	**2,026,574**	1,373,251
	3,040,575	2,157,353
Net current assets	**7,032,401**	8,943,643
Total assets less current liabilities	**9,207,289**	11,246,460
Non-current liabilities		
Loans from the ultimate holding company	**–**	993,750
Loan from a subsidiary	**4,557,139**	4,915,324
Borrowings – amount due after one year	**504,140**	503,810
	5,061,279	6,412,884
Net assets	**4,146,010**	4,833,576
Capital and reserves		
Share capital	**271,160**	266,506
Reserves	**3,874,850**	4,567,070
	4,146,010	4,833,576

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For the year ended 31 December 2016

41. Statement of Financial Position and Reserves of the Company

(Continued)

(b) Movement of reserves of the Company:

	Share capital HK$'000	Share premium HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2015	263,266	6,393,246	(1,440,794)	5,215,718
Loss and other comprehensive expense for the year	–	–	(325,321)	(325,321)
Issue of shares upon scrip dividend scheme	2,139	164,738	–	166,877
Issues of shares upon exercise of share options	1,101	55,598	(16,106)	40,593
Dividends paid to shareholders	–	(264,291)	–	(264,291)
At 31 December 2015	266,506	6,349,291	(1,782,221)	4,833,576
Loss and other comprehensive expense for the year	–	–	(624,715)	(624,715)
Issue of shares upon scrip dividend scheme	4,654	199,001	–	203,655
Dividends paid to shareholders	–	(266,506)	–	(266,506)
At 31 December 2016	271,160	6,281,786	(2,406,936)	4,146,010

* Others represent share option 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.

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42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2016 and 2015 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 2016	2015	Principal activities
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
TCCL (Finance) Limited 港華燃氣(融資)有限公司	HK – Limited liability company	HK$1	**100%**	100%	Financing
Towngas China Group Limited 港華燃氣集團有限公司	BVI – Limited liability company/HK	US$12,821	**100%**	100%	Investment holding
Towngas China Holdings Limited 港華燃氣控股有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited 鞍山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited 包頭港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Baoding Foric Hong Kong & China Gas Company Limited 保定富瑞斯港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB52,500,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited 北票港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB56,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Ben Xi Hongkong and China Gas Company Limited 本溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB310,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd. 博興港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**65%**	65%	Provision of natural gas and related services and gas pipeline construction
Cang Xi Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Cangxian Hong Kong & China Gas Co., Ltd. 滄縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited 長汀港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB22,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Chao Sheng Investment Limited 潮盛投資有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Chaoyang Hongkong and China Gas Company Limited 朝陽港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US$10,791,838	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. 潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
China Overlink Holdings Co. Ltd.	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Chi Ping Hong Kong and China Gas Company Limited 茌平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**85%**	85%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Ltd 池州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Dafeng Hong Kong and China Gas Company Limited 大豐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co. Ltd. 大連長興港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$14,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co. Ltd. 大連旅順港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$15,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店金宇港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Da Yi Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Feicheng Hong Kong and China Gas Company Limited 肥城港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hongkong and China Gas Company Limited 阜新港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB77,200,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Fuxin Dali Gas Company Limited 阜新大力燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB13,900,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Xinqiu Hong Kong and China Gas Company Limited 阜新新邱港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB34,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$4,010,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited 公主嶺港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB88,000,000 (2015: RMB53,000,000)	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd 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%**	100%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong and China Gas Co., Ltd. 桂林港華燃氣有限公司	PRC – Wholly foreign owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited 黑龍江港華聯孚能源有限公司	PRC – Sino-foreign equity joint venture	RMB7,150,000	**55%**	55%	Vehicle gas refilling stations

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Hong Kong and China Gas (Dalian) Limited 香港中華煤氣(大連)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yingkou) Limited 香港中華煤氣(營口)有限公司	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited 香港中華煤氣(駐馬店)有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Huang Shan Hong Kong & China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong & China Gas Co., Ltd. 黃山徽州港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$2,100,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Huang Shan Taiping Hong Kong & China Gas Co., Ltd. 黃山太平港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$3,500,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited 湖州港華燃氣有限公司	PRC – Sino-foreign equity joint venture	US$10,500,000	**98.85%**	98.85%	Provision of natural gas and related services and gas pipeline construction
Jiajiang Hong Kong & China Gas Company Limited 夾江港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Jianping Hong Kong and China Gas Company Limited 建平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Jianyang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Pingyin Hongkong & China Gas Co., Ltd. 濟南平陰港華燃氣有限公司	PRC – Sino-foreign-equity joint venture	RMB100,000,000	**82.15%**	82.15%	Provision of natural gas and related services and gas pipeline construction
Jiujiang Hong Kong and China Gas Co., Ltd. 九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Kazuo Hong Kong & China Gas Co., Ltd. 喀左港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$6,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd. 萊陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$5,440,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hongkong and China Gas Company Limited 龍口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$7,070,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited 陸良港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB52,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd. 馬鞍山博望港華燃氣有限公司	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 & China Gas Co., Ltd. 馬鞍山江北港華燃氣有限公司	PRC – Limited liability company	US$10,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Mengcun Hong Kong & China Gas Co., Ltd. 孟村回族自治縣港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Mianyang Heqing Towngas Co., Ltd. 綿陽河清港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Mianyang Hong Kong & China Gas Co., Ltd. 綿陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB90,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd. 綿竹港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB18,000,000 (2015: RMB12,000,000)	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd. 綿竹玉泉港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000 (2015: RMB1,000,000)	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Miluo Hong Kong and China Gas Company Limited 汨羅港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Peng Shan Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2016

42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Peng Xi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司	PRC – Limited liability company	RMB16,590,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Company Limited 青島東億港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Company Limited 青島中即港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB73,500,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qingyuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong & China Gas Co., Ltd. 秦皇島港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB15,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	**61.67%**	61.67%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Qiqihar Xingqixiang Gas Company Limited 齊齊哈爾興企祥燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB83,070,000	**100%**	N/A	Vehicle gas refilling stations
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$24,532,434	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Siping Hong Kong and China Gas Company Limited 四平港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB45,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Songyang Hong Kong & China Gas Company Limited 松陽港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	**51.35%**	51.35%	Provision of natural gas and related services and gas pipeline construction
Tie Ling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB232,960,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Tongshan Hong Kong and China Gas Co. Ltd. 銅山港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB124,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2016

42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Tongxiang Hong Kong and China Gas Company Limited 桐鄉港華天然氣有限公司	PRC – Sino-foreign equity joint venture	US$7,000,000	**76%**	76%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited 港華燃氣（維爾京）控股有限公司	BVI – Limited liability company/HK	US$1	**100%**	100%	Investment holding
Towngas China (Fengxi) Limited 港華燃氣（楓溪）有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Towngas China (Zhengpugang) Limited 港華燃氣（鄭蒲港）有限公司	HK – Limited liability company	HK$100	**100%**	100%	Investment holding
Towngas China Energy Investment Limited 港華燃氣能源投資有限公司	HK – Limited liability company	HK$100	**100%**	N/A	Investment holding
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Wholly foreign-owned enterprise	US$200,000,000	**100%**	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Wuhu Jiangbei Hong Kong and China Gas Company Limited 蕪湖江北港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB100,000,000	**100%**	N/A	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong and China Gas Co., Ltd. 武寧港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB40,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Wulian Hong Kong and China Gas Company Limited 五蓮港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Xin Du Hong Kong and China Gas Company Limited, Cheng Du 成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited 新津港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Yong Shuang Hong Kong and China Gas Company Limited 新津永雙港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	**60%**	60%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong and China Gas Company Limited 興義港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	**70%**	70%	Provision of natural gas and related services and gas pipeline construction
Xiushui Hong Kong and China Gas Company Limited 修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited 陽江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB50,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yanshan Hong Kong & China Gas Co., Ltd. 鹽山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

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42. 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 2016	2015	Principal activities
Indirectly-owned subsidiaries (Continued)					
Yangxin Hong Kong & China Gas Co., Ltd. 陽信港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB18,000,000	**51%**	51%	Provision of natural gas and related services and gas pipeline construction
Yifeng Hong Kong and China Gas Co., Ltd. 宜豐港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB32,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Co., Ltd. 營口港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	US$9,400,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Yue Chi Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Zhao Yuan Hong Kong & China Gas Co., Ltd. 招遠港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB22,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Zhong Jiang Hong Kong and China Gas Company Limited 中江港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction

None of the subsidiaries had issued any debt securities at the end of the year.

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.

Corporate Information

Board of Directors

Executive Directors

Chan Wing Kin, Alfred *(Chairman)*
Wong Wai Yee, Peter *(Chief Executive Officer)*
Ho Hon Ming, John *(Company Secretary)*
Kee Wai Ngai, Martin

Independent Non-Executive Directors

Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Board Audit and Risk Committee

Li Man Bun, Brian David *(Chairman)*
Cheng Mo Chi, Moses
Kwan Yuk Choi, James

Remuneration Committee

Cheng Mo Chi, Moses *(Chairman)*
Li Man Bun, Brian David
Kwan Yuk Choi, James
Chan Wing Kin, Alfred

Nomination Committee

Chan Wing Kin, Alfred *(Chairman)*
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Kwan Yuk Choi, James

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

23rd Floor, 363 Java Road
North Point, Hong Kong

Telephone	:	(852) 2963 3298
Facsimile	:	(852) 2561 6618
Stock Code	:	1083
Website	:	www.towngaschina.com

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
China Merchants Bank, Shenzhen Branch

Towngas China Company Limited

23rd Floor, 363 Java Road, North Point, Hong Kong

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