港華燃氣有限公司
Towngas China Company Limited

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

# ANNUAL REPORT **2017**

In 2017, we celebrated Towngas China's **10th anniversary**. During the first decade of our journey, the company has witnessed **soaring growth** along with **substantial** market expansion, paving the way for even **greater prospects** in the future.

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

# CONTENTS

# Business Overview

NO. OF PROJECTS **108**



| Piped Gas Projects | |
|---|---|
| **Anhui** | Anqing, Bowang, Chizhou, Huangshan, Huizhou, Maanshan, Tunxi, Wuhu Fanchang, Wuhu Jiangbei, Zhengpugang Xin Qu Modern Industrial Zone |
| **Chongqing** | Qijiang |
| **Fujian** | Changting |
| **Guangdong** | Fengxi, Foshan, Qingyuan, Shaoguan, Yangdong |
| **Guangxi** | Guilin, Liuzhou, Zhongwei (Fusui) |
| **Guizhou** | Xingyi |
| **Hebei** | 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 |

**Distributed Energy Projects**

Sichuan Energy Investment, Shenyang Economic and Technological Development Zone, Qingdao City Jimo Chuangzhi New District, Xuzhou Industrial Park (Jiawang District)

**Midstream Projects**

Taian Taigang, Xuancheng-Huangshan, Inner Mongolia Guyang

**Vehicle Gas Refilling Stations**

Qiqihar (Lianfu), Qiqihar (Xingqixiang)

**Piping Prefabrication Project**

Maanshan


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

# Five-Year Financial Summary

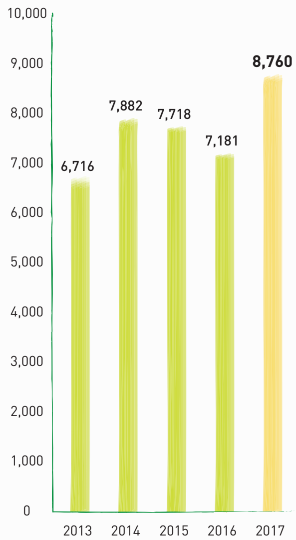
| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017<br>HK$'000** |
| **RESULTS** | | | | | |
| Turnover | 6,715,709 | 7,881,833 | 7,718,293 | 7,181,150 | **8,759,783** |
| Profit before taxation | 1,608,852 | 1,531,059 | 1,268,043 | 1,455,403 | **1,917,654** |
| Taxation | (382,509) | (350,085) | (343,511) | (362,133) | **(405,373)** |
| Profit for the year | 1,226,343 | 1,180,974 | 924,532 | 1,093,270 | **1,512,281** |
| Profit for the year attributable to: | | | | | |
| Shareholders of the Company * | 1,106,286 | 1,054,189 | 807,042 | 973,997 | **1,365,385** |
| Non-controlling interests | 120,057 | 126,785 | 117,490 | 119,273 | **146,896** |
| Profit for the year | 1,226,343 | 1,180,974 | 924,532 | 1,093,270 | **1,512,281** |
| | HK cents | HK cents | HK cents | HK cents | **HK cents** |
| Earnings per share | | | | | |
| Basic | 42.46 | 40.19 | 30.45 | 36.26 | **49.87** |
| Diluted | 42.34 | 40.08 | 30.43 | N/A | **N/A** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017<br>HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 25,628,676 | 27,350,239 | 28,870,524 | 28,027,110 | **32,774,810** |
| Total liabilities | (12,150,413) | (12,905,761) | (14,170,668) | (13,362,927) | **(15,576,994)** |
| | 13,478,263 | 14,444,478 | 14,699,856 | 14,664,183 | **17,197,816** |
| Equity attributable to shareholders of the Company | 12,531,303 | 13,253,951 | 13,478,084 | 13,499,351 | **15,845,033** |
| Non-controlling interests | 946,960 | 1,190,527 | 1,221,772 | 1,164,832 | **1,352,783** |
| Total equity | 13,478,263 | 14,444,478 | 14,699,856 | 14,664,183 | **17,197,816** |

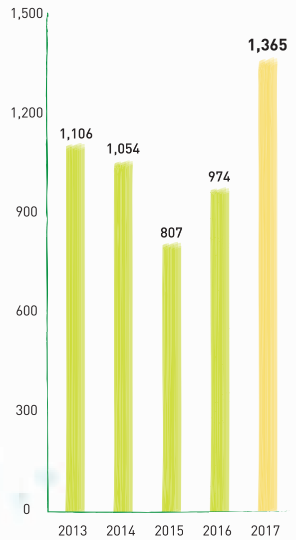
* the Company: Towngas China Company Limited

# Financial Highlights

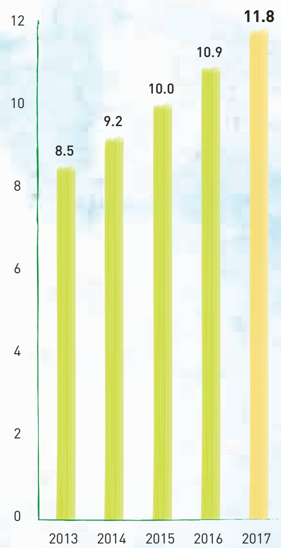
## Turnover
(HK$ Millions)




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



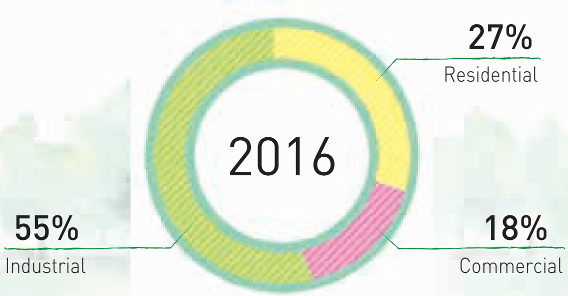

## Number of Customers (All Entities)
(Millions)

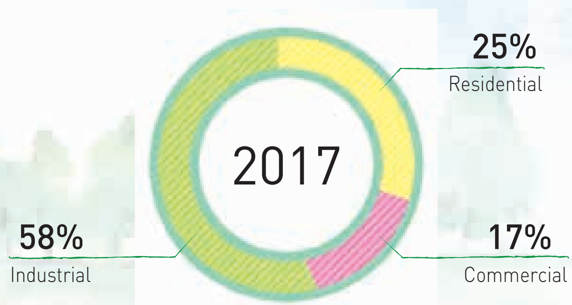



## Turnover Analysis



## Percentage of Gas Volume by Customer Mix (All Entities)



# Chairman's Statement

## Economic Landscape

The global economy picked up remarkably in 2017 with economic growth reaching 3.7%, generally better-than-expected economic growth in major economies such as the United States and Europe, as well as the rebound in international oil prices. Also benefitting from the improvements in supply-side reform, hand-in-hand with the implementation of the "One Belt and One Road" initiative, mainland China's domestic economy showed steady advancement. As a result, China posted a growth of 6.9% in its economy for the year, showing an improvement in domestic economy recorded for the first time since 2010. Foreign trade recorded a growth of 14.2%, while the added value of industrial output increased 6.6% as compared to the corresponding period in the previous year, representing a 0.6 percentage point higher than in 2016. Other macro data also suggested that market supply and demand became more active and the business environment appeared in good shape with signs of steady improvement, both of which are beneficial to the development of energy market.

## Market Prospects for Natural Gas Business

At the 19th National Congress of the Communist Party of China, it is reported that improving ecological environment, pursuing green development and building a beautiful China would be important strategies for the future development of the country. As a quality, efficient and clean low-carbon energy, natural gas is thus the ideal and practical solution for the supply of clean energy and China's transformation towards a low-carbon economy. Encouraging this development in the natural gas market, the National Development and Reform Commission ("NDRC") and energy-related authorities issued the "13th Five-Year Plan for Natural Gas Development" and "Opinions on Accelerating the Utilisation of Natural Gas", stating clearly that the development objective is to work towards a 10% share of natural gas in the composition of primary energy consumption by 2020, and further increasing to a 15% share in energy consumption by 2030. In December 2017, the "Plan for Clean Heating in Winter in Northern Areas (2017 to 2021)" was issued, stating that the objective is to achieve a 70% share of clean heating in northern areas by 2021, replacing the burning of 150 million tonnes of coal for heating. With the successful implementation of the above favourable policies, the future natural gas market in China will continue to grow rapidly, thus the prospects for the natural gas industry are more promising.

## Reforms in the Marketisation of Natural Gas

In May 2017, the Central Government issued the "Certain Opinions on Further Structural Reforms of the Oil and Natural Gas Sector", confirmed the direction of reforms in the marketisation of natural gas. NDRC promulgated the "Guidance Opinion on Enhanced Regulation over the Pricing of Gas Distribution", setting out the investment rates of return on gas distribution and encouraging gas companies to enhance efficiency and share benefits with users. Specific measures in prices of gas distribution were successively unveiled in a number of provincial areas such as Hubei, Fujian, Jiangsu and Heilongjiang. In September 2017, the NDRC issued the result of price assessment for gas supply of 13 cross-provincial natural gas pipeline transportation companies to further standardise the operation of natural gas in middle stream.

# Chairman's Statement

Relevant national authorities have promulgated policies to encourage natural gas companies to carry out trading transactions on the Shanghai Petroleum and Natural Gas Exchange such that the rules that prices were allowed to be determined by market forces would be developed. In 2017, gas volumes traded on the Shanghai Petroleum and Natural Gas Exchange rose to over 25 billion cubic metres, representing approximately 11% of the natural gas consumption on a nationwide basis. In municipalities such as Shanghai and Chongqing, measures had already been announced, linking adjustments between non-residential upstream and downstream gas prices in line with the new trends in the market-oriented pricing of natural gas and its regular price changes in the future.

The above progress shows a further development of reforms in the marketisation of natural gas in China. At the same time, the mechanisms for the market-oriented pricing are becoming increasingly more mature.

## Business Outlook

In view of China's economic recovery together with the country's increasingly active industrial and commercial sector, the government's aggressive efforts to promote the utilisation of clean energy and raise the people's standard of living, as well as the strong growth in the consumption demand of natural gas in the future, the Group is riding on the opportunity to continuously broaden our industrial and commercial customer base, a specific example being our vigorous development of coal-to-gas projects for industry and commerce. Through the implementation of total quality management and the improvement of our business processes, we will push our business growth and raise our quality standards, working to enhance our competitive advantages in safety management, customer services and operational capabilities. These moves will provide the foundations for our proactive expansion of new gas applications and extended businesses so as to achieve steady business growth.

We are actively expanding natural gas distributed energy business in mainland China, aiming to promote efficient use of clean energy. The first phase of construction of underground gas storage project at Jintan City of Jiangsu Province, owned by The Hong Kong and China Gas Company Limited ("HKCG"), the Group's parent company, had been completed and commenced operation. It will be able to supply natural gas to the Group's companies in winter, ensuring adequate supplies as well as providing gas storage service to external parties through these facilities.

We have also made positive progress in the planning, development and purchase of liquefied natural gas ("LNG") imports, furthering our expansion in the trading of LNG. In 2017, the Group cooperated with China National Petroleum Corporation and Shanghai Gas (Group) Co., Ltd.. This further acquisition of imported LNG will not only enable us to provide supplemental LNG to some of the Group's project companies in Eastern China, it also raises our capabilities in the supply of natural gas, particularly in the winter months when shortages of gas have been experienced in the past.

In the residential market, Bauhinia, our gas appliances brand, is being used by numerous households, providing solid foundations for our residential household heating installation engineering and maintenance business. We recently expanded into middle to high-end cabinet sale and installation business, building an environment with modern home furnishing for our customers. With the ongoing promotion of this brand in the sale of deluxe homes by the country, the business not only holds bright prospects for the future, it is also expected to provide the Group with a new source of profit growth.

China is at a critical stage in the building of a well-off and all-rounded society. The general trend is thus to expand the utilisation of clean energy. This will not only help to improve the environment but also cater to the pursue for a top-quality lifestyle amongst the general population. As we remain committed to our vision – "to be Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness", we will grasp the historic opportunity arising from the development and use of natural gas in China. Striving for innovation and execution, and with a focus on city gas, the Group will continue to explore the business with competitive edge to achieve rapid and quality growth in the Group. The many successes of our past will pave the way forward, leading to many new achievements and triumphs into the future!

**Chan Wing Kin, Alfred**
*Chairman*
Hong Kong, 19 March 2018

# Financial Review

In 2017, total gas sales volume of the Group rose robustly by **18%** to **8,417** million cubic metres.

Total number of customers reached **11.77** million, with **860,000** new customers.

Profit after taxation attributable to shareholders of the Company amounted to HK$ **1,365** million, a surge of **40%** as compared to last year. Foshan Gas Group Co., Ltd. ("Foshan Gas"), an associated company of the Group, was listed on the Shenzhen Stock Exchange in November 2017. Such listing has contributed a gain of HK$209 million to the Group.

Basic earnings per share amounted to HK**49.87** cents, representing a surge of **38%** compared to 2016.

## Turnover

Turnover from the sales of piped gas and related products increased 27% from HK$5,518 million in 2016 to HK$6,996 million in 2017. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. The total consolidated volume of gas sold during the year amounted to 2,365 million cubic metres, representing an increase of 25% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$1,764 million, up 6% as compared to 2016, with approximately 400,000 consolidated new household connections were made in 2017.

## Total operating expenses

Total operating expenses in 2017 amounted to HK$7,470 million, an increase of 21% as compared to HK$6,158 million in 2016. The increase was mainly due to the Group's business development together with inflation. The cost of gas fuel, stores and materials used amounted to HK$5,552 million, while that was HK$4,312 million in 2016. The increase in expenses was mainly attributable to the increase in the volume of gas sold during the year. Staff costs and depreciation and amortisation expenses rose by 7% and 8%, respectively. At the same time, an increase of HK$20 million in overheads was due to the inclusion of new subsidiaries in 2017.

## Finance Costs

Finance costs in 2017 amounted to HK$262 million, a rise of 5% as compared to 2016. This rise in finance costs reflected the increase in loans mainly due to the acquisition of new projects and business development.

## Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"), which contributed dividends to the Group during the year. 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 2017, the Group's bank loans and other loans amounted to HK$8,780 million, of which HK$3,708 million represented bank loans and other loans due within 1 year, HK$5,051 million represented bank loans and other loans due between 1 to 5 years, and HK$21 million represented bank loans and other loans due over 5 years. Other than the HK$4,003 million in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group 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 gain of HK$231 million caused by the fluctuations of Renminbi exchange rate in 2017. The Group's borrowings denominated in Renminbi amounted to HK$5,554 million and the remaining HK$3,226 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK$49 million from joint ventures on a fixed interest rate basis. 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 loss resulting from change in fair value of other financial liabilities in 2017 was HK$364 million. As at 31 December 2017, 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%.

As at 31 December 2017, the Group's cash and cash equivalents together with time deposits amounted to HK$1,726 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2017, the Group's unutilised available facilities amounted to HK$3,546 million.

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

## Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also 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 2017.

## Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2017 of HK fifteen cents per share (2016: HK twelve 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


Board members of Towngas China hosted the cake-cutting ceremony after the 2017 Annual General Meeting to celebrate our 10th anniversary with shareholders.

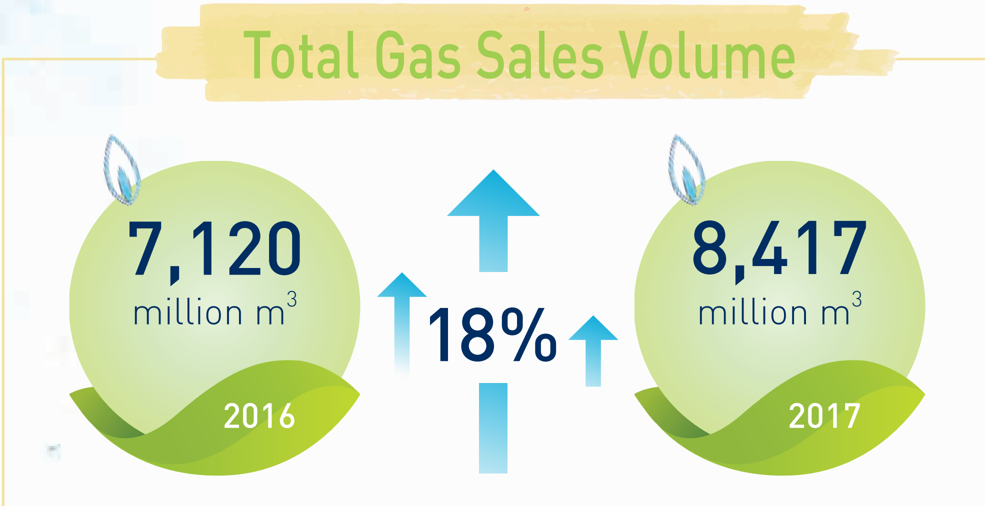
Towngas China celebrated its 10th anniversary in 2017. Over the past decade, our business portfolio has grown from just 25 city gas projects following the acquisition in 2007 when Panva Gas was acquired to 108 projects at present in city gas as well as vehicle gas refilling stations and midstream projects among others. In 2017, the Group sold 8,417 million cubic metres of gas to 11.77 million customers covered by a gas pipeline network stretching over 40,000 kilometres. Currently, 22,276 employees work for the Group. Riding on the growth of urban population, continuous push of clean energy and the expansion of our gas pipeline network, the business prospect of the Group looks promising.

On 22 November 2017, Foshan Gas, an associated company of the Group, was listed on the Shenzhen Stock Exchange. Funds raised by the listing has been earmarked for the third phase of the natural gas high-pressure pipeline network project in Foshan City, the second phase of the natural gas utilisation project in Sanshui District of Foshan City and the second phase of the piped natural gas project in Gaoyao City. Going public successfully marked a milestone for Foshan Gas since its establishment over two decades ago. Furthermore, this achievement will strengthen the company's foundation while injecting new impetus to the business.

Under the theme of constructing a beautiful China, the 19th CPC National Congress has pledged to pursue environmentally responsible development and to accelerate an economy based on conservation, emission reduction, recycling and conversion of renewable energy from waste. Focusing on innovation and environmental-friendliness, and committed to our mission to improve the environment and provide our customers with reliable, efficient, safe and clean energy, we endeavor to steer our business in the direction in line with the nation's development philosophy. Responding to China's policy to "reduce carbon emission and smog", our wholly-owned integrated energy project investment platform, Towngas China Energy Investment (Shenzhen) Limited ("TCEI") was inaugurated in January 2017. Its goal is to drive the ambitious plan to build natural gas distributed energy stations so as to tap into the enormous potential of the gas consumption market.


Zhao Hai, Deputy Mayor of Foshan Municipal People's Government (first left of the bell-ringing guests); Chan Wing Kin Alfred, Chairman and Executive Director of Towngas China (first right of the bell-ringing guests); Yin Xiang, Chairman of Foshan Gas (third left of the bell-ringing guests), and other guests hosted the Foshan Gas listing and bell-ringing ceremony.

# Review of Operations




## Sales of Piped Gas

In 2017, total gas sales volume of the Group rose robustly by 18% to 8,417 million cubic metres and total number of customers reached 11.77 million, with 860,000 new customers. Industrial gas sales grew by 24% to 4,841 million cubic metres, accounting for 58% of the total volume of gas sold by the Group, while commercial gas sales reached 1,460 million cubic metres with an increase of 14%, accounting for 17% of the total volume of gas sold by the Group. Residential gas sales increased by 10% to 2,116 million cubic metres and accounted for 25% of the total volume of gas sold by the Group.

The Group has made the best use of its extensive network to further develop our existing market, come up with new launch 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 has created an ongoing growth driver for future gas sales.

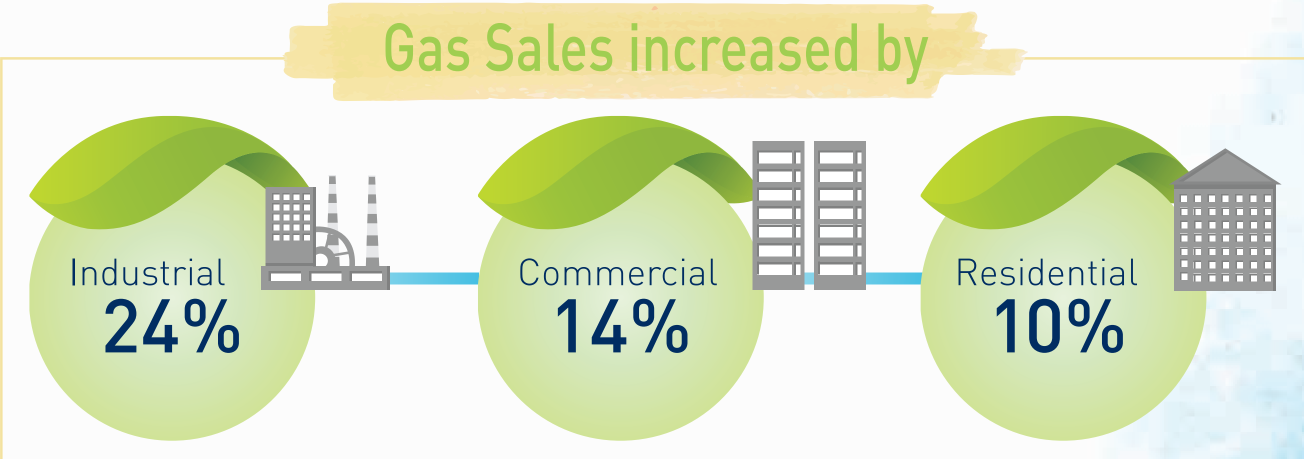
## Development of New Projects

During the year, the Group acquired two gas projects, a piped city gas project in Huji Town, Zhongxiang City, Hubei Province and a midstream natural gas pipeline network project in Guyang County, Baotou City in the Inner Mongolia Autonomous Region. Huji Town's principal industrial activity is the production of phosphate compound fertiliser. This wholly-owned project marks the Group's maiden expansion into Hubei Province. At the same time, we started our active diversification into the midstream pipeline transmission business, building on the back of our focused efforts in the past to acquire downstream city gas projects, which have resulted in rapidly expanding market share. The midstream natural gas pipeline network project in Guyang County will supply natural gas to our city gas project in the county, ensuring sufficient gas supply and facilitating our efforts to move increasingly towards unified gas supply management.

We also acquired a new piped city gas project in Liujiang District, Liuzhou City in the Guangxi Zhuang Autonomous Region in early 2018. The project further consolidates our business development in 2018 and creates regional synergies with the Guilin and Zhongwei piped city gas projects in Guangxi.

Actively committed to the use of clean energy in line with the "13th Five-Year Plan for Energy Development", we have unswervingly pursued the development of integrated energy service operations according to the policy guideline of "reducing carbon emission and smog". We also continued to expand our distributed energy business in 2017, and established a new distributed energy project in the Shenyang Economic and Technological Development Zone in Liaoning Province, which consists of midstream natural gas pipeline transmission together with the sales of steam operations. The consumption is expected to reach 960 million cubic metres of natural gas equivalent in 5 years. In early 2018, the Group also developed two additional distributed energy projects in Jiawang District, Xuzhou City in Jiangsu Province and Jimo Chuangzhi New District, Qingdao City in Shandong Province, with the consumption expected to reach 150 million cubic metres and 8 million cubic metres of natural gas equivalent in 5 years respectively.

# Review of Operations




## Industrial and Commercial Markets

During the national "13th Five-Year Plan" period, energy structure optimisation and environmental pollution controls have become the most prominent drivers for natural gas consumption. It is expected that the proportion of natural gas in primary energy will increase to 10% from 6%. At the same time, the country's recovery in industrial growth and its implementation of the strategy for efficient use of clean energy have brought new opportunities and challenges to the industrial and commercial gas market.

Leveraging the benefits of new policies and market environment, we have captured many new business opportunities, consolidating our existing markets and embracing fresh challenges with the use of the most advanced technologies and innovative applications. We also keep expanding our markets and strengthening our project development whilst driving our ventures into new fields of energy. These moves are expected to invigorate and ensure the sustainable development of our industrial and commercial gas markets.

### Distributed Energy

To expedite the use of natural gas in the industrial sector, the NDRC, together with 13 other departments, jointly promoted and endorsed the "Opinions on Accelerating the Utilisation of Natural Gas", which explicitly demands accelerated developments of natural gas distributed energy through promoting signature projects of natural gas distributed energy at places that have the needs for combined cooling, heating and power system, including energy load centres, industrial and logistics parks, tourist attractions, business centres, transportation hubs, hospitals and schools in large and medium-sized cities.

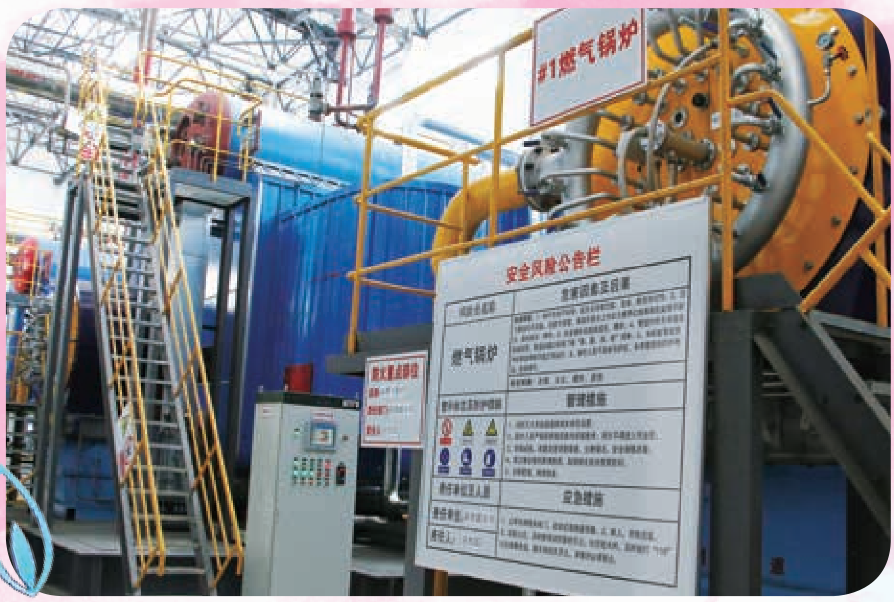
In 2017, we put into operation several distributed energy projects, such as Snow Brewery in Xindu District in Chengdu City, Sichuan Province, and the Luoshanhu Resort in Guilin City, with the total gas consumption reaching nearly 100 million cubic metres. TCEI confirmed a number of projects, including heat and power cogeneration as well as regional heating and heat supply in industrial areas. The total natural gas consumption is expected to reach 3.5 billion cubic metres by 2022. SCEI Distributed Energy Systems Co., Ltd. also signed eight investment agreements during the year.

## Boiler Conversion from Coal to Natural Gas

According to the goals of National Energy Administration, China's coal consumption proportion should be reduced to 60% in 2017 and falling further to below 58% during the "13th Five-Year Plan" period. We have thus aligned our project development strategies with the nation's coal-to-gas, clean energy and environmental policies to maintain our strong growth in the boiler conversion market. During the year, coal-to-gas boiler conversion projects contributed approximately 800 million cubic metres of gas consumption, which is 1.6 times higher than that of the previous year.

## Furnace Conversion from Coal to Natural Gas

We are dedicated to research and innovation in industrial technology, seeking to develop new natural gas application technologies for different industrial production sectors. During the year, we introduced and upgraded energy-efficient technology to effectively promote the conversion of coal-fired furnaces to natural gas and reduce the gas consumption costs of our customers. In 2017, the more than 80 new furnace customers contributed to the sales of approximately 70 million cubic metres of gas.




The Group encourages its customers to upgrade their boilers and switch to natural gas to be in line with the country's environmental protection policies. The five boilers of Jinan Nanjiao Thermao Power Plant in Shandong Province, are now natural gas-driven, consuming more than 30 million cubic metres of natural gas a year.

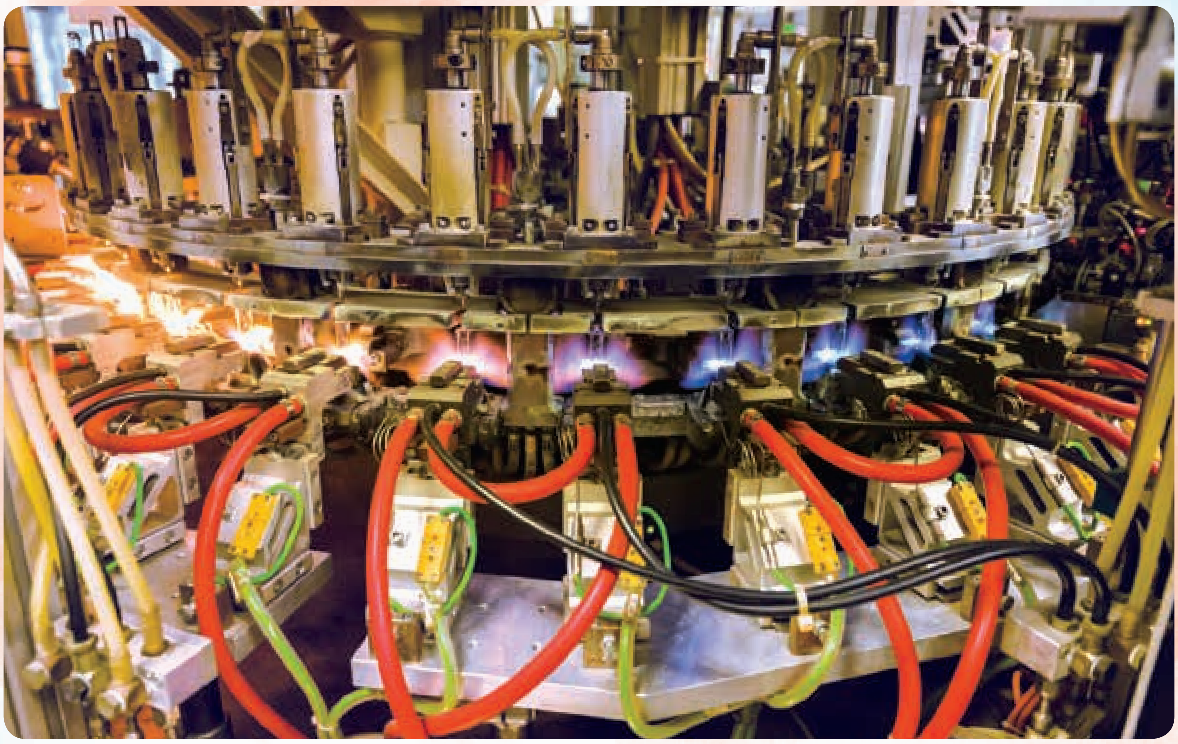
# Review of Operations

## Small and Medium-sized Food Outlets

To encourage small and medium-sized food outlets to use piped natural gas, we actively seek the support of local government authorities and make every effort to implement and publicise environmental and safety-related measures. By replacing bottled liquefied gas with piped natural gas, customers can enjoy the benefits of lower fuel costs and enhanced gas safety.

## Natural Gas Water Heating System

Seizing opportunities in the market, the Group continues to expand its natural gas business in new industrial and commercial applications. We successfully developed and promoted a natural gas water heating system for commercial use. Given its features of low cost, space-saving, flexible installation and easy control, the product has brought in many new customers, including small to medium-sized hotels, schools and fitness centres in eastern China.



A lighting manufacturer uses cleaner natural gas in production that can help increase the quality and value of products.

## Residential Market

The number of residential customers and the volume of gas sold recorded year-on-year growth of 8% and 10% respectively. We have also expanded our customer service network by setting up four additional customer centres during the year.

We are committed to providing customers with safe and reliable energy as well as customer-centric services, to ensure the continuous upgrade of our service brand and image. According to a nationwide customer satisfaction survey by an independent consultant we engaged during the year, we gained the highest customer satisfaction ratings among the public utilities, such as providers of water, electricity and transportation services.

To optimise our business platforms, we will integrate our resource advantages by combining our online customer centre Virtual Customer Centre (VCC) and Ganghua Pay. As a professional payment platform, Ganghua Pay will be integrated into VCC platform's payment channels, enabling VCC to operate as a one-stop portal, which addresses customer needs in a faster and more responsive manner. At the end of 2017, VCC earned the "2017 Top 10 Hybrid Cloud Users" and "2017 Outstanding Hybrid Cloud Business Case" in the "Outstanding Hybrid Cloud Business Cases and Top 10 Hybrid Cloud Users in China" contest organised for the first time by Open Source Cloud Alliance for Industry (OSCAR) under the guidance of the China Academy of Information and Communications Technology. This critical acclaim and recognition from the industry denote the efforts we have made to take our online customer services to new heights.

The Group organised a nationwide event, "Star Officers of Three Courtesies Competition", for the first time in 2017 to select 40 frontline customer service staff who had satisfactorily applied the "Three Courtesies" i.e. politeness, caring and etiquette at work in 2016. The event helped reinforce friendly and caring customer service while raising the service standard of frontline staff.

# Review of Operations

## In 2017, **Bauhinia** sold more than **350,000** gas appliances

### Bauhinia Gas Appliances

Bauhinia stands for stringent product quality. The brand caters for the increasing product and service expectations of customers, which is particularly relevant in view of the rising household consumption standards in mainland China. The products under the brand are also highly innovative, as we seek to deliver more intelligent, comfortable and practical features to better meet customers' needs. We also strive to improve our after-sale systems and service competencies, and are determined to offer premium products and services to customers.

#### Gas Dryers

During the year, Bauhinia launched a number of marketing campaigns to target customer segments. These included product advertising on WeChat and launched free-trial promotion on mobile applications. In our three key markets – eastern, southwestern and southern China, Bauhinia offered "free trials" in the community, which allows target customers to experience first-hand the superior performance of our gas dryers, with a view to gradually switching them over to the products. In 2017, Bauhinia sold more than 8,000 gas dryers, leading to a 30% growth in the average gas consumption of residential gas dryer users.

The Bauhinia Gas Dryer advertisement launched during the year with the theme of "Love and Warmth" was a breakaway from the traditional hard-selling advertising tactics. It also won the "Best Digital Video Advertising Design Award" presented by The Association of Accredited Advertising Agencies of Hong Kong.

## Gas Heating Appliances

Benefiting from stable gas supplies and national environmental protection policies, the emerging household heating market saw an increasing demand for Combi boilers – more than 15,000 units were sold during the year, representing an increase of 35% compared with the previous year. Bauhinia also introduced the concept of "Comfort Home" during the year, launching our second-generation smart temperature control system, which features "Smart Temperature Controller + Mobile App" to highlight the intelligent, comfortable, energy-saving and safe performance of our gas heating systems.

The Group encouraged our project companies to expand group-buying markets. To this end, we developed and published the "Technical Manual for Design and Installation of Bauhinia Heating Systems" during the year to guide the design and installation training of these heating systems in eastern, southwestern, northern and northeastern China.

In 2017, all the brand activities of Bauhinia were held under the theme of "Sunshine Action", which implies that the professional products and services of Bauhinia are as warm as sunshine. More than 2,000 charitable events were held through project companies of Towngas China across the country to strengthen Bauhinia's brand effect.


The "Cooking for Mom" branding event is highly recognised by the country's government agencies, customers and the media, and Bauhinia was presented with the Best Charitable Endeavour Award in 2017 by the 21st Century Business Herald, a professional financial media organisation.

## After-sales Services

Quality after-sales service is the cornerstone of a brand's sustainability. Since inception, we have been committed to providing "three-year warranty and life-long maintenance" service for all Bauhinia products.

To continuously improve service skills and the competencies of our after-sales teams, we hold the nationwide "Bauhinia After-sales Service Skills Competition" every year to motivate their learning and enhance their training. These efforts bore fruits as our Bauhinia after-sales service teams received increased recognition from our customers and our peers, winning the "Top 10 After-sales Service Providers in China" presented jointly by the China General Chamber of Commerce, China Foundation of Consumer Protection and National Product After-sales Service Assessment Committee.

# Review of Operations

## Extended Services

### Towngas Lifestyle

As a professional internet company within the Group, Towngas Lifestyle provides cloud service solutions for companies, building a reliable e-service platform. Towngas Lifestyle provides our customers with convenient and efficient internet and mobile operating platforms as well as one-stop comprehensive e-services offering kitchenware, eco-friendly food, gas insurance, gas detecting and alarm, among a host of other products and services.

In 2017, we set up 13 kitchenware zones in our customer centres in various cities and offered a variety of some 3,000 items in the relevant product catalogues of WeChat Mall. Customers were thus able to gain easy access to our vast range of premium cookware from around all over the world. They can make either physical purchases or simply scan a QR code to submit their orders, enjoying more personalised and convenient shopping experience.

#### VCC Platform Construction and Promotion

VCC is the Group's one-stop internet service platform. It is managed by Towngas Lifestyle's professional team who closely cooperates with China Mobile Communications Group in cloud computing resources and routing, offering a high level of network and data security equivalent to that for financial institutions.

#### Towngas Lifestyle Card

In 2017, the Group introduced a membership card exclusively for its gas users. It is designed to combine online and offline customer experience via the VCC's membership scheme to build stronger customer relations. At the end of 2017, it has 840,000 "fans".


#### Gas Insurance Business

We teamed up with Ping An Property & Casualty Insurance Company of China and the Huatai Insurance Group to launch home insurance for residential customers. Thanks to its low premium costs, which nevertheless offers comprehensive coverage to gas users, the service was well-received by customers. The gas insurance business has been extended to 45 city gas projects and further expanded into industrial and commercial markets in Mianyang, Changchun and Jianyang.

We made a series of upgrades to our VCC platform system in 2017 to flexibly meet the individual needs of more than 100 project companies within the Group. The upgraded system improved service efficiencies while reducing operation costs. During the year, the platform served 18 companies, covering 3.5 million users.

## Mia Cucina


Mia Cucina, our high-end kitchen cabinet brand known for its exquisite craftsmanship of Hong Kong design and quality standards, aims to offer mainland customers elegant, ergonomic and fashionable cabinets using stringently-selected materials and accessories imported from Europe. The brand repositioned its promotional strategy during the year to focus on furnished apartment market. The brand also expanded its retail sales by showcasing Mia Cucina cabinets at our customer centres in a number of cities to provide discerning customers with modern and stylish Total Kitchen Solutions.

# Review of Operations

## Safety and Risk Management

Towngas China adheres to the longstanding, stringent safety standards and regulations of HKCG, our parent company. Project companies take direct responsibility for production safety and this allowed the Group to sustain an excellent safety record. The Group's Safety Committee ("Safety Committee") carries out two safety inspections each year, and has organised the "Safety Year" campaign for 10 consecutive years since 2008. This annual initiative ensures that the "Safety First" concept is incorporated and implemented in daily operation and services. The Group's effective execution of safety and risk management measures has resulted in an overall improvement in gas safety performance. Over the past decade, the situations of pipeline leakage or damage have improved, with a significant drop in the number of serious accidents.

In 2017, the Group organised commemorative activities for the 10th anniversary of our "Safety Year" campaign. Safety Committee chose to carry out safety inspections in north-eastern and northern China, getting an update on the implementation of the Prefabrication Scheme, customer safety checks as well as gas safety promotion. Based on Safety Committee's evaluation of individual incidents, the Group's safety and risk management department would coordinate various regions to organise safety workshops, providing intensive and targeted operational safety training for project companies' general managers as well as other employees, such as the engineering, risk management and customer service personnel.

In order to improve the quality and efficiency of project companies' safety training, we have prepared 13-hour training materials on nine topics, including "Safety Related Laws and Regulations", "HSE System of Towngas Group", "Risk Basics", "Occupational Health and Safety", etc. during the year. Project companies also have access to the Group's online learning platform.

The Group has been holding the "Safety Year" event for 10 consecutive years and is still forging ahead. Chairman and Executive Director, Chan Wing Kin, Alfred and members of the Safety Committee visited the northeastern and northern regions of mainland China.

During the year, we conducted 12 general manager safety inspections and two cross-checks among general managers to enhance safety and risk management performance as well as to reduce operational risks of project companies. We also conducted a survey on corporate risk management and control measures among 22 project companies to look into their risk management capability.

During the Group's "Safety Walk" activity in June, more than 3,500 employees and their family members from a total of 76 project companies participated in different outdoor activities on safety or environmental concern, such as walking along the pipelines, holding up safety promotion slogans and taking part in safety knowledge quiz, etc.

## Engineering Quality Management

To ensure safe gas supply, we keep replacing aging gas pipelines to improve pipeline network safety. As the Group continues to implement quality assurance management in polyethylene pipeline engineering projects, we carried out surprise inspections and training for 16 project companies in five regions in 2017 in order to improve construction quality. We also developed an engineering mobile application system and promoted its use in 15 project companies to enhance supervision over construction contractors, improve management efficiency and ensure timely records of site conditions so as to fully comply with our quality standards and requirements.

Upholding our innovation-oriented concepts, we introduced a number of self-designed or modified tools or equipment to improve quality controls in pipeline engineering projects. Examples include the mechanical scraper, which facilitates the connection of polyethylene pipeline, fixture clamps and height-adjustable support rollers. We also actively promote innovative occupational safety and health equipment, such as multi-function remote control excavator, electric trolley, electric and pneumatic mud suction dredger and mechanical arm, to reduce physical stress and strain on our engineering teams and improve work efficiency.

In addition to the constant improvement of our engineering standards, we also participate actively in the compilation or revision of relevant national and industry specifications and standards. In 2017, the Group participated in the compilation of a total of eight national and industry standards and specifications, as well as providing advice and suggestions on the revisions to 14 national and industry standards and specifications.


This innovative skid-mounted small liquefied natural gas transition station was developed and designed by our Engineering Department. We have obtained a national invention patent and three utility model patents for the design.

# Review of Operations

## Human Resources

Focusing on innovation and environmental-friendliness, Towngas China is committed to being Asia's leading clean energy supplier and quality service provider. Supporting this vision, our employees work unremittingly as they seek self-improvement, further advancement and career excellence along with the Group's rapid and long-term business growth.

As a people-oriented company, we attach great importance to talent training and constantly offer room and ladder for career development so that the employees can grow with the company.

The Group launched the "Elite Internship Scheme" in 2014 and since then has been cooperating closely with key universities in mainland China, including Shandong University, Dalian University of Technology, Sichuan University, Chongqing University and Huazhong University of Science and Technology. University students are recruited as interns in our project companies to deepen their understanding of the industry and help them accumulate hands-on experience. Those who achieve outstanding performances are then hired as full-time employees. We also select internally young talent with career aspirations to join our "Talent Ladder Scheme", which focuses on developing their business and leadership skills over a period of two to seven years, preparing them for promotion to senior management positions.

In view of our wide geographical footprint, we provide management training courses for employees throughout the country, enhancing their competency and management skills. Our online learning platform, without geographical or time constraints, not only provides employees with readily available learning opportunities tailored to individual needs, but also helps newly-established project companies to familiarise themselves with our comprehensive knowledge systems in a timely manner. Since its launch at the end of 2015, the online learning platform has provided more than 140 courses, approximately 40% of which have been designed and produced within the Group.

The "Professional Development Programme" offered by Towngas Engineering Academy provides comprehensive and professional training for young colleagues.

We continue to promote Total Quality Management (TQM), always encouraging employees to pursue excellence. Our efforts to promote the culture of "Three Courtesies", i.e. politeness, caring and etiquette have resulted in significant improvements. The work attitude, service performance and relationships among colleagues have been improved markedly. This constructive corporate culture was also promoted to our customers and the community, allowing us to jointly contribute to the enhancement of social and civic standards.

## Corporate Social Responsibility

As a public utility organisation attaching great importance to corporate social responsibilities, we are committed to providing our customers with reliable, efficient, safe and clean energy while actively engaging in various community activities to help improve the living conditions of residents in the less-developed areas. Adhering to our principle in corporate social responsibility "Actively participating in community services to benefit society, Dedicating effort to protect the environment to contribute to the community", the Group focused on a range of activities during the year. These included tree planting events to protect the environment, community projects for the young and old, and education aids to support teenagers' schooling and development.

Participants of the "Gentle Breeze Movement" delivered some teaching equipment and tools to Heliao Primary School and Daba Secondary School located in Heshan Town in Yangjiang City, Guangdong Province.

### Gentle Breeze Movement

In 2017, the "Gentle Breeze Movement" was expanded to cover Yangjiang City in Guangdong Province and Binzhou City in Shandong Province. Under the Movement, "Towngas China Charity Libraries" were set up to serve about 800 teachers and students, in addition to donation of teaching equipment and materials. Since the inception of the "Gentle Breeze Movement" five years ago, the donated supplies have benefited 27 schools in several provinces such as Jiangxi, Anhui, Shandong, Guizhou, Liaoning, Sichuan and Guangdong.

### Firefly Project

The sixth "Firefly Centre", a multi-media classroom at Dashi Primary School in Dashi Town of Taihu County, Anqing City in Anhui Province, was established by the Group in 2017. With the new centre coming into operation, various education supplies as well as bookshelves and books were donated to enhance the students' learning environment. As a platinum partner of the "Shanghai Soong Ching Ling Foundation – BEA Charity Fund", the

School uniforms, schoolbags, bookshelves, books and other supplies were donated to students in Matuhe Primary School in Yanghu Village, Yangxin County, Binzhou City, Shandong Province.

# Review of Operations

Volunteers from project companies carried out edutainment activities in a charitable education program for students, teaching them the safe use of gas while playing games with them.

Group has made donations to the Fund every year since 2009 to support the education and growth of teenaged youth in poverty-stricken areas. In cooperation with the BEA Charity Fund, the Group has established six "Firefly Centres" in Wenchuan County in Sichuan Province, Linqu County in Shandong Province, Hangzhou City in Zhejiang Province, Longkou City in Shandong Province, Taian City in Shandong Province and Anqing City in Anhui Province.

Our project company staff and local residents gathered to learn how to wrap rice dumplings, which they would give to social welfare organisations.

## Towngas China Environmentalism

Focusing on innovation and environmental-friendliness, the Group continues to fuel economic and social development with the provision of low-carbon energy. We encourage our employees and the public to preserve, protect and improve the environment with green and innovative practices. For example, we launched a range of low-carbon activities under our "Towngas China Environmentalism" initiative in 2017, calling on our project companies' staff, their families, customers and the public to participate in activities such as the "Towngas China Plantation Day" and "Earth Hour". In addition, we hosted green walkathons and plant exchanges together with a host of other low-carbon activities during the year.

Project company in Qingyuan has responded to the Group's "Towngas China Plantation Day" for seven consecutive years, mobilising more than 30 employees and their families to plant a total of 100 trees.

## Rice Dumplings for the Community

Our annual signature event "Rice Dumplings for the Community" was once again held during the Dragon Boat Festival. Numerous project companies of the Group participated in the event and distributed rice dumplings and other gifts to social welfare agencies and the underprivileged across the country.

## Long-term Development Strategy

In line with the philosophy of our parent company HKCG to be a pioneer in green business, the Group's new vision is "To be Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental-friendliness." To accomplish this, our modified mission is "Whilst improving the environment, we are also providing our customers with reliable, efficient, safe and clean energy."

Moving forward, we will continue to focus on gas-related investments, exploration, sales and operation management. We will continue to uphold the principle of prudent financial management while exploring business opportunities arising from the nationwide implementation of the country's "coal-to-gas" policy and the increasing demand for "distributed energy", with a view to boosting reasonable returns for our shareholders.

Under China's "13th Five-Year Plan", city gas is the focus of the country's clean energy policy, poised to play an important role in the government's response to climate change. Looking forward, we will continue to leverage our strengths, including our top-notch safety management and customer services, to seize every opportunity to expand market share and to strengthen our leading position in the industry.

As a responsible public utility organisation, we will continue to fulfil our corporate social responsibilities and carry out environmental protection and community care projects. We see these efforts as both benefitting the public and promoting the sustainable development of the Group and the community.

# Awards and Accolades


In 2017, Mr. Chan Wing Kin, Alfred, Chairman and Executive Director of the Company, was awarded "The CEO of the Year 2017", presented by China Newsweek, an authoritative magazine on current affairs and politics in mainland China. The award was bestowed in recognition of his bold, reform-seeking and innovative management style, which has continuously taken the Group to a higher level. As the first Chinese Managing Director of HKCG, the parent company of the Group, Mr. Chan has been at the helm for two decades – the longest-serving Managing Director in HKCG's over 150 years of history. Under his leadership, the Group has remained committed to its mission to improve the environment and provide its customers with reliable, efficient, safe and clean energy. During the year, Mr. Chan was once again named "The 100 Best-Performing CEOs in the World" by Harvard Business Review. He has received the honour for three consecutive years, a first-ever for public utility providers.

Over the past decade, our remarkable development in the city gas business and track record in environmental protection, community and customer services, brand building, corporate governance and treasury management have earned the company a number of social and industry recognitions.

Major accolades received by the Group in 2017 included:

## JUNE

**Outstanding CSR Brand in China 2017**

Presented by **Corporate Citizenship Committee of China Association of Social Workers, China Central Television and Tencent Charity Foundation**

## NOVEMBER

**Best Liquidity Management under Treasury Management Awards 2017**

Presented by **Standard Chartered Bank**

**2017 Top 10 Hybrid Cloud Users**

**2017 Outstanding Hybrid Cloud Business Case**

Presented by **Open Source Cloud Alliance for Industry**

## DECEMBER

**Five-Star Outstanding Corporate Citizen in China 2017**

**Outstanding Community Project of Corporate Citizen in China 2017**

Presented by **Corporate Citizenship Committee of China Association of Social Workers, China Central Television and Tencent Charity Foundation**

Foshan Gas, an associated company of the Group that went public in 2017 was conferred the "2017 Guangdong Provincial Government Quality Award" from the People's Government of Guangdong Province, becoming the sole winner from the service sector and the first gas company given such recognition in the province.

# Risk Factors

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

For further details on how the Group manages its risks, please refer to the "Risk Management and Internal Control" section of our Corporate Governance Report on pages 64 to 67.

## Business Environment

The global economy showed a return to growth in 2017 as a result of a pick-up in manufacturing and trade, improved market confidence and a recovery in commodity prices. Global market trends were driven by a decline in some global policy uncertainties since early 2017 and expectations for a smooth and gradual transition to the monetary policy stance in the United States of America. Stock markets rose noticeably during this period, and the ongoing recovery in global trade supported growth in the business environment.

In mainland China, the economy grew 6.9 per cent in 2017, beating the official annual expansion target of 6.5 per cent and outpacing the growth rate of 6.7 per cent in 2016. Driven by the solid economic recovery and enforcement of the government's coal-to-gas policy, natural gas consumption grew significantly in the year.

Despite the above factors, the Group must contend with competition in the form of direct sales by upstream gas companies, as well as from suppliers of liquefied natural gas (LNG) and alternative energy sources. Other threats to our business include volatile energy prices and changes in government policy (political, legal, regulatory, environmental or competition-related) that could also affect our operations.

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

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

## Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and 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. Besides, LNG storage facilities are in place to facilitate more efficient gas inventory management and reduce supply bottlenecks during high-demand periods.

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

## Distribution Network Safety

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

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

## Information Security

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

## Health and Safety

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

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

# Board of Directors

**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 67, has been the Chairman and an Executive Director of the Company since March 2007. Mr. Chan is the Managing Director of HKCG (a listed public company and the controlling shareholder of the Company) and is a director of major local and overseas subsidiaries of HKCG. He is also the Vice Chairman of Shenzhen Gas Corporation Ltd. and a Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd., both of which are listed public companies. 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,

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 the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, "The CEO of the Year 2017" Award from China Newsweek in 2017 and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review from 2015 to 2017. 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 66, 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 listed public company and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is the Vice Chairman of Foshan Gas Group Co., Ltd. and a director of Shenzhen Gas Corporation Ltd., both of which are listed public companies. He has been appointed as a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council for two years from 1 April 2018. 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 41 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 61, has been an Executive Director and the Company Secretary of the Company since March 2007. Mr. Ho is the chief financial officer and the company secretary of HKCG (a listed public company and the controlling shareholder of the Company) and holds directorships in various subsidiaries of HKCG. He is a director of Changchun Gas Co., Ltd., Shenzhen Gas Corporation Ltd. and Foshan Gas Group Co., Ltd., all of which are listed public companies. Mr. Ho is a General Committee member of the Chamber of Hong Kong Listed Companies and 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, Fellow of the Hong Kong Institute of Certified Public Accountants and Fellow of the Hong Kong Institute of Directors. Mr. Ho graduated from the University of Manchester in the United Kingdom with an honorable Bachelor of Arts degree in Economics and Social Studies (Accounting and Finance). He completed the Advanced Management Program from Harvard Business School in the United States, the Senior Executive Program offered by Harvard Business School, Tsinghua University

# Board of Directors

School of Economics and Management and China Europe International Business School, and the Chief Executive Program from Singapore Institute of Management. Mr. Ho has over 39 years of experience in accounting, corporate finance and investments.

**Mr. Kee Wai Ngai, Martin**, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 51, has been an Executive Director of the Company since May 2015 and was appointed as the Chief Operating Officer of the Company in July 2017. Mr. Kee graduated from the Department of Engineering, The University of Hong Kong and holds a master degree in Business Administration. He joined HKCG (a listed public company and the controlling shareholder of the Company) in 1990. In 2003, Mr. Kee was appointed as the general manager of Changzhou Hong Kong and China Gas Company Limited. He has become the general manager of Nanjing Hong Kong and China Gas Company Limited since October 2006, and was appointed as the senior vice president in February 2009, responsible for the overall operation and management of the gas project companies in Jiangsu region. He was then appointed as the executive vice president in October 2012, responsible for the operation and management of the gas project companies in Jiangsu, Anhui and Zhejiang regions, and then the southwest and Jiangxi regions starting from April 2015. He was appointed as the executive vice president of Hong Kong and China Investment Limited and Hua Yan Water business in July 2017. He is the Vice Chairman of Anhui Province Natural Gas Development Co., Ltd. and a director of Nanjing Public Utilities Development Co., Ltd., both of which are listed public companies. Mr. Kee is a member of the 14th Nanjing Committee of the Chinese People's Political Consultative Conference.

**Dr. Cheng Mo Chi, Moses**, *GBM, GBS, OBE, JP*, aged 68, 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 is now also serving as Chairman of the Insurance Authority and Chairman of the Process Review Panel for the Securities and Futures Commission. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company 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 of which are listed public companies in Hong Kong. His other directorship in listed public company in the last 3 years includes ARA Asset Management Limited, a company whose shares were formerly listed on the Singapore Stock Exchange.

**Mr. Li Man Bun, Brian David**, *JP, FCA, MBA, MA (Cantab)*, aged 43, 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 holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a Council Member of the Hong Kong Trade Development Council, 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 Council Member of The Hong Kong Management Association, a member of the Hong Kong-Europe Business Council, a member of the Hong Kong-Taiwan Business Co-operation Committee and a Committee member of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales ("ICAEW"). He is also a Vice Chairman of the Asian Financial Cooperation Association and a member of the Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and 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 66, was appointed as an Executive Director of the Company in 2007 and was re-designated as a Non-Executive Director of the Company in 2013. Mr. Kwan was re-designated as an Independent Non-Executive Director and appointed as a member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from May 2015. Mr. Kwan is also an independent non-executive director of MTR Corporation Limited (a listed public company). He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011. 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.

# Board of Directors

*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 2017 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in the "Report of the Directors" of this Annual Report.

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

3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 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 2017.

## 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 2017 are set out in the consolidated income statement on page 75.

The Directors have recommended the payment of a final dividend out of the share premium account of HK fifteen cents per share (2016: HK twelve cents per share) to shareholders whose names are on the register of members of the Company on Monday, 11 June 2018.

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 Tuesday, 19 June 2018. Subject to approval by shareholders at the AGM to be held on Friday, 1 June 2018 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 Wednesday, 18 July 2018. The register of members of the Company will be closed from Thursday, 7 June 2018 to Monday, 11 June 2018 (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 18 July 2018 to the shareholders whose names appear on the register of members of the Company on 11 June 2018.

# Report of the Directors

## Business Review

The business review of the Group for the year ended 31 December 2017 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 2017 (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 10 to 31 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 14 to 31 and "Corporate Governance Report" on pages 54 to 68 as well as the standalone 2017 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 10 to 13, "Risk Factors" on pages 34 to 35 and Notes 4 to 6 to the consolidated financial statements on pages 110 to 119.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 113 to 118. 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 79.

The Company's reserves available for distribution to shareholders as at 31 December 2017 amounted to HK$3,762 million (2016: HK$3,875 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 2017 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.

## Share Capital

During the year, the Company declared a final dividend of HK twelve cents per share for the year ended 31 December 2016 in cash (with scrip option) during the year. A total of 57,087,782 shares of the Company, fully paid, were issued and allotted in scrip form at HK$4.836 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 *(Chief Operating Officer) (Note)*

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

*Note:* Mr. Kee Wai Ngai, Martin was appointed as the Chief Operating Officer of the Company with effect from 1 July 2017.

In accordance with article 112 of the Articles, Mr. Chan Wing Kin, Alfred, Mr. Kee Wai Ngai, Martin and Mr. Kwan Yuk Choi, James, 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 40 of this Annual Report.

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

As at 31 December 2017, the interests or short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares

| | | | Interest in shares | | | | |
|---|---|---|---|---|---|---|---|
| Name of Company | Name of Director | Capacity | Personal interest | Family interest | Corporate interest | Aggregate interest | Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2017 |
| Towngas China Company Limited | Chan Wing Kin, Alfred | Beneficial owner | 3,707,776 | – | – | 3,707,776 | 0.13% |
| | Wong Wai Yee, Peter | Beneficial owner | 3,015,000 | – | – | 3,015,000 | 0.11% |
| | Ho Hon Ming, John | Beneficial owner | 1,040,186 | – | – | 1,040,186 | 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 | 266,692 | – | – | 266,692 | 0.00% |
| | Ho Hon Ming, John | Beneficial owner | 41,763 | – | – | 41,763 | 0.00% |
| | Kwan Yuk Choi, James | Beneficial owner and interest of spouse | 94,147 | 106,669 | – | 200,816 | 0.00% |

Save as stated above, as at 31 December 2017, 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.

## Equity-linked Agreements

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

## Directors' Material Interests in Transactions, Arrangements or Contracts

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

## Management Contracts

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

## Permitted Indemnity Provision

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

The 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.

## Competing Business (Continued)

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 2017, so far as the Directors are aware, the interests or short positions of every person, other than Directors or chief executive of the Company, in the issued shares of the Company (the "Shares") as recorded in the register of substantial shareholders required to be kept under section 336 of the SFO were as follows:

### Long positions in Shares

| Name of shareholder | Capacity | Aggregate interest in Shares | Approximate percentage of the number of issued Shares as at 31.12.2017 |
|---|---|---|---|
| Lee Shau Kee | Interest of controlled corporations | 1,857,788,706 *(Note 1)* | 67.10% |
| Rimmer (Cayman) Limited ("Rimmer") | Trustee | 1,857,788,706 *(Note 2)* | 67.10% |
| Riddick (Cayman) Limited ("Riddick") | Trustee | 1,857,788,706 *(Note 2)* | 67.10% |
| Hopkins (Cayman) Limited ("Hopkins") | Interest of controlled corporations | 1,857,788,706 *(Note 2)* | 67.10% |

## Substantial Shareholders (Continued)

### Long positions in Shares (Continued)

| Name of shareholder | Capacity | Aggregate interest in Shares | Approximate percentage of the number of issued Shares as at 31.12.2017 |
|---|---|---|---|
| Henderson Development Limited ("HD") | Interest of controlled corporations | 1,857,788,706 *(Note 2)* | 67.10% |
| Henderson Land Development Company Limited ("HLD") | Interest of controlled corporations | 1,857,788,706 *(Note 2)* | 67.10% |
| Faxson Investment Limited ("Faxson") | Interest of controlled corporations | 1,857,788,706 *(Note 2)* | 67.10% |
| HKCG | Interest of controlled corporations | 1,857,788,706 *(Note 3)* | 67.10% |
| Towngas International Company Limited ("TICL") | Interest of controlled corporation | 1,697,758,166 *(Note 3)* | 61.32% |
| Hong Kong & China Gas (China) Limited ("HK&CG (China)") | Beneficial owner | 1,697,758,166 *(Note 3)* | 61.32% |
| Towngas Investment Company Limited ("TICL-HK") | Interest of controlled corporations | 139,052,540 *(Notes 3 & 4)* | 5.02% |
| Planwise Properties Limited ("Planwise") | Beneficial owner | 138,657,034 *(Notes 3 & 4)* | 5.01% |
| Commonwealth Bank of Australia ("Commonwealth Bank") | Interest of controlled corporations | 216,042,785 *(Note 5)* | 7.80% |

## Substantial Shareholders (Continued)

### Long positions in Shares (Continued)

*Notes:*

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau Kee. Dr. the Hon. Lee Shau Kee was therefore taken to be interested in the same 1,857,788,706 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 1,857,788,706 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 1,697,758,166 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("Superfun") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 160,030,540 Shares, which included (i) the 157,353,034 Shares held by Planwise; and (ii) the 2,677,506 Shares held by Superfun by virtue of Part XV of the SFO.

4. Notification has been received by the Company that (i) TICL-HK was taken to be interested in 160,030,540 Shares, and (ii) Planwise was interested in 157,353,034 Shares as at 31 December 2017. Such increases in shareholdings were not required to be disclosed under Part XV of the SFO and have been notified to the Company voluntarily.

5. 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 2017, 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 2017, 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 2017, 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 2017 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 37 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. Further, as announced by the Company on 31 August 2017, the annual cap amounts in respect of the Gas Purchase Transactions for the financial years ending 31 December 2017 and 2018 had been revised.

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.

## 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 RMB94,000,000 (approximately HK$108,520,000) and RMB129,000,000 (approximately HK$148,926,000) respectively for the year ended 31 December 2017. The actual respective amounts of the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2017 were RMB65,502,000 (approximately HK$75,620,000) and RMB127,614,000 (approximately HK$147,326,000) respectively, which had not exceeded the annual cap amounts as stated above.

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2017 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 had been conducted in accordance with the pricing policies under the relevant master agreements and the Company's internal control procedures are adequate and effective.

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

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

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

## Connected Transactions (Continued)

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

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

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

As each of Shenyang Sanquan and Zhuhai S-Tech is a subsidiary of HKCG, which in turn is a controlling shareholder of the Company, each of Shenyang Sanquan and Zhuhai S-Tech is a connected person of the Company under the Listing Rules. The transactions contemplated under 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 and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions were subject to annual cap amounts of RMB11,810,000 (approximately HK$13,634,000) and RMB35,000,000 (approximately HK$40,406,000) respectively for the year ended 31 December 2017. The actual respective amounts of the Project Management Transactions and System Software and the Cloud Computing System and Safety Inspection Supporting Services Transactions for the year ended 31 December 2017 were RMB6,790,000 (approximately HK$7,839,000) and RMB1,218,000 (approximately HK$1,406,000) respectively, which had not exceeded the annual cap amounts as stated above.

## Connected Transactions (Continued)

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

The Board, including the Independent Non-Executive Directors, had reviewed and confirmed that the Project Management Transactions and the System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions for the year ended 31 December 2017 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 had been conducted in accordance with the pricing policies under the relevant master agreements and the Company's internal control procedures are adequate and effective.

## Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in Note 37 to the consolidated financial statements. In relation to those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

## Borrowings

Particulars of borrowings of the Group as at 31 December 2017 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$860,000.

## 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 2017.

## Emolument Policy

As at 31 December 2017, the Group had 22,276 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 2017.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 54 to 68 of this Annual Report.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2017 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, 19 March 2018

# 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 2017.

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 *(Chief Operating Officer) (Note)*

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

*Note:* Mr. Kee Wai Ngai, Martin was appointed as the Chief Operating Officer of the Company with effect from 1 July 2017.

## 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 the Stock Exchange.

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

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

The Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules during the year ended 31 December 2017.

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.

## Board of Directors (Continued)

### Board Composition (Continued)

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.

### 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.

## 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 2017:

| 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 *(Chief Operating Officer) (Note)* | 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 |

*Note:* Mr. Kee Wai Ngai, Martin was appointed as the Chief Operating Officer of the Company with effect from 1 July 2017.

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 2017 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 *(Chief Operating Officer) (Note)* | 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 |

*Note:* Mr. Kee Wai Ngai, Martin was appointed as the Chief Operating Officer of the Company with effect from 1 July 2017.

### 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.

## 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.

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

## Board Committees (Continued)

### Remuneration Committee (Continued)

During the year ended 31 December 2017, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2017;
- reviewed the Executive Directors' remuneration;
- reviewed the Directors' fees for 2017; and
- reviewed the amendments to its terms of reference.

The Remuneration Committee held two meetings during the year ended 31 December 2017 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.

### 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 the Stock Exchange, and are regularly reviewed and updated by the Board.

## Board Committees (Continued)

### Board Audit and Risk Committee (Continued)

During the year ended 31 December 2017, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2016 and for the six months ended 30 June 2017;
- reviewed the amendments to its terms of reference;
- 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 2016 pursuant to the Listing Rules.

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2017 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 | 2/2 |
| 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.

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

## Board Committees (Continued)

### Nomination Committee (Continued)

During the year ended 31 December 2017, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2017 AGM;
- reviewed the independence of Independent Non-Executive Directors;
- reviewed the structure, size, composition and diversity of the Board; and
- reviewed the amendments to its terms of reference.

The Nomination Committee held one meeting during the year ended 31 December 2017 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 |

## 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 2017, 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 2017.

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 2017. Deloitte also reviewed the 2017 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 2017 amounted to HK$6.98 million.

## External Auditor (Continued)

Non-audit service fees charged by Deloitte during 2017 were as follows:

| Description of non-audit services performed | HK$ |
|---|---|
| (1) Interim review of the financial statements of the Company for the six months ended 30 June 2017 | 680,000 |
| (2) Filing of tax returns of the Company and its subsidiaries for the year of assessment 2016/2017 | 129,600 |
| (3) Annual review on continuing connected transactions for the year ended 31 December 2017 | 78,000 |
| Total | 887,600 |

## 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 69 to 74 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.

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 2017, the Board, through the Board Audit and Risk Committee, has conducted a bi-annual review of the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

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

## Risk Management and Internal Control (Continued)

### Risk Management

#### Risk Management Framework

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

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

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


## Risk Management and Internal Control (Continued)

### Risk Management (Continued)

#### Risk Appetite

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

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

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

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

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

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

6. Incidents leading to severe impacts on the environment.

#### Risk Management Structure

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

#### Risk Management Process

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

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

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

## Risk Management and Internal Control (Continued)

### Risk Management (Continued)

#### Risk Management Process (Continued)

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

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

## Company's Constitutional Documents

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

## Company Secretary

The Company Secretary of the Company is Mr. 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 2017 AGM held on 1 June 2017, 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 Board Audit and Risk Committee and the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2017 AGM to answer questions from the Company's shareholders.

## Communication with Shareholders (Continued)

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

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2017 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 *(Chief Operating Officer) (Note)* | 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 |

*Note:* Mr. Kee Wai Ngai, Martin was appointed as the Chief Operating Officer of the Company with effect from 1 July 2017.

## 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 75 to 168, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Recognition of gas connection income 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.<br><br>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. As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK$1,764 million from gas connection during the year ended 31 December 2017.<br><br>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:<br><br>• Understanding and testing the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion;<br><br>• Discussing with management with respect to the basis for recognising revenue and estimating profit margins of gas connection;<br><br>• 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 similar projects 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<br><br>• 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. |

## Key Audit Matters (Continued)

| Key audit matter (Continued) | How our audit addressed the 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 by using a discounted cash flow model.<br><br>At 31 December 2017, the Group has goodwill of approximately HK$5,824 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. The directors of the Company considered no impairment loss is necessary as at 31 December 2017. Details are disclosed in note 19 to the consolidated financial statements.<br><br>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. | Our procedures in relation to impairment assessment of goodwill included:<br><br>• Understanding the Group's impairment assessment process, including the impairment model, CGUs allocation and the preparation of the cash flow projections;<br><br>• Evaluating the appropriateness of impairment model applied by the management;<br><br>• Evaluating the accuracy of management's cash flow forecasts by comparing the actual results of those CGUs to the previously forecasted results;<br><br>• Testing discount rates applied in the forecast by comparing them to economic and industry data;<br><br>• Assessing the reasonableness of growth rates applied in the forecast based on historical results and trends;<br><br>• 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<br><br>• Performing the sensitivity analysis on the key inputs to evaluate the magnitude of their impacts on the results of assessment of goodwill impairment. |

## Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

19 March 2018

# Consolidated Income Statement

For the year ended 31 December 2017

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Turnover | 7 | **8,759,783** | 7,181,150 |
| Total operating expenses | 8 | **(7,470,483)** | (6,158,021) |
| | | **1,289,300** | 1,023,129 |
| Other gains, net | 9 | **257,363** | 64,903 |
| Share of results of associates | | **341,922** | 339,927 |
| Share of results of joint ventures | | **291,394** | 278,023 |
| Finance costs | 10 | **(262,325)** | (250,579) |
| Profit before taxation | 11 | **1,917,654** | 1,455,403 |
| Taxation | 13 | **(405,373)** | (362,133) |
| Profit for the year | | **1,512,281** | 1,093,270 |
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | **1,365,385** | 973,997 |
| Non-controlling interests | | **146,896** | 119,273 |
| | | **1,512,281** | 1,093,270 |
| Proposed final dividend of HK fifteen cents (2016: HK twelve cents) per ordinary share | 14 | **415,303** | 325,392 |
| | | **HK cents** | HK cents |
| Earnings per share | 15 | | |
| – Basic | | **49.87** | 36.26 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Profit for the year | **1,512,281** | 1,093,270 |
| Other comprehensive income (expense) | | |
| *Item that will not be reclassified subsequently to profit or loss* | | |
| Exchange differences arising on translation to presentation currency | **1,113,010** | (973,438) |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Fair value change on available-for-sale investment | **(25,994)** | (7,331) |
| Cash flow hedge: | | |
| Fair value change on cash flow hedge | **–** | 2,361 |
| Reclassification of fair value adjustments to profit or loss | **–** | 1,239 |
| | **1,087,016** | (977,169) |
| Total comprehensive income for the year | **2,599,297** | 116,101 |
| Total comprehensive income for the year attributable to: | | |
| Shareholders of the Company | **2,394,997** | 84,118 |
| Non-controlling interests | **204,300** | 31,983 |
| Total comprehensive income for the year | **2,599,297** | 116,101 |

# Consolidated Statement of Financial Position

At 31 December 2017

| | NOTES | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **15,059,560** | 12,691,896 |
| Leasehold land | 17 | **613,218** | 550,847 |
| Intangible assets | 18 | **523,472** | 505,499 |
| Goodwill | 19 | **5,824,172** | 5,349,340 |
| Interests in associates | 20 | **3,935,115** | 3,032,771 |
| Interests in joint ventures | 21 | **2,407,197** | 2,022,754 |
| Loans to joint ventures | 21 | **24,024** | – |
| Loan to a non-controlling shareholder | 22 | **–** | 16,190 |
| Available-for-sale investments | 23 | **225,415** | 234,785 |
| Other financial assets | 24 | **–** | 80,977 |
| | | **28,612,173** | 24,485,059 |
| **Current assets** | | | |
| Inventories | 25 | **636,619** | 492,838 |
| Leasehold land | 17 | **27,450** | 26,602 |
| Loan to an associate | 20 | **11,772** | – |
| Loans to joint ventures | 21 | **286,298** | 136,326 |
| Loan to a non-controlling shareholder | 22 | **17,417** | – |
| Trade and other receivables, deposits and prepayments | 26 | **1,393,144** | 1,190,407 |
| Amounts due from non-controlling shareholders | 27 | **63,847** | 29,738 |
| Other financial assets | 24 | **–** | 87,511 |
| Time deposits over three months | 26 | **120,790** | 227,557 |
| Bank balances and cash | 26 | **1,605,300** | 1,351,072 |
| | | **4,162,637** | 3,542,051 |
| **Current liabilities** | | | |
| Trade and other payables and accrued charges | 28 | **5,173,019** | 4,332,932 |
| Amounts due to non-controlling shareholders | 27 | **115,546** | 107,662 |
| Taxation | | **800,443** | 676,995 |
| Borrowings – amount due within one year | 29 | **3,707,803** | 2,652,660 |
| Loans from joint ventures | 30 | **49,172** | – |
| Other financial liabilities | 24 | **76,172** | – |
| | | **9,922,155** | 7,770,249 |
| **Net current liabilities** | | **(5,759,518)** | (4,228,198) |
| **Total assets less current liabilities** | | **22,852,655** | 20,256,861 |

# Consolidated Statement of Financial Position

At 31 December 2017

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings – amount due after one year | 29 | **5,071,862** | 5,184,152 |
| Deferred taxation | 31 | **454,100** | 408,526 |
| Other financial liabilities | 24 | **128,877** | – |
| | | **5,654,839** | 5,592,678 |
| **Net assets** | | **17,197,816** | 14,664,183 |
| **Capital and reserves** | | | |
| Share capital | 32 | **276,869** | 271,160 |
| Reserves | 33 | **15,568,164** | 13,228,191 |
| Equity attributable to shareholders of the Company | | **15,845,033** | 13,499,351 |
| Non-controlling interests | | **1,352,783** | 1,164,832 |
| **Total equity** | | **17,197,816** | 14,664,183 |

The consolidated financial statements on pages 75 to 168 were approved and authorised for issue by the Board of Directors ("the Board") on 19 March 2018 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 2017

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Exchange reserve HK$'000 | Hedge reserve HK$'000 | General reserves HK$'000 (note 33) | Investment revaluation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2016 | 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 |
| Exchange differences arising on translation to presentation currency | **–** | **–** | **1,055,606** | **–** | **–** | **–** | **–** | **1,055,606** | **57,404** | **1,113,010** |
| Fair value change on available-for-sale investment | **–** | **–** | **–** | **–** | **–** | **(25,994)** | **–** | **(25,994)** | **–** | **(25,994)** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **1,365,385** | **1,365,385** | **146,896** | **1,512,281** |
| Total comprehensive income for the year | **–** | **–** | **1,055,606** | **–** | **–** | **(25,994)** | **1,365,385** | **2,394,997** | **204,300** | **2,599,297** |
| Issue of shares upon scrip dividend scheme | **5,709** | **270,368** | **–** | **–** | **–** | **–** | **–** | **276,077** | **–** | **276,077** |
| Transfer | **–** | **–** | **–** | **–** | **28,734** | **–** | **(28,734)** | **–** | **–** | **–** |
| Additions relating to acquisition of businesses (note 34) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **25,948** | **25,948** |
| Capital contribution from non-controlling shareholders of subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **57,141** | **57,141** |
| Dividends paid to shareholders of the Company | **–** | **(325,392)** | **–** | **–** | **–** | **–** | **–** | **(325,392)** | **–** | **(325,392)** |
| Dividends paid to non-controlling shareholders of subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(99,438)** | **(99,438)** |
| | **5,709** | **(55,024)** | **–** | **–** | **28,734** | **–** | **(28,734)** | **(49,315)** | **(16,349)** | **(65,664)** |
| At 31 December 2017 | **276,869** | **6,226,762** | **1,060,747** | **–** | **247,280** | **(75)** | **8,033,450** | **15,845,033** | **1,352,783** | **17,197,816** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **1,917,654** | 1,455,403 |
| Adjustments for: | | |
| Interest income | **(24,155)** | (25,244) |
| Imputed interest on loans to joint ventures | **–** | (121) |
| Interest expenses | **257,036** | 246,468 |
| Share of results of joint ventures | **(291,394)** | (278,023) |
| Share of results of associates | **(341,922)** | (339,927) |
| Dividends from available-for-sale investments | **(91,156)** | (62,577) |
| Release of leasehold land | **19,957** | 19,429 |
| Amortisation of intangible assets | **18,822** | 19,524 |
| Depreciation of property, plant and equipment | **501,712** | 460,476 |
| (Gain) loss on disposal of property, plant and equipment | **(5,376)** | 15,160 |
| Loss (gain) on disposal of leasehold land | **322** | (45,123) |
| Gain on deemed partial disposal of interest in an associate | **(209,390)** | – |
| Gain on disposal of interest in associates | **(23,769)** | – |
| Change in fair value of other financial assets and liabilities | **364,376** | (168,488) |
| Allowance for doubtful debts | **19,802** | 11,077 |
| Exchange (gain) loss | **(231,254)** | 258,747 |
| Operating cash flows before movements in working capital | **1,881,265** | 1,566,781 |
| (Increase) decrease in inventories | **(106,125)** | 29,415 |
| (Increase) decrease in trade receivables | **(26,748)** | 34,731 |
| (Increase) decrease in other receivables, deposits and prepayments | **(104,216)** | 187,627 |
| Increase in trade payables | **50,159** | 162,718 |
| Increase in other payables and accrued charges | **389,837** | 289,868 |
| Increase (decrease) in amounts due to non-controlling shareholders | **26,240** | (48,286) |
| Cash generated from operations | **2,110,412** | 2,222,854 |
| Interest paid | **(276,375)** | (262,190) |
| Taxation paid | **(319,198)** | (293,994) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **1,514,839** | 1,666,670 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

| | NOTE | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(1,823,847)** | (1,899,835) |
| Acquisition of businesses (net of cash and cash equivalents acquired) | 34 | **(54,151)** | (98,718) |
| Consideration paid for acquisition of businesses acquired in prior periods | | **(11,087)** | (37,193) |
| Acquisition of interest in an associate | | **–** | (37,219) |
| Capital injection to associates | | **(297,446)** | (102,352) |
| Capital injection to a joint venture | | **(47,106)** | (16,190) |
| Decrease in time deposits over three months | | **124,015** | 10,381 |
| Purchase of leasehold land | | **(39,415)** | (79,619) |
| Purchase of an available-for-sale investment | | **–** | (2,951) |
| Loan to an associate | | **(11,772)** | – |
| Loans to joint ventures | | **(216,966)** | (11,166) |
| Loan to a non-controlling shareholder | | **–** | (16,190) |
| Dividends received from joint ventures | | **107,328** | 222,040 |
| Dividends received from associates | | **139,905** | 197,016 |
| Repayment of loan from a joint venture | | **52,966** | 108,086 |
| Repayment of loan from an associate | | **–** | 17,542 |
| Dividends from available-for-sale investments | | **91,156** | 62,577 |
| Proceeds from disposal of property, plant and equipment | | **21,506** | 7,292 |
| Interest received | | **24,155** | 25,244 |
| Proceeds from disposal of leasehold land | | **5,207** | 55,353 |
| Proceeds from disposal of associates | | **29,619** | – |
| Net settlement of other financial assets/liabilities | | **25,861** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(1,880,072)** | (1,595,902) |
| **FINANCING ACTIVITIES** | | | |
| Repayments of bank and other loans | | **(4,284,091)** | (4,284,671) |
| Repayments of loans from the ultimate holding company | | **–** | (993,750) |
| Dividends paid to shareholders of the Company | | **(49,315)** | (62,851) |
| Dividends paid to non-controlling shareholders of subsidiaries | | **(99,438)** | (92,324) |
| New bank and other loans raised | | **4,846,372** | 4,670,864 |
| Capital contribution from non-controlling shareholders of subsidiaries | | **57,141** | 3,401 |
| Loans from joint ventures | | **49,172** | – |
| **NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES** | | **519,841** | (759,331) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **154,608** | (688,563) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **1,351,072** | 2,138,388 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **99,620** | (98,753) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH** | | **1,605,300** | 1,351,072 |

## 1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$5,760 million as at 31 December 2017. The Group's liabilities as at 31 December 2017 included borrowings of approximately HK$3,708 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$2,916 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$3,708 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

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

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

### Amendments to HKFRSs that are mandatorily effective for the current year

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

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |

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

### Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures relating to changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing activities; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

### New and revised HKFRSs in issue but not yet effective

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

| | |
|---|---|
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[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 HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[2] |
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[2] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for annual periods beginning on or after a date to be determined

## 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 financial assets are measured at their fair value at 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 "Financial Instruments: Recognition and Measurement", 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.

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

### HKFRS 9 "Financial Instruments" (Continued)

- for non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised 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.

- 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 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

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

### HKFRS 9 "Financial Instruments" (Continued)

#### Classification and measurement

Loan and receivables carried at amortised cost as disclosed in note 6 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

Listed equity security classified as available-for-sale investment carried at fair value as disclosed in note 23 qualifies for designation as measured at FVTOCI under HKFRS 9. The fair value losses accumulated in the investment revaluation reserve amounting to HK$75,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 23 also qualify for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at initial recognition and at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to these securities would be adjusted to the investment revaluation reserve as at 1 January 2018; and

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

#### Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on loan to an associate, loans to joint ventures, loan to a non-controlling shareholder, trade and other receivables and amounts due from non-controlling shareholders. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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

### 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.

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 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 as the Group is in the process of performing a detailed review.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

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

### 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 land for owned use while other operating lease payments are presented as operating cash flows. Upon application of 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 by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold land 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.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$114,127,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

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

### HKFRS 16 "Leases" (Continued)

In addition, the Group currently considers refundable rental deposits paid as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets, however, the Group anticipates such adjustments may not be significant to the consolidated financial statements.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

## 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 values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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".

## 3. Significant Accounting Policies (Continued)

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.

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.

## 3. Significant Accounting Policies (Continued)

### Basis of consolidation (Continued)

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

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

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

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

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

#### 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 relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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

## 3. Significant Accounting Policies (Continued)

### Basis of consolidation (Continued)

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, 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.

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.

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

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

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

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.

The subsequent accounting for the contingent consideration that does 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.

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

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

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

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

## 3. Significant Accounting Policies (Continued)

### Investments in associates and joint ventures (Continued)

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 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.

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) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

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

## 3. Significant Accounting Policies (Continued)

### 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.

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 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 |

## 3. Significant Accounting Policies (Continued)

### Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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 the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

### 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.

## 3. Significant Accounting Policies (Continued)

### Intangible assets (Continued)

**Exclusive operating rights for city pipeline network**

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

**Distribution network**

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

### 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.

## 3. Significant Accounting Policies (Continued)

### Impairment (other than goodwill)

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

When it is not possible to estimate the recoverable amount of an asset individually, 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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 in profit or loss.

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.

## 3. Significant Accounting Policies (Continued)

### Financial instruments

Financial assets and financial liabilities are recognised 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 at fair value through profit or loss are recognised immediately in profit or loss.

**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 "Business Combinations" 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.

## 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, 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 and 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 as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

## 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 except for unquoted investments whose fair value cannot be reliably measured (see below). 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.

## 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.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

**Financial liabilities and equity (Continued)**

*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 and payables, amounts due to non-controlling shareholders and loans from joint ventures are subsequently measured at amortised cost, using the effective interest method.

*Derivative financial instruments 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 the 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.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

**Financial liabilities and equity (Continued)**

*Cash flow hedges (Continued)*

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.

*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 the consolidated income statement.

### 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.

## 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

## 3. Significant Accounting Policies (Continued)

### 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.

#### 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.

## 3. Significant Accounting Policies (Continued)

### Retirement benefits costs

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

## 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 2017, the carrying amount of goodwill is HK$5,824,172,000 (2016: HK$5,349,340,000). Details of the recoverable amount calculation are disclosed in note 19.

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

### Income taxes

As at 31 December 2017, 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$708,374,000 (2016: HK$555,054,000) 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.

### Estimated impairment of trade receivables and amounts due from non-controlling shareholders

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 2017, the carrying amounts of trade receivables, net of impairment losses and amounts due from non-controlling shareholders are HK$710,349,000 (2016: HK$653,540,000) and HK$63,847,000 (2016: HK$29,738,000) respectively.

## 5. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes borrowings and loans from joint ventures disclosed in notes 29 and 30 respectively, 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").

## 5. Capital Risk Management (Continued)

The Gearing Ratio at the reporting date was as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Debt [i] | **8,828,837** | 7,836,812 |
| Time deposits over three months | **(120,790)** | (227,557) |
| Bank balances and cash | **(1,605,300)** | (1,351,072) |
| Net debt | **7,102,747** | 6,258,183 |
| Equity [ii] | **15,845,033** | 13,499,351 |
| Net debt to equity ratio | **44.8%** | 46.4% |
| Gearing Ratio [iii] | **31.0%** | 31.7% |

(i) Debt is defined as long- and short-term borrowings and loans from joint ventures, as detailed in notes 29 and 30 respectively.

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

(iii) Being the proportion of net debt of HK$7,102,747,000 (2016: HK$6,258,183,000) to equity attributable to shareholders of the Company plus net debt of HK$22,947,780,000 (2016: HK$19,757,534,000).

## 6. Financial Instruments

### Categories of financial instruments

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **2,839,797** | 2,414,423 |
| Available-for-sale investments | **225,415** | 234,785 |
| Derivative financial instruments | **–** | 168,488 |
| **Financial liabilities** | | |
| Amortised cost | **10,607,558** | 9,325,893 |
| Derivative financial instruments | **205,049** | – |

## 6. Financial Instruments (Continued)

### 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, loans from joint ventures, borrowings and other financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Currency risk

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

Details of the Group's bank balances and cash, time deposits over three months and bank and other borrowings, denominated in United States Dollar ("USD") and HKD at the end of the reporting period are set out in notes 26 and 29.

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

## 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% (2016: 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% (2016: 3%) change in foreign currency rates.

The sensitivity analysis includes bank balances and cash and borrowings where the denomination of the balances is in a currency other than the functional 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% (2016: 3%) against USD and HKD. For a 3% (2016: 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.

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Profit before taxation for the year | **95,600** | 89,281 |

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 against RMB is 3% (2016: 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 2017 would increase/decrease by HK$90,366,000 (2016: HK$86,144,000) as a result of the change in fair value of these financial derivatives.

The aggregate sensitivity to foreign currency risk on the outstanding foreign currency denominated monetary items and derivative financial instruments as disclosed above is as follows:

If the exchange rate of RMB against USD and HKD is 3% (2016: 3%) higher/lower, the Group's profit before taxation for the year would increase/decrease by HK$5,234,000 (2016: HK$3,137,000).

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### Interest rate risk

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

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not use hedging instrument to manage the interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

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

*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, 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 (2016: 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 (2016: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2017 would decrease/increase by HK$11,941,000 (2016: HK$8,641,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

**Other price risk**

The Group is exposed to equity price risk through its investments in listed equity securities. 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$1,948,000 (2016: HK$2,565,000) as a result of the changes in fair value of the investments.

**Credit risk**

As at 31 December 2017, 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 effectively managed.

The credit risk of loans to joint ventures, loan to an associate and loan to a non-controlling shareholder are concentrated in three (2016: four) joint ventures, one (2016: nil) associate and one (2016: one) non-controlling shareholder respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associate 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 recovered in a timely manner.

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

## 6. Financial Instruments (Continued)

### Financial risk management objectives and policies (Continued)

#### 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$2,916 million (2016: HK$3,150 million). As stated in note 1, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK$5,760 million (at 31 December 2016: HK$4,228 million).

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

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

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

# 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 31.12.2017 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | |
| Trade payables | – | 195,111 | 372,516 | 378,207 | 195,594 | 56,565 | 1,197,993 | 1,197,993 |
| Other payables | – | 465,182 | – | – | – | – | 465,182 | 465,182 |
| Amounts due to non-controlling shareholders | – | 115,546 | – | – | – | – | 115,546 | 115,546 |
| Loans from joint ventures | 2.57% | 49,277 | – | – | – | – | 49,277 | 49,172 |
| Bank loans | 3.03% | 1,221,409 | 1,364,673 | 1,307,086 | 5,655,390 | 13,190 | 9,561,748 | 8,739,164 |
| Other loans | 2.00% | 1,647 | 132 | 23,843 | 6,831 | 10,922 | 43,375 | 40,501 |
| | | 2,048,172 | 1,737,321 | 1,709,136 | 5,857,815 | 80,677 | 11,433,121 | 10,607,558 |
| Derivatives – gross settlement | | | | | | | | |
| Cross currency swaps | | | | | | | | |
| – inflow | | – | – | – | (400,000) | – | (400,000) | N/A |
| – outflow | | – | – | – | 438,876 | – | 438,876 | N/A |
| | | – | – | – | 38,876 | – | 38,876 | 38,733 |
| Foreign currency forward contracts | | | | | | | | |
| – inflow | | – | (600,000) | (505,214) | (1,107,193) | – | (2,212,407) | N/A |
| – outflow | | – | 641,539 | 534,176 | 1,196,874 | – | 2,372,589 | N/A |
| | | – | 41,539 | 28,962 | 89,681 | – | 160,182 | 166,316 |

| | 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) |
| 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) |

## 6. Financial Instruments (Continued)

### Fair value measurements

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

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

| Financial assets/ financial liabilities | Fair value as at 31.12.2017 | Fair value as at 31.12.2016 | 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$64,930,000** | Asset HK$85,496,000 | Level 1 | Quoted market price |
| 2) Cross currency swaps classified as other financial assets/liabilities in the consolidated statement of financial position | **Assets Nil Liabilities HK$38,733,000** | Assets HK$87,511,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. |
| 3) Foreign currency forward contracts classified as other financial assets/liabilities in the consolidated statement of financial position | **Assets Nil Liabilities HK$166,316,000** | Assets HK$80,977,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of the various counterparties. |

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.

## 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 contributed to less than 5% of the Group's total revenue.

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

## 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 2017** | | | |
| **TURNOVER** | | | |
| External | 6,995,858 | 1,763,925 | 8,759,783 |
| Segment results | 632,642 | 806,844 | 1,439,486 |
| Other gains, net | | | 257,363 |
| Unallocated corporate expenses | | | (150,186) |
| Share of results of associates | | | 341,922 |
| Share of results of joint ventures | | | 291,394 |
| Finance costs | | | (262,325) |
| Profit before taxation | | | 1,917,654 |
| Taxation | | | (405,373) |
| Profit for the year | | | 1,512,281 |

## 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 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 |

Segment results included depreciation and amortisation of HK$540,491,000 (2016: HK$499,429,000), 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 2017 and 2016.

## 8. Total Operating Expenses

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Gas fuel, stores and materials used | **5,552,365** | 4,311,500 |
| Staff costs | **913,713** | 856,622 |
| Depreciation, amortisation and release of leasehold land | **540,491** | 499,429 |
| Other expenses | **463,914** | 490,470 |
| | **7,470,483** | 6,158,021 |

## 9. Other Gains, Net

Other gains, net mainly comprise of:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Dividend income from available-for-sale investments | **91,156** | 62,577 |
| Interest income | **24,155** | 25,244 |
| Exchange gain (loss) | **231,254** | (258,747) |
| Imputed interest income on loans to joint ventures | **–** | 121 |
| Gain on disposal of associates | **23,769** | – |
| Gain on deemed partial disposal of interest in an associate (note) | **209,390** | – |
| Change in fair value of other financial assets and liabilities | **(364,376)** | 168,488 |

Note: During the year, Foshan Gas Group Co., Ltd. ("Foshan Gas") listed its shares on Shenzhen Stock Exchange. Upon the listing, new ordinary shares were issued by Foshan Gas to the public and the Group's interest in Foshan Gas reduced from 43% to 39% and the Group had a gain of HK$209,390,000 on deemed partial disposal of interest in Foshan Gas.

## 10. Finance Costs

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Interest on: | | |
| – bank and other borrowings wholly repayable within five years | **275,861** | 261,664 |
| – bank and other borrowings not wholly repayable within five years | **514** | 526 |
| Bank charges | **5,289** | 4,111 |
| | **281,664** | 266,301 |
| Less: amounts capitalised | **(19,339)** | (15,722) |
| | **262,325** | 250,579 |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 2.76% (2016: 2.85%) to expenditure on qualifying assets.

## 11. Profit Before Taxation

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Directors' remuneration (note 12) | **13,751** | 10,934 |
| Other staff costs | **827,853** | 776,831 |
| Retirement benefit scheme contributions (excluding directors) | **72,109** | 68,857 |
| Total staff costs | **913,713** | 856,622 |
| Allowance for doubtful debts | **19,802** | 11,077 |
| Amortisation of intangible assets | **18,822** | 19,524 |
| Release of leasehold land | **19,957** | 19,429 |
| Auditor's remuneration | **11,481** | 10,917 |
| Cost of inventories sold | **6,146,570** | 4,853,966 |
| Depreciation of property, plant and equipment | **501,712** | 460,476 |
| Operating lease rentals in respect of land and buildings | **31,541** | 28,602 |
| (Gain) loss on disposal of property, plant and equipment | **(5,376)** | 15,160 |
| Loss (gain) on disposal of leasehold land | **322** | (45,123) |

## 12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 7 (2016: 7) directors were as follows:

| | Year ended 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Chan Wing Kin, Alfred HK$'000 | Cheng Mo Chi, Moses HK$'000 | Kwan Yuk Choi, James HK$'000 | Kee Wai Ngai, Martin HK$'000 (Note f) | 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 | – | – | – | 634 | 1,111 | – | 1,190 | 2,935 |
| Retirement benefit scheme contributions | – | – | – | 142 | 111 | – | 119 | 372 |
| Performance and discretionary bonus (Note c) | – | – | – | 941 | 2,632 | – | 4,571 | 8,144 |
| Total emoluments | 200 | 500 | 500 | 1,917 | 4,054 | 500 | 6,080 | 13,751 |

| | 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 |

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

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

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

### Employees' emoluments:

For the year ended 31 December 2017, the five highest paid individuals of the Group included three (2016: two) directors of the Company, details of their emoluments are included above. The emoluments of the remaining two (2016: three) highest paid individuals are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries and other benefit | 2,723 | 4,089 |
| Performance related incentive payments | 1,892 | 2,047 |
| Contribution to retirement benefit scheme | 225 | 312 |
| | 4,840 | 6,448 |

The emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | 2017 | 2016 |
| HK$1,500,001 to HK$2,000,000 | 1 | 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 2017.

## 13. Taxation

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – current year | **373,461** | 337,524 |
| Deferred taxation (note 31) | | |
| – taxation charge for the year | **31,912** | 24,609 |
| | **405,373** | 362,133 |

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% (2016: 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:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Profit before taxation | **1,917,654** | 1,455,403 |
| Tax at the applicable rate of 25% (2016: 25%) (note) | **479,414** | 363,851 |
| Tax effect of expenses that are not deductible for tax purposes | **196,123** | 133,722 |
| Tax effect of income that are not taxable for tax purposes | **(122,176)** | (26,600) |
| Effect of different tax rates of subsidiaries operating in different regions | **(46,181)** | (15,630) |
| Tax effect of share of results of associates | **(85,481)** | (84,982) |
| Tax effect of share of results of joint ventures | **(72,849)** | (69,506) |
| Tax effect of utilisation of tax losses not previously recognised | **(17,155)** | (7,306) |
| Tax effect of tax losses not recognised | **44,398** | 41,673 |
| Withholding tax on undistributed profits | **29,280** | 26,911 |
| Tax charge for the year | **405,373** | 362,133 |

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2017 (2016: 25%).

## 14. Dividends

During the year, a final dividend in respect of the year ended 31 December 2016 of HK$325,392,000 (2016: HK$266,506,000 in respect of the year ended 31 December 2015) was recognised as distribution, being HK twelve cents per ordinary share (2016: 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 2017 of HK fifteen cents (2016: HK twelve 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 earnings per share attributable to the shareholders of the Company is based on the following data:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Earnings for the purposes of basic earnings per share, being profit for the year attributable to shareholders of the Company | **1,365,385** | 973,997 |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,737,878** | 2,686,298 |

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 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 2016 | 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 |
| Currency realignment | 128,293 | 849,711 | 115,731 | 141,786 | 1,235,521 |
| Additions | 107,975 | 332,043 | 98,687 | 1,304,481 | 1,843,186 |
| Additions from acquisition of businesses | 16,348 | 10,309 | 189 | 1,478 | 28,324 |
| Disposals | (5,843) | (8,424) | (32,324) | – | (46,591) |
| Transfer | 106,155 | 1,231,815 | 55,999 | (1,393,969) | – |
| At 31 December 2017 | 1,852,597 | 12,723,911 | 1,660,672 | 1,970,763 | 18,207,943 |
| **DEPRECIATION** | | | | | |
| At 1 January 2016 | 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 |
| Currency realignment | 23,699 | 138,968 | 58,858 | – | 221,525 |
| Provided for the year | 65,845 | 299,537 | 136,330 | – | 501,712 |
| Eliminated on disposals | (4,105) | (875) | (25,481) | – | (30,461) |
| At 31 December 2017 | 332,140 | 2,023,559 | 792,684 | – | 3,148,383 |
| **CARRYING VALUES** | | | | | |
| At 31 December 2017 | 1,520,457 | 10,700,352 | 867,988 | 1,970,763 | 15,059,560 |
| At 31 December 2016 | 1,252,968 | 8,722,528 | 799,413 | 1,916,987 | 12,691,896 |

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 2017 and 2016.

## 17. Leasehold Land

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **577,449** | 527,909 |
| Currency realignment | **43,112** | (39,528) |
| Additions | **39,415** | 79,619 |
| Addition relating to acquisition of business | **6,178** | 39,108 |
| Disposals | **(5,529)** | (10,230) |
| Charge for the year | **(19,957)** | (19,429) |
| Balance at the end of the year | **640,668** | 577,449 |
| Analysis for reporting purpose: | | |
| Non-current portion | **613,218** | 550,847 |
| Current portion | **27,450** | 26,602 |
| | **640,668** | 577,449 |

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

## 18. Intangible Assets

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2016 | 655,921 |
| Currency realignment | (45,401) |
| At 31 December 2016 | 610,520 |
| Currency realignment | 45,899 |
| At 31 December 2017 | 656,419 |
| **AMORTISATION** | |
| At 1 January 2016 | 95,664 |
| Currency realignment | (10,167) |
| Provided for the year | 19,524 |
| At 31 December 2016 | 105,021 |
| Currency realignment | 9,104 |
| Provided for the year | 18,822 |
| At 31 December 2017 | 132,947 |
| **CARRYING VALUES** | |
| At 31 December 2017 | 523,472 |
| At 31 December 2016 | 505,499 |

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.

## 19. Goodwill

| | HK$'000 |
|---|---|
| At 1 January 2016 | 5,732,259 |
| Currency realignment | (423,064) |
| Addition relating to acquisition of business | 40,145 |
| At 31 December 2016 | 5,349,340 |
| Currency realignment | 406,426 |
| Additions relating to acquisition of businesses (note 34) | 68,406 |
| At 31 December 2017 | 5,824,172 |

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. The CGUs are principally engaged in the sales and distribution of piped gas in the PRC. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Sub-group headed by: | | |
| Hong Kong & China Gas (Qingdao) Limited | **343,818** | 319,594 |
| Hong Kong & China Gas (Zibo) Limited | **369,786** | 343,733 |
| Hong Kong & China Gas (Yantai) Limited | **249,743** | 232,148 |
| Hong Kong & China Gas (Weifang) Limited | **143,702** | 133,577 |
| Hong Kong & China Gas (Weihai) Limited | **286,088** | 265,932 |
| Hong Kong & China Gas (Taian) Limited | **253,114** | 235,281 |
| Hong Kong & China Gas (Maanshan) Limited | **300,435** | 279,267 |
| Hong Kong & China Gas (Anqing) Limited | **284,761** | 264,698 |
| Mianyang Hong Kong & China Gas Co., Ltd. | **306,118** | 284,551 |
| Xin Du Hong Kong and China Gas Company Limited, Cheng Du | **232,654** | 216,262 |
| Towngas (BVI) Holdings Limited ("Towngas BVI")* | **426,439** | 396,394 |
| Fuxin Xinqiu Hong Kong and China Gas Company Limited | **135,451** | 125,908 |
| Jinan Pingyin Hongkong & China Gas Co., Ltd. | **129,924** | 120,771 |
| Shenyang business | **110,997** | 103,177 |
| Mianzhu Hong Kong & China Gas Co., Ltd. | **110,181** | 102,418 |
| Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. | **157,196** | 146,121 |
| Boxing Hong Kong & China Gas Co., Ltd. | **93,551** | 86,959 |
| Dafeng Hong Kong and China Gas Company Limited | **263,276** | 244,727 |

## 19. Goodwill (Continued)

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Guangxi Zhongwei Pipeline Gas Development Group Co., Ltd | **135,451** | 125,486 |
| Baotou Hong Kong & China Gas Company Limited | **172,561** | 160,403 |
| Xingyi Hong Kong and China Gas Company Limited | **108,573** | 100,924 |
| Others | **1,210,353** | 1,061,009 |
| | **5,824,172** | 5,349,340 |

* 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 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 and discount rates. 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% (2016: 8.5%) 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.

Cash flows beyond 5-year period have been extrapolated using growth rates from 4% to 6% (2016: 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 2017 (2016: nil).

## 20. Interests in Associates/Loan to an Associate

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost of investments in associates | **2,167,627** | 1,806,641 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **1,767,488** | 1,226,130 |
| | **3,935,115** | 3,032,771 |
| Fair value of listed investments | **8,697,257** | 1,172,786 |
| Loan to an associate | | |
| – Current portion | **11,772** | – |

## 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 activities |
|---|---|---|---|---|
| | | 2017 | 2016 | |
| 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% | 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 | 28% | 25% | Provision of natural gas and related services and gas pipeline construction |
| 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 | 39% | 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% | 25% | Provision of natural gas distributed energy |

* Its shares are listed on the Shanghai Stock Exchange.

** Its shares are listed on the Shenzhen Stock Exchange since 2017.

## 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 | | Principal activities |
|---|---|---|---|---|
| | | **2017** | 2016 | |
| 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 |
| 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 |

### Aggregate information of associates that are not individually material

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| The Group's share of profit and total comprehensive income | **341,922** | 339,927 |
| Aggregate carrying amount of the Group's interests in these associates | **3,935,115** | 3,032,771 |

The loan to an associate with principal amount of RMB9,800,000 bearing interest at a fixed rate of 4.75% per annum will be matured and fully repaid in December 2018.

## 21. Interests in Joint Ventures/Loans to Joint Ventures

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Cost of investments in joint ventures | **1,232,675** | 1,095,649 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **1,174,522** | 927,105 |
| | **2,407,197** | 2,022,754 |
| Loans to joint ventures | | |
| – Non-current portion | **24,024** | – |
| – Current portion | **286,298** | 136,326 |
| | **310,322** | 136,326 |

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 2017 | 2016 | Principal activities |
|---|---|---|---|---|
| Anqing Hong Kong and China Gas Company Limited<br>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<br>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<br>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<br>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<br>泰安市泰港燃氣有限公司 | PRC – Sino-foreign equity joint venture | **49%** | 29% | Midstream |

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

| Name of entity | Place of establishment and operation | Proportion of nominal value of registered capital held by the Group 2017 | 2016 | Principal activities |
|---|---|---|---|---|
| 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 |

### Aggregate information of joint ventures that are not individually material

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| The Group's share of profit and total comprehensive income | **291,394** | 278,023 |
| Aggregate carrying amount of the Group's interests in these joint ventures | **2,407,197** | 2,022,754 |

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

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

| Principal amount 2017 | Principal amount 2016 | Maturity date | Coupon interest rate | Effective interest rate | Carrying amount 2017 HK$'000 | Carrying amount 2016 HK$'000 |
|---|---|---|---|---|---|---|
| – | USD690,000 | Nil (2016: Repayable on demand) | 4.50% | 4.50% | – | 5,351 |
| RMB35,000,000 | RMB35,000,000 | Repayable on demand (2016: July 2017) | 4.75% | 4.75% | 42,042 | 39,080 |
| – | USD310,000 | Nil (2016: January 2017) | 4.50% | 6.12% | – | 2,399 |
| – | RMB32,000,000 | Nil (2016: August 2017) | 5.46% | 5.46% | – | 35,730 |
| RMB2,180,000 | RMB8,153,000 | Repayable on demand (2016: Repayable on demand) | 5.88% | 5.88% | 2,618 | 9,103 |
| RMB10,000,000 | RMB10,000,000 | November 2018 (2016: November 2017) | 4.35% | 4.35% | 12,012 | 11,166 |
| RMB20,000,000 | RMB20,000,000 | October 2018 (2016: October 2017) | 4.35% | 4.35% | 24,024 | 22,331 |
| RMB10,000,000 | RMB10,000,000 | September 2018 (2016: August 2017) | 4.35% | 4.35% | 12,012 | 11,166 |
| RMB10,000,000 | – | August 2019 (2016: Nil) | 4.75% | 4.75% | 12,012 | – |
| RMB10,000,000 | – | August 2019 (2016: Nil) | 4.75% | 4.75% | 12,012 | – |
| RMB10,000,000 | – | June 2018 (2016: Nil) | 4.35% | 4.35% | 12,012 | – |
| RMB151,164,000 | – | Repayable on demand (2016: Nil) | – | – | 181,578 | – |
| | | | | | 310,322 | 136,326 |

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

## 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 | | Maturity date | Coupon interest rate | Effective interest rate | Carrying amount | |
|---|---|---|---|---|---|---|
| **2017** | 2016 | | | | **2017 HK$'000** | 2016 HK$'000 |
| **RMB14,500,000** | RMB14,500,000 | March 2018 (2016: March 2018) | 6% | 6% | **17,417** | 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

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Listed shares in the PRC, at fair value | **64,930** | 85,496 |
| Unlisted shares in the PRC, at cost | **160,485** | 149,289 |
| | **225,415** | 234,785 |

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

| | 2017 HK$'000 | 2016 HK$'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** | | |
| *Derivatives (not under hedge accounting)* | | |
| Foreign currency forward contracts under current liabilities | 76,172 | – |
| Foreign currency forward contracts under non-current liabilities | 90,144 | – |
| Cross currency swaps under non-current liabilities | 38,733 | – |
| | 128,877 | – |
| | 205,049 | – |

The classification of the measure of the derivative financial instruments at 31 December 2017 and 2016 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).

## 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 | Exchange frequency Receive | Exchange frequency Pay |
|---|---|---|---|---|
| **Foreign currency forward contracts** | | | | |
| RMB448,793,000 | 2018 | HK$1 to RMB0.90 | N/A | N/A |
| RMB456,105,000 | 2018 | USD1 to RMB7.02 | N/A | N/A |
| RMB90,680,000 | 2018 | HK$1 to RMB0.91 | N/A | N/A |
| RMB366,939,000 | 2019 | HK$1 to RMB0.92 | N/A | N/A |
| RMB564,849,000 | 2019 | HK$1 to RMB0.94 | N/A | N/A |
| RMB100,000,000 | 2019 | HK$1 to RMB0.93 | N/A | N/A |
| **Cross currency swaps** | | | | |
| RMB188,822,000 | 2019 | HK$1 to RMB0.94 | Upon initial date and maturity date | Upon initial date and maturity date |
| RMB189,520,000 | 2019 | HK$1 to RMB0.95 | Upon initial date and maturity date | Upon initial date and maturity date |

During the year, change in fair value of the foreign currency forward contracts and cross currency swaps amounting to loss of HK$364,376,000 (2016: gain of HK$168,488,000) has been recognised to profit or loss.

## 25. Inventories

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Finished goods | **120,860** | 96,693 |
| Materials and consumables | **515,759** | 396,145 |
| | **636,619** | 492,838 |

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables | **710,349** | 653,540 |
| Prepayments | **461,746** | 327,267 |
| Other receivables and deposits | **221,049** | 209,600 |
| | **1,393,144** | 1,190,407 |

### Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables (net of impairment losses) of HK$710,349,000 (2016: HK$653,540,000). 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:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **551,597** | 493,819 |
| 91 to 180 days | **45,781** | 45,624 |
| 181 to 360 days | **112,971** | 114,097 |
| | **710,349** | 653,540 |

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK$11,741,000 (2016: HK$24,772,000) 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 but the management expects they are recoverable with reference to satisfactory settlement records.

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **4,932** | 12,951 |
| 91 to 180 days | **2,144** | 3,153 |
| 181 to 360 days | **4,665** | 8,668 |
| Total | **11,741** | 24,772 |

## 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:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **99,131** | 88,054 |
| Impairment losses recognised on receivables | **19,802** | 11,077 |
| Balance at the end of the year | **118,933** | 99,131 |

The allowance for doubtful debts is composed entirely of 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 0.00% to 3.50% (2016: 1.56% to 3.00%) 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.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| United States Dollar | **28,236** | 26,720 |
| Hong Kong Dollar | **7,571** | 16,271 |

## 27. Amounts Due from/to Non-Controlling Shareholders

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

## 28. Trade and Other Payables and Accrued Charges

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade payables | **1,197,993** | 1,045,416 |
| Receipt in advance | **3,092,720** | 2,581,508 |
| Consideration payable for acquisitions of businesses | **100,591** | 63,055 |
| Other payables and accruals | **780,852** | 642,058 |
| Amount due to the ultimate holding company (note) | **863** | 895 |
| | **5,173,019** | 4,332,932 |

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

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **775,346** | 676,711 |
| 91 to 180 days | **139,989** | 158,557 |
| 181 to 360 days | **137,281** | 111,813 |
| Over 360 days | **145,377** | 98,335 |
| | **1,197,993** | 1,045,416 |

## 29. Borrowings

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Bank loans – unsecured | **8,739,164** | 7,793,346 |
| Other loans – unsecured | **40,501** | 43,466 |
| | **8,779,665** | 7,836,812 |
| Carrying amount repayable: | | |
| On demand or within one year | **3,707,803** | 2,652,660 |
| More than one year but not exceeding two years | **2,804,347** | 1,322,299 |
| More than two years but not exceeding five years | **2,246,573** | 3,814,517 |
| More than five years | **20,942** | 47,336 |
| | **8,779,665** | 7,836,812 |
| Less: Amount due within one year shown under current liabilities | **(3,707,803)** | (2,652,660) |
| Amount due after one year | **5,071,862** | 5,184,152 |

The bank and other loans mainly comprise of:

| | Effective interest rate | Carrying amount 2017 HK$'000 | Carrying amount 2016 HK$'000 |
|---|---|---|---|
| Floating-rate loans: | | | |
| Unsecured HKD bank loans | 1.60% (2016: 1.41%) | **2,700,267** | 2,500,000 |
| Unsecured RMB bank loans | 4.58% (2016: 3.26%) | **1,568,402** | 452,180 |
| Unsecured USD bank loans | 1.80% (2016: 1.47%) | **507,910** | 504,140 |
| Fixed rate loans*: | | | |
| Unsecured RMB bank loans | 3.92% (2016: 4.25%) | **3,962,585** | 4,337,026 |
| Unsecured RMB other loans | 2.69% (2016: 2.65%) | **23,109** | 25,310 |
| Unsecured other loans | 1.12% (2016: 1.12%) | **17,392** | 18,156 |
| Total bank loans and other loans | | **8,779,665** | 7,836,812 |

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

## 30. Loans from Joint Ventures

At the year end date, loans from joint ventures were denominated in RMB with the carrying amount of HK$49,172,000 (2016: Nil). The loans carrying interest at a fixed rate of 2.57% per annum are unsecured and wholly repayable on demand.

## 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 2016 | 66,531 | 149,013 | 221,621 | 437,165 |
| Addition relating to acquisition of business | 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 |
| Currency realignment | 5,302 | 9,998 | 16,233 | 31,533 |
| Charge (credit) for the year | 7,271 | (4,639) | 29,280 | 31,912 |
| Withholding tax paid | – | – | (17,871) | (17,871) |
| At 31 December 2017 | 78,637 | 139,750 | 235,713 | 454,100 |

At the end of the reporting period, the Group has unused tax losses of HK$708,374,000 (2016: HK$555,054,000) 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 2022.

## 32. Share Capital

| | Number of shares | HK$'000 |
|---|---|---|
| At 31 December 2017 | | |
| – Authorised: | | |
| Shares of HK$0.10 each | 5,000,000,000 | 500,000 |
| – Issued and fully paid: | | |
| Shares of HK$0.10 each | 2,768,689,545 | 276,869 |

Details of the authorised share capital is as follows:

| | Number of shares | HK$'000 |
|---|---|---|
| At 1 January 2016, 31 December 2016 and 2017 | 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 2016 | 2,665,062,650 | 266,506 |
| Issue of shares upon scrip dividend scheme (note a) | 46,539,113 | 4,654 |
| At 31 December 2016 | 2,711,601,763 | 271,160 |
| Issue of shares upon scrip dividend scheme (note b) | 57,087,782 | 5,709 |
| At 31 December 2017 | 2,768,689,545 | 276,869 |

Notes:

(a) 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.

(b) On 15 March 2017, a scrip dividend scheme was proposed by the board, which offers the shareholders of the Company may elect to receive the dividend wholly or partly by the allotment of new shares in lieu of cash. This proposal was approved at the annual general meeting of the Company held on 1 June 2017. On 17 July 2017, 57,087,782 shares of HK$0.10 each were allotted and issued at HK$4.836 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2016 final dividend under the scrip dividend scheme.

All the shares which were issued during the years ended 31 December 2016 and 2017 rank pari passu with the then existing shares in all respects.

## 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 Businesses

During the year ended 31 December 2017, the Group acquired the following businesses which are principally engaged in the sales and distribution of piped gas, distributed energy and other 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: | | | |
| Zhongxiang Hong Kong & China Gas Co., Ltd. ("Zhongxiang") | July 2017 | 100% | 34,442 |
| 瀋陽智慧能源系統科技有限公司 ("Shenyang") | November 2017 | 55% | 67,943 |

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:

| | Zhongxiang HK$'000 | Shenyang HK$'000 | Total HK$'000 |
|---|---|---|---|
| Purchase considerations | 34,442 | 67,943 | 102,385 |
| Non-controlling interests | – | 25,948 | 25,948 |
| Acquirees' fair value of net identifiable assets acquired (see below) | (2,264) | (57,663) | (59,927) |
| Goodwill arising on acquisition | 32,178 | 36,228 | 68,406 |

The non-controlling interests recognised at the acquisition dates in respect of the acquisitions in 2017 were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK$25,948,000.

## 34. Acquisition of Businesses (Continued)

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

Acquirees' fair values at acquisition dates:

| | Zhongxiang HK$'000 | Shenyang HK$'000 | Total HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 28,252 | 72 | 28,324 |
| Leasehold land | 6,178 | – | 6,178 |
| Inventories | 301 | – | 301 |
| Trade and other receivables (note) | 819 | 531 | 1,350 |
| Amount due from non-controlling interests | – | 58,371 | 58,371 |
| Cash and bank balances | 970 | 4,135 | 5,105 |
| Trade and other payables | (34,256) | (5,446) | (39,702) |
| | 2,264 | 57,663 | 59,927 |

Note: The trade and other receivables acquired with fair value of HK$1,350,000 had gross contractual amounts of HK$1,350,000. The best estimate at acquisition date of contractual cash flows not expected to be collected was nil.

**Net cash outflow arising on acquisitions:**

| | Zhongxiang HK$'000 | Shenyang HK$'000 | Total HK$'000 |
|---|---|---|---|
| Purchase considerations | 34,442 | 67,943 | 102,385 |
| Amounts unpaid and included in: | | | |
| – consideration payable for acquisition | – | (43,129) | (43,129) |
| Bank balances and cash acquired | (970) | (4,135) | (5,105) |
| | 33,472 | 20,679 | 54,151 |

Goodwill arose from the above acquisitions 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 these acquisitions is expected to be deductible for tax purposes.

## 34. Acquisition of Businesses (Continued)

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

During the year, acquired businesses contributed HK$16,028,000 to the Group's turnover and incurred profit of HK$1,222,000 for the period between the dates of acquisitions and the end of the reporting period, respectively.

Had the above acquisitions been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2017 would have been HK$8,759,783,000, and the amount of the profit for the year would have been HK$1,511,059,000. 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 acquisitions been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

## 35. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during the year ended 31 December 2017 as set out in note 32(b) (2016: note 32(a)).

## 36. Reconciliation of Liabilities Arising from Financing Activities

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

| | Bank and other loans HK$'000 | Loans from joint ventures HK$'000 | Dividend payable HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | 7,836,812 | – | – | 7,836,812 |
| Financing cash flows | 285,906 | 49,172 | (148,753) | 186,325 |
| Exchange differences | 399,911 | – | – | 399,911 |
| Interest expenses | 257,036 | – | – | 257,036 |
| Dividend declaration | | | | |
| – shareholders of the Company | – | – | 325,392 | 325,392 |
| – non-controlling shareholders | – | – | 99,438 | 99,438 |
| Issue of shares upon scrip dividend scheme | – | – | (276,077) | (276,077) |
| At 31 December 2017 | 8,779,665 | 49,172 | – | 8,828,837 |

Note: Interest payable is included in trade and other payables and accrued charges.

## 37. 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 | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| HKCG | Interest expense | – | 18,697 |
| Shenyang Sanquan Project Management Consulting Co., Ltd. (note a) | Project management services | 7,839 | 7,670 |
| Hongkong and China Technology (Wuhan) Company Limited (note a) | System software and supporting services | 7,124 | 20,318 |
| Shanxi ECO Coalbed Methane Co., Ltd. (note a) | Purchase of coalbed methane | 3,739 | 3,274 |
| Anhui Province Natural Gas Development Co., Ltd. (note b) | Purchase of compressed natural gas | 85,050 | 69,841 |
| Shandong Hong Kong and China Gas Training Institute (note a) | Training services | 3,220 | 2,226 |
| M-Tech Metering Solution (Shenzhen) Co., Ltd. (note a) | Purchase of pipeline construction materials and tools | 17,031 | 9,886 |
| G-Tech Piping Tech (Zhongshan) Ltd. (note a) | Purchase of pipeline construction materials and tools | 118,902 | 60,454 |
| Zhuhai S-Tech Technology Limited (note a) | Provision of system software, cloud computing system and safety inspection supporting services | 1,406 | 426 |
| Chaozhou Hong Kong and China Gas Company Limited (note a) | Processing service charges of natural gas | 1,083 | 1,056 |
| Maanshan Hong Kong and China Gas Company Limited (note c) | Purchase of natural gas | 42,833 | 28,417 |
| 南京港華棲霞燃氣有限公司 (note b) | Purchase of liquefied natural gas | 3,687 | 1,596 |

## 37. Related Party Transactions (Continued)

| Name of related party | Nature of transaction | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| 清遠卓佳公用工程材料有限公司 (note b) | Purchase of pipeline construction materials and tools | **7,905** | 6,240 |
| 南京港華能源投資發展有限公司 (note b) | Purchase of liquefied natural gas | **6,774** | – |
| 港華國際能源貿易有限公司 (note a) | Purchase of liquefied natural gas | **52,070** | – |
| Changzhou Dongli Hong Kong and China Gas Company Limited (note b) | Purchase of natural gas | **7,631** | – |
| Feng County Hong Kong and China Gas Company Limited (note a) | Sale of natural gas | **4,491** | – |
| Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b) | Processing of pipeline materials | **5,661** | 4,031 |
| Xuzhou Hong Kong and China Gas Company Limited (note a) | Purchase of natural gas | **1,719** | 512 |
| Jiangsu Overseas Hong Kong and China Gas Co., Ltd. (note b) | Purchase of pipeline construction materials and tools | **2,135** | 210 |

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.

## 38. 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:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within one year | **24,414** | 16,896 |
| In the second to fifth year inclusive | **67,560** | 27,084 |
| Over five years | **22,153** | 23,714 |
| | **114,127** | 67,694 |

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

## 39. Commitments

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – acquisition of property, plant and equipment | **180,941** | 85,729 |
| – acquisition of businesses | **19,219** | 82,626 |
| – acquisition of an associate | **86,486** | – |

## 40. 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 2017 amounted to HK$72,005,000 (2016: HK$68,753,000).

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 2017, the Group made retirement benefit scheme contributions amounting to HK$476,000 (2016: HK$334,000).

## 41. Statement of Financial Position and Reserves of the Company

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | **30** | 17 |
| Investments in subsidiaries | **2,316,990** | 2,146,202 |
| Other financial asset | **–** | 28,669 |
| | **2,317,020** | 2,174,888 |
| Current assets | | |
| Other receivables, deposits and prepayments | **–** | 77 |
| Amounts due from subsidiaries | **10,983,034** | 10,003,118 |
| Bank balances and cash | **40,836** | 69,781 |
| | **11,023,870** | 10,072,976 |
| Current liabilities | | |
| Other payables and accrued charges | **72,201** | 42,653 |
| Amounts due to subsidiaries | **1,219,747** | 971,102 |
| Amounts due to the ultimate holding company | **198** | 246 |
| Borrowings – amount due within one year | **3,144,547** | 2,026,574 |
| Other financial liabilities | **41,042** | – |
| | **4,477,735** | 3,040,575 |
| Net current assets | **6,546,135** | 7,032,401 |
| Total assets less current liabilities | **8,863,155** | 9,207,289 |
| Non-current liabilities | | |
| Loan from a subsidiary | **4,815,097** | 4,557,139 |
| Borrowings – amount due after one year | **–** | 504,140 |
| Other financial liabilities | **8,936** | – |
| | **4,824,033** | 5,061,279 |
| Net assets | **4,039,122** | 4,146,010 |
| Capital and reserves | | |
| Share capital | **276,869** | 271,160 |
| Reserves | **3,762,253** | 3,874,850 |
| | **4,039,122** | 4,146,010 |

## 41. Statement of Financial Position and Reserves of the Company (Continued)

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

| | Share capital HK$'000 | Share premium HK$'000 | Others* HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2016 | 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 |
| Loss and other comprehensive expense for the year | – | – | (57,573) | (57,573) |
| Issue of shares upon scrip dividend scheme | 5,709 | 270,368 | – | 276,077 |
| Dividends paid to shareholders | – | (325,392) | – | (325,392) |
| At 31 December 2017 | 276,869 | 6,226,762 | (2,464,509) | 4,039,122 |

* Others represent 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.

## 42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2017 and 2016 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | **2017** | 2016 | |
| **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 |

## 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 2017 | 2016 | 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$15,000,000 | **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 | RMB20,000,000 (2016: RMB100,000,000) | **85%** | 85% | 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 | RMB335,000,000 | **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 |
| 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 Investments Limited 潮盛投資有限公司 | HK – Limited liability company | HK$100 | **100%** | 100% | Investment holding |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | 2017 | 2016 | |
| 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 |
| 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 – Limited liability company | RMB20,000,000 | **100%** | 100% | Provision of natural gas and related services and gas pipeline construction |

## 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 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 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$7,500,000 (2016: 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 | **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 | RMB13,000,000 | **55%** | 55% | Vehicle gas refilling stations |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | 2017 | 2016 | |
| 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 |
| 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 |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | **2017** | 2016 | |
| 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 | RMB150,000,000 (2016: 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 |
| 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$11,520,000 | **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 |

## 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 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| 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 – Wholly foreign-owned enterprise | US$10,000,000 | **100%** | 100% | Provision of natural gas and related services and gas pipeline construction |
| 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 | RMB30,000,000 | **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 | **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 |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | 2017 | 2016 | |
| 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 |
| Peng Xi Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司 | PRC – Limited liability company | RMB20,000,000 | **100%** | 100% | Provision of natural gas and related services and gas pipeline construction |
| Pingchang Hong Kong and China Gas Company Limited 平昌港華燃氣有限公司 | PRC – Sino-foreign equity joint venture | 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 |
| Qiqihar Xingqixiang Gas Company Limited 齊齊哈爾興企祥燃氣有限責任公司 | PRC – Wholly foreign-equity enterprise | RMB60,000,000 | **100%** | 100% | Vehicle gas refilling stations |

## 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 2017 | Attributable equity interest of the Group 2016 | Principal activities |
|---|---|---|---|---|---|
| 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 | RMB80,000,000 | **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 |
| 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 Energy Investment Limited 港華燃氣能源投資有限公司 | HK – Limited liability company | HK$100 | **100%** | 100% | Investment holding |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | 2017 | 2016 | |
| Towngas China Energy Investment (Shenzhen) Limited 港華能源投資(深圳)有限公司 | PRC – Wholly foreign-owned enterprise | RMB100,000,000 | **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 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 | RMB200,000,000 | **100%** | 100% | 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 |
| 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 |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | **2017** | 2016 | |
| 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 |
| 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 |

## 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | **2017** | 2016 | |
| 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 |
| Zhongxiang Hong Kong & China Gas Co., Ltd. 鍾祥港華燃氣有限公司 | PRC – Wholly foreign-owned enterprise | RMB42,000,000 | **100%** | N/A | 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 |
| 內蒙古港億天然氣有限公司 | PRC – Sino-foreign equity joint venture | RMB80,000,000 | **85%** | N/A | Midstream |

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 *(Chief Operating Officer)*

### 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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

## Hong Kong Branch Share Registrar

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

## Hong Kong Branch Share Transfer Office

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

## Principal Bankers

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

**Towngas China Company Limited**
23rd Floor, 363 Java Road, North Point, Hong Kong

www.towngaschina.com